Banco Santander, S.A.

Auditor's report on the annual
accounts and the Director's Report
December 31, 2017

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

Independent auditor's report on the annual accounts

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

Report on the annual accounts

Opinion

We have audited the annual accounts of Banco Santander, S.A. (the Bank or Banco Santander), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of recognized income and expense, statement of changes in total equity, statement of cash flows and related notes, for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Banco Santander, S.A. as at December 31, 2017, as well as its financial performance and cash flows, for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 1 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Loan-loss impairment provisions; and the real estate adjudicated	
Estimating loans and receivables impairment provisions for credit-risk and the real estate adjudicated or received as payment of debt is one of the most significant and complex estimation exercises performed in preparing the annual financial statements. The assessment of credit risk impairment provisions is based on models that entail a significant degree of judgment for the determination of the impairment losses considering factors such as: • The classification of the various credit portfolios by risk. • The identification and their classification as impaired assets. • The use of significant assumptions regarding variables such as historical default levels, future income cash flows, valuation of guaranties, impairment emerge period, etc. • Design of parameters for the above mentioned models, such as the probability of impairment (PI) and Loss Given Impairment (LGI). In this context, the Bank uses internal models that allows to estimate collective provisions and provisions for estimated risks individually. In the determination of impairment by risk of the credit guarantees, real or personal, are considered effective. The evaluation of the recoverable balance of the real estate guarantees are subject to the estimation of the reference value minus the cost of the sale, being adjusted in function of the historical experience of the Bank in the disposal of assets with similar characteristics and the period of permanence of the assets in the balance, adjusted, in the case in function of the sale or recuperation strategy.	Our work regarding the estimation of the credit-risk impairment and the real estate adjudicated or received as payment of debt has been centralized, in the analysis, evaluation and proof of the internal control and the realization of test of details over provision estimates collectively and over the individual estimates. As for the internal control system, we have focused on testing the design and the operational effectiveness of controls relating to the following business procedures: • Calculation methodologies used, recalibrations and back-testing processes put in place by the management. • Compliance of the management approved internal models with the applicable regulatory framework and their effectiveness. • Reliability of data sources used for calculation and the appropriateness of the models in light of the circumstances. • The periodic assessment of risks and alerts of monitoring employed by the Group. • The periodic review process for borrower case files in order to monitor their classification and valuation. In addition, we carried out the following tests of details: • Verified: i) calculation and segmentation methods; ii) the historical loss rates used to estimate future cash flows and historical discount rates in the sale of real estate assets appraisal; iii) correct loan classification in the corresponding categories. • Recalculation of the loan-loss provisions estimated collectively for the main portfolios and the impairment calculation over the real estate assets of the different assets (finished homes, offices and stores, buildings under construction and land) and its strategy of sale or recuperation.

Key audit matter	How our audit addressed the key audit matter
The bank has developed internal methodologies to estimate the discounts over reference values and the sale cost. The determination of the reference value of the real estate guaranties is performed from the information and/or value of appraisal provided by different societies and agencies of appraisal. In some cases, when the assets are reduced exposure and risk, it uses statistical methodologies for the update of the appraisals. We should Note that the estimate of the impairment of real estate assets, with origin in its credit activity, and that, through the payment, purchase, or judicial adjudicates the Bank is subject to the same criteria previously detailed for the guarantees of real estate. See Notes 10 and 46 of the annual financial statements.	• Review a sample of individual borrower case files to check they were properly classified and that any corresponding impairment losses had been duly recognised, checking any discounted cash flow models used to this end. • Back-testing of the impairment losses actually incurred against those estimated in prior periods. Differences emerged as a result of our tests with respect to the calculations performed by management were not outside a reasonable range.
Disclosure of the estimated impact of Circular 4/2017 of Bank of Spain	
In relation to the effectiveness in 2018 of the new Circular 4/2017 on the Classification and Valuation of Financial Instruments, as it is described in Note 1.b, the Bank has designed an implementation plan for the adoption of this standard. This implementation plan entails conducting an evaluation of the population of financial instruments affected by the classification and measurement requirements of Circular 4/2017 and the development of an impairment methodology of loans and receivables due to credit risk In this first application of the standard, the Bank has decided not to adopt the new standard regarding hedge accounting, as detailed in Note 1.b, and it is included in the Circular 4/2017 itself. In this line, the Bank has completed the definition of the main assumptions used in the valuation, classification and provisions process, such as: the main business models used, definition of default, future information included in the provision models or completed evaluation for the determination of significant increase in credit risk.	Our work has focused on the analysis, evaluation and verification of the internal control environment and on performing test of detail, all referred to the disclosure of financial information related to the estimated impact of the adoption of this new regulation in each of its key areas: classification, valuation and impairment. With respect to the internal control environment, we have focused, on testing the design and the operational effectiveness of controls related to the presentation and disclosure of the information in the annual accounts. Among the other, the governance controls should be outlined for the following aspects: • Accounting policies and the methodological framework developed by the Bank in order to assess compliance with new regulations. • Analysis of the main methodologies and calculation variables considered in the quantification process.

Key audit matter	How our audit addressed the key audit matter
Thus, as a disclosure for a breakdown in the annual accounts, the Bank has made an estimate of the impacts of the adoption of this new regulation Please refer to Note 1.b of the annual financial statements.	Moreover, we carried out tests of detail regarding calculations presented and disclosed in Note 1.b: • Sampling of operations in order to assess their adequate classification, registration and valuation, based on our analysis of business models and SPPI tests carried out. • For the most relevant portfolios, checks with respect to: i) Methodology for estimating parameters of expected loss, ii) Historical and prospective information used, iii) Loan classification criteria by stages. • Review of impairment calculations including the information related to scenarios and their assumptions. As a result of our procedures, we have not identified additional observations outside a reasonable range.
Recoverability of deferred tax assets	
Assessing the recoverability of deferred tax assets is a complex exercise and requires a high degree of judgement and estimation. In keeping with the recoverability model defined by the Consolidated Tax Group, the management of each business unit compiles the assumptions that underpin the business plans that are projected over the time horizon established for that business. This process implies specific and complex considerations that the management takes into account in order to assess the initial and ongoing recognition of deferred tax assets. The most significant considerations made by the Group in this respect are: • Assuring themselves that the tax regulations are applied correctly and the temporary differences that qualify as deductible are duly recognised.	We have documented, in collaboration with our tax experts, our understanding and review of the estimation exercise undertaken by the management. With respect to the internal control environment we focused on the controls design and operational effectiveness of the following processes: • The process of drawing up the business plan for each geography under the scope of the model established for estimating the recognition, measurement and recoverability of deferred tax assets. • Calculation of deferred tax assets. We also carried out the following tests of details: • Evaluate the assumptions made by the Group to calculate and estimate its deductible temporary differences to assess whether they are comprehensive and appropriate.

Key audit matter	How our audit addressed the key audit matter
• Maintaining a control environment, running the models and validating the calculations deriving therefrom to ensure that the tax assets are properly recognised and measured and that the conclusions drawn regarding their recoverability are accurate. • Reviewing that the projections that form part of the defined model which is in turn used to estimate the tax profits used to infer the amount of deferred tax assets that will be recoverable in future periods in relation to deductible temporary differences and unused tax losses are indeed achievable. Please refer to Note 2 of the annual financial statements.	• Analysis of the key data used by management to estimate the various deferred tax assets and track their subsequent recoverability, including: - Parallel reperformance of the income projections carried out by the entity and the hypothesis employed, including the detail of the economic forecasts and indicators used in the analysis (inflation, interest rates, etc.); - Obtaining the necessary management information that support the business plan (budgets, future economic forecasts, estimations on financial products to be contracted, etc); - Evaluate the tax strategy planned by the Group for the recoverability of the deferred tax assets. We have obtained adequate audit evidence throughout our procedures to corroborate the estimates made by the group with respect to the recoverability of its deferred tax assets.

Measurement of pension obligations

The regulations applicable to pension obligations are complex and the estimation of such obligations implies actuarial calculations which require the use of significant judgement, a high volume of data and estimates regarding various assumption.

In making their estimates, the management takes into account certain considerations in order to determine the amount of pension obligations to be recognised, most notable among which:

- Guaranteeing compliance with legislation of the accounting regulations.
- Maintaining and validating calculations to ensure that the Bank's pension obligations are properly measured and recognised.

We documented, with the assistance of our actuarial experts, our understanding and review of the estimation exercise carried out by the management.

With respect to the internal control environment we focused on the controls design and operational effectiveness of the following processes:

- Update of the staff database.
- Assumptions and hypotheses used to estimate the Bank's pension obligations, and an assessment of the evidence of any changes which may have affected them.
- Actuarial criteria used in the estimation process and in the calculation of the pension obligations.

Key audit matter	How our audit addressed the key audit matter
• Reviewing the key assumptions and hypotheses used in the calculations and estimates made by the actuaries at the end of the year-end. Please refer to notes 2 and 23 of the annual financial statements.	We also carried out the following tests of details: • Validation of the key information and hypothesis employed by the management for the estimation of the pension obligations. • We obtained confirmation letters from the applicable insurance companies to obtain an additional source of information regarding the savings policies written with these entities. • We reviewed the valuation performed by the Bank for the assets and liabilities related to pension obligations. • We reviewed the actuarial reports prepared by the experts external to the Bank's Management. As a result of the previous procedures, no differences were identified, over a reasonable range.
Provisions for tax, legal and labour lawsuits	
The Bank is party to a range of tax, legal and labour proceedings - administrative and judicial - which primarily arose in the ordinary course of its business operations. There are also situations not yet subject to any judicial proceedings that have nevertheless required the Bank to recognise provisions; these include customer conduct related matters and the attendant compensation. The estimation of the provisions registered for the mentioned purposes is one of the areas for which a greater judgement is required. These proceedings generally take a long period of time to run their course, giving rise to complex processes dictated by the applicable legislation.	We have documented our understanding and review of the estimation exercise undertaken by the management. With respect to the internal control environment we focused on the controls design and operability of the following processes: • Update of the databases that contain the ongoing legal procedures. • Evaluation of the accuracy of the constituted provisions for regulatory, legal or tax procedures and its recognition. • Conciliation between the minute in accordance and, if applicable, in discordance of the Inspections with the amounts registered.

Key audit matter	How our audit addressed the key audit matter
The Bank's management decide when to recognise a provision for these proceedings based on estimates made using prudent calculation procedures that are consistent with the uncertainty intrinsic to the obligations they cover. Within these provisions, the most significant are those corresponding to cover customer compensation for the sale of certain; these estimates are based on the number of claims expected to be received, the number expected to be admitted, and the estimated average pay out per case. Please refer to notes 2 and 10 of the annual financial statements.	In addition, we performed test of details consisting of the following: • We familiarised ourselves with the policy for classifying lawsuits and allocating provisions. • Monitoring of the ongoing tax inspections. • Analysis of the reasonableness of the expected outcomes of the most significant tax, legal and labour proceedings. • Assessment of possible contingencies relating to compliance with the Bank's tax obligations for all the years open to inspection. • We obtained confirmation letters from external lawyers and tax advisors who work with the Bank to cross-check its assessment of the outcome of the lawsuits, all of the information used, the correct recognition of the various provisions and the identification of potentially omitted liabilities. • Examination of the communications with the regulatory bodies, analyse the ongoing regulatory inspections and value the impact of any regulatory finding in the audit. • Analysis of the recognition and reasonableness of the provisions recorded for accounting purposes and the movements therein. As a result of the previous procedures, no differences were identified, outside a reasonable range, in the procedures previously described.

Key audit matter	How our audit addressed the key audit matter
IT systems - access controls	
The Bank's business is highly dependent on information technology (IT) systems in the geographical locations where it operates, such that adequate control of these systems is crucial to ensuring correct data processing. Moreover, as the systems become more numerous and complex, the risks relating to the organisation's IT systems and, by extension, the data they process, increase. Considering this context, it is vital to evaluate aspects such as the organisation of the Bank's Technology and Operations Department, software maintenance and development controls, physical and logical security and system operation. In this respect, the management has developed a system efficiency plan including aspects such as access controls in systems, databases and applications.	With the help of our IT system experts, our work consisted of reviewing the internal controls over the IT systems and software that support the core business activity and have an impact on the Bank's financial reporting. For this purpose procedures were carried out in order to evaluate the design and operating effectiveness of the controls related to: • Functioning of the IT governance framework • Access control and logic security over the applications, operating systems and databases that support the relevant financial information. • Application development and update management. • Maintenance of the IT operations. Our review revealed incidents related with access controls in respect of certain applications. The Bank has prepared a plan to remedy these incidents which is in the process of being implemented and formal mitigating controls are being put in place. Against this backdrop, our approach and audit plan centred on the following aspects: • We reviewed the remediation plan and the new controls implemented by the Bank in 2017. • The controls related to the segregation of duties (access control) and access to critical transactions. • We increased sampling of the mitigating controls identified by management. • We expanded the samples analysed for derivatives and other financial assets to confirm their existence and measurement and the correct functioning of the IT governance framework.

Key audit matter	How our audit addressed the key audit matter
	The results of our procedures involving the samples added to our tests of controls and tests of details were satisfactory and we did not detect any material aspect affecting the financial information included in the annual financial statements.
Impairment of investment in Group Entities	
As indicated in Note 1 of the annual financial statements, Banco Santander is the parent company of a Group of dependent entities and therefore has the ownership of social capital of a those societies, whose fundamental activities are developed in the financial sector. The accounting value of the investments in Group entities as of 31 of December, 2017 increases to 85 billion of euros, as indicated in Note 13 in the annual financial statements. Management performs and analysis of the potential losses of the value of investments in Group entities that it has registered in its accounting value. This analysis is performed using the different parameters, like the equity value, value of the price and the recoverable value. The investments valued in the last case, whose accounting value increases to 21 billion of euros, is analyzed comparing the accounting value and the recoverable value, which is obtained from the estimate of the cash flows of the expected dividends or the net equity consolidated corrected by the unrealized gains existing to date of the valuation, including goodwill. The valuation or analysis of the impairment of these last investment represents the use of significant professional judgment.	We have documented our understanding and our review of the estimates process performed by management. With respect to the internal control, we have focused in the design and operative effectiveness of the controls of the valuation process, the methodology and the relevant assumptions included in the estimates made by management at the closing day. Additionally, we have realized test of details consistent in: • Re-perform and compare the valuation executed by Banco Santander, taking as a reference the recoverable balance of the shares in Group entities. • Review of the methodology of the valuation process performed by management is in line with accounting standards applicable, the market practice and the specific expectations of the banking sector. We have not identified differences, outside a reasonable range, in the listed tests.

Other information: management report

Other information comprises only the management report for the 2017 financial year, the formulation of which is the responsibility of the Company´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice which establishes two differentiated responsibility levels:

a) A specific level that is applicable to the statement of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, defined in article 35.2. b) of Law 22/2015 on Accounts Auditing, which solely consists of verifying that the aforementioned information was included in the management report or otherwise report on it.

b) A general level applicable to the rest of the information included in the management report, which consists of evaluating and informing about the concordance of the mentioned information with the annual accounts, based on the knowledge of the Entity acquired from the audit of the accounts and without including information other than that obtained as evidence during such audit, as well as evaluating and informing about whether the content and presentation of this part of the management report comply with the applicable regulations. If we conclude, based on the work performed, that there are material misstatements, we would be compelled to report on this.

On the basis of the work performed, as described in the previous paragraph, the information contained in the management report is consistent with that contained in the annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Bank´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of the Bank, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Bank in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Bank´s directors are responsible for assessing the Bank´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Bank´s audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank´s directors.

- Conclude on the appropriateness of the Bank´s directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Bank´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Banco Santander, S.A.

Report on other legal and regulatory requirements

Report to the Bank's audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Bank's audit committee dated February 15, 2018

Appointment period

During the General Shareholder's Meeting held on March 18, 2016 we were appointed as the Bank's auditors for a three-year period from the fiscal year ended December 31, 2016.

Services provided

Services, different to the audit, provided to the Bank are described in Note 43 of the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Alejandro Esnal (19930)

February 16, 2018

Banco Santander, S.A.

Financial Statements and Directors' Report for the year ended 31 December 2017

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016

(Millions of euros)

ASSETS	Note	2017	2016 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND		33,734	15,635
FINANCIAL ASSETS HELD FOR TRADING		64,326	70,437
Derivatives	9	38,894	45,258
Equity instruments	8	10,168	7,249
Debt instruments	7	15,242	17,889
Loans and advances	10	22	41
Central banks		-	-
Credit institutions		-	-
Customers		*22*	*41*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*21,212*	*8,272*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		34,021	25,269
Equity instruments	8	-	-
Debt instruments	7	-	-
Loans and advances		34,021	25,269
Central banks		-	-
Credit institutions	6	*11,243*	*8,533*
Customers	10	*22,778*	*16,736*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*3,812*	*308*
FINANCIAL ASSETS AVAILABLE-FOR-SALE		33,809	30,068
Equity instruments	8	1,863	2,443
Debt instruments	7	31,946	27,625
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*25,259*	*9,991*
LOANS AND RECEIVABLES		220,019	218,288
Debt instruments	7	13,492	13,681
Loans and advances		206,527	204,607
Central banks	6	*96*	*47*
Credit institutions	6	*31,617*	*25,763*
Customers	10	*174,814*	*178,797*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*3,532*	*3,514*
INVESTMENTS HELD-TO-MATURITY	7	1,892	1,953
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*286*	*449*
HEDGING DERIVATIVES	11	2,073	2,283
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	32	65	84
INVESTMENTS		85,428	80,614
Group entities	13	*82,927*	*78,057*
Joint ventures entities		*302*	*390*
Associated companies	13	*2,199*	*2,167*
TANGIBLE ASSETS	15	1,929	1,834
Property, plant and equipment:		1,690	1,616
For own use		*1,331*	*1,299*
Leased out under an operating lease		*359*	*317*
Investment property:		239	218
Of which: Leased out under an operating lease		*239*	*200*
Memorandum ítems:acquired in financial lease		*574*	*611*
INTANGIBLE ASSETS		225	160
Goodwill		-	-
Other intangible assets	16	*225*	*160*
TAX ASSETS	24	10,009	9,586
Current tax assets		*2,240*	*1,378*
Deferred tax assets		*7,769*	*8,208*
OTHER ASSETS	17	3,165	3,110
Insurance contracts linked to pensions	14	*1,732*	*1,834*
Inventories		-	-
Other		*1,433*	*1,276*
NON-CURRENT ASSETS HELD FOR SALE	12	*1,720*	1,923
TOTAL ASSETS		**492,415**	**461,244**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016
(Millions of euros)

LIABILITIES	Note	2017	2016 (*)
FINANCIAL LIABILITIES HELD FOR TRADING		47,952	54,550
Derivatives	9	39,234	46,975
Short positions	9	8,718	7,575
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Marketable debt securities		-	-
Other financial liabilities		-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		32,314	15,124
Deposits		32,314	15,124
Central banks	18	*7,913*	*8,401*
Credit institutions	18	*15,209*	*3,141*
Customers	19	*9,192*	*3,582*
Marketable debt securities		-	-
Other financial liabilities		-	-
Memorandum ítems:subordinated liabilities		-	-
FINANCIAL LIABILITIES AT AMORTISED COST		327,020	313,382
Deposits		264,582	281,096
Central banks	18	*25,016*	*25,067*
Credit institutions	18	*60,008*	*49,287*
Customers	19	*179,558*	*206,742*
Marketable debt securities	20 & 21	53,058	22,955
Other financial liabilities	22	9,380	9,331
Memorandum ítems:subordinated liabilities	19 & 20	*15,413*	*16,941*
HEDGING DERIVATIVES	11	4,014	4,197
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE	32	-	7
PROVISIONS	23	6,615	7,339
Provision for pensions and similar obligations		*4,141*	*4,627*
Other long term employee benefits		*1,231*	*1,588*
Provisions for taxes and other legal contingencies		*316*	*262*
Provisions for commitments and guarantees given		*196*	*267*
Other provisions		*731*	*595*
TAX LIABILITIES	24	1,208	1,378
Current tax liabilities		-	-
Deferred tax liabilities		*1,208*	*1,378*
OTHER LIABILITIES	17	2,725	2,032
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL LIABILITIES		**421,848**	**398,009**
SHAREHOLDERS' EQUITY	26	70,717	63,029
CAPITAL		8,068	7,291
Called up paid capital	27	8,068	7,291
Unpaid capital which has been called up		-	-
Memorandum ítems: uncalled up capital		-	-
SHARE PREMIUM	28	51,053	44,912
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	27	686	-
Equity component of compound financial instruments		-	-
Other equity instruments		686	-
OTHER EQUITY INSTRUMENTS	30	150	135
ACCUMULATED RETAINED EARNINGS	29	7,796	7,785
REVALUATION RESERVES		-	-
OTHER RESERVES	29	1,987	2,092
(-) OWN SHARES		-	-
RESULTS FOR THE PERIOD		3,006	2,481
(-) DIVIDENDS	4	(2,029)	(1,667)
OTHER COMPREHENSIVE INCOME		(150)	206
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(1,096)	(1,080)
Actuarial gains or (-) losses on defined benefit pension plans	25	*(1,096)*	*(1,080)*
Non-current assets classified as held for sale		-	-
Other valuation adjustments		-	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		946	1,286
Hedge of net investments in foreign operations (Effective portion)		-	-
Exchange differences		-	-
Hedging derivatives. Cash flow hedges (Effective portion)		-	*5*
Financial assets available-for-sale	25	946	1,281
Debt instruments		*498*	*636*
Equity instruments		*448*	*645*
Non-current assets classified as held for sale		-	-
TOTAL EQUITY		**70,567**	**63,235**
TOTAL LIABILITIES AND EQUITY		**492,415**	**461,244**
MEMORANDUM ITEMS			
CONTINGENT LIABILITIES	31	24,235	60,059
CONTINGENT COMMITMENTS	31	86,070	85,250

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2017

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Millions of euros)

		(Debit) / Credit	
	Note	2017	2016 (*)
Interest income	34	5,460	5,763
Interest expense	35	(3,203)	(3,113)
Net interest income		**2,257**	**2,650**
Dividend income	36	3,593	3,719
Commision income	37	2,282	2,035
Commision expense	38	(310)	(343)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	39	367	289
Gains or losses on financial assets and liabilities held for trading, net	39	348	310
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	39	(32)	177
Gains or losses from hedge accounting, net	39	(11)	(17)
Exchange differences, net	40	(245)	(587)
Other operating income	41	302	247
Other operating expenses	41	(506)	(462)
Gross income		**8,045**	**8,018**
Administrative expenses		(4,060)	(4,211)
Staff costs	42	*(2,109)*	*(2,154)*
Other general administrative expenses	43	*(1,951)*	*(2,057)*
Depreciation and amortisation cost	15 &16	(193)	(160)
Provisions or reversal of provision	23	(495)	(714)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net		(524)	(560)
Financial assets measured at cost		*(66)*	*(43)*
Financial assets available-for-sale		*(7)*	*12*
Loans and receivables	10	*(451)*	*(529)*
Held-to-maturity investments		-	-
Profit from operations		**2,773**	**2,373**
Impairment of investments in subsidiaries, joint ventures and associates, net	44	(273)	(484)
Impairment on non-financial assets, net	44	-	-
Tangible assets		-	-
Intangible assets		-	-
Others		-	-
Gains or losses on non financial assets and investments, net	45	572	345
From wich: investments in subsidaries, joint ventures and associates		*559*	*334*
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale classified as discontinued operations	12 & 46	(95)	(105)
Profit or loss before tax from continuing operations		**2,977**	**2,129**
Tax expense or income from continuing operations	24	29	352
Profit for the period from continuing operations		**3,006**	**2,481**
Profit or loss after tax from discontinued operations		-	-
Profit for the period		**3,006**	**2,481**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the income statements for the year ended 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Millions of euros)

	Note	2017	2016 (*)
PROFIT FOR THE YEAR		**3,006**	**2,481**
OTHER RECOGNISED INCOME AND EXPENSES	23	**(356)**	**364**
Items that will not be reclassified to profit or loss		**(15)**	**(75)**
Actuarial gains/ (losses) on defined benefit pension plans		(23)	(106)
Non-current assets held for sale		-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates		-	-
Other valuation adjustments		-	-
Income tax relating to items that will not be reclassified to profit or loss	24	8	31
Items that may be reclassified to profit or loss		**(341)**	**439**
Hedges of net investments in foreign operations (Effective portion)		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Exchanges differences		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Cash flow hedges		(7)	4
Revaluation gains or (losses)		*(7)*	*4*
Amounts transferred to income statement		-	-
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Financial assets available-for-sale		(625)	619
Revaluation gains or (losses)		*(283)*	*830*
Amounts transferred to income statement		*(342)*	*(211)*
Other reclassifications		-	-
Non-current assets held for sale		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Income tax related to items that may be reclassified to profit or loss	24	291	(184)
Total recognised income and expenses for the year		**2,650**	**2,845**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of recognised income and expense for the year ended 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retaineds earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/16 (*)	**7,291**	**44,912**	**-**	**135**	**7,785**	**-**	**2,092**	**-**	**2,481**	**(1,667)**	**206**	**63,235**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 01/01/2017 (*)	**7,291**	**44,912**	**-**	**135**	**7,785**	**-**	**2,092**	**-**	**2,481**	**(1,667)**	**206**	**63,235**
Total recognised income and expense	-	-	-	-	-	-	-	-	**3,006**	-	**(356)**	**2,650**
Other changes in equity	**777**	**6,141**	**686**	**15**	**11**	**-**	**(105)**	**-**	**(2,481)**	**(362)**	**-**	**4,682**
Issuance of ordinary shares	777	6,141	-	-	-	-	6	-	-	-	-	6,924
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	686	-	-	-	-	-	-	-	-	686
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(803)	-	-	-	-	**(2,029)**	-	(2,832)
Purchase of equity instruments	-	-	-	-	-	-	-	(972)	-	-	-	(972)
Dispossal of equity instruments	-	-	-	-	-	-	23	972	-	-	-	995
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	814	-	-	-	(2,481)	1,667	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(46)	-	-	-	-	-	-	-	(46)
Others increases or (-) decreases of the equity	-	-	-	61	-	-	(134)	-	-	-	-	(73)
Balance at 31/12/17	**8,068**	**51,053**	**686**	**150**	**7,796**	**-**	**1,987**	**-**	**3,006**	**(2,029)**	**(150)**	**70,567**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 (CONTINUED)

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retaineds earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/15 (*)	**7,217**	**45,001**	**-**	**115**	**7,779**	**-**	**1,174**	**-**	**2,277**	**(1,546)**	**(158)**	**61,859**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 01/01/2016 (*)	**7,217**	**45,001**	**-**	**115**	**7,779**	**-**	**1,174**	**-**	**2,277**	**(1,546)**	**(158)**	**61,859**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,481**	**-**	**364**	**2,845**
Other changes in equity	**74**	**(89)**	**-**	**20**	**6**	**-**	**918**	**-**	**(2,277)**	**(121)**	**-**	**(1,469)**
Issuance of ordinary shares	74	(89)	-	-	-	-	15	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(722)	-	-	-	-	(1,667)	-	(2,389)
Purchase of equity instruments	-	-	-	-	-	-	-	(943)	-	-	-	(943)
Dispossal of equity instruments	-	-	-	-	-	-	9	943	-	-	-	952
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	731	-	-	-	(2,277)	1,546		-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(46)		-		-	-	-	-	(46)
Others increases or (-) decreases of the equity	-	-	-	66	(3)	-	894	-	-	-	-	957
Balance at 31/12/16	**7,291**	**44,912**	**-**	**135**	**7,785**	**-**	**2,092**	**-**	**2,481**	**(1,667)**	**206**	**63,235**

(*) Restated balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Millions of euros)

	Note	2017	2016 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**15,476**	**3,638**
Profit for the year	4	**3,006**	**2,481**
Adjustments made to obtain the cahs flows from operating activities		**1,823**	**1,245**
Depreciation and amortisation charge	15 & 16	*193*	*160*
Other adjustments		*1,630*	*1,085*
Net increase/(decrease) in operating assets		**(10,429)**	**(36,393)**
Financial assets held-for-trading		*4,829*	*(9,646)*
Financial assets designated at fair value through profit or loss		*(8,752)*	*(14,170)*
Financial assets available-for-sale		*(4,445)*	*(6,860)*
Loans and receivables		*(2,318)*	*(2,636)*
Other operating assets		*257)*	*(3,081)*
Net increase/(decrease) in operating liabilities		**21,915**	**(36,632)**
Liabilities held-for-trading financial		*(6,597)*	*(3,948)*
Financial liabilities designated at fair value through profit or loss		*17,189*	*(8,998)*
Financial liabilities at amortised cost		*11,854*	*(25,225)*
Other operating liabilities		*(531)*	*1,539*
Income tax recovered/(paid)		**(839)**	**151**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(3,823)**	**2,830**
Payments		**8,818**	**4,419**
Tangible assets	15	*455*	*373*
Intangible assets	16	*138*	*126*
Investments	13	*8,225*	*3,920*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		-	-
Other proceeds related to investing activities		-	-
Proceeds		**4,995**	**7,249**
Tangible assets	15	*231*	*73*
Intangible assets	16	-	-
Investments	13	*4,355*	*6,812*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		*340*	*295*
Held-to-maturity investments		*69*	*69*
Other payments related to investing activities		-	-
C. CASH FLOW FROM FINANCING ACTIVITIES		**7,101**	**(5,281)**
Payments		**4,554**	**8,584**
Dividends	4	*2,665*	*2,308*
Subordinated liabilities	21	*764*	*5,333*
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		*972*	*943*
Other payments related to financing activities		*153*	-
Proceeds		**11,655**	**3,303**
Subordinated liabilities	21	*2,894*	*2,346*
Issuance of own equity instruments		*7,072*	-
Disposal of own equity instruments		*1,004*	*957*
Other proceeds related to financing activities		*685*	-
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(655)**	**289**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**18,099**	**1,476**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**15,635**	**14,159**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**33,734**	**15,635**
Memorandum items			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		*772*	*720*
Cash equivalents at central banks		*30,800*	*13,377*
Other financial assets		*2,162*	*1,538*
Less - Bank overdrafts refundable on demand		-	-

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of cash flows for the year ended 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A.

Notes to the Financial Statements for the year ended 31 December 2017

1. Introduction, basis of presentation of the Financial Statements and other information

a) Introduction

Banco Santander, S.A. (“the Bank” or “Banco Santander”) is an entity under private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information of the Bank can be consulted on the website of the Bank (www.santander.com) and at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations performed directly by Banco Santader, S.A. The Bank is the head of a group of subsidiaries that perform different business activities and which constitute, together with the Bank, the Santander Group (“the Group” or “Santander Group"). Therefore, the Bank is obliged to prepare, in addition to its own stand alone financial statements, the Group's consolidated which financial statements, also includes the investments in joint ventures and in associated companies.

The Bank's financial statements for 2016 were approved by the shareholders at the Bank's Annual General Meeting on 7 April 2017. The 2017 consolidated financial statements of the Group and the 2017 financial statements of the Bank and most part of the subsidiaries of the Group are pending of approved by their shareholders at the respective Annual General Meetings. However, the Bank's board of directors considers that the aforementioned financial statements will be approved without significant changes.

In the Appendix IX, it is detailed the list of agents that assit to the Bank on the performance of its business activities in Spain.

b) Basis of presentation of the financial statements

The Bank's financial statements for 2017 were formally prepared by the Bank's directors (at the board meeting on 13 February 2018) in accordance with Bank of Spain Circular 4/2004, taking into account the subsequent amendments to and the Spanish corporate and commercial law applicable to the Bank, using the accounting policies and measurement cirterias detailed in Note 2. Accordingly, the financial statements fairly presented the Bank's equity and financial position at 31 December 2017 and the results of its operations, of the recognised income and expenses, of the changes in equity and of cash flows in 2017. These financial statements were prepared using the Bank accounting record.

The notes to the financial statements contain supplementary information to that presented in the balance sheet, income statement, statement of recognised income and expenses, statement of changes in total equity and statement of cash flows. They provide narrative descriptions to the disaggregation of such states in a clear, relevant, reliable and comparable manner.

Adoption of new standards and interpretations issued.

The following is a summary of the main Bank of Spain Circulars issued during 2017:

Bank of Spain *Circular 1/2017, of June 30, which amends Circular 1/2013 of May 24,* about Risk Information Center. The main objective of the circular is to collect through the Risk Information Center (CIR) the information that the Bank of Spain has to request from the reporting entities to report it to the European Central Bank in compliance with the provisions of the regulation (EU) No. 867/2016.

Circular 5/2017 of December 22, which amends Circular 5/2012 June 27, to credit institutions and payment service suppliers, about transparency of banking services and responsibility in the granting of loans. (BOE of January 3, 2018).

From the application of this circulars, no significant effects have been identified in the Bank's annual accounts.

Additionaly, the following regulations are opperating at the moment of the formulation, which effective date is after December 31, 2017:

Circular 3/2017, of October 24, of the Bank of Spain, by which modifications are introduced in the Bank of Spain Circular 2/2014, to credit institutions, on the exercise of various regulatory options contained on the Regulations (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements of credit institutions and investment firms, and amending Regulation (EU), No. 648/2012.
Bank of Spain Circular 4/2017 of November 27, to credit institutions, on rules of public and reserved financial information and models of financial statements, which effective date is on January 1, 2018.

On December 6, 2017, Circular 4/2017, of November 27, of the Bank of Spain, was published in the Official State Gazette, to credit institutions, about the rules of public and reserved financial information, and financial statement models. This Circular, which will be effective on January 1, 2018, is intended to adapt the accounting standars of Spanish credit institutions to the International Financial Reporting Standard 9 adopted by the European Union (IFRS-EU 9).

The main aspects contained in the IFRS-EU 9, to which the aforementioned Circular 4/2017 is adapted, are the following:

(a) Classification of financial instruments: the classification criteria for financial assets depends on the business model for their management and the characteristics of their contractal flows. Depending on these factors, the asset can be measured at amortised cost, at fair value with changes reported in other comprehensive income, or at fair value with changes reported through profit and loss for the period. IFRS 9 also establishes an option to designate an instrument at fair value with changes in profit or loss, under certain conditions. Santander Bank uses the following criteria for the classification of financial debt instruments:

- Amortised cost: financial instruments under a business model whose objective is to collect principal and interest cash flows, over those where no significant unjustified sales exist and fair value is not a key factor in managing these financial assets. In this way, unjustified sales are those that are different from sales related with an increase in the asset´s credit risk, unanticipated funding needs (stress case scenario), even if such sales are significant in value, or from sales of assets that no longer met the credit criteria specified in the entity´s investment policy. Additionally, the contractual flow characteristics substantially represent a “basic financing agreement”.

- Fair value with changes recognised through other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a “basic financing agreement”.

- Fair value with changes recognised through profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”.

Santander Bank’s main activity revolves around retail and commercial banking operations, and its exposure does not focus on complex financial products. The Group's main objective is to achieve consistent classification of financial instruments in the portfolios as established under IFRS 9. To this end, the bank has adopted guidelines develop by the Group. Additionally, for consolidated purpose the Group has analysed its portfolios under these criteria, in order to assign its financial instruments to the appropriate portfolio under IFRS 9, with no significant changes being identified.

Based on this analysis, Santander Group concludes that:

- Most of its financial assets classified as loans and advances under IAS 39 will continue to be recognised at amortised cost under IFRS 9. As a consequence of the contractual cash flows characteristics analysis of the financial instruments, a 0.3% of the total balance at December 31, 2017 under IAS 39 for the period primarily will be reclassified to fair value with changes reported through profit and loss. As a result of the business model definition according to the assets managed, a 0.2% of the total balance at December 31, 2017 under IAS 39 will be reclassified to fair value with changes recognised in other comprehensive income.

- In general, debt instruments classified as available-for-sale financial assets will be measured at fair value with changes recognised through other comprehensive income. As a consequence of the contractual cash flows characteristics analysis of the financial instruments, a 0.2% of the total balance at December 31, 2017 under IAS 39 for the period primarily, will be reclassified to fair value with changes reported through profit and loss. As a result of the business model definition according to the assets managed, a 5.1% of the total balance at December 31, 2017 under IAS 39 will be reclassified to fair value with changes recognized in other comprehensive income.

However, the expected impact in shareholders´ equity due to the reclassifications mentioned above is not considered significant.

Available-for-sale equity instruments will be classified at fair value under IFRS 9, with changes recognised through profit or loss, unless the Group decides, for non-trading assets, to classify them at fair value with changes recognised through other comprehensive income (irrevocably).

IAS 39 financial liabilities classification and measurement criteria remains substantially unchanged under IFRS 9. Nevertheless, in most cases, the changes in the fair value of financial liabilities designated at fair value with changes recognised through profit or loss for the year, due to the entity credit risk, are classified under other comprehensive income.

On October 12, 2017, the IASB (International Accounting Standards Board) published a clarification on the treatment of certain prepayment options in relation to the assessment of contractual cash flows of principal and interest on financial instruments, which is currently pending approval by the European Union. However, the Group does not expect a significant impact in the transition period prior to the adoption of this amendment.

(b) Credit risk impairment model: the most important new development compared with the current model is that the new accounting standard introduces the concept of expected loss, whereas the current model (IAS 39) is based on incurred loss.

- Scope of application: The IFRS 9 impairment model applies to financial assets valued at amortised cost, debt instruments valued at fair value with changes reported in other comprehensive income, lease receivables, and commitments and guarantees given not valued at fair value.
- Use of practical expedients under IFRS 9: IFRS 9 includes a number of practical expedients that may be implemented by entities to facilitate implementation. However, in order to achieve full and high quality implementation of the standard, considering industry best practices, these practical expedients will not be widely used:
  - Rebuttable presumption that the credit risk has increased significantly when payments are more than 30 days past due: this threshold is used as an additional – but not primary - indicator of significant risk increase.
  - Assets with low credit risk at the reporting date: in general, the Entity assesses the existence of significant risk increase in all its financial instruments.
- Impairment estimation methodology: the portfolio of financial instruments subject to impairment is divided into three categories, based on the stage of each instrument with regard to its level of credit risk:
  - Stage 1: financial instruments for which no significant increase in risk is identified since its initial recognition. In this case, the impairment provision reflects expected credit losses arising from defaults over the following 12 months from the reporting date.
  - Stage 2: if there has been a significant increase in risk since the date of initial recognition, but the impairment event has not materialised the financial instrument is classified as Stage 2. In this case, the impairment provision reflects the expected losses from defaults over the residual life of the financial instrument.
  - Stage 3: a financial instrument is catalogued in this stage when shows effective signs of impairment as a result of one or more events that have already occurred resulting in a loss. In this case, the amount of the impairment provision reflects the expected losses for credit risk over the expected residual life of the financial instrument.

  Additionally, the amount relative to the impairment provision reflects expected credit risk losses through the expected residual life in those financial instruments purchased or originated credit impaired (POCI).

The methodology required for the quantification of expected loss due to credit events will be based on an unbiased and weighted consideration of the occurrence of up to five possible future scenarios that could impact the collection of contractual cash flows, taking into account the time-value of money, all available information relevant to past events, and current conditions and projections of macroeconomic factors deemed relevant to the estimation of this amount (e.g. GDP (Gross Domestic Product), house pricing, unemployment rate, etc.).

In estimating the parameters used for impairment provisions calculation (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default) and discount rate), the Entity leveraged on its experience developing internal models for calculating parameters for regulatory and management purposes. The Entity is aware of the differences between such models and IFRS 9 requirements for impairment purposes. As a result, it has focused on adapting to such requirements to the development of its IFRS 9 impairment provision models.

- Determination of significant increase in risk: with the purpose of determine whether a financial instrument has increased its credit risk since initial recognition, proceeding with its classification into Stage 2, the Entity considers the following criteria.

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analyzed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into Stage 2, the Entity has defined the quantitative thresholds to consider in each of its portfolios taking into account corporate guidelines.
Qualitative criteria	In addition to the quantitative criteria mentioned above, the entity considers several indicators that are aligned with those used in ordinary credit risk management (e.g.: over 30 days past due, forbearances, etc.). The Entity has defined these qualitative criteria for each of its portfolios, according to its particularities and with the policies currently in force. The use of these qualitative criteria is complemented with the use of an expert judgement.

- Default definition: the definition considered for impairment provisioning purposes is consistent with that used in the development of advanced models for regulatory capital requirements calculations.
- Use of present, past and future information: estimation of expected losses requires a high component of expert judgement and it must be supported by past, present and future information. Therefore, these expected loss estimates take into consideration multiple macroeconomic scenarios for which the probability is measured considering past events, current situation and future trends and macroeconomic indicators, such as GDP or unemployment rate.

The Entity already uses forward looking information in internal management and regulatory processes, considering several scenarios. In this sense, the entity has leveraged its experience in the management of such information, maintaining consistency with the information used in the other processes.

- Expected life of the financial instrument: with the purpose of its estimation all the contractual terms have been taken into account (e.g. prepayments, duration, purchase options, etc.), being the contractual period (including extension options) the maximum period considered to measure the expected credit losses. In the case of financial instruments with an uncertain maturity period and a component of undrawn commitment (e.g: credit cards), expected life is estimated considering the period for which the entity is exposed to credit risk and the effectiveness of management practices mitigates such exposure.

- Impairment recognition: the main change with respect to the current standard related to assets measured at fair value with changes recognised through other comprehensive income. The portion of the changes in fair value due to expected credit losses will be recorded at the current profit and loss account while the rest will be recorded in other comprehensive income.

(c) Hedge accounting: IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, allowing to be a greater variety of derivative financial instruments which may be considered to be hedging instruments. Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy. The treatment of macro-hedges is being developed as a separate project under IFRS 9. Entities have the option of continuing to apply IAS 39 with respect to accounting hedges until the project has been completed. According to the analysis performed until now, the entity will continue to apply IAS 39 in hedge accounting.

Transition

The European Union has already endorsed IFRS 9. The criteria established by this rule for the classification, measurement and impairment of financial assets, will be applied in a retrospective way, adjusting the first opening balances in the first application date (January 1, 2018). This new international standard is aligned with the credit risk directives of the EBA and Bank of Spain Circular 4/2017.

For consolidation purpose, Santander Group has estimated an impact in (Common Equity Tier 1 -CET 1-) fully loaded basis of -20bp. The Group will apply a progressive phased-in regime in the period of 5 years based on Regulation (EU) No 2017/2395 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds that would be an impact of the new impairment model of IFRS 9 of -1bp on Common Equity Tier 1 capital during the period from January 1, 2018 to December 31, 2018 or 5% of total impact. The increase in impairment provisions amounts to circa EUR 2,200 million (approximately EUR 400 million for the Bank).

The main causes of this impact are the requirements to record impairment provisions for the whole life of the transaction for instruments where a significant risk increase has been identified after initial recognition, in addition to forward-looking information in the estimates of impairment provisions.

IFRS 9 implementation strategy and governance

The Bank has established a global and multidisciplinary workstream with the aim of adapting its processes to the new classification standards for financial instruments, accounting of hedges and estimating credit risk impairment.

Accordingly, since 2016, the entity has been working towards defining an objective internal model and analysing all the changes which are needed to adapt accounting classifications and credit risk impairment estimation models in force in each unit to the previous definitions. The process was completed in 2017.

Regarding the governance structure, the entity set up a regular committee to manage the project, and a task force which is responsible for its tasks, ensuring that the pertinent responsible teams.

Hence, the main divisions involved in the project at the highest level, and which are thus represented in the project governance bodies, are: Risks, Financial Accounting & Management Control and Technology and Operations. Internal Audit division was involved in the project, having kept regular meetings regarding the status of the project.

The governance structure currently implemented at both corporate level and in each one of the units, complies with the requirements set out in the new standards both in IFRS 9, and in other related regulatory standards (e.g, EBA credit risk guidelines).

Main project stages and milestones

In relation to the entry into force of this new international standard, in its 2016 consolidated financial statements the entity reported the progress and main milestones achieved to that date regarding the implementation plan for its adoption.

The work undertaken by Santander Bank includes an assessment of the financial instruments included in the classification and measurement requirements of IFRS 9 and the development of impairment methodology for calculating expected loss impairment provisions.

The Bank has drawn up the accounting policies and methodological framework for the implementation developments carried out by each local unit. These internal regulations have been approved by all relevant corporate bodies before the new standard comes into force.

With regard to classification and measurement, since 2016 the Bank has been carrying out an analysis of its stock of products, focusing mainly on those that could trigger a change in accounting methodology, due to the business model involved and failure to meet SPPI test requirements (solely payments of principal and interest).

Additionally, using information from 2017, the Bank has updated this analysis and reviewed any new products during the period, assessing both its asset management strategies (identifying the corresponding business model), and broadening the review of products in stock.

In this moment, The Bank have now finished developing impairment models for all their portfolios. The implementation of these impairment methodologies has enabled the Group to assess the cause of impact in each portfolio.

The Bank has started, in the second half of 2017, the parallel calculation of impairment provisions under IFRS 9 formally, without prejudice to the fact that a preliminary parallel calculation was already being made for monitoring, performance tracking and impact purposes.

The governance process has been completed for the development, validation and approval of the model that started with a validation of the first models by the Corporate Internal Validation.

Further, given the importance of the control environment in the processes, the corporate development of the governance model of the impairment provisions calculation process as well as aspects related to the classification of financial instruments has been completed. The proposed model includes a reference design of the controls to be implemented in the new developments made in the implementation of the new standard. Also, as part of the proposed government model, has defined a process of periodic review of the main elements including, among others, the following areas:

- Business models defined.
- Quantitative and qualitative criteria defined for significant increase in risk.
- Macroeconomic scenario defined for impairment provisions calculation.
- Model adequacy for impairment provisions calculation.

There is no accounting principle or valuation criterion that, having a significant effect on the Bank's annual accounts for the year 2017, has ceased to apply in its elaboration.

c) Use of critical

The Bank's results and the determination of its equity are sensitive to the accounting policies, measurement criteria and estimates used by the directors of the Bank on preparing the financial statements. The main accounting policies and measurement bases are detailed in Note 2.

In the financial statements for 2017, estimates were occasionally made by the Bank's directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets (see Notes 6, 7, 8, 10, 12, 13, 15 and 16);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 23);
- The useful life of the tangible and intangible assets (see Notes 15 and 16);
- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 18, 19 and 20).
- The recoverability of deferred tax assets (see Note 24).
- The provisions and the consideration of contingent liabilities (see Note 23).

Although these estimates were made on the basis of the best information available at 2017 year-end, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the accounting estimate in the related income statement.

d) Comparative information

The information relating to 2016 contained in these notes to the financial statements is presented with the information relating to 2017 for comparison purposes only and, accordingly, it does not constitute the Bank's statutory financial statements for 2016.

The ICAC Resolution of February 9, 2016 (Note 1.b), introduces certain changes, such as revising the criteria for recognizing deferred tax assets, debits and credits allocation with the tax group. As deferred tax liabilities related to the deductibility of impairment losjes of goodwill or its systematic amortization. The impact of these new changes in the equity amount to 3,015 million euros which were recorded in Total equity in accordance with the new criteria in the opening balance sheet for the year 2015 (see the Statement of Changes in total Equity).

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

The aim is to secure the Group's solvency and guarantee its economic capital adequacy and its compliance with regulatory requirements, as well as an efficient use of capital.

To this end, the regulatory and economic capital figures and their associated metrics RORWA (return on risk-weighted assets), RORAC (return on risk-adjusted capital) and value creation of each business unit- are generated, analysed and reported to the relevant governing bodies on a regular basis.

Within the framework of the internal capital adequacy assessment process (Pillar II of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.) and the macroeconomic scenarios defined by the Group's economic research service. These estimates are used by the Group as a reference when planning the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables (GDP, interest rates, housing prices, etc.) that mirror historical crisis that could happen again or plausible but unlikely stress situations.

Following is a brief description of the regulatory capital framework to which Santander Group is subject.

In December 2010 the Basel Committee on Banking Supervision published a new global regulatory framework for international capital standards (Basel III) which strengthened the requirements of the previous frameworks, known as Basel I, Basel II and Basel 2.5, and other requirements additional to Basel II (Basel 2.5), by enhancing the quality, consistency and transparency of the capital base and improving risk coverage. On June 26, 2013 the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

The CRD IV was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015. This Circular largely repeals largely Circular 3/2008, on the calculation and monitoring of minimum capital (though, in the aspects covered by Circular 5/2008, on minimum capital and other mandatory reporting of information for mutual guarantee societies, the latter will remain in effect); and a section of Circular 2/2014, on the exercise of various regulatory options contained in the CRR. The CRR is directly applicable in EU Member States as from January 1, 2014 and repeals all lower-ranking rules providing for additional capital requirements.

The CRR establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. These phase-in arrangements were incorporated into Spanish regulations through the approval of Royal Decree-Law 14/2013 and Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. In March 2016, the European Central Bank published Regulation 2016/445/UE that modifies some of the phase-in dates applicable to Group, especially DTAs (Deferred Tax Assets) calendar. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

The Basel regulatory framework is based on three pillars. Pillar I sets out the minimum capital requirements to be met, and provides for the possibility of using internal ratings and models (the Advanced Internal Ratings-Based AIRB approach) in the calculation of risk-weighted exposures. The aim is to render regulatory requirements more sensitive to the risks actually borne by entities in carrying on their business activities. Pillar II establishes a supervisory review system to improve internal risk management and internal capital adequacy assessment based on the risk profile. Lastly, Pillar III defines the elements relating to disclosures and market discipline.

On November 23, 2016, the European Commission released a draft of the new CRR and CRD IV incorporating different Basel standards, such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio for liquidity risk or the SA-CCR for calculation of the EAD by counterparty risk, and introduces modifications related to the treatment of central counterparties, from the MDA (Maximum distribution Amount), Pillar 2 and the leverage ratio, among others. The most significant change is the implementation of the TLAC (Total Loss-Absorbing Capacity) Term Sheet issued by the Financial Stability Board (FSB) in the capital framework. Therefore, systemically important banks will have to comply with MREL (Minimum Requirement for own funds and Eligible Liabilities)/TLAC requirements under Pillar 1 while non-systemically important banks need only comply with MREL under Pillar 2 that the resolution authority will decide on a case-by-case basis.

The Single Resolution Board (SRB) published its Minimum Required Eligible Liabilities (MREL) policy for 2017. For the 2017 resolution planning cycle, the SRB is in transition from MREL informational objectives to start establishing binding specific MREL consolidated objectives for each bank in the future, both at the single entry point (SPE) and the multiple entry point (MPE), for most large and complex banks, including all global institutions of systemic importance (G -SII).

The MREL policy of the SRB for 2017 is based on a gradual approach to reach the final objectives (target level) of MREL over a period of several years, and failure to do so could result in the consideration that the entity cannot be resolved. In relation to the subordination criterion, the SRB considers that the entities of global systemic importance (G-SIIs) have to comply at least with a level of subordination equal to 13.5% of the assets weighted by risk or risk-weighted assets (RWA) plus the Combined Buffer.

At December 31, 2017 the Group met the minimum capital requirements established by current legislation (See Note 49).

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

The Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%. The commitment assumed before the supervisor still implies the adaptation of advanced models within the ten key markets where Santander Group operates.

Accordingly, the Group continued in 2017 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Group units.

The Group has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, as well as for certain portfolios in Germany, Mexico, Brazil, Chile, the Nordic countries (Norway, Sweden and Finland), France and the United States.

During 2017, approval was obtained for the sovereign portfolios, Institutions (FIRB method) and Specialized Financing (Slotting) in Chile, Mortgages and most revolving of Santander Consumer Germany as well as the portfolios of dealers of PSA France and PSA UK (FIRB method).

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorized to use its internal model for market risk for its treasury trading activities in UK, Spain, Chile, Portugal and Mexico.

For the purpose of calculating regulatory capital for operational risk, Santander Group has been applying the standardised approach provided for under the European Capital Requirements Directive. On 2017 the European Central Bank authorized the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander México, in addition to obtained was made in 2016 in Brazil.

f) Environmental impact

In view of the business activities carried on by the Bank, the Bank does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these consolidated financial statements.

g) Customer Care Service Annual Report

As required by the Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on the services and departments of Customer Service and the Customer Ombudsmen of Financial Institutions, the annual report presented by the Head of the department to the board meeting held on March 2018 is summarised in the directors' report.

h) Deposit Guarantee Fund and Resolution Fund

a) Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund ("the DGF"). The annual contribution to be made by the entities to this fund, established by Royal Decree - Law 16/2011 of October 14, by which the DGF is created in accordance with the wording given by the Tenth Final Disposition of Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies (in force since June 20, 2015), is determined by the Management Committee of the DGF and is established based on the guaranteed deposits of each entity and its risk profile. The annual contribution to be made by the entities to this fund is determined by the Management Committe of the FGD, and consists of the contribution based on the guaranteed deposits of each entity corrected for its risk profile, which includes the phase of the economic cycle and the impact of pro-cyclical contributions, according to section 3 of article 6 of the Royal Decree-Law 16/2011.

The purpose of the FGD is to guarantee deposits with credit institutions up to the limit established in the mentioned Royal Decree-Law. In order to fulfill its objectives, the DGF draws on the aforementioned annual contributions, the spreads that the Fund makes between the entities adhered to it and the funds raised in the securities markets, loans and any other borrowing operations.

Taking into account the foregoing and in order to strengthen the DGF's assets, Royal Decree-Law 6/2013 of 22 March on the protection of the holders of certain savings and investment products and other financial measures established a spill equivalent to three per thousand of the deposits of the entities as of December 31, 2012. This amount is effective in two tranches:

i. Two fifths to be paid within twenty working days from December 31, 2013. In the first days of January 2014, the Bank satisfied this contribution amounted to 65 million euros.

ii. Three-fifths to be paid within a maximum period of seven years and according to the payment schedule established by the Fund's Management Committee. In this sense, according to the schedule of contributions approved by the Governing Board of the DGF, the Bank satisfied one-seventh of this second tranche on September 30, 2014. This Governing Board approved on December 17, 2014 that the remaining part of the second tranche will be made through two disbursements of the same amount each, one on June 30, 2015 (which actually took effect on that date) and the second one in 2016, (which was alredy charged).

The expenses incurred by contributions performed to this Fund in 2017 amounted to EUR 154 million (2016: EUR 141 million) and they are recognised under Other operating expenses in the accompanying income statement (see Note 41).

b) National Resolution Fund.

In 2015 Royal Decree 1012/2015 of November 6 was published. It develops Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies, and it amended Royal Decree 2606/1996 of December 20 on Deposit Guarantee Funds of entities of credit. The above mentioned Law 11/2015 regulates the creation of the National Resolution Fund whose financial resources should reach, before December 31, 2024, at least 1% of the amount of deposits guaranteed through contributions from credit institutions and service companies established in Spain. The details of how to calculate the contributions to this Fund are regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and it is calculated by the Ordinary Banking Order Fund ("FROB") on a basis to the information provided by each entity.

c) Single Resolution Fund

In March 2014, Parliament and the European Council reached a political agreement for the creation of the second pillar of the banking union: the Single Resolution Mechanism ("MUR"). The main objective of the MUR is to ensure that bank failures that could occur in the future in the banking union could be managed efficiently with minimum costs for the taxpayer and the real economy. The scope of action of the MUR is identical to that of the MUS, it is also a central authority. The Single Resolution Board ("JUR") is ultimately responsible for the decision to initiate the resolution of a bank, whereas the operational decision will be implemented in cooperation with the national resolution authorities. The JUR started its work as an autonomous body of the EU on 1 January 2015.

The rules governing the banking union are intended to ensure that banks and their shareholders finance the resolutions first and, if necessary, finance the entity's creditors in part too. However, there will also be another source of funding that can be used if the contributions of the shareholders and of the entity's creditors are not sufficient. This is the Single Resolution Fund ("FUR") administered by the JUR. The regulation establishes that banks will pay the contributions to the FUR over eight years.

In this respect, on 1 January 2016, the FUR introduced by Regulation (EU) No 806/2014 of the European Parliament and of the Council entered into force. The competence of the calculation of the contributions that must be made by credit institutions and investment firms to the FUR corresponds to the JUR. From 2016 these contributions are based on: (a) a flat-rate contribution (or annual base contribution) pro rata of the liabilities of each entity excluding own resources and deposits with coverage with respect to total liabilities and excluding the liabilities own funds and deposits covered by all entities authorized in the territory of the participating member states; and based on (b) a risk-adjusted contribution based on the criteria laid down in Article 103 (7) of Directive 2014/59 / EU, taking into account the principle of proportionality and without creating distortions between banking sector structures in the Member States. The amount of this contribution is accrued annually from 2016.

The expenses incurred by contributions to the National Resolution Fund and to the Single Resolution Fund in 2017 amounted to EUR 181 million (2016: EUR 150 million) and they are recognised under Other operating expenses in the accompanying income statement (see Note 41).

i) Merger by absorption

- Merger by absorption between Banco Santander, S.A. (absorbing company) and (a) Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuances, SAU, Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, SAU, Santander US Debt, S.A.U., Santander Issuer 150, S.A.U., Santander International Preferred, S.A.U. (as absorbed companies); (b) Fomento e Inversiones, S.A.U. (as absorbed company).

  On June 26, 2017, the directors of Banco Santander and of each of the absorbed companies approved the joint merger project and the merger operation between Banco Santander (as absorbing company) and Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuences, S.A.U., Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander US Debt, S.A.U., Santander Emisora 150, S.A.U. and Santander International Preferred, S.A.U. (as absorbed companies).

  Also, on June 26, 2017, took place the approval of the common merger project and the merger operation between Banco Santander (as absorbing company) and Fomento e Inversiones, S.A.U. (as absorbed company) by the administrators of both companies.

  Under the provisions of articles 49.1 and 51 of Law 3/2009, of April 3, on the structural modifications of commercial companies ("LME"), it was not necessary to approve any of the mergers by the General Meeting of the Bank.

  Likewise, the aforementioned transactions constitute mergers of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporation Tax ("LIS"). The information required in article 86.1 of the aforementioned Law regarding each of the two mergers is incorporated into this report (Annex VIII).

  (a) Santander Finance Capital, S.A.U, Santander Finance Preferred, S.A.U., Santander Issuances, S.A.U., Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander US Debt, S.A.U., Santander Emisora 150, S.A.U., Santander International Preferred, S.A.U.

  Once the mandatory authorization was obtained from the Ministry of Economy, Industry and Competitiveness Law 10/2014, of June 26, on the organization, supervision and solvency of the credit institutions) on December 20, 2017, the parallel deed of merger was granted, registered in the Mercantile Registry of Cantabria, the date of effects is December 27, 2017, the extinction and liquidation of Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuances, S.A.U., Santander Commercial Papel, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander American Debt, S.A.U., Santander Emisora 150, S.A.U., Santander International Preferred, S.A.U., respectively, and the block transfer of all of their respective assets to Banco Santander. It should be noted that the merger, for accounting purposes, has been registered by Banco Santander, S.A. in the year 2017.

  Inasmuch as the absorbing companies were entirely composed of Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. Acquired effectiveness with expiration date on December 27, 2017, all the shares of the absorbed companies were fully amortized, extinguished and canceled.

  The following were considered as merger balances, for the purposes of Spanish legislation, those included in the annual accounts for the year ended December 31, 2016, formulated by the administrative bodies of each of the companies participating in the merger and, except in the case of Santander Emisora 150, S.A.U. that it was not subject to the obligation to audit its annual accounts, subject to audit.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, January 1, 2017 was set as the date from which the operations of the absorbed companies were to be considered by Banco Santander, S.A.

On the other hand, in accordance with article 89.1 of the LIS, the merger was subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB10 of the Royal Legislative Decree 1/1993, of September 24, approving the Consolidated Text of Transfer Tax and Documented Legal Acts.

The balance sheets of the absorbed companies as of December 31, 2016 are presented below:

SANTANDER FINANCE CAPITAL, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL LIABILITIES AND EQUITY	2016
NON-CURRENT ASSETS	501,288	EQUITY	1,774
Investments in group entities and associates	501,288	SHAREHOLDER'S EQUITY	1,774
		Capital	151
		Reserves	940
		Results of previous periods	(81)
		Results for the period	764
		NON-CURRENT LIABILITIES	501,244
		Long term debts	501,244
CURRENT ASSETS	10,081	CURRENT LIABILITIES	8,351
Investments in group entities and associates	6,098	Short term debts	8,253
Cash and other equivalent liquid assets	3,983	Commercial debtors	22
		Short term accruals	76
TOTAL ASSETS	511,369	TOTAL LIABILITIES AND EQUITY	511,369

SANTANDER INTERNATIONAL PREFERRED, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AL 31 DE DICIEMBRE DE 2016

(Miles de Euros)

TOTAL ASSETS	2016	TOTAL LIABILITIES AND EQUITY	2016
NON-CURRENT ASSETS	939,227	EQUITY	199
Investments in group entities and associates	939,227	SHAREHOLDER'S EQUITY	199
		Capital	60
		Reserves	185
		Results of previous periods	(13)
		Results for the period	(33)
		NON-CURRENT LIABILITIES	939,193
		Long term debts	932,755
		Debts with group entities	6,438
CURRENT ASSETS	15.094	CURRENT LIABILITIES	14,929
Investments in group entities and associates	11,425	Short term debts	14,771
Cash and other equivalent liquid assets	3,669	Short term debts with group entities	102
		Commercial debtors	22
		Short term accruals	34
TOTAL ASSETS	954,321	TOTAL LIABILITIES AND EQUITY	954,321

SANTANDER ISSUANCES, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS	6,099,588	EQUITY	780
Investments in group entities and associates	6,095,450	SHAREHOLDERS EQUITY	780
Derivatives	4,138	Capital	60
		Reserves	1,661
		Profit for the period	(941)
		NON CURRENT LIABILITES	6,051,150
		Long term debt	6,013,124
		Long term debt with group entities and associates	33,888
		Derivatives	4,138
ACTIVO CORRIENTE	298,863	CURRENT LIABILITES	346,521
Short term investments in group entities and associates	280,420	Short term debt	297,690
Debtors	3	Short term debt with group entities and associates	76
Cash and other assets liquid equivalents	18,440	Commercial creditors and other accounts payable	63
		Short term accrual	48,692
TOTAL ASSETS	6,398,451	TOTAL LIABILITIES AND EQUITY	6,398,451

SANTANDER PERPETUAL, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS:	2,173,015	EQUITY:	1,477
Investments in group entities and associates	2,173,015	SHAREHOLDERS EQUITY	1,477
		Capital	151
		Reserves	1,357
		Prior period profit	(59)
		Profit for the period	28
		NON CURRENT LIABILITES:	2,172,984
		Long term debt	171,882
		Debt with group entities and associates	2,001,102
CURRENT ASSETS:	19,890	CURRENT LIABILITES:	18,444
Short term investments in group entities and associates	18,202	Short term debt	236
Cash and other assets liquid equivalents	1,688	Short term debt with group entities and associates	17,966
		Commercial creditors and other accounts payable	23
		Short term accrual	219
TOTAL ASSETS	2,192,905	TOTAL EQUITY AND LIABILITIES	2,192,905

SANTANDER US DEBT, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016
(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
		EQUITY	289
		Shareholders´equity	289
		Capital	270
		Reserves	450
		Prior period profit	(170)
		Profit for the period	(261)
CURRENT ASSETS	311	CURRENT LIABILITES:	22
Deferred tax assets	94	Commercial creditors and other accounts payable	22
Cash and other assets liquid equivalents	217		
TOTAL ASSETS	311	TOTAL EQUITY AND LIABILITIES	311

SANTANDER FINANCE PREFERRED, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016
(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS	2,347,824	EQUITY	5,799
Investments in group entities and associates	2,347,824	SHAREHOLDERS EQUITY	5,799
		Capital	151
		Reserves	5,622
		Profit for the period	26
		NON CURRENT LIABILITES	2,347,806
		Long term debt	846,326
		Long term debt with group entities and associates	1,501,480
CURRENT ASSETS	21,022	CURRENT LIABILITES	15,241
Investments in group entities and associates	15,034	Short term debt	5,386
Cash and other assets liquid equivalents	5,988	Short term debt with group entities and associates	9,811
		Commercial creditors and other accounts payable	26
		Short term accrual	18
TOTAL ASSETS	2,368,846	TOTAL EQUITY AND LIABILITIES	2,368,846

SANTANDER COMMERCIAL PAPER, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
		EQUITY	4,381
		SHAREHOLDERS EQUITY	4,381
		Capital	151
		Reseres	3,961
		Profit for the period	269
CURRENT ASSETS	7,024,361	CURRENT LIABILITES	7,019,980
Investments in group entities and associates	7,019,425	Short term debt	6,799,451
Short term accrual	54	Debt with group entities and associates	220,255
Cash and other assets liquid equivalents	4,882	Commercial creditors and other accounts payable	274
TOTAL ASSETS	7,024,361	TOTAL PATRIMONIO NETO Y PASIVO	7,024,361

SANTANDER INTERNATIONAL DEBT, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS	9,585,764	EQUITY	8,106
Investments in group entities and associates	9,585,764	SHAREHOLDERS EQUITY	8,106
		Capital	180
		Reserves	8,277
		Profit for the period	(351)
		NON CURRENT LIABILITES:	9,585,759
		Long term debt	8,618,609
		Long term debt with group entities and associates	939,389
		Long term accrual	27,761
CURRENT ASSETS	5,628,991	CURRENT LIABILITES:	5,620,890
Investments in group entities and associates	5,566,934	Short term debt	5,256,719
Cash and other assets liquid equivalents	62,057	Short term debt with group entities and associates	358,909
		Commercial creditors and other accounts payable	98
		Short term accrual	5,164
TOTAL ASSETS	15,214,755	TOTAL EQUITY AND LIABILITIES	15,214,755

SANTANDER EMISORA 150, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
		EQUITY:	966
		SHAREHOLDERS EQUITY	966
		Capital	60
		Reserves	976
		Prior period profit	(59)
		Profit for the period	(11)
CURRENT ASSETS	968	NON CURRENT LIABILITES	2
Cash and other assets liquid equivalents	968	Commercial creditors and other accounts payable	2
TOTAL ASSETS	968	TOTAL EQUITY AND LIABILITIES	968

In accordance with the provisions of the applicable regulations, as a result of the accounting record of this merger by absorption operation carried out by the Bank in the year 2017, an increase in the Bank's voluntary reserves in said fiscal year has been shown for 313 million euros (Note 29), due to the decrease in the interest in the nine companies absorbed in 23 million euros and 290 million euros for the equity effect of the elimination intergroup positions of the Bank and the absorved companies.

(b) Fomento e Inversiones, S.A.U.

Once the required authorisation was received from the Ministry of Economy and Competitiveness (additional provision twelfth of Law 10/2014, of June 26, on the supervision and solvency of credit institutions) 28 December 2017, and on achievement of the remaining conditions to which the merger was subject, the related merger deed was executed and filed at the Cantabria Mercantile Registry and Santander Carteras was extinguished without liquidation of Fomento e Inversiones, S.A.U.and all of its equity was transferred en bloc to Banco Santander. For accounting purposes, the merger was registered in the year 2017. Given that the absorbed company was completed fully owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. Acquisition of the merger with effective date on February 6, 2018, all the shares of Fomento e Inversiones, S.A.U. they were fully retired, extinguished and annulled.

For the purposes of Spanish legislation, the merger balance sheets included in the financial statements for the year ended 31 December 2016, authorised for issue by the boards of directors of Banco Santander and Fomento e Inversiones, S.A.U. and subjet to audit.

According to applicable accounting regulations for accounting purposes, January 1, 2017 was set as the date from which the operations of Fomento e Inversiones, S.A.U. was carried out by Banco Santander.

In accordance with article 89.1 of the LIS, the merger described was subject to the tax system established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB) 10 of the Royal Legislative Decree 1/1993, of September 24, approving the Consolidated Text of Transfer Tax and Documented Legal Acts.

The following is the balance sheet of Fomento e Inversiones, S.A.U. at December 31, 2016 (in millions of euros):

FOMENTO E INVERSIONES, S.A.U.

BALANCE 31 DE DICIEMBRE DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL LIABILITIES AND EQUITY	2016
NON-CURRENT ASSETS		NON-CURRENT LIABILITIES	
Investments in group entities and associates	1.115.329	Long term debts with group entities	435.500
Long-term financial investment	2.820	Deferred tax liabilities	5
		CURRENT LIABILITIES	
		Short term debts with group entities	624.663
CURRENT ASSETS		Commercial debtors	9
Investment in group entities	76.916		
Other financial assets	63.912		
Cash and cash equivalent	644	TOTAL LIABILITIES	1.060.177
Credit to companies	13.004		
		EQUITY	
		Shareholder´s equity	135.521
		Valuation Adjustment	11
		TOTAL EQUITY	135.532
TOTAL ASSETS	1.195.709	TOTAL LIABILITIES AND EQUITY	1.195.709

According to the applicable regulations, as a result of the accounting record of this merger by absorption indicated above carried out by the Bank in the year 2017, an increase in the Bank's voluntary reserves was shown in this fiscal year. 51 million euros due to the decrease in the interest in the absorbed company (Note 29).

- Merger by absorption between Banco Santander, S.A. (absorbing company) and (c) Santander Insurance Holding, S.L.U., (d) Santander AM Holding, S.L.U. and (e) Carpe Diem Salud, S.L.U., Integral Training, S.A.U., Santander Carbón Finance, S.A.U., Fixed Income Securities, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U., respectively.

On June 28, 2016, the three common merger projects were approved by the directors of Banco Santander and the absorbed companies: (c) Santander Insurance Holding, S.L.U.; (d) Santander AM Holding, S.L.U; and (e) Carpe Diem Salud, S.L.U., Integral Training, S.A.U., Santander Carbón Finance, S.A.U., Fixed Income Securities, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U.

Under the provisions of articles 49 and 51 of Law 3/2009, of April 3, on structural modifications of mercantile companies ("LME"), it was not necessary to approve any of the three mergers by the Shareholders´Meeting of the Bank.

Likewise, the aforementioned transactions constitute mergers of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporate Tax.

(c) Santander Insurance Holding, S.L.U .; (d) Santander AM Holding, S.L.U; and (e) Carpe Diem Salud, S.L.U., Integral Training, S.A.U., Santander Carbón Finance, S.A.U., Fixed Income Securities, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U.

Once the required authorization had been obtained from the Ministry of Economy, Industry and Competitiveness (additional provision twelfth Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions) on December 9, 2016, regarding the merger with Santander Insurance Holding, S.L.U., and on November 25, 2016, with respect to the other two mergers, and the remaining suspensive conditions to which each of the mergers were submitted, the corresponding three merger deeds were granted and, inscribed these in the Mercantile Registry of Cantabria on February 1, 2017, there was the extinction without liquidation of (c) Santander Insurance Holding, SLU, (d) Santander AM Holding, SLU and (e) Carpe Diem Salud, S.L.U., Integral Training, S.A.U., Santander Carbón Finance, S.A.U., Fixed Income Securities, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U., respectively, and the block transfer of all its assets to Banco Santander. It should be noted that the merger, for accounting purposes, has been registered by Banco Santander, S.A. in the year 2016.

Given that the absorbed companies were wholly owned by Banco Santander, in accordance with article 49, in relation to article 26 of the LME, the Bank did not increase capital. Having obtained efficiencies as a result of the merger of the three entities on December 28, 2016, date in which the corresponding deeds were presented to the Mercantile Registry of Cantabria, all of the shares or shareholdings of the absorbed companies were fully amortized, extinguished and canceled.

The balances included in the annual accounts for the year ended December 31, 2016, were considered as merger balances, for the purposes of the Spanish legislation, formulated by the administrative bodies of each of the companies participating in the mergers, except in the case of Formación Integral, S.A.U. and Fixed Income Securities, S.A.U. -which were not subject to the obligation to audit their annual accounts–, submitted to an audit.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, it was set for the three mergers on January 1, 2016 as the date from which the operations of the absorbed companies were to be considered by Banco Santander, S.A.

On the other hand, in accordance with article 89.1 of the LIS, the three mergers were subject to the fiscal regime established in section VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph I.B.10 of the Spanish Royal Legislative Decree 1/1993, of September 24, which approves the Consolidated Text of Law on Property Transfer Tax and Stamp Duty.

The following are the balance sheets of the companies absorbed as of December 31, 2015:

(c) Merger of Banco Santander, S.A. and Santander Insurance Holding, S.L.U.

Santander Insurance Holding, S.L.U.

	Millions of euros		Millions of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities**	
Investments in group entities and associates	798	Long term debt	4
Defererred tax assets	1	Long term debt with group entities	278
Treasury	55	Short term debt with group entities	2
		Total liabilities	**284**
		Equity	
		Shareholders´equity	570
		Total Equity	**570**
Total assets	**854**	**Total liabilities and equity**	**854**
		Other memorandum items	**-**

(d) Merger of Banco Santander, S.A. and Santander AM Holding, S.L.U.

Santander AM Holding, S.L.U.

	Millions of euros		Millions of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities**	
Investments in group entities and associates	180	Obligaciones prestaciones al personal	2
Deferred tax assets	12	Debt with group entities	7
Treasury	5		
		Total liabilities	**9**
		Equity	
		Shareholders´equity	188
		Total Equity	**188**
Total assets	**197**	**Total liabilities and equity**	**197**
		Other memorandum items	**150**

(e) Merger of Banco Santander, S.A. and Carpe Diem Salud, S.L.U., Formación Integral, S.A.U., Santander Carbón Finance, S.A.U., Títulos de Renta Fija, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U.

Carpe Diem Salud, S.L.U.

	Thousand of euros		Thousand of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities**	
Long term investments	2,804	Debt with group entities	321
Treasury	403	Commercial creditors	11
		Total liabilities	**332**
		Equity Shareholders´equity	2,875
		Total Equity	**2,875**
Total assets	**3,207**	**Total liabilities and equity**	**3,207**
		Other memorandum items	**-**

Formación Integral, S.A.U.

	Thousand of euros		Thousand of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets Property, plant and equipment Treasury	 60 130	**Liabilities** Debt with group entities	 24
		Total liabilities	**24**
		Equity Shareholders´equity	166
		Total Equity	**166**
Total assets	**190**	**Total liabilities and equity**	**190**
		Other memorandum items	**-**

Santander Carbón Finance, S.A.U.

	Thousand of euros		Thousand of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities** Long term debt with group entities	 25,600
Investments in group entities and associates	122	Short term debt with group entities	6,000
Inventory	22	Commercial creditors	12
Treasury	412	**Total liabilities**	**31,612**
Other group entity debtors	62	**Equity** Shareholders´equity	(30,994)
		Total Equity	**(30,994)**
Total assets	**618**	**Total liabilities and equity**	**618**
		Other memorandum items	**-**

Títulos de Renta Fija, S.A.U.

	Thousand of euros		Thousand of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities**	
Long term investments	2,804	Debt with group entities	265
Short term investments	8	Commercial creditors	2
Treasury	397	**Total liabilities**	**267**
		Equity	
		Shareholders´equity	2,942
		Total Equity	**2,942**
Total assets	**3,209**	**Total liabilities and equity**	**3,209**
		Other memorandum items	**-**

Oildor, S.A.U.

	Thousand of euros		Thousand of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities**	
Property, plant and equipment	100	Debt with group entities	1,331
Treasury	166,755	Commercial creditors	12
		Total liabilities	**1,343**
		Equity	
		Shareholders´equity	165,512
		Total Equity	**165,512**
Total assets	**166,855**	**Total liabilities and equity**	**166,855**
		Other memorandum items	**-**

Cavalsa Gestión, S.A.U.

	Thousand of euros		Thousand of euros
Total Assets	31/12/2015	Total Liabilities and equity	31/12/2015
Assets		**Liabilities**	
Deferred tax assets	19	Debt with group entities	14,671
Treasury	296,694	Commercial creditors	52
		Total liabilities	**14,723**
		Equity	
		Shareholders´equity	281,990
		Total Equity	**281,990**
Total assets	**296,713**	**Total liabilities and equity**	**296,713**
		Other memorandum items	**-**

By virtue of the provisions of the applicable regulations, as a result of the accounting record of these three merger transactions by absorption carried out by the Bank in 2016, an increase in the Bank's voluntary reserves has been shown in said financial year of 1,165 million euros, due to the decrease in the interest in the eight companies absorbed (Note 29).

j) Events after the reporting period

No significant events occurred from 1 January 2018 to the date on which these financial statement, additional to referred in these annual accounts.

k) Other information

Fidelity Bonds

On July 13, 2017, Banco Santander and Banco Popular informed that they had decided to launch a compensation action aimed at building loyalty among their network retail clients affected by Banco Popular´s resolution (the “Fidelity Action”).

By virtue of the Fidelity Action, those clients who meet certain conditions and who have been affected by the resolution of Banco Popular will be able to receive, without any payment on their part, tradable securities issued by Banco Santander for a nominal value up to the investment in shares or certain subordinated bonds of Banco Popular (with certain limits) that they held as of the date of the resolution of Banco Popular. In order to benefit from such action, it will be necessary for the client to waive legal actions against the Group.

The Fidelity Action will be done through the delivery to the client of contingent redeemable perpetual bonds (“The Fidelity Bonds”) of Banco Santander, S.A. The Fidelity Bonds will accrue a discretional, non-cumulative cash coupon, payable quarterly in arrears.

This issue was made by Banco Santander, S.A. on September 8, 2017 for a nominal amount of 981 million euros, fully subscribed by Banco Popular Español, S.A. As of December 31, 2017, the cost recorded in the heading Equity instruments issued other than equity in the Bank's balance sheet amounts to 686 million euros.

The Fidelity Bonds are perpetual securities; however, it will be possible to totally redeem them by decision of Banco Santander, with the prior authorization of the European Central Bank, in any of the payment dates of the coupon, after seven years from their issuance.

In accordance with the conditions stipulated in the issuance of the Fidelity Bonds, related to the discretional remuneration by the Bank and other aspects, this financial instrument is considered as an equity instrument in accordance with the applicable regulation.

2. Accounting policies

The accounting policies applied in preparing the financial statements were as follows:

a) Foreign currency transactions

The Bank's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

In general, foreign currency balances, including those of branches in countries not belonging to the Monetary Union, were translated to euros at the average official exchange rates prevailing on the Spanish spot foreign exchange market at each year-end (using the market price of the US dollar in local markets in the case of currencies not traded in the Spanish market).

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under Exchange differences in the Income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the income statement without distinguishing them from other changes in the fair value of those financial instruments.

b) *Investments in subsidiaries, jointly controlled entities and associates*

Subsidiaries or Group entities are defined as entities over which the Bank has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, as in the case of agreements with shareholders of the investee, the Bank is granted control. Control is the power to govern the financial and operating policies of an entity, as stipulated by the law, the Bylaws or agreement, so as to obtain benefits from its activities.

Joint ventures are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (venturers) acquire interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the Bank holds 20% or more of the voting power of the investee.

Investments in subsidiaries, jointly controlled entities and associates are presented in the balance sheet at acquisition cost, net of any impairment losses.

When there is evidence of impairment of these investments, the amount of the related impairment loss is equal to the difference between the carrying amount of the investments and their recoverable amount. Impairment losses are recognised with a charge to Impairment losses on other assets (net) - Other assets in the income statement.

As at 31 December 2017, the Bank controlled the following companies in which it held an ownership interest of less than 50% of the share capital: (i) Luri 1, S.A. and (ii) Luri 2, S.A. The percentage ownership interests in the aforementioned companies were 31% and 30%, respectively (see Appendix I). Although the Bank holds less than half the voting power, it manages and, as a result, exercises control over these entities. The company object of the first two entities is the acquisition of real estate and other general operations relating thereto, including rental, and the purchase and sale of properties, the company object of the latter entity is the provision of payment services.

At 31 December 2017, the Bank exercised joint control of Luri 3, S.A., despite holding 10% of its share capital. This decision is based on the Bank's presence on the company's board of directors, in which the agreement of all members is required for decision-making.

Appendices I and II contain significant information on these companies. In addition, Note 13 provides information on the most significant acquisitions and disposals in 2017 and 2016.

c) *Definitions and classification of financial instruments*

i. Definitions

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An equity instrument is a contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A financial derivative is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The preference shares contingently convertible into ordinary shares eligible as Additional Tier 1 capital ("CCPSs") -perpetual preference shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into a variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidable group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Bank as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Bank estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

Capital perpetual preference shares ("CCPSs"), with the possibility of purchase by the issuer in certain circumstances, whose remuneration is discretionary, and which will be amortized permanently, totally or partially, in the event that the Bank or its consolidated group submits a capital ratio lesser than a certain percentage (trigger event), as defined in the corresponding prospectuses, are accounted for by the Bank as compound instruments.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and joint ventures (see Note 13).

- Rights and obligations under employee benefit plans (see Note 23).

- Rights and obligations under insurance contracts (see Note 14).

- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 30).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Non-current assets held for sale or they relate to Cash and cash balances at central banks and other deposits on demand, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), Hedging derivatives and Investments, which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

- Financial assets held for trading (at fair value through profit or loss): this category includes financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.

- Financial assets designated at fair value through profit or loss: this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's key management personnel. Financial assets may only be included in this category on the date they are acquired or originated.

- Financial assets available-for-sale: This category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or Financial assets designated at fair value through profit or loss, and equity instruments issued by entities other than subsidiaries, associates and joint ventures, provided that such instruments have not been classified as Financial assets held for trading or as Financial assets designated at fair value through profit or loss.

- Loans and receivables: this category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers or the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and receivables from the purchasers of goods, or the users of services, constituting part of the Bank's business.

  The Bank generally intends to hold the loans and credits granted by it until their final maturity and, therefore, they are presented in the balance sheet at their amortised cost (which includes any reductions required to reflect the estimated losses on their recovery).

- Investments Held-to-maturity: this category includes debt instruments, with fixed maturity and with fixed or determinable payments, for which the Bank has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the balance sheet:

- Cash, cash balances at central banks and other deposits on demand: cash balances and balances receivable on demand relating to deposits with central banks and credit institutions.

- Loans and advances: includes the debit balances of all credit and loans granted by the Bank, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Bank, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items. They are classified, on the basis of the institutional sector to which the debtor belongs, into:

  - Central Banks, Credit of ant nature, including deposits and money market operations received from the Bank of Spain or other central banks.

  - Credit institutions: Credit of any nature, including deposits and money market operations, in the name of credit institutions.

  - Customers: Includes the remaining credit, including money market operations through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, other than investments in subsidiaries, joint ventures or associates. Investment fund units are included in this item.

- Derivatives: includes the fair value in favour of the Bank of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value in favour of the Bank of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Liabilities associated with non-current assets held for sale or they relate to Hedging derivatives or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

Financial liabilities are included for measurement purposes in one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes financial liabilities incurred for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements ("reverse repos") or borrowed (short positions).

- Financial liabilities designated at fair value through profit or loss: financial liabilities are included in this category when they provide more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the balance sheet:

- Deposits: includes all repayable balances received in cash by the Bank, other than those instrumented as marketable securities and those having the substance of subordinated liabilities (amount of the loans received, which for credit priority pursposes are located behind common creditors), except for debt instruments. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

  - Centrals banks: deposits of any nature, including credit received and money market operations received from the Bank of Spain or other central banks.

  - Credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.

  - Customer: includes the remaining deposits, including money market operations through central counterparties.

- Marketable debt securities: Includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities. (Amount of the loans received, which for credit priority purposes are located behind common creditors, and includes the amount of the financial instruments issued by the Bank which, having the legal nature of capital, do not meet the requirements to qualify as equity, such as certain preferred shares issued). This item includes the component that has the consideration of financial liability of the securities issued that are compound financial instruments.

- Derivatives: Includes the fair value, with a negative balance for the Bank, of derivatives, including embedded derivatives separated from the host contract, which do not form part of hedge accounting.

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

- Other financial liabilities: Includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as non-performing.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value of the Bank's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, investments held-to-maturity, unquoted equity instruments which cannot be reliably measured and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2017 there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be active.

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in Gains/losses on financial assets and liabilities held for trading (net) in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (present value or theoretical close) using valuation techniques commonly used by the financial markets: net present value (NPV), option pricing models and other methods.

Loans and receivables and Investments held-to-maturity are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortisation (taken to the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost also includes any reduction for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Unquoted equity instruments which cannot be reliably measured in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognised represent, in all material respects, the Bank's maximum exposure to credit risk at each reporting date. Also, the Bank has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Other financial liabilities designated at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2017, 2016 and 2015, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Millions of euros					
	2017			2016		
	Published price quotations in active Markets (Level 1)	Internal Model (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Model (Level 2 and 3)	Total
Financial assets held for trading	58,215	67,243	125,458	64,259	83,928	148,187
Financial assets designated at fair value through profit or loss	3,823	30,959	34,782	3,220	28,389	31,609
Financial assets available-for-sale (1)	113,258	18,802	132,060	89,563	25,862	115,425
Hedging derivatives (assets)	-	8,537	8,537	216	10,161	10,377
Financial liabilities held for trading	21,828	85,796	107,624	20,906	87,859	108,765
Financial liabilities designated at fair value through profit or loss	769	58,847	59,616	-	40,263	40,263
Hedging derivatives (liabilities)	8	8,036	8,044	9	8,147	8,156
Liabilities under insurance contracts	-	1,117	1,117	-	652	652

(1) In addition to the financial instruments measured at fair value shown in the foregoing table, at December 31, 2017 and 2016, the Group held equity instruments classified as Financial assets available-for-sale and carried at cost amounting to EUR 1,211 million and EUR 1,349 million, respectively.

The same information in the table above, but referred to Banco Santander, S.A. it is presented below:

	Millions of euros					
	2017			2016		
	Published price quotations in active Markets (Level 1)	Internal Model (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Model (Level 2 and 3)	Total
Financial assets held for trading	25,322	39,004	64,326	24,675	45,762	70,437
Financial assets designated at fair value through profit or loss	-	34,021	34,021	-	25,269	25,269
Financial assets available-for-sale (1)	31,239	2,570	33,809	26,914	3,154	30,068
Hedging derivatives (assets)	-	2,073	2,073	-	2,283	2,283
Financial liabilities held for trading	9,497	38,455	47,952	8,252	46,298	54,550
Financial liabilities designated at fair value through profit or loss	-	32,314	32,314	-	15,124	15,124
Hedging derivatives (liabilities)	-	4,014	4,014	-	4,197	4,197

The financial instruments at fair value determined on the basis of published price quotations in active markets (Level 1) include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in very specific cases, they use significant inputs not observable in market data (Level 3). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The Group has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed income and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the estimated future cash flows discounted taking into account basis swap and cross currency spreads determined on the basis of the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black & Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves, depending on the payment frequency, and discounting curves are calculated for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

The most important products in these asset classes are forward and futures contracts; they also include vanilla, listed and OTC (Over-The-Counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance, or digital, barrier or callable features are priced using generally accepted industry models or bespoke models, as appropriate. For derivatives on illiquid stocks, hedging takes into account the liquidity constraints in models.

The inputs of equity models consider yield curves, spot prices, dividends, asset funding costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American-style vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange rate, the implied volatilities and the correlation among assets of this class. Volatilities are obtained from European call and put options which are quoted in markets as at-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDS) or the joint probability of default of more than one issuer for FTD, NTD and CDO.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. For indices and important individual issuers, the CDS spread curve is obtained in the market. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDO, the correlation of joint default of several issuers is implied from the market. For FTD, NTD and bespoke CDO, the correlation is estimated from proxies or historical data when no other option is available.

Valuation adjustment for counterparty risk or default risk

The Credit valuation adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all the periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.

- LGD: percentage of final loss assumed in a counterparty credit event/default.

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.

- Discount factor curve.

The debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Group's own risk assumed by its counterparties in OTC derivatives.

The CVA at December 31, 2017 amounted to EUR 322.5 million (-49.9% less than 2016) and DVA amounted to EUR 219.6 million (-43.7% less than 2016). The decrease is due to the fact that credit spreads have been reduced in percentages higher than 40% in the most liquid terms and to reductions in the exposure of the main counterparties.

With respect to Banco Santander, S.A. at December 31, 2017, CVA adjustments were recorded for an amount of 196 million euros (-34.5% vs. December 31, 2016) and DVA adjustments for an amount of 64 million euros (-66.3% vs. 31 December 2016). The decrease, as in the Group, is due to the fact that credit spreads have been reduced by percentages greater than 40% in the most liquid terms and reductions in the exposure of the main counterparties.

In adittion, the Group amounts the funding fair value adjustment (FFVA) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the consolidated financial statements as of December 31, 2017 and 2016.

During 2017, the Group has not carried out significant reclassifications of financial instruments between levels except the changes disclosed in the Level 3 table.

Valuation adjustments due to model risk

The valuation models described above do not involve a significant level of subjectivity, since they can be adjusted and recalibrated, where appropriate, through internal calculation of the fair value and subsequent comparison with the related actively traded price. However, valuation adjustments may be necessary when market quoted prices are not available for comparison purposes.

The sources of risk are associated with uncertain model parameters, illiquid underlying issuers, and poor quality market data or missing risk factors (sometimes the best available option is to use limited models with controllable risk). In these situations, the Group calculates and applies valuation adjustments in accordance with common industry practice. The main sources of model risk are described below.

In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.

In the equity markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.

For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.

Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.

The currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.

The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) at December 31, 2017 and 2016:

	Millions of euros			
	Fair values calculated using internal models at 31/12/17			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**124,178**	**1,363**		
Financial assets held for trading	**66,806**	**437**		
Credit institutions	1,696	-	Present Value Method	Yield curves, FX market prices
Customers (a)	8,815	-	Present Value Method	Yield curves, FX market prices
Debt and equity instruments	335	32	Present Value Method	Yield curves, HPI, FX market prices
Derivatives	55,960	405		
Swaps	*44,766*	*189*	Present Value Method, Gaussian Copula (b)	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*463*	*5*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*4,747*	*162*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*2*	-	Present Value Method	Yield curves, FX market prices
Index and securities options	*1,257*	*5*	Black-Scholes Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*4,725*	*44*	Present Value Method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, Liquidity, Others
Hedging derivatives	**8,519**	**18**		
Swaps	*7,896*	*18*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*13*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*610*	-	Present Value Method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Financial assets designated at fair value through profit or loss	**30,677**	**282**		
Credit institutions	9,889	-	Present Value Method	Yield curves, FX market prices
Customers (c)	20,403	72	Present Value Method	Yield curves, FX market prices, HPI
Debt and equity instruments	385	210	Present Value Method	Yield curves, FX market prices
Financial assets available-for-sale	**18,176**	**626**		
Debt and equity instruments	18,176	626	Present Value Method	Yield curves, Volatility surfaces, FX & EQ Dividends, Credit, Others
LIABILITIES:	**153,600**	**196**		
Financial liabilities held for trading	**85,614**	**182**		
Central banks	282	-	Present Value Method	Yield curves, FX market prices
Credit institutions	292	-	Present Value Method	Yield curves, FX market prices
Customers	28,179	-	Present Value Method	Yield curves, FX market prices
Debt securities issues	-	-		
Derivatives	56,860	*182*		
Swaps	*45,041*	*100*	Present Value Method, Gaussian Copula (b)	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*497*	*9*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*5,402*	*19*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*1,527*	*41*	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*1*	-	Black's Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*4,392*	*13*	Present Value Method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Short positions	1	-	Present Value Method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**8,029**	**7**		
Swaps	*7,573*	*7*	Present Value Method	Yield curves ,FX & EQ market prices, Basis
Exchange rate options	-	-		
Interest rate options	*287*	-	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*169*	-	Present Value Method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**58,840**	**7**	Present Value Method	Yield curves, FX market prices
Liabilities under insurance contracts	**1,117**	-		

	Millions of euros		
	Fair values calculated using internal models at 31/12/16		
	Level 2	Level 3	Main assumptions
ASSETS:	**146,991**	**1,349**	
Financial assets held for trading	**83,587**	**341**	
Credit institutions	3,220	-	Present Value Method
Customers (a)	9,504	-	Present Value Method
Debt and equity instruments	798	40	Present Value Method
Derivatives	70,065	301	
Swaps	*53,499*	*55*	Present Value Method, Gaussian Copula (b)
Exchange rate options	*524*	*2*	Black-Scholes Model
Interest rate options	*5,349*	*173*	Black's Model, Heath-Jarrow- Morton Model
Interest rate futures	*1,447*	-	Present Value Method
Index and securities options	*1,725*	*26*	Black-Scholes Model
Other	*7,521*	*45*	Present Value Method, Monte Carlo simulation and others
Hedging derivatives	**10,134**	**27**	
Swaps	*9,737*	*27*	Present Value Method
Exchange rate options	-	-	Black-Scholes Model
Interest rate options	*13*	-	Black's Model
Other	*384*	-	N/A
Financial assets designated at fair value through profit or loss	**28,064**	**325**	
Credit institutions	10,069	-	Present Value Method
Customers (c)	17,521	74	Present Value Method
Debt and equity instruments	474	251	Present Value Method
Financial assets available-for-sale	**25,206**	**656**	
Debt and equity instruments	25,206	656	Present Value Method
LIABILITIES:	**136,835**	**86**	
Financial liabilities held for trading	**87,790**	**69**	
Central banks	1,351	-	Present Value Method
Credit institutions	44	-	Present Value Method
Customers	9,996	-	Present Value Method
Debt securities issues	-	-	
Derivatives	73,481	69	
Swaps	*57,103*	*1*	Present Value Method, Gaussian Copula (b)
Exchange rate options	*413*	-	Black-Scholes Model
Interest rate options	*6,485*	*21*	Black's Model, Heath-Jarrow-Morton Model
Index and securities options	*1,672*	*46*	Black-Scholes Model
Interest rate and equity futures	*1,443*	-	Black's Model
Other	*6,365*	1	Present Value Method, Monte Carlo Simulation and others
Short positions	*2,918*	-	Present Value Method
Hedging derivatives	**8,138**	**9**	
Swaps	*6,676*	*9*	Present Value Method
Exchange rate options	-	-	
Interest rate options	*10*	-	Black's Model
Other	*1,452*	-	N/A
Financial liabilities designated at fair value through profit or loss	**40,255**	**8**	Present Value Method
Liabilities under insurance contracts	**652**	**-**	

(a) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

(b) Includes credit risk derivatives with a net fair value of EUR zero million at December 31, 2017 (December 31, 2016 net fair value of EUR -1 million). These assets and liabilities are measured using the Standard Gaussian Copula Model.

(c) Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

The same information from the previous table, but referred to Banco Santander, S.A., is presented below:

	Millions of euros			
	Fair values calculated using internal models at 31/12/17			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**76,710**	**958**		
Financial assets held for trading	**38,614**	**390**		
Customers (a)	22	-	Present Value Method	FX market prices, Yield curves
Debt and equity instruments	915	32	Present Value Method	FX market prices, Yield curves
Derivatives	37,677	358	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Hedging derivatives	**2,055**	**18**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Financial assets designated at fair value through profit or loss	**34,021**	**-**		
Credit institutions	11,243	-	Present Value Method	FX market prices, Yield curves
Customers	22,778	-	Present Value Method	FX market prices, Yield curves, HPI
Financial assets available-for-sale	**2,020**	**550**		
Debt and equity instruments	2,020	550	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**74,485**	**298**		
Financial liabilities held for trading	**38,164**	**291**		
Derivatives	38,164	**291**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Hedging derivatives	**4,007**	**7**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Financial liabilities designated at fair value through profit or loss	**32,314**	**-**		
Central banks	7,913	-	Present Value Method	FX market prices, Yield curves
Credit institutions	15,209	-	Present Value Method	FX market prices, Yield curves
Customers	9,192	-	Present Value Method	FX market prices, Yield curves

	Millions of euros			
	Fair values calculated using internal models at 31/12/16			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**75,584**	**884**		
Financial assets held for trading	**45,557**	**205**		
Customers (a)	41	-	Present Value Method	FX market prices, Yield curves
Debt and equity instruments	1,267	32	Present Value Method	FX market prices, Yield curves
Derivatives	44,249	173	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Hedging derivatives	**2,256**	**27**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Financial assets designated at fair value through profit or loss	**25,269**	**-**		
Credit institutions	11,243	-	Present Value Method	FX market prices, Yield curves
Customers (c)	8,533	-	Present Value Method	FX market prices, Yield curves, HPI
Financial assets available-for-sale	16,736	-		
Debt and equity instruments	**2,502**	**652**	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**65,590**	**29**		
Financial liabilities held for trading	**46,278**	**20**		
Derivatives	46,278	20	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Hedging derivatives	**4,188**	**9**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Financial liabilities designated at fair value through profit or loss	**15,124**	**-**		
Central banks	8,401	-	Present Value Method	FX market prices, Yield curves
Credit institutions	3,141	-	Present Value Method	FX market prices, Yield curves
Customers	3,582	-	Present Value Method	FX market prices, Yield curves

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data as significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.

  - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.

  - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.

  - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.

- Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.

- Illiquid CDOs and CLOs in the portfolio of the treasury unit in Madrid. These are measured by grouping together the securities by type of underlying (sector/country), payment hierarchy (prime, mezzanine, junior, etc.), and assuming forecast conditional prepayment rates (CPR) and default rates, adopting conservative criteria.
- Derivatives on baskets of shares. These are measured using advanced local and stochastic volatility models, through Monte Carlo simulations; the main unobservable input is the correlation between the prices of the shares in each basket in question.
- Callable interest rate derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

During 2017, the Group, to which the Bank belongs, carried out a review of its financial instruments valuation processes with the purpose of increasing the observability of certain inputs and parameters used in its valuation techniques. As a result of this review, it has started to contribute prices of interest rate derivatives with the option of a clear type of discount for EUR and USD and correlations between pairs of shares to services of consensus pricing, which has allowed to incorporate the inputs obtained directly or inferred from instrument prices, in their internal valuation processes. As a consequence, those non-observable inputs (the parameter of the reversion to the average of the interest rates and the correlations between shares, respectively) used in the valuation of interest rate derivatives with the option of cancelling type EUR and USD and derivatives on Stock baskets have become measurable and considered observable parameters, and therefore, these products have been reclassified from Level 3 to Level 2.

The measurements obtained using the internal models might have been different if other methods or assumptions had been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank's directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The net amount recognised in profit and loss in 2017 arising from models whose significant inputs are unobservable market data (Level 3) amounted to a EUR 116 million loss (EUR 60 million profit in 2016), amounting to EUR 82 million loss for the Bank in 2017 (EUR 57 million loss in 2016).

The table below shows the effect, at December 31, 2017 on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio / Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (in millions of euros) Unfavourable scenario	Impacts (in millions of euros) Favourable scenario
Financial assets held for trading						
Derivatives	Present Value Method	Curves on TAB indices (*)	(a)	(a)	(0.2)	0.2
		Long-term volatility in MXN	(a)	(a)	(0.1)	0.1
	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.42%	(25.9)	27.7
		HPI spot rate	n/a	772.64 (**)	(9.4)	9.4
		FX Volatility in long term	11%-21%	15.7%	(1.8)	0.3
	Standard Gaussian Copula Model	Probability of default	0%-5%	2.32%	(2.4)	2.1
		Reversal to the average interest rate	(2%)-2%	0.0%	(1.1)	1.1
Other financial assets designated at fair value through profit or loss						
Customers	Probability-weighted set (per forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.57%	(6.7)	6.3
Debt and equity instruments	Probability-weighted set (per forecast mortality rates) of HPI forwards, using the present value model	HPI forward growth rate	0%-5%	2.42%	(7.6)	8.2
		HPI spot rate	n/a	772.64 (**)	(12.5)	12.5
Financial assets available-for-sale						
Debt and equity instruments	Present Value Method and other	Default and prepayment rates, cost of capital, long-term earnings growth rate	(a)	(a)	(3.0)	3.0
		Litigation contingencies	0%-100%	35%	(22.0)	11.8
Financial liabilities held for trading						
Derivatives	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.32%	(9.4)	8.1
		HPI spot rate	n/a	727.14 (**)	(9.2)	10.0
		Curves on TAB indices (*)	(a)	(a)	-	-
	Advanced multi-factor interest rate models	Mean reversion of interest rates	(2%) -2%	0.01	(0.6)	0.6
Hedging derivatives (liabilities)						
Derivatives	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	(b)	(b)

(*) TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average interest rates on 30-, 90-, 180- and 360-day deposits published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (in Chilean unit of account (Unidad de Fomento - UF)).

(**) There are national and regional HPIs. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is in response to a 10% shift.

(***) Theoretical average value of the parameter. The change made for the favourable scenario is from 0.0001 to 0.03. An unfavourable scenario was not considered as there was no margin for downward movement from the parameter's current level. The exercise was conducted for the unobservable inputs described in the main unobservable inputs column under probable scenarios. The range and weighted average value used are not shown because the aforementioned exercise was conducted jointly for various inputs or variants thereof (e.g. the TAB input comprises vector-time curves, for which there are also nominal yield curves and inflation-indexed yield curves), and it was not possible to break down the results separately by type of input. In the case of the TAB curve the gain or loss is reported for changes of +/-100 b.p. for the total sensitivity to this index in Chilean pesos and UFs.

(a) The exercise was performed for the unobservable inputs described in the column "Main unobservable inputs" under probable scenarios. The weighted average range and value used is not shown because this exercise has been carried out jointly for different inputs or variants of them (for example, the TAB input are vector-term curves, for which there are also nominal and indexed curves to inflation), it is not possible to break down the result in an isolated manner by type of input. In the case of the TAB curve, the result is reported before movements of +/- 100 bp for the joint sensitivity of this index in CLP (Chilean peso) and UF. The same applies for interest rates in MXN (Mexican peso).

Lastly, the changes in the financial instruments classified as Level 3 in 2017 and 2016 were as follows:

	2016	Changes								2017
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**341**	**45**	**(21)**	**-**	**-**	**(129)**	**--**	**200**	**1**	**437**
Debt and equity instruments	40	-	(7)	-	-	(1)	-	-	-	32
Derivatives	301	45	(14)	-	-	(128)	-	200	1	405
Swaps	*55*	*1*	*(6)*	-	-	*(59)*	-	*200*	*(2)*	*189*
Exchange rate options	*2*	*5*	-	-	-	*(2)*	-	-	-	*5*
Interest rate options	*173*	-	-	-	-	*(11)*	-	-	-	*162*
Index and securities options	*26*	-	*(1)*	-	-	*(18)*	-	-	*(2)*	*5*
Other	*45*	*39*	*(7)*	-	-	*(38)*	-	-	*5*	*44*
Hedging derivatives (Assets)	**27**	**-**	**(2)**	**-**	**-**	**(7)**	**-**	**-**	**-**	**18**
Swaps	*27*	-	*(2)*	-	-	*(7)*	-	-	-	*18*
Financial assets designated at fair value through profit or loss	**325**	**-**	**(9)**	**-**	**-**	**(20)**	**-**	**-**	**(14)**	**282**
Loans and advances to customers	74	-	(2)	-	-	3	-	-	(3)	72
Debt instruments	237	-	(7)	-	-	(21)	-	-	(10)	199
Equity instruments	14	-	-	-	-	(2)	-	-	(1)	11
Financial assets available-for-sale	**656**	**1**	**(239)**	**-**	**(5)**	**-**	**59**	**(6)**	**160**	**626**
TOTAL ASSETS	**1,349**	**46**	**(271)**	**-**	**(5)**	**(156)**	**59**	**194**	**147**	**1,363**
Financial liabilities held for trading	**69**	**33**	**(3)**	**-**	**-**	**(38)**	**-**	**126**	**(5)**	**182**
Derivatives	69	33	(3)	-	-	(38)	-	126	(5)	182
Swaps	*1*	-	-	-	-	*(26)*	-	*126*	*(1)*	*100*
Exchange rate options	-	*21*	-	-	-	*(11)*	-	-	*(1)*	*9*
Interest rate options	*21*	-	-	-	-	*(2)*	-	-	-	*19*
Index and securities options	*46*	-	*(3)*	-	-	-	-	-	*(2)*	*41*
Other	*1*	*12*	-	-	-	*1*	-	-	*(1)*	*13*
Hedging derivatives (Liabilities)	**9**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**7**
Swaps	*9*	-	-	-	-	*(2)*	-	-	-	*7*
Financial liabilities designated at fair value through profit or loss	**8**	-	-	-	-	-	-	-	(1)	7
TOTAL LIABILITIES	**86**	**33**	**(3)**	**-**	**-**	**(40)**	**-**	**126**	**(6)**	**196**

	2015	Changes								2016
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**950**	**-**	**(157)**	**-**	**-**	**52**	**-**	**(489)**	**(15)**	**341**
Debt and equity instruments	43	-	(5)	-	-	3	-	-	(1)	40
Derivatives	907	-	(152)	-	-	49	-	(489)	(14)	301
Swaps	*54*	-	-	-	-	*(3)*	-	-	*4*	*55*
Exchange rate options	-	-	-	-	-	*2*	-	-	-	*2*
Interest rate options	*619*	-	*(52)*	-	-	*39*	-	*(433)*	-	*173*
Index and securities options	*120*	-	*(30)*	-	-	*(3)*	-	*(56)*	*(5)*	*26*
Other	*114*	-	*(70)*	-	-	*14*	-	-	*(13)*	*45*
Hedging derivatives (Assets)	**18**	**-**	**(4)**	**-**	**-**	**13**	**-**	**-**	**-**	**27**
Swaps	*18*	-	*(4)*	-	-	*13*	-	-	-	*27*
Financial assets designated at fair value through profit or loss	**514**	**-**	**(7)**	**-**	**(104)**	**6**	**-**	**(2)**	**(82)**	**325**
Loans and advances to customers	81	-	-	-	-	5	-	-	(12)	74
Debt instruments	283	-	(7)	-	-	1	-	-	(40)	237
Equity instruments	150	-	-	-	(104)	-	-	(2)	(30)	14
Financial assets available-for-sale	**999**	**37**	**(263)**	**-**	**(28)**	**-**	**(11)**	**(29)**	**(49)**	**656**
TOTAL ASSETS	**2,481**	**37**	**(431)**	**-**	**(132)**	**71**	**(11)**	**(520)**	**(146)**	**1,349**
Financial liabilities held for trading	**302**	**-**	**(34)**	**-**	**-**	**10**	**-**	**(199)**	**(10)**	**69**
Derivatives	302	-	(34)	-	-	10	-	(199)	(10)	69
Swaps	*1*	-	-	-	-	-	-	-	-	*1*
Interest rate options	*194*	-	*(19)*	-	-	*1*	-	*(155)*	-	*21*
Index and securities options	*107*	-	*(15)*	-	-	*8*	-	*(44)*	*(10)*	*46*
Other	-	-	-	-	-	*1*	-	-	-	*1*
Hedging derivatives (Liabilities)	**11**	**-**	***(3)***	**-**	**-**	**1**	**-**	**-**	**-**	**9**
Swaps	*11*	-	*(3)*	-	-	*1*	-	-	-	*9*
Financial liabilities designated at fair value through profit or loss	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**8**
TOTAL LIABILITIES	**324**	**-**	**(37)**	**-**	**-**	**11**	**-**	**(199)**	**(13)**	**86**

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under Interest income or Interest expense, as appropriate, and those arising for other reasons, which are recognised at their net amount under Gains/losses on financial assets and liabilities.

Adjustments due to changes in fair value arising from:

- Financial assets available-for-sale are recognised temporarily under Items that may be reclassified to profit or loss - Financial assets available-for-sale, unless they relate to exchange differences, in which case they are recognised in Other comprehensive income under Items that may be reclassified to profit or loss - Exchange differences (net), or to exchange differences arising on monetary financial assets, in which case they are recognised in Exchange differences (net) in the income statement.
- Items charged or credited to Items that may be reclassified to profit or loss - Financial assets available-for-sale and Other comprehensive income - Items that may be reclassified to profit or loss - Exchange differences in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the income statement.
- Unrealised gains on Financial assets available-for-sale classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss - Non-current assets held for sale.

v. Hedging transactions

The Bank uses financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Bank's own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (derivatives).

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

    a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject (fair value hedge);

    b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge);

    c. The net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

    a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (prospective effectiveness).

b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (retrospective effectiveness). To this end, the Bank checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

   The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

   a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the income statement.

      In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the income statement with a balancing entry under Changes in the fair value of hedged items in portfolio hedges of interest rate risk on the asset or liability side of the balance sheet, as appropriate.

   b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in Other comprehensive income under items that may be reclassified to profit or loss – Hedging derivatives - Cash flow hedges (effective portion) until the forecast transactions occur, when it is recognised in the income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability.

   c. In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in Other comprehensive income under Items that may be reclassified to profit or loss - Hedges of net investments in foreign operations until the gains or losses on the hedged item are recognised in profit or loss.

   d. The ineffective portion of the gains or losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation is recognised directly under Gains/losses on financial assets and liabilities (net) in the consolidated income statement, in Gains or losses from hedge accounting, net

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument recognised in equity under Other comprehensive income – Items that may be reclassified to profit or loss (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

vi. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as financial assets/liabilities designated at fair value through profit or loss or as Financial assets/liabilities held for trading.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Group transfers substantially all the risks and rewards to third parties unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

    a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

    b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

3. If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

    a. If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights or obligations retained or created in the transfer are recognised.

    b. If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

f) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, only if the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Following is the detail of financial assets and liabilities that were offset in the balance sheets as at 31 December 2017 and 2016:

	Millions of euros					
	2017			2016		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	68,412	(27,445)	40,967	82,414	(34,873)	47,541
Repos	31,211	-	31,211	22,601	-	22,601

	Millions of euros					
	2017			2016		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	70,693	(27,445)	43,248	86,045	(34,873)	51,172
Repos	40,506	-	40,506	19,029	-	19,029

Most of the derivatives and repos not offset in the balance sheet are subject to netting and collateral arrangements.

At December 31, 2017 the balance sheet amounts EUR 51,423 million on derivatives and repos as assets and EUR 66,915 million on derivatives and repos as liabilities that are subject to netting and collateral arrangements (EUR 53,141 million and EUR 55,299 million in 2016, respectively).

g) Impairment of financial assets

i. Definition

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the adjustment of the value of the impaired financial instruments is charged to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment loss is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

Transactions classified as non-performing due to arrears are reclassified as standard if, as a result of the collection of a portion or the sum of the unpaid instalments, the reasons for classifying such transactions as non-performing cease to exist, i.e. they no longer have any amount more than 90 days past due, unless other subjective reasons remain for classifying them as non-performing. The refinancing of non-performing loans does not result in their reclassification to standard unless: the period of one year has elapsed since the refinancing date, the holder has paid the accrued principal and interest accounts, and the customer has no other operation with overdue amounts of more than 90 days. (See Note 49).

The following constitute effective guarantees:

a) Mortgage guarantees on housing as long as they are first duly constituted and registered in favor of the entity; the properties include:

    a. Buildings and building elements, distinguishing among:

        i. Houses;

        ii. Offices commercial and multi-purpose premises;

        iii. Rest of buildings such as non-multi-purpose premises and hotels.

    b. Urban and developable ordered land.

    c. Rest of properties that would be classified in: buildings and building elements under construction, such as property development in progress and halted development, and the rest of land types, such as rustic lands.

b) Collateral guarantees on financial instruments in the form of cash deposits and debt securities issued by creditworthy issuers.

c) Other type real guarantees, including properties received in guarantee and second and subsequent mortgages on properties, as long as the entity demonstrates its effectiveness. When assessing the effectiveness of the second and subsequent mortgages on properties the entity will implement particularly restrictive criteria. It will take into account, among others, whether the previous charges are in favour of the entity itself or not and the relationship between the risk guaranteed by them and the property value.

d) Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the transaction and implying direct and joint liability to the entity of persons other entities whose solvency is sufficiently proven to ensure the reimbursement of the operation on the agreed terms.

The balances relating to impaired assets continue to be recognised on the balance sheet, for their full amounts, until the Bank considers that the recovery of those amounts is remote.

The Bank considers recovery to be remote when there has been a substantial and irreversible deterioration of the borrower's solvency, when commencement of the liquidation phase of insolvency proceedings has been ordered or when more than four years have elapsed since the borrower's transaction was classified as non-performing due to arrears.

When the recovery of a financial asset is considered remote, it is written off, together with the related allowance, without prejudice to any actions that the Bank may initiate to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

ii. Debt instruments carried at amortised cost

The Bank has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties and from country risk. These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments and contingent liabilities as well as commitments, and in the identification of their impairment and the calculation of the amounts required to cover the related credit risk.

In addition, the Bank's policies, methods and procedures in relation to insolvency credit risk reflect the criteria for classification of operations and the coverage of losses therefrom, included in Circular 4/2016, of April 27, Bank of Spain. It amends certain Regulations of Circular 4/2004 of December 22, specifically the Sixty-Sixth, Sixty-Fourth and Sixty-seventh Norms, as well as Annex IX, the contents of which are included as Appendice 1 to Circular 4/2016.

Impairment losses allowances on debt instruments carried at amortised cost represent the best management estimate of the incurred losses in such portfolio at closing date, both individually and collectively considered. For the purpose of determining impairment losses, the Group monitors its debtors as described below:

- Individually: Significant debt instruments where impairment evidence exists. Consequently, this category includes mainly wholesale banking clients – Corporations, Earmarked Funding and Financial Institutions- as well as part of the larger Companies –Chartered- and developers from retail banking.

- At balance sheet date, the group assesses on whether a debt instrument or a Bank is impaired. A specific analysis is performed for all debtors monitored individually that have undergone an event such as:

    - Operations with amounts of capital, interests or expenditures agreed contractually, past-due by more than 90 days.

    - Significantly inadequate economic or financial structure, or inability to obtain additional owner financing.

    - Generalised delay in payments or insufficient cash flows to cover debts.

    - The lender, for economic or legal reasons related to the borrower's financial difficulties, grants the borrower concessions or advantages that otherwise would not have been granted.

- Thee borrower enters a bankruptcy situation or in any other situation of financial reorganisation

In these situations, an assessment is performed on the estimated future cash flows in connection with the relevant asset, discounted the original effective interest rate of the loan granted. The result is compared with the carrying value of the asset. The differences between the carrying value of the operation and the discounted value of the cash flow estimate will be analysed and recognised as a specific provision for impairment loss.

Collectively, in all other cases: clients considered by the Bank as “standardized”, grouping those instruments with similar credit risk features, that may indicate the debtor’s ability to pay all the amounts, capital and interests, according to the contractual terms. Credit risk features that are taken into account when grouping assets are, among others: type of instrument, debtors activity sector, geographical area of the activity, type of guarantee, maturity of the amounts due and any other factor that may be significant for the estimation of the future cash flows. Within this category are included, for example, risks with individuals, individual entrepreneurs, non-chartered retail banking companies, as well as those due to their amounts could be individualized but an impairment does not exist.

The collective provisions for impairment are subject to uncertainties in their estimation due, in part, to the difficult identification of losses since they individually appear insignificant within the portfolio. The estimation methods include the use of statistical analyses of historical information. These are supplemented by the application of significant judgments by the management, with the objective of evaluating if the current economic and credit conditions are such that the level of losses incurred is expected to be higher or less than that which results from experience.

When the most recent trends related to portfolio risk factors are not fully reflected in statistical models as a result of changes in economic, regulatory and social conditions, these factors are taken into account by adjusting impairment provisions based on experience of other historical losses. On these estimates the Bank performs retrospective and comparative tests with market references to evaluate the reasonableness of the collective calculation.

The Bank's internal models determine impairment losses on debt instruments not measured at fair value with changes in the income statement, as well as contingent risks, taking into account the historical experience of impairment and other circumstances known at the time of the evaluation. For these purposes, impairment losses are the losses incurred at the date of preparation of the consolidated annual accounts calculated using statistical procedures.

The amount of an impairment loss incurred on these instruments is equal to the difference between their carrying amount and the present value of their estimated future cash flows. In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued past-due interest receivable;

- The various types of risks to which each instrument is subject; and

- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

The loss incurred is calculated by multiplying three factors: exposure at default, probability of default and loss given default. These parameters are also used to calculate economic capital and to calculate BIS II regulatory capital under internal models (see Note 1.e).

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

For the purpose of calculating the incurred loss, PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year due to an event that had already occurred at the assessment date. The definition of default used includes amounts past due by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective non-performing assets).

- Severity: is the loss produced in case of impairment. It mainly depends on the update of the guarantees associated with the operation and the future flows that are expected to be recovered.

- Loss given default (LGD) is the loss arising in the event of default. It depends mainly on the discounting of the guarantees associated with the transaction and the future flows that are expected to be recovered.

In addition, in order to determine the coverage of impairment losses on debt instruments measured at amortised cost, the Bank considers the risk that exists in counterparties resident in a given country due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks arising from international financial activity).

The debt instruments measured at amortised cost and classified as doubtful are divided, according to the criteria indicated in the following sections:

i. Assets classified as non-performing due to counterparty arrears:

Debt instruments, whoever the obligor and whatever the guarantee or collateral, with amounts more than 90 days past due are provisioned individually, taking into account the age of the past-due amounts, the guarantees or collateral provided and the financial situation of the counterparty and the guarantors.

ii. Assets classified as non-performing for reasons other than counterparty arrears:

Debt instruments which are not classifiable as non-performing due to arrears but for which there are reasonable doubts as to their repayment under the contractual terms are provisioned individually, and their allowance is the difference between the amount recognised in assets and the present value of the cash flows expected to be received.

This information is given in more detail in Note 49.c (credit risk).

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under Loans and advances with central banks, Loans and advances to credit institutions or Loans and advances to customers (Deposits from central banks, Deposits from credit institutions or Customer deposits).

Differences between the purchase and sale prices are recognised as interest over the contract term.

i) Non-current assets and Liabilities associated with non-current assets held for sale and Liabilities included in alienable groups of items that have been classified as held for sale

Non-current assets held for sale includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the recovery of the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be effected through the proceeds from their disposal.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be Non-current assets held for sale, unless the consolidated entities have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Bank obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

The Bank has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Bank works should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2017 are as follows: Tasaciones Inmobiliarias, S.A.U, Krata, S.A., Eurovaloraciones, S.A., Ibertasa, S.A.

Also, this policy establishes that the various subsidiaries abroad work with appraisal companies that have recent experience in the area and the type of asset under appraisal and meet the independence requirements established in the corporate policy. They should verify, inter alia, that de appraisal company is not a related parties to the Bank and that their billings to the Bank in the last twelve months should not exceed 15% of their total billings.

Liabilities associated with non-current assets held for sale includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets and disposal groups of items that have been classified as held for sale are generally recognised at the date of their allocation to this category and are subsequently valued at the lower of their fair value less costs to sell and its book value Non-current assets and disposal groups of items that are classified as held for sale are not amortised as long as they remain in this category.

At 31 December 2017 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 174 million (EUR 185 million in 2016); however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

The valuation of the non-current assets held for sale have been made in compliance with the requirements of Circular 4/2016, of April 27, of the Bank of Spain. It amends Circular 4/2004, dated December 22, specifically, Sixty-sixth, Sixty-Fourth and Sixty-seventh laws, as well as Annex IX, the contents of which are included as Appendice 1 to Circular 4/2016 related to the estimation of the fair value of tangible assets and the value in use of financial assets.

The value of the portfolio is determined as the sum of the values of the individual elements that compose the portfolio, without considering any total or batch grouping in order to correct the individual values.

The valuation of the portfolio of non-current assets held for sale has been carried out basically applying the following models:

- Market Value Model used in the valuation of finished residential properties (housing and parkings) and buildings of a tertiary nature (offices, commercial premises and multipurpose buildings). The current market value of real estate is based on statistical valuations obtained by historical series of average market values (sales prices), distinguishing by location and typology of the property. In addition, for individual significant assets, complete individual valuations are performed. Valuations made using this method are considered as Level 2.

- Market Value Model according to the Evolution of Market Values issused in the valuation of property developments in progress. The current market value of the properties is estimated on the basis of complete individual static valuations of third parties, calculated from the values of feasibility studies and development costs of the promotion, as well as selling expenses, distinguishing by location and typology of the property. The valuation of real estate assets under construction is made considering the current situation of the property and not considering the final value of the property. Valuations made using this method are considered as Level 3.
- Market Value Model according to the Statistical Evolution of Soil Values (Methodology used in the valuation of soils). A statistical update method is used, taking as reference the indexes published by the Ministry of Development applied to the latest individual valuations (appraisals) carried out by independent valuation companies and agencies. Valuations made using this method are considered as Level 2.

In addition, in relation to the previously mentioned valuations, less selling costs, are contrasted with the sales experience of each type of asset in order to confirm that there is no significant difference between the sale price and the valuation.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under Gains or (losses) on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

j) Reinsurance Assets and Liabilities under insurance contracts

Insurance contracts linked to pensions on the asset side of the balance sheet, included in the section Other assets (Note 2.n) includes the amounts that the Bank is entitled to receive for insurance contracts with third parties and, specifically, the insurer's share of the technical provisions recorded by the insurance entities

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Bank may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the income statement and the assets are written down.

k) Tangible assets

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the Bank or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use -including tangible assets received by the Bank in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases- are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognized in the income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual rate
Buildings for own use	2
Furniture	10
Fixtures	5
Computer equipment	25
Vehicles	16
Other	5

The Bank assesses at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the Bank recognises the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

The Bank in order to evaluate the possible impairment determines periodically the fair value of its investment property so that, at the end of the reporting period, the fair value reflects the market conditions of the investment property at that date. This fair value is determined annually, taking as benchmarks the valuations performed by independent experts. The methodology used to determine the fair value of investment property is selected based on the status of the asset in question; thus, for properties earmarked for lease, the valuations are performed using the sales comparison approach, whereas for leased properties the valuations are made primarily using the income capitalisation approach and, exceptionally, the sales comparison approach.

In the sales comparison approach, the property market segment for comparable properties is analysed, inter alia, and, based on specific information on actual transactions and firm offers, current prices are obtained for cash sales of those properties. The valuations performed using this approach are considered as Level 2 valuations.

In the income capitalisation approach, the cash flows estimated to be obtained over the useful life of the property are discounted taking into account factors that may influence the amount and actual obtainment thereof, such as: (i) the payments that are normally received on comparable properties; (ii) current and probable future occupancy; (iii) the current or foreseeable default rate on payments. The valuations performed using this approach are considered as Level 3 valuations, since unobservable inputs are used, such as current and probable future occupancy and/or the current or foreseeable default rate on payments.

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Bank under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

l) Accounting for leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the Bank acts as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the balance sheet.

When the Bank acts as the lessee, it presents the cost of the leased assets in the balance sheet, based on the nature of the leased asset, and, simultaneously, recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to Interest and similar income and Interest expense and similar charges in the income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the Bank acts as the lessor, it presents the acquisition cost of the leased assets under Tangible assets (see Note 15). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the income statements.

When the Bank acts as the lessee, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in the income statement.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only assets whose cost can be estimated reliably and from which the Bank considers it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists, if any, and computer software).

In accordance with the amendments to Circular 4/2004 introduced by Circular 4/2016 in the Twenty-Eighth standard, in the financial statements (individual and consolidated) not subject to the International Financial Reporting Standards framework the Intangible assets will be be recognised with defined useful life.

The useful life of the intangible assets may not exceed the period during which the entity is entitled to use the asset. If the right of use is for a limited period that can be renewed, the useful life will include the renewal period only when there is evidence that the renewal will be carried out without a significant cost.

When the useful life of the assets can not be reliably estimated, they will be amortized over a period of ten years. It shall be presumed, unless proven to the contrary, that the useful life of the goodwill is ten years in case it applies.

Intangible assets are amortised over those useful lives using methods similar to those used to depreciate tangible assets (3 to 5 years). The Bank reviews, at least at the end of each year, the period and method of amortisation of each of its intangible assets and, if the Bank considers that they are not adequate, the impact will be treated as a change in the accounting estimates

The intangible asset amortisation charge is recognised under Depreciation and amortisation charge in the income statement.

In both cases the Bank recognises any impairment loss on the carrying amount of these assets with a charge to Impairment losses on other assets (net) in the income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (see Note 2.k).

Internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Bank's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised.

n) Other assets

Other assets in the balance sheet includes the amount of any assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of any assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories includes land and other property held for sale in the property development business.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

  Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other impairment losses are recognised as expenses in the year in which the impairment or loss occurs. Subsequent reversals are recognised in the income statement for the year in which they occur.

  The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Insurance contracts linked to pensions (See Note 2.j).

- Other: this item includes, as the case may be, the balance of all prepayments and accrued income (excluding accrued interest, fees and commissions), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favour, when this net amount is to be reported in the balance sheet, and the amount of any other assets not included in other items.

ñ) Other liabilities

Other liabilities includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

o) Provisions and contingent assets and liabilities

When preparing the Bank's financial statements, the Bank's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Bank, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them. The Bank should not proceed to recognise a contingent obligation. On the contrary, it must report on the obligation in the financial statements, except in the case that the possibility of an outflow embodying economic benefits is remote.

- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised in the balance sheet or in the income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Bank's financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognised in the financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows (see Note 23):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations (Note 2.u)

- Other long-term employee remuneration: includes other commitments assumed with early retirement personnel, as detailed in Note 2.v).

- Provisions for commitments and guarantees given: include the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Bank guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -defined as irrevocable commitments that may give rise to the recognition of financial assets.

- Provisions for taxes and other legal contingencies: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the Bank.

- Other provisions: include the remaining provisions recognised by the Bank as the ones for restructuring and environmental actions.

p) Court proceedings and/or claims in process

In addition to the disclosures made in Note 1, at the end of 2016 certain court proceedings and claims were in process against the Group entities arising from the ordinary course of their operations (see Note 23).

q) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are charged directly to equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares, is directly added to or deducted from equity.

r) Equity-instrument-based employee remuneration

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Bank recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) Recognition of income and expenses

The most significant criteria used by the Bank to recognise income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the Bank's right to receive them arises.

However, the recognition of accrued interest in the income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than 90 days past due. Any interest that may have been recognised in the income statement before the corresponding debt instruments were classified as impaired, and that had not been collected at the date of that classification, is considered when determining the allowance for loan losses; accordingly, if subsequently collected, the reversal of the related impairment losses on this interest is recognised. Interest whose recognition in the income statement has been suspended is accounted for as interest income, when collected, on a cash basis.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.

- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognised immediately in the income statement.

t) Financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Bank initially recognises the financial guarantees provided on the liability side of the balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Bank recognises the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit on the asset side of the balance sheet for the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2.g above).

The provisions made for these transactions are recognised under Provisions - Provisions for contingent liabilities and commitments and guarantees given in the balance sheet (See note 23). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions (net) in the income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under Financial liabilities at amortised cost - Other financial liabilities in the balance sheet are reclassified to the appropriate provision.

u) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment welfare benefits.

The Bank's post-employment obligations to its employees are deemed to be defined contribution plans when the Bank makes pre-determined contributions (recognised under Staff costs in the income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans (see Note 23).

Defined contribution plans

The contributions made in this connection in each year are recognised under Staff costs in the income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Pensions and other obligations ofpost-employment defined contribution on the liability side of the balance sheet.

Defined benefit plans

The Bank recognises under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet (or under Other assets on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets.

Plan assets are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the Bank, but by a legally separate third party that is not a party related to the Bank.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the Bank unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Bank.

If the Bank can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Bank recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under Insurance contracts linked to pensions on the asset side of the balance sheet.

Post-employment benefits are recognised as follows:

  - Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under Staff costs.

  - The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions or reversal of provisions.

  - Any gain or loss arising from a liquidation of the plan is included in the provisions or reversion of provisions.

  - Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under Interest expense and similar charges (Interest and similar income if it constitutes income) in the income statement.

- The remeasurement of the net defined benefit liability (asset) is recognised under Other comprehensive income under items not reclassified to profit or loss and includes:

  - Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

v) Other long-term employee benefits

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions or reversal provisions in the income statement (see Note 23).

w) Termination benefits

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

x) Income tax

The income tax expense is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the related tax effect is also recognised in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

The Tax assets includes the amount of all tax assets, which are broken down into current -amounts of tax to be recovered within the next twelve months- and deferred -amounts of tax to be recovered in future years, including those arising from tax loss or tax credit carryforwards.

Tax liabilities includes the amount of all tax liabilities (except provisions for taxes), which are broken down into current -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and deferred -the amount of income tax payable in future years.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that there will be sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that there will be sufficient future taxable profits against which they can be utilised.

Income and expenses recognised directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed. (see Note 24).

y) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the balance sheet and the average interest rates at the end of the reporting periods is provided in Note 48.

z) Statements of recognized income and expenses

This statement presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the income statement for the year and the other income and expenses recognised directly in equity.

Accordingly, this statement presents:

a. Profit for the year.

b. The net amount of the income and expenses recognised in Other comprehensive income under items that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in Other comprehensive income under items that may be reclassified subsequently to profit or loss.

d. The income tax incurred in respect of the items indicated in b) and c) above. Except for adjustments in other comprehensive income arising from investments in associates or jointly-controlled entities accounted for using the equity method, which are presented in net terms.

e. Total recognised income and expense, calculated as the sum of a) to d) above.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under Entities accounted for using the equity method.

The statement presents the items separately by nature, grouping together items that, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit and loss since the requirements established by the corresponding accounting standards are met.

aa) Statements of changes in total equity

This statement presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in equity arising as a result of the retrospective restatement of the balances in the financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c. Other changes in equity: includes the remaining items recognised in equity, including, inter alia, increases and decreases in capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in equity.

ab) Statements of cash flows

The following terms are used in the statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified.

  The Bank classifies as cash and cash equivalents the balances recognised under Cash, cash balances at Central Banks and other deposits on demand in the consolidated balance sheet.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

The amounts of these items recorded against equity are presented at their gross amount, showing their corresponding tax effect under the heading Income tax in said statement.

In relation with the cash flows corresponding to the interest received and paid, no significant differences exist between those and the ones registered in the statement of profit or loss. For that reason they are not disaggregated separately in the consolidated cash flow statement: except from those corresponding to cash flow liabilities of the financing activities which, although they are not significant, have been disaggregated in Note 21.b.

The state presents separately the items by nature, grouping them in those that, according to the accounting standards of application, will not be subsequently reclassified to results and those that will be subsequently reclassified to results when the requirements established by the corresponding accounting standards are met.

Likewise, the dividends received and delivered by the Group are detailed in notes 4 and 26.

3. Santander Group

a) Banco Santander, S.A. and international Group structure.

The growth of the Group in the last decades has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's traditionally high level of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At the international level, the various banks and other subsidiaries, joint ventures and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) Acquisitions and disposals

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Bank in the last two years:

i. Acquisition of Banco Popular Español, S.A.

On June 7, 2017 (the acquisition date), as part of its growth strategy in the markets where it is present, the Group communicated the acquisition of 100% of the share capital of Banco Popular as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the Single Resolution Board (“SRB”) and executed by the FROB, Spanish single resolution board, in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of May 15, 2014, and Law 11/2015, of June 18, for the recovery and resolution of credit institutions and investment firms.

As part of the execution of the resolution:

- All the shares of Banco Popular outstanding at the closing of market on June 7, 2017 and all the shares resulting from the conversion of the regulatory capital instruments *Additional Tier 1* issued by Banco Popular have been converted into undisposed reserves.

- All the regulatory capital instruments Tier 2 issued by Banco Popular have been converted into newly issued shares of Banco Popular, all of which have been acquired for a total consideration of one euro by the Group.

The transaction has been approved by all the applicable regulatory and antitrust authorities in the territories where Banco Popular operated, except for the pending approval for the acquisition of certain affiliates of Banco Popular located in United States.

The accounting balance for which the Bank has registered the 100% interest in Banco Popular Español, S.A.as of December 31, 2017, it's detailed in Note 13.b.

In accordance with IFRS 3, the Group has measured the identifiable assets acquired and liabilities assumed at fair value. The fair value is provisional, according to the applicable regulations, due to the period from the acquisition date and its complex valuation. The detail of this provisional fair value of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

As of June 7, 2017	Millions of euros
Cash and balances with central banks	1,861
Financial assets available-for-sale	18,974
Deposits from credit institutions	2,971
Loans and receivables (*)	82,057
Investments	1,815
Intangible assets (*)	133
Tax assets (*)	3,945
Non-current assets held for sale (*)	6,531
Other assets	6,259
Total assets	124,546
Deposits from central banks	28,845
Deposits from credit institutions	14,094
Customer deposits	62,270
Marketable debt securities and other financial liabilities	12,919
Provisions (***)	1,816
Other liabilities	4,850
Total liabilities (**)	124,794
Net assets	(248)
Purchase consideration	-
Goodwill	**248**

(*) The main provisional fair value adjustments are the following:
- Loans and receivables: In the estimation of their fair value, impairment have been considered for an approximate amount of EUR 3,239 million, considering, among others, the sale process carried out by the Bank.
- Foreclosed assets: the valuation, considering the sale process carried out by the company, has meant a reduction in the value of EUR 3,806 million, approximately.
- Intangible assets: Includes value reductions amounting to approximately of EUR 2,469 million, mainly recorded under the “Intangible assets - goodwill”.
- Deferred tax assets: mainly corresponds to the reduction of the value of negative tax bases and deductions for an approximate amount of EUR 1,711 million.

(**) After the initial analysis and the conversion of the subordinated debt, the best estimation is there is no significant impact between fair value and previous carrying amount of the financial liabilities.

(***) As a result of the resolution of Banco Popular Español, S.A. and in accordance with the information available to date, it includes the estimated cost of EUR 680 million relating to the potential compensation to the shareholders of Banco Popular Español, S.A. of which EUR 535 millon have been applied to the fidelity action (See note 1.k).

As the fair value of the identifiable net assets acquired was lower than the total consideration paid, goodwill arises on the acquisition. This goodwill is attributable to the commercial business in Spain. The provisional fair value adjustments were based, among others, on different methodologies and valuation processes that are commonly accepted in the market for credit and real estate portfolios as well as for financial investments.

In compliance with the accounting standards in force and, in accordance with paragraph 45 of IFRS 3 “Business Combinations”, the acquirer entity must comply with the period of one year from the acquisition date in order to perform the business combination and the measurement of the fair values of the assets and liabilities of the acquired entity. Accordingly, measurements conducted by the Group are the best available estimation on the date of the preparation of the present consolidated financial statements and therefore, they are provisional and cannot be considered as definitive. However, the Group doesn’t expect significant changes on such amount until the end of the term the Group has to consider the valuation as definitive. Likewise from the acquisition date until December 31, 2017 there have not been any significant changes on the fair value of the acquired assets and assumed liabilities in this business combination.

The amount contributed by this business to the group net profit from the acquisition and the impact to the net profit obtained by the group resulting from the operation if the transaction had been made on January 1, 2017 are not material.

ii. Metrovacesa - Merlin

On June 21, 2016, Banco Santander hereby reached an agreement with Merlin Properties, SOCIMI, S.A., together with the other shareholders of Metrovacesa, S.A., for the integration in Merlin group, following the total spin-off of Metrovacesa, S.A., of Metrovacesa, S.A. property rental asset business in Merlin Properties, SOCIMI, S.A. and Metrovacesa, S.A. residential rental business in Metrovacesa, S.A. current subsidiary, Testa Residencial, SOCIMI, S.A. (before, Testa Residencial, S.L.) The other assets of Metrovacesa, S.A. not integrated in Merlin group as a result of the integration, consisting of a residual group of land assets for development and subsequent lease, will be transferred to a newly created company wholly owned by the current shareholders of Metrovacesa, S.A.

Regarding the General Meeting of shareholders of Merlin Properties, SOCIMI, S.A. and Metrovacesa, S.A. on September 15, 2016 where not only the operation was not approved.

Subsequently, on October 20, 2016, the deed of total division of Metrovacesa, S.A. was granted in favour of the mentioned companies, and such deed was filed in the Commercial Register on October 26, 2016.

As a result of the integration, Santander Group increased its participation to 16.40% of the equity capital of Merlin Properties, SOCIMI, S.A., 34.52% of direct participation in the equity capital of Testa Residential, SOCIMI, S.A. and 52.50% in Metrovacesa Promoción y Arrendamiento, S.A. The main impacts of this operation on balance during 2016 have been insignificant.

c) Off-shore entities

According to current Spanish regulation, Santander has operations in 4 off-shore territories: Jersey, Guernsey, Isle of Man and Cayman Islands. These four jurisdictions comply with OECD standards in terms of transparency and exchange of information for tax purposes. Santander operates 3 subsidiaries and 4 branches in off-shore territories: these are governed by the tax regimes of those territories. Santander also has 4 subsidiaries in off-shore territories which are tax resident in the UK, where they pay tax. The Group has no presence in any of the 9 territories included in the European Union’s current blacklist, neither in non-cooperative territories for tax purposes as defined by the OECD in July 2017.

I) Subsidiaries in off-shore territories.

At the reporting date, the Group has 3 subsidiaries resident in off-shore territories, two in Jersey (Whitewick Limited (inactive company) and Abbey National International Limited), and one in the Isle of Man, ALIL Services Limited. These subsidiaries contributed a profit of approximately EUR 2.7 million to the Group's consolidated profit in 2017. During the financial year 2017 one subsidiary resident in the Isle of Man has been liquidated.

II) Off-shore branches.

Also, after the liquidation in 2017 of a branch in the Cayman Islands, the Group has 4 off-shore branches: 2 in the Cayman Islands, 1 in the Isle of Man and 1 in Jersey. These branches report to, consolidate their balance sheets and income statements and are taxed with, their respective foreign headquarters (Cayman Islands) or in the territories where they are located (Jersey and Isle of Man).

The aforementioned entities have a total of 138 employees as of December 2017.

III) Subsidiaries in off-shore territories that are tax resident in the UK.

The Group also has 4 subsidiaries domiciled in off-shore territories that are not considered to be off-shore entities since they are tax residents in UK and, therefore, subject to UK tax law during the period and operate exclusively from the UK (one of these subsidiaries is expected to be liquidated in 2018).

IV) Other off-shore investments.

The Group manages from Brazil a *segregated portfolio company* called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and manages from the United Kingdom a *protected cell company* in Guernsey called Guaranteed Investment Products 1 PCC Limited. The Group also has, directly or indirectly, few financial investments located in tax havens including Olivant Limited in Guernsey, entity whose liquidation or sale is expected to be carried out soon.

V) Impact of forthcoming changes to Spain's tax law.

Spain signed Information Exchange Agreements with Jersey, Guernsey and the Isle of Man in 2015, that are expected to enter into force in 2018. In addition, it is expected to sign in the future with the Cayman Islands. In principle, all these territories would no longer have the status of tax havens for the purposes of Spanish legislation at the time these agreements enter into force, and as long as it is expressly indicated.

It is expected that during 2018 the Spanish Government will update the list of countries and territories that qualify as a tax haven, after the publication by the OECD and the European Union of their lists of non-cooperative jurisdictions that are discussed below, aligning to them.

VI) OECD.

The Group has no presence in non-cooperative territories for tax purposes as defined by the OECD in July 2017. In this sense it should be noted that Jersey, Guernsey, Isle of Man and Cayman Islands, comply with OECD standards in terms of transparency and exchange of information for tax purposes, since:

- The first and/or second round of evaluations of the Global Forum on Transparency and Exchange of Information for Tax Purposes have been successfully passed in terms of their level of fiscal transparency and the effective application of the exchange of information of request (EOIR) standard.

- They have committed to implement the automatic exchange of information (AEOI) standard and its Common Reporting Standard (CRS) exchange mechanism, with the first exchange of information expected in 2017.

- They have also adhered to the Convention on Mutual Administrative Assistance in Tax Matters of the OECD and the Council of Europe, amended by the 2010 Protocol.

VII) The European Union.

On 5 December, 2017, the European Commission published some lists of non-cooperative jurisdictions for tax purposes (where there is no member state of the European Union): blacklist, gray list and territories which have received a grace period.

The EU blacklist, initially composed of 17 countries, according to a series of criteria, such as fiscal transparency, its corporate tax regimes (if they can be considered harmful), or the respect of the principles of the OECD to avoid the erosion of the tax base and the transfer of benefits (better known by the English term anti-BEPS). On January 23, 2018, the Economic and Financial Affairs Council (Ecofin) agreed to transfer 8 of them from the black list to the gray list, due to the commitments assumed by these jurisdictions to solve the deficiencies identified by the EU. The Group has no presence in any of the 9 territories included in the current blacklist.

As well as this, there is a list of 8 countries affected by the hurricanes in the Caribbean, which have received a grace period until February 2018 to send their commitments. Within this list, the Group only has presence in the Bahamas, which ceased to be considered a tax haven according to Spanish regulations, following the entry into force in 2011 of the Tax Information Exchange Agreement signed with Spain. In this jurisdiction, the Group has 7 subsidiaries (1 of them in liquidation and 1 tax resident in USA) and 1 branch in process of closing.

However, it must be taken into account that, from the point of view of the OECD, the Bahamas is a territory largely compliant with respect to transparency and exchange of information for tax purposes, especially since in December 2017 signed the Convention on Mutual Administrative Assistance in Tax Matters and joined the BEPS Project of the OECD.

Finally, the gray list, initially composed of 47 jurisdictions and currently of 55, although they meet the criteria to be on the blacklist of tax havens, have committed to correct their legal frameworks to align them with international standards. In this list are included the 4 jurisdictions in which the Group has presence and are off-shore territories in accordance with current Spanish legislation (Jersey, Guernsey, Isle of Man and Cayman Islands). These jurisdictions will have until the end of 2018 to fulfill the commitments or until 2019 if they are developing countries without international financial centers. Additionally, Hong Kong, Peru, Switzerland, Uruguay and Panama are included in the gray list, although according to Spanish legislation are not off-shore territories and have committed to modify their legislation. The Group has 2 subsidiaries and 1 branch located in Hong Kong, 5 subsidiaries in Peru (1 of them in liquidation), 6 subsidiaries in Switzerland, 13 subsidiaries in Uruguay (7 of which are in liquidation) and 1 subsidiary in Panama with reduced banking activity that has already received authorization from the Superintendency of Banks of Panama for its voluntary liquidation. At present, Spain has in force Double Taxation Agreements with exchange of information clause with Hong Kong, Switzerland, Uruguay and Panama.

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational and legal risk at these entities. Also, the Group has continued to implement its policy of reducing the number of off-shore units.

The financial statements of the Group's *off-shore* units are audited by PwC (PricewaterhouseCoopers) member firms in 2017 and 2016.

d) ***Group consolidated balance sheet, income statement, statement of recognised income and* expenses, statement of changes in total equity and cash-flow statement**

The Group's consolidated balance sheets at December 31, 2017 and 2016 and the consolidated income statements, consolidated statements of recognised income and expense, consolidated statements of changes in total equity and consolidated statements of cash flows for the years then ended are as follows:

Santander Group – Consolidated balance sheets –- (millions of euros)

ASSETS	2017	2016 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND	110,995	76,454
FINANCIAL ASSETS HELD FOR TRADING	125,458	148,187
Derivatives	57,243	72,043
Equity instruments	21,353	14,497
Debt instruments	36,351	48,922
Loans and advances	10,511	12,725
Central banks	-	-
Credit institutions	1,696	3,221
Customers	8,815	9,504
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*50,891*	*38,145*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	34,782	31,609
Equity instruments	933	546
Debt instruments	3,485	3,398
Loans and advances	30,364	27,665
Central banks	-	-
Credit institutions	9,889	10,069
Customers	20,475	17,596
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*5,766*	*2,025*
FINANCIAL ASSETS AVAILABLE-FOR-SALE	133,271	116,774
Equity instruments	4,790	5,487
Debt instruments	128,481	111,287
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*43,079*	*23,980*
LOANS AND RECEIVABLES	903,013	840,004
Debt instruments	17,543	13,237
Loans and advances	885,470	826,767
Central banks	26,278	27,973
Credit institutions	39,567	35,424
Customers	819,625	763,370
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*8,147*	*7,994*
INVESTMENTS HELD-TO-MATURITY	13,491	14,468
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*6,996*	*2,489*
HEDGING DERIVATIVES	8,537	10,377
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	1,287	1,481
INVESTMENTS	6,184	4,836
Joint ventures entities	1,987	*1,594*
Associated companies	4,197	*3,242*
REINSURANCE ASSETS	341	331
TANGIBLE ASSETS	22,974	23,286
Property, plant and equipment:	20,650	20,770
For own use	8,279	7,860
Leased out under an operating lease	12,371	12,910
Investment property:	2,324	2,516
Of which leased out under an operating lease	*1,332*	*1,567*
Memorandum ítems:acquired in financial lease	*96*	*115*
INTANGIBLE ASSETS	28,683	29,421
Goodwill	25,769	26,724
Other intangible assets	2,914	2,697
TAX ASSETS	30,243	27,678
Current tax assets	7,033	6,414
Deferred tax assets	23,210	21,264
OTHER ASSETS	9,766	8,447
Insurance contracts linked to pensions	239	269
Inventories	1,964	1,116
Other	7,563	7,062
NON-CURRENT ASSETS HELD FOR SALE	15,280	5,772
TOTAL ASSETS	**1,444,305**	**1,339,125**

(*) Presented for comparison purposes only.

Santander Group – Consolidated balance sheet statement (millions of euros)

LIABILITIES AND EQUITY	2017	2016 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	107,624	108,765
Derivatives	57,892	74,369
Short positions	20,979	23,005
Deposits	28,753	11,391
Central banks	282	1,351
Credit institutions	292	44
Customers	28,179	9,996
Marketable debt securities	-	-
Other financial liabilities	-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	59,616	40,263
Deposits	55,971	37,472
Central banks	8,860	9,112
Credit institutions	18,166	5,015
Customers	28,945	23,345
Marketable debt securities	3,056	2,791
Other financial liabilities	589	-
Memorandum ítems:subordinated liabilities	-	-
FINANCIAL LIABILITIES AT AMORTISED COST	1,126,069	1,044,240
Deposits	883,320	791,646
Central banks	71,414	44,112
Credit institutions	91,300	89,764
Customers	720,606	657,770
Marketable debt securities	214,910	226,078
Other financial liabilities	27,839	26,516
Memorandum ítems:subordinated liabilities	*21,510*	*19,902*
HEDGING DERIVATIVES	8,044	8,156
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE	330	448
LIABILITIES UNDER INSURANCE CONTRACTS	1,117	652
PROVISIONS	14,489	14,459
Provision for pensions and other employment defined benefit obligations	6,345	6,576
Provisions for other long term employee benefits	1,686	1,712
Provisions for taxes and other legal contingencies	3,181	2,994
Provisions for commitments and guarantees given	*617*	459
Other provisions	2,660	2,718
TAX LIABILITIES	7,592	8,373
Current tax liabilities	2,755	2,679
Deferred tax liabilities	4,837	5,694
OTHER LIABILITIES	12,591	11,070
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
TOTAL LIABILITIES	**1,337,472**	**1,236,426**
SHAREHOLDERS' EQUITY	116,265	105,977
CAPITAL	8,068	7,291
Called up paid capital	8,068	7,291
Unpaid capital which has been called up	-	-
Memorandum items: uncalled up capital	-	-
SHARE PREMIUM	51,053	44,912
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	525	-
Equity component of compound financial instruments	-	-
Other equity instruments	525	-
OTHER EQUITY	216	240
ACCUMULATED RETAINED EARNINGS	53,437	49,953
REVALUATION RESERVES	-	-
OTHER RESERVES	(1,602)	(949)
Reserves or accumulated losses in joint ventures investments	724	466
Others	(2,326)	(1,415)
(-) OWN SHARES	(22)	(7)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	6,619	6,204
(-) DIVIDENS	(2,029)	(1,667)
OTHER COMPREHENSIVE INCOME	(21,776)	(15,039)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	(4,034)	(3,933)
Actuarial gains or (-) losses on defined benefit pension plans	(4,033)	(3,931)
Non-current assets classified as held for sale	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates	(1)	(2)
Other valuation adjustments	-	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	(17,742)	(11,106)
Hedge of net investments in foreign operations (Effective portion)	(4,311)	(4,925)
Exchange differences	(15,430)	(8,070)
Hedging derivatives. Cash flow hedges (Effective portion)	152	469
Financial assets available-for-sale	2,068	1,571
Debt instruments	*1,154*	*423*
Equity instruments	*914*	*1,148*
Non-current assets classified as held for sale	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates	(221)	(151)
NON-CONTROLLING INTEREST	12,344	11,761
Other comprehensive income	(1,436)	(853)
Others items	13,780	12,614
EQUITY	**106,833**	**102,699**
TOTAL LIABILITIES AND EQUITY	**1,444,305**	**1,339,125**
MEMORANDUM ITEMS		
CONTINGENT LIABILITIES	49,117	44,434
CONTINGENT COMMITMENTS	237,970	231,962

(*) Presented for comparison purposes only.

Consolidated statement of income (millions of euros)

	2017	2016(*)
Interest income	56,041	55,156
Interest expense	(21,745)	(24,067)
Net interest income	**34,296**	**31,089**
Dividend income	384	413
Share of results of entities accounted for using the equity method	704	444
Commission income	14,579	12,943
Commission expense	(2,982)	(2,763)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	404	869
Gains or losses on financial assets and liabilities held for trading, net	1,252	2,456
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	(85)	426
Gains or losses from hedge accounting, net	(11)	(23)
Exchange differences, net	105	(1,627)
Other operating income	1,618	1,919
Other operating expenses	(1,966)	(1,977)
Income from assets under insurance and reinsurance contracts	2,546	1,900
Expenses from liabilities under insurance and reinsurance contracts	(2,489)	(1,837)
Total income	**48,355**	**44,232**
Administrative expenses	(20,400)	(18,737)
Staff costs	*(12,047)*	*(11,004)*
Other general administrative expenses	*(8,353)*	*(7,733)*
Depreciation and amortisation cost	(2,593)	(2,364)
Provisions or reversal of provisions	(3,058)	(2,508)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, net	(9,259)	(9,626)
Financial assets measured at cost	*(8)*	*(52)*
Financial assets available-for-sale	*(10)*	*11*
Loans and receivables	*(9,241)*	*(9,557)*
Held-to-maturity investments	-	*(28)*
Profit from operations	**13,045**	**10,997**
Impairment of investments in subsidiaries, joint ventures and associates, net	(13)	(17)
Impairment on non-financial assets, net	(1,260)	(123)
Tangible assets	*(72)*	*(55)*
Intangible assets	*(1,073)*	*(61)*
Others	*(115)*	*(7)*
Gains or losses on non financial assets and investments, net	522	30
Of which: Investments in subsidiaries, joint ventures and associates	*431*	*15*
Negative goodwill recognised in results	-	22
Gains or losses on non-current assets held for sale not classified as discontinued operations	(203)	(141)
Profit or loss before tax from continuing operations	**12,091**	**10,768**
Tax expense or income from continuing operations	(3,884)	(3,282)
Profit for the period from continuing operations	**8,207**	**7,486**
Profit or loss after tax from discontinued operations	-	-
Profit for the period	**8,207**	**7,486**
Profit attributable to non-controlling interests	*1,588*	*1,282*
Profit attributable to the parent	*6,619*	*6,204*
Earnings per share		
Basic	*0.404*	*0.401*
Diluted	*0.403*	*0.399*

(*) Presented for conmparison purposes only

Consolidated statements of recognised income and expense (millions of euros)

	2017	2016 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**8,207**	**7,486**
OTHER RECOGNISED INCOME AND EXPENSE	**(7,320)**	**(303)**
Items that will not be reclassified to profit or loss	**(88)**	**(806)**
Actuarial gains and losses on defined benefit pension plans	(157)	(1,172)
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates	1	(1)
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified to profit or loss	68	367
Items that may be reclassified to profit or loss	**(7,232)**	**503**
Hedges of net investments in foreign operations (Effective portion)	614	(1,329)
Revaluation gain (losses)	*614*	*(1,330)*
Amounts transferred to income statement	-	*1*
Other reclassifications	-	-
Exchanges differences	(8,014)	676
Revaluation gain (losses)	*(8,014)*	*682*
Amounts transferred to income statement	-	*(6)*
Other reclassifications	-	-
Cash flow hedges (Effective portion)	(441)	495
Revaluation gain (losses)	*501*	*6,231*
Amounts transferred to income statement	*(942)*	*(5,736)*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Financial assets available-for-sale	683	1,326
Revaluation gains (losses)	*1,137*	*2,192*
Amounts transferred to income statement	*(454)*	*(866)*
Other reclassifications	-	-
Non-current assets held for sale	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments	(70)	80
Income tax relating to items that may be reclassified to profit or loss	(4)	(745)
Total recognised income and expenses	**887**	**7,183**
Attributable to non-controlling interests	*1,005*	*1,656*
Attributable to the parent	*(118)*	*5,527*

(*) Presented for comparison purposes only.

Santander Group - Consolidated statements of changes in total equity (millions of euros)

	Capital	Share premium	Other instruments (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	(-) Dividends	Other comprehensive income	Non-Controlling interest		Total
												Other comprehensive income	Others items	
Balance as at 12/31/16 (*)	**7,291**	**44,912**	**-**	**240**	**49,953**	**-**	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 12/31/16 (*)	**7,291**	**44,912**	**-**	**240**	**49,953**	**-**	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,619**	**-**	**(6,737)**	**(583)**	**1,588**	**887**
Other changes in equity	**777**	**6,141**	**525**	**(24)**	**3,484**	**-**	**(653)**	**(15)**	**(6,204)**	**(362)**	**-**	**-**	**(422)**	**3,247**
Issuance of ordinary shares	777	6,141	-	-	-	-	6	-	-	-	-	-	543	7,467
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	525	-	-	-	-	-	-	-	-	-	592	1,117
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Dividends	-	-	-	-	(802)	-	-	-	-	(2,029)	-	-	(665)	(3,496)
Purchase of equity instruments	-	-	-	-	-	-	-	(1,309)	-	-	-	-	-	(1,309)
Dispossal of equity instruments	-	-	-	-	-	-	26	1,294	-	-	-	-	-	1,320
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	4,286	-	251	-	(6,204)	1,667	-	-	-	-
Increases or (-) decreases due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(39)	(39)
Share-based payment	-	-	-	(72)	-	-	-	-	-	-	-	-	24	(48)
Others increases or (-) decreases of the equity	-	-	-	48	-	-	(936)	-	-	-	-	-	(867)	(1,755)
Balance as at 12/31/17	**8,068**	**51,053**	**525**	**216**	**53,437**	**-**	**(1,602)**	**(22)**	**6,619**	**(2,029)**	**(21,776)**	**(1,436)**	**13,780**	**106,833**

(*) Presented for comparison purposes only.

	Capital	Share premium	Other instruments (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	(-) Dividends	Other comprehensive income	Non-Controlling interest		Total
												Other comprehensive income	Others items	
Balance as at 12/31/15 (*)	**7,217**	**45,001**	**-**	**214**	**46,429**	**-**	**(669)**	**(210)**	**5,966**	**(1,546)**	**(14,362)**	**(1,227)**	**11,940**	**98,753**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 12/31/15 (*)	**7,217**	**45,001**	**-**	**214**	**46,429**	**-**	**(669)**	**(210)**	**5,966**	**(1,546)**	**(14,362)**	**(1,227)**	**11,940**	**98,753**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,204**	**-**	**(677)**	**374**	**1,282**	**7,183**
Other changes in equity	**74**	**(89)**	**-**	**26**	**3,524**	**-**	**(280)**	**203**	**(5,966)**	**(121)**	**-**	**-**	**(608)**	**(3,237)**
Issuance of ordinary shares	74	(89)	-	-	-	-	15	-	-	-	-	-	534	534
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	(22)	(22)
Dividends	-	-	-	-	(722)	-	-	-	-	(1,667)	-	-	(800)	(3,189)
Purchase of equity instruments	-	-	-	-	-	-	-	(1,380)	-	-	-	-	-	(1,380)
Dispossal of equity instruments	-	-	-	-	-	-	15	1,583	-	-	-	-	-	1,598
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	4,246	-	174	-	(5,966)	1,546	-	-	-	-
Increases or (-) decreases due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(197)	(197)
Share-based payment	-	-	-	(79)	-	-	-	-	-	-	-	-	-	(79)
Others increases or (-) decreases of the equity	-	-	-	105	-	-	(484)	-	-	-	-	-	(123)	(502)
Balance at 12/31/16 (*)	**7,291**	**44,912**	**-**	**240**	**49,953**	**-**	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**

(*) Presented for comparison purposes only.

Santander Group – Consolidated statements of cash flows (millions of euros)

	2017	2016 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES	**40,188**	**21,823**
Consolidated Profit for the year	**8,207**	**7,486**
Adjustments made to obtain the cash flows from operating activities	**23,927**	**22,032**
Depreciation and amortisation cost	*2,593*	*2,364*
Other adjustments	*21,334*	*19,668*
Net increase/(decrease) in operating assets	**18,349**	**17,966**
Financial assets held-for-trading	*(18,114)*	*6,234*
Financial assets at fair value through profit or loss	*3,085*	*(12,882)*
Financial assets available-for-sale	*2,494*	*(7,688)*
Loans and receivables	*32,379*	*27,938*
Other operating assets	*(1,495)*	*4,364*
Net increase/(decrease) in operating liabilities	**30,540**	**13,143**
Liabilities held-for-trading financial	*1,933*	*8,032*
Financial liabilities designated at fair value through profit or loss	*19,906*	*(13,450)*
Financial liabilities at amortised cost	*12,006*	*21,765*
Other operating liabilities	*(3,305)*	*(3,204)*
Income tax recovered/(paid)	**(4,137)**	**(2,872)**
B. CASH FLOWS FROM INVESTING ACTIVITIES	**(4,008)**	**(13,764)**
Payments	**10,134**	**18,204**
Tangible assets	*7,450*	*6,572*
Intangible assets	*1,538*	*1,768*
Investments	*8*	*48*
Subsidiaries and other business units	*838*	*474*
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	*300*	*9,342*
Other proceeds related to investing activities	-	-
Proceeds	**6,126**	**4,440**
Tangible assets	*3,211*	*2,608*
Intangible assets	-	-
Investments	*883*	*459*
Subsidiaries and other business units	*263*	*94*
Non-current assets held for sale and associated liabilities	*1,382*	*1,147*
Held-to-maturity investments	*387*	*132*
Other payments related to investing activities	-	-
C. CASH FLOW FROM FINANCING ACTIVITIES	**4,206**	**(5,745)**
Payments	**7,783**	**9,744**
Dividends	*2,665*	*2,309*
Subordinated liabilities	*2,007*	*5,112*
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	*1,309*	*1,380*
Other payments related to financing activities	*1,802*	*943*
Proceeds	**11,989**	**3,999**
Subordinated liabilities	*2,994*	*2,395*
Issuance of own equity instruments	*7,072*	-
Disposal of own equity instruments	*1,331*	*1,604*
Other proceeds related to financing activities	*592*	-
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(5,845)**	**(3,611)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**34,541**	**(1,297)**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**76,454**	**77,751**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD	**110,995**	**76,454**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	*8,583*	*8,413*
Cash equivalents at central banks	*87,430*	*54,637*
Other financial assets	*14,982*	*13,404*
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD	**110,995**	**76,454**
In which: restricted cash	-	-

(*) Presented for comparison purposes only.

4. Distribution of the Bank's profit, shareholder remuneration scheme and earnings per share.

a) *Distribution of the Bank's profit and shareholder remuneration scheme*

The distribution of the Bank's net profit for 2017 that the Board of Directors will propose for approval by the shareholders at the annual general meeting is as follows:

	Millions of euros
First and third interim dividends and final dividend	2,898
Acquisition, with a waiver of exercise, of bonus share rights from the shareholders which, under the Santander Dividendo Elección scrip dividend scheme, opted to receive in cash remuneration equivalent to the second interim dividend	99
	2,997
Of which:	
Approved at December 31, 2017 (*)	*2,029*
Final dividend	*968*
To voluntary reserves	9
Net profit for the year	**3,006**

(*) Recognised under Shareholders' equity - Dividends and remuneration.

In addition to the EUR 2,997 million indicated above, EUR 543 million in shares were allocated to the remuneration of shareholders under the shareholder remuneration scheme (Santander Dividendo Elección) approved by the shareholders at the annual general meeting held on April 7, 2017, whereby the Bank offered shareholders the possibility to opt to receive an amount equivalent to the second interim dividend out of 2017 profit in cash or new shares.

A remuneration of EUR 0.22 per share, charged to the 2017 annual period, will be proposed by The Board of Directors to the shareholders at the annual general meeting.

b) *Earnings per share from continuing and discontinued operations*

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - See Note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2017	2016
Profit attributable to the Parent (millions of euros)	6,619	6,204
Remuneration of contingently convertible preference shares (CCP) (millions of euros) (Note 21)	(395)	(334)
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
	6,224	5,870
Of which:		
Profit or Loss from discontinued operations (non controlling interest net) (million of euros)	-	-
Profit or Loss from continuing operations (net of non-controlling interests and CCP) (million of euros)	*6,224*	*5,870*
Weighted average number of shares outstanding	15,394,458,789	14,656,359,963
Adjusted number of shares	15,394,458,789	14,656,359,963
Basic earnings per share (euros)	**0.404**	**0.401**
Basic earnings per share from discontinued operations (euros)	**0.000**	**0.000**
Basic earnings per share from continuing operations (euros)	**0.404**	**0.401**

iii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - See Note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	2017	2016
Profit attributable to the Parent (millions of euros)	6,619	6,204
Remuneration of contingently convertible preference shares (CCP) (millions of euros) (Note 21)	(395)	(334)
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
	6,224	5,870
Of which:		
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)		-
Profit from continuing operations (net of non-controlling interests and CCP) (millions of euros)	*6,224*	*5,870*
Weighted average number of shares outstanding	15,394,458,789	14,656,359,963
Dilutive effect of options/rights on shares	50,962,887	45,754,981
Adjusted number of shares	15,445,421,676	14,702,114,944
Diluted earnings per share (euros)	**0.403**	**0.399**
Diluted earnings per share from discontinued operations (euros)	**0.00**	**0.00**
Diluted earnings per share from continuing operations (euros)	**0.403**	**0.399**

The capital increase (See Note 27.a) has an impact on the basic and diluted earnings per share of the previous years due to the alteration in the number of shares outstanding. Due to this fact, the information relating to the 2016 period has been recasted according to the applicable legislation.

5. Remuneration and other benefits paid to the Bank's directors and senior managers

The following section contains qualitative and quantitative disclosures on the remuneration paid to the members of the Board of Directors -both executive and non-executive directors- and senior managers for 2017 and 2016:

a) Remuneration of Directors

i. Bylaw-stipulated emoluments

The annual General Meeting held on March 22, 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual General Meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the Board of Directors may elect to reduce the amount in any years in which it deems such action justified. The remuneration established by the Annual General Meeting, was EUR 6 million, with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the Board of Directors. For such purpose, it takes into consideration the positions held by each director on the Board, their membership of the Board and the board committees and their attendance of the meetings thereof, and any other objective circumstances considered by the Board.

The total bylaw-stipulated emoluments earned by the Directors in 2017 amounted to EUR 4.7 million (EUR 4.6 million in 2016).

Annual emolument

The amounts received individually by the directors in 2017 and 2016 based on the positions held by them on the board and their membership of the Board committees were as follows:

	Euros	
	2017	2016
Members of the Board of Directors	87,500	85,000
Members of the executive committee	170,000	170,000
Members of the audit committee	40,000	40,000
Members of the appointments committee	25,000	25,000
Members of the remuneration committee	25,000	25,000
Members of the risk supervision, regulation and compliance oversight committee	40,000	40,000
Chairman of the audit committee	50,000	50,000
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk, regulation and compliance oversight committee	50,000	50,000
Coordinating director	110,000	110,000
Non-executive deputy chairman	30,000	30,000

Attendance fees

The directors receive fees for attending board and committee meetings, excluding Executive Committee meetings, since no attendance fees are received for this committee.

By resolution of the Board of Directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings -excluding Executive Committee meetings, for which no attendance fees have been established- were as follows:

	Euros	
Meeting attendance fees	2017	2016
Board of Directors	2,600	2,500
Audit committee and risk supervision, regulation and compliance oversight committee	1,700	1,700
Other committees (except the executive committee)	1,500	1,500

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the annual general meeting, salaries are composed of a fixed annual remuneration and a variable remuneration consisting of a unique incentive, which is based on a deferred variable remuneration linked to multi-year objectives, which establishes the following payment scheme:

Establishes the following payments scheme:

- 40% of the variable remuneration amount, determined at year-end on the basis of the achievement of the established objectives, is paid immediately.
- The remaining 60% is deferred over five years, as the case may be, in five portions provided that the conditions of permanence of the Group and non-concurrence of the malus clauses are met, taking into account the following accrual scheme.
    - The accrual of the first and second portion (payment in 2019 and 2020) is no subject to the long-term objectives.
    - The accrual of the third, fourth, and fifth portion (payment in 2021, 2022 and 2023), is also linked to certain objectives related to the period 2017-2019 and the metrics and scales associated with these objectives. The fulfilment of the objective determines the percentage to be applied to the deferred amount in these three annuities, being the maximum amount determined at the end of the 2017.
- In accordance with current remuneration policies, the amounts already paid will be settled to a possible recovery (clawback) by the Bank during the period set out in the policy in force each moment.

The immediate payment (or short-term) as well as the deferred payment and subject to long-term goals will be settled 50% in cash and the remaining 50% in Santander shares.

iii. Detail by director

The detail, by Bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2017 and 2016 is provided below:

Directors	Thousand of euros															
	2017															2016
	Bylaw-stipulated emoluments							Short-term and deferred (not subject to long-term goals) salaries of executive directors								
	Annual emolument															
									Variable – immediate payment		Deferred variable					
	Board	Executive committee	Audit committee	Appointments committee	Remune-ration committee	Risk supervi-sion, regulation and complian-ce oversight committee	Attendance fees And commissions.	Fixed	In cash	In shares	In cash	In shares	Total	Other remuner-ation (a)	Total	Total
Mrs. Ana Botín-Sanz de Sautuola y O'Shea	88	170	-	-	-	-	44	2,500	1,370	1,370	822	822	6,884	689	7.874	7.279
Mr. José Antonio Álvarez Álvarez	88	170	-	-	-	-	44	2,000	916	916	550	550	4,932	1,203	6.436	6.006
Mr. Rodrigo Echenique Gordillo	88	170	-	-	-	-	38	1,500	714	714	428	428	3,785	201	4.281	3.824
Mr. Matías Rodríguez Inciarte (1)	80	155	-	-	-	-	41	1,568	698	698	419	419	3,803	188	4.266	4.474
Mr. Guillermo de la Dehesa Romero	118	170	-	25	25	40	95	-	-	-	-	-	-	-	473	461
Mr. Bruce Carnegie-Brown	378	170	-	25	25	40	94	-	-	-	-	-	-	-	731	721
Mr. Ignacio Benjumea Cabeza de Vaca	88	170	-	25	25	40	97	-	-	-	-	-	-	106	550	945
Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea (2)	88	-	-	-	-	-	36	-	-	-	-	-	-	-	124	115
Mrs. Sol Daurella Comadrán	88	-	-	25	25	-	69	-	-	-	-	-	-	-	207	191
Mr. Carlos Fernández González	88	-	40	25	-	40	93	-	-	-	-	-	-	-	285	254
Mrs. Esther Giménez-Salinas i Colomer	88	-	-	-	-	21	54	-	-	-	-	-	-	-	162	122
Mr. Ángel Jado Becerro de Bengoa (3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	231
Mrs. Belén Romana García	138	-	40	-	-	40	80	-	-	-	-	-	-	-	297	219
Mrs. Isabel Tocino Biscarolasaga (4)	80	155	36	-	23	36	87	-	-	-	-	-	-	-	418	442
Mr. Juan Miguel Villar Mir	88	-	19	-	-	19	44	-	-	-	-	-	-	-	170	235
Mr. Homaira Akbari (5)	88	-	21	-	-	-	51	-	-	-	-	-	-	-	159	32
Mr. Ramiro Mato García Ansorena (6)	8	15	4	-	-	4	6	-	-	-	-	-	-	-	36	-
Total 2017	1,675	1,345	160	125	123	280	972	7,568	3,699	3,699	2,219	2,219	19,404	2,387	26.470	-
Total 2016	1,645	1,360	190	143	143	277	859	7,710	3,340	3,340	2,004	2,004	18,398	2,536		25.551

(1) Ceased to be a member of the Board on November 28, 2017. This table shows the remuneration information until his ceased as a member of the board. The remuneration information for his performance as executive vice president since November 28, 2017 is included in the corresponding section.
(2) All the amounts received were repaid to the Fundación Marcelino Botín.
(3) Ceased to be a member of the board on September 27, 2016.
(4) Ceased to be a member of the board on November 28, 2017.
(5) Appointed director effective from September 27, 2016.
(6) Appointed to be a member of the board.
(a) Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors.

Following is the detail, by executive director, of the linked to multiannual objectives salaries, which will only be received if the conditions of continued service, non-applicability of "*malus*" clauses and, full achievement of the objectives established (or, as the case may be, of the minimum thresholds thereof, with the consequent reduction of the agreed-upon amount in the end of the year) in the terms described in Note 42.

	Thousands of euros			
	2017			2016
	Variable subject to Long-term objectives(2)			
	In cash	In shares	Total	Total (2)
Mrs. Ana Botín-Sanz de Sautuola y O'Shea	863	863	1,726	1,518
Mr. José Antonio Álvarez Álvarez	577	577	1,154	1,026
Mr. Rodrigo Echenique Gordillo	450	450	900	760
Mr. Matías Rodríguez Inciarte(1)	440	440	880	904
Total	**2,330**	**2,330**	**4,660**	**4,208**

(1) Ceased to be a member of the board on November 28, 2017. The remuneration information for his performance as executive vice president is included in the corresponding section.

(2) Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2021, 2022 and 2023, subject to conditions of continued service, with the exceptions provided, and to the non-applicability of "malus" clauses and achievement of the objectives established. The fair value has been measured on the date of the concession of the scheme taking into account several possible behavioural assumptions (see Note 42).

Note 5.e) below includes disclosures on the shares delivered by virtue of the deferred remuneration schemes in place in previous years the conditions for delivery which were met in the corresponding years, and on the maximum number of shares receivable in future years in connection with the aforementioned 2017 and 2016 variable remuneration plans.

b) Remuneration of the Board members as representatives of the Bank

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after March 18, 2002 accrues to the Group. In 2017 and 2016 the Bank's directors did not receive any remuneration in respect of these representative duties.

Mr. Matías Rodríguez Inciarte received EUR 42 thousand as non-executive director of U.C.I., S.A. in 2017 and 2016, respectively.

c) *Post-employment and other long-term benefits*

In 2012, within the framework of the measures implemented by the Group in order to mitigate the risks arising from the defined-benefit pension obligations payable to certain employees, which led to an agreement with the workers' representatives to convert the defined-benefit obligations existing under the collective agreement into defined-contribution plans, the contracts of the executive directors and the other members of the Bank's senior management - the senior executives- which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. This system grants the executive directors the right to receive a pension benefit upon retirement, regardless of whether or not they are employed by the Bank at the time, based on the contributions made to the aforementioned system, and replaced the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executive directors other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made as described below[1]. In the event of pre-retirement, the executive directors who have not exercised the option to receive their pensions in the form of a lump sum are entitled to receive an annual emolument until the date of retirement.

The initial balance for each executive director in the new defined-contribution welfare system was that corresponding to the market value of the assets in which the provisions for the respective accrued obligations had been invested, at the date on which the former pension obligations were converted into the new welfare system[2].

Since 2013 the Bank has made annual contributions to the employee welfare system for the benefit of the executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group, or until their retirement from the Group, death or disability (including, as the case may be, during the pre-retirement period). No contributions are made for the executive directors and senior executives who, prior to the conversion of the defined-benefit pension obligations into the current defined-contribution employee welfare system, had exercised the option to receive their pension rights in a lump sum[3].

In accordance with the provisions of the remuneration regulations, contributions made that are calculated on variable remuneration are subject to the discretionary pension benefits regime. Under this regime, these contributions are subject to malus clauses and clawback according to the policy in force at any time and during the same period in which the variable remuneration is deferred. Likewise, they must be invested in Bank shares for a period of five years from the date of the termination of executive directors in the Group, whether or not as a result of retirement. After that period, the amount invested in shares will be invested together with the remainder of the accumulated balance of the executive director, or will be paid to him or her beneficiaries had there been any contingency covered by the forecasting system.

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[1] As provided for in the contracts of the executive directors and members of senior management prior to their modification, Mr. Matías Rodríguez Inciarte had exercised the option to receive the accrued pensions -or amounts similar thereto- in the form of a lump sum -i.e. in a single payment-, which meant that no further pension benefit would accrue to them from that time, and the lump sum to be received, which would be updated at the agreed-upon interest rate, was fixed.

[2] In the case of Mr. Matías Rodríguez Inciarte, the initial balance corresponded to the amounts that were set when, as described above, they exercised the option to receive a lump sum, and includes the interest accrued on these amounts from that date.

[3] Mr. Rodrigo Echenique Gordillo, appointed executive director on January 16, 2015, does not participate in the welfare system and is not entitled to have any contributions made in his favour by the Bank in this connection, notwithstanding the pension rights to which he was entitled prior to his appointment as executive director. In 2015, as a result of his appointment as chief executive officer, changes were introduced to the contract of Mr. José Antonio Álvarez Álvarez with respect to the pension obligations stipulated in his senior management contract. The annual contribution to the employee welfare system was thereafter calculated as 55% of the sum of: (i) the fixed annual remuneration; and (ii) 30% of the arithmetic mean of the last three gross amounts of variable remuneration. The pensionable base in the event of death or disability is 100% of his fixed remuneration. Under his senior management contract the annual contribution was 55.93% of his fixed remuneration, and the pensionable base in the event of death or disability was 100% of his fixed remuneration.

Following is a detail of the balances relating to each of the executive directors under the welfare system at December 31, 2017 and 2016:

	Thousands of euros	
	2017	2016
Ms. Ana Botín-Sanz de Sautuola y O'Shea (1)	45,798	43,156
Mr. José Antonio Álvarez Álvarez	16,151	15,107
Mr. Rodrigo Echenique Gordillo (2)	13,957	14,294
Mr. Matías Rodríguez Inciarte (3)	-	48,230
	75,906	**120,787**

(1) Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.

(2) Executive director since January 16, 2015 Mr. Rodrigo Echenique Gordillo doesn´t participate in the pension system and the right to the bank to make contributions in its favour in this regard. The amount at December 31, 2017 and 2016, which correspond to him prior to his appointment as director of the bank executive director.

(3) Ceased to be a member of the Board on November 28, 2017. The balance of his pension rights as of December 31, 2017 is included in the Senior manages section.

The payments made during 2017 to the members of the Board entitled to post-employment benefits amount to EUR 0.9 million (EUR 0.9 million in 2016).

Lastly, the contracts of the executive directors who had not exercised the option referred to above prior to the conversion of the defined-benefit pension obligations into the current welfare system include a supplementary welfare regime for the contingency of death (surviving spouse and child benefits) and permanent disability of serving directors.

The provisions recognised in 2017 and 2016 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

	Thousands of euros	
	2017	2016
Ms. Ana Botín-Sanz de Sautuola y O'Shea	2,707	2,521
Mr. José Antonio Álvarez Álvarez	2,456	2,249
	5,163	**4,770**

d) Insurance

The Group has taken out life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

	Insured capital (Thousands of euros)	
	2017	2016
Ms. Ana Botín-Sanz de Sautuola y O'Shea	7,500	7,500
Mr. José Antonio Álvarez Álvarez	6,000	6,000
Mr. Rodrigo Echenique Gordillo	4,500	4,500
Mr. Matías Rodríguez Inciarte (1)	-	5,131
	18,000	**23,131**

(1) Ceased to be member of the board on November 28, 2017. The insured capital at December 31, 2017 amounted to EUR 5,131 thousand.

During years 2017 and 2016, the Group has disbursed a total amount of EUR 10.5 and 9.3 million, respectively, for the payment of civil-liability insurance premiums. These premiums correspond to several civil-liability insurance policies that hedge, among others, directors, senior executives and other managers and employees of the Group and the Bank itself as well as its subsidiaries, in light of various types of potential claims, for which it is not possible to disaggregate or individualize the amount that correspond to the directors and executives.

At December 31, 2017 and 2016, there were no obligations in this connection to other directors.

e) Deferred variable remuneration systems

The following information relates to the maximum number of shares to which the executive directors are entitled at the beginning and end of 2017 and 2016 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2017 and prior years, as well as on the deliveries, whether shares or cash, made to them in 2017 and 2016 where the conditions for the receipt thereof had been met (see Note 42):

i) Deferred conditional variable remuneration plan

From 2011 to 2015, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the Board of Directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorized by the related Annual General Meetings.

The purpose of these plans is to defer a portion of the bonus of the plan beneficiaries (60% in the case of executive directors) over a period of five years (three years for the plans approved up to 2014) for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee- in relation to the corresponding year in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall in each case be governed by the rules of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, payment will based on the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's Executive Directors for each year.

This plan and the Performance Shares (ILP) plan described below have been integrated in the deferred variable compensation plan linked to multiannual objectives, in the terms approved by the General Meeting of Shareholders held on April 7, 2017.

ii) Performance shares plan (ILP)

The table below shows the maximum number of shares to which the executive directors are entitled, as part of their variable remuneration for 2015, as a result of their participation in the ILP (see Note 42).

	Maximum number of shares ILP (Thousands of euros) 2015 (1)
	2017
Ms. Ana Botín-Sanz de Sautuola y O'Shea	187,070
Mr. José Antonio Álvarez Álvarez	126,279
Mr. Rodrigo Echenique Gordillo	93,540
Mr. Matías Rodríguez Inciarte (2)	145,922
	406,899

(1) A proposal from the remuneration committee, the board of directors resolved to increase the number of shares to mitigate the dilutive effect of the capital increase with pre-emptive subscription rights of July 2017 as described in iv) below. The actions derived from this adjustment are 5,967 shares.

(2) Ceased to be member of the board on November 28, 2017. The maximum number of shares corresponding to the plan held as of December 31, 2017 was 145,922 shares, including those approved to mitigate the dilutive effect of the capital increase with pre-emptive subscription rights of July 2017.

The accrual of the ILP and its amount are conditional on the behaviour of certain metrics of Banco Santander between 2015 and 2017, as well as compliance with the remaining conditions of the plan until the end of the accrual period (December 31, 2018). Having finalized 2018, the corresponding amounts to be received by each exclusive director in relation to ILP (the ILP accrued amount) can be determined.

The shares to be delivered in 2019 to executive directors based on compliance with the related multiannual target are conditional, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee-, during the period prior to the delivery, as a result of actions performed in the year to which the plan relates: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

With regards to the ILP of 2014, once fiscal years 2016 and 2017 have finished, the annual amount that, in each case, corresponds to each executive director after applying the percentage that results from the relevant metric (see Note 42) to one third of the agreed ILP amount, will be determined. For the accrual in 2017 and 2018, the referral RTA is the one that accumulates between January 1, 2014 and December 31, 2016 and until January 1, 2014. In both financial years, the position achieved in the RTA has not been such that determines the accrual of the second and third thirds; therefore, it has expired.

iii) Deferred variable compensation plan linked to multiannual objectives

In 2016, with the aim of simplifying the remuneration structure, improving risk adjustment before and increasing the incidence of long-term objectives, the bonus plan (deferred and conditioned variable compensation plan) and ILP has been implemented. In 2017 the second cycle corresponding to the same plan was approved. The variable remuneration of executive directors and certain executives (including senior management) corresponding to 2017 has been approved by the Board of Directors and implemented through the first cycle of the deferred variable remuneration plan linked to multi-year objectives. The application of the plan, thus far as it entails the delivery of shares to the beneficiaries of the plan, was authorized by the annual General Meeting of Shareholders.

As indicated in section a.ii of this Note, 60% of the variable remuneration amount is deferred for five years (three years for certain beneficiaries, not including executive directors), for their payment, where appropiate by fifth parties provided that the conditions of permanence in the group and non-concurrence of the clauses *malus* are met, according to the following accrual scheme:

- The accrual of the first and second parts (installment in 2019 and 2020) is not subject to the fulfilment of long-term objectives.
- The accrual of the third, fourth and fifth parts is linked to the fulfilment of certain objectives related to the period 2017-2019 and the metrics and scales associated with those objectives. These objectives are:
    - the growth of consolidated earnings per share in 2019 compared to 2016;
    - the relative performance of the Bank's total shareholder return (RTA) in the period 2017-2019 in relation to the weighted RTAs of a reference group of 17 credit institutions;
    - compliance with the fully loaded ordinary level 1 capital objective for the year 2019;

The degree of compliance with the above objectives determines the percentage to be applied to the deferred amount in these three annuities, the maximum being the amount determined at the end of the year 2017.

Both the immediate (short-term) and the deferred (long-term and conditioned) part are paid 50% in cash and the remaining 50% in Santander shares.

The accrual of deferred amounts (whether or not subject to performance measures) is conditioned, in addition to the permanence of the beneficiary in the Group, to the fact that during the period prior to each of the deliveries, none of the circumstances giving rise to the malus clause as set out in the Group's remuneration policy in its chapter realted to malus and clawback. Likewise, the already paid amounts of the incentive will be subject to its possible recovery (clawback) by the Bank in the cases and during the term foreseen in said policy, always in the terms and conditions that are foreseen in it.

The application of malus and clawback is activated in cases in which there is poor financial performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered:

(i) Significant failures in risk management committed by the entity, or by a business unit or risk control.

(ii) The increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures.

(iii) Regulatory sanctions or judicial sentences from events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity.

(iv) (Irregular conduct, whether individual or collective. The negative effects derived from the marketing of inappropriate products and the responsibilities of the people or bodies that made those decisions will be specially considered.

The accrual of deferred compensation linked to the multiannual objectives of executive directors (and senior management) is conditioned, in addition to the permanence of the beneficiary in the Santander Group, in the opinion of the Board of Directors, at the proposal of the remuneration committee, none of the following circumstances in relation to the corresponding period during the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of the internal regulations, including in particular that relating to risks; (iii) material restatement of the Group's financial statements, except when appropriate under a change in accounting regulations; or (iv) significant variations in the Group's economic capital or risk profile. All this, in each case, with the exceptions and as provided in the regulation of the plan.

The application of clawback will be supplemented by that of malus, so that it will take place when it is considered insufficient to collect the effects that the event must have on the assigned variable remuneration. The application of clawback will be decided by the Board of Directors on the proposal of the remuneration committee and can not be proposed once the last payment in shares corresponding to the plan is made in 2024.

The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluded) the date on which the bond is agreed by the board of executive directors of the Bank.

iv) Shares assigned by deferred variable remuneration plans

The following table shows the number of Santander shares assigned to each executive director and pending delivery as of January 1, 2016, December 31, 2016 and 2017, as well as the gross shares that were delivered to them in 2016 and 2017, either in the form of an immediate payment or a deferred payment. In this case after having been appraised by the board, at the proposal of the remuneration committee that the corresponding one-third of each plan had accrued. They bring cause of each of the plans through which the variable remunerations of deferred conditional variable remuneration plan 2012, 2013, 2014 and 2015 and of the deferred conditional and linked to multiannual objectives 2016 and 2017.

In order to mitigate the dilutive effect (and, therefore, not linked to the performance of the Group) of the capital increase with preferential subscription rights of the Bank that look place on July 2017 in certain cycles of the deferred compensation and long therm incentive plans, the increase in the number of shares to be delivered to its beneficiaries was approved, considering for this a valuation of preferential subscription rights equivalent to their theoretical value, EUR 0.1047 per right. The effect of increasing the number of shares is detailed in the corresponding column of the table below.

Share-based variable remuneration	Maximum number of shares to be delivered at January 1, 2016	Shares delivered in 2016 (immediate payment 2015 variable remuneration)	Shares delivered in 2016 (deferred payment 2014 variable remuneration)	Shares delivered in 2016 (deferred payment 2013 variable remuneration)	Shares delivered in 2016 (deferred payment 2012 variable remuneration)	Variable remuneration 2016 (maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2016	Shares delivered in 2017 (immediate payment 2016 variable remuneration)	Shares delivered in 2017 (deferred payment 2015 variable remuneration)	Shares delivered in 2017 (deferred payment 2014 variable remuneration)	Shares delivered in 2017 (deferred payment 2013 variable remuneration)	Shares arising from the capital increase of July 2017	Variable remuneration 2017 (maximum number of shares to be delivered) (1)	Maximum number of shares to be delivered at December 31, 2017(4)
2012 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	34,958				(34,958)									
Mr. José Antonio Álvarez Álvarez (2)	24,046				(24,046)									
Mr. Matías Rodríguez Inciarte	41,529				(41,529)									
	100,533				**(100,533)**									
2013 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	66,241			(33,121)			33,120				(33,120)			
Mr. José Antonio Álvarez Álvarez (2)	39,121			(19,560)			19,561				(19,561)			
Mr. Matías Rodríguez Inciarte	69,093			(34,546)			34,547				(34,547)			
	174,455			**(87,227)**			**87,228**				**(87,228)**			
2014 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	182,444		(60,814)				121,630			(60,814)		905		61,721
Mr. José Antonio Álvarez Álvarez (2)	78,726		(26,242)				52,484			(26,242)		390		26,632
Mr. Matías Rodríguez Inciarte(3)	139,088		(46,363)				92,725			(46,363)		690		47,052
	400,258		**(133,419)**				**266,839**			**(133,419)**		**1,985**		**135,405**
2015 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	528,834	(211,534)					317,300		(63,460)			3,777		257,617
Mr. José Antonio Álvarez Álvarez(2)	351,523	(140,609)					210,914		(42,183)			2,511		171,242
Mr. Rodrigo Echenique Gordillo	260,388	(104,155)					156,233		(31,247)			1,860		126,846
Mr. Matías Rodríguez Inciarte	361,118	(144,447)					216,671		(43,334)			2,579		175,916
	1,501,863	**(600,745)**					**901,118**		**(180,224)**			**10,727**		**731,621**
2016 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea						592,043	592,043	(236,817)				5,286		360,512
Mr. José Antonio Álvarez Álvarez(2)						399,607	399,607	(159,843)				3,568		243,332
Mr. Rodrigo Echenique Gordillo						295,972	295,972	(118,389)				2,643		180,226
Mr. Matías Rodríguez Inciarte						352,455	352,455	(140,982)				3,147		214,620
						1,640,077	**1,640,077**	**(656,031)**				**14,644**		**998,690**
2017 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea													574,375	574,375
Mr. José Antonio Álvarez Álvarez(2)													384,118	384,118
Mr. Rodrigo Echenique Gordillo													299,346	299,346
Mr. Matías Rodríguez Inciarte(3)													292,771	292,771
													1,550,610	**1,550,610**

(1) For each director, 40% of the shares indicated correspond to the short-term variable (or immediate payment). The remaining 60% is deferred for delivery, where appropriate, by fifths in the next five years, the last three being subject to the fulfillment of multiannual objectives.

(2) Maximum number of shares resulting from their participation in the corresponding plans during their stage as general manager.

(3) Ceased to be a member of the Board on November 28, 2017. The shares corresponding to their variable remuneration between November 28, 2017 and January 2, 2018 as executive vice president on December 2, 2017 including in the Note 5.g.

(4) In addition, Mr. Ignacio Benjumea Cabeza de Vaca maintains the right to a maximum of 199,234 shares arising from his participation in the corresponding plans during his term as executive vice president.

Also, the table below show the cash delivered in 2017 and 2016, by way of either immediate payment or deferred payment, in the latter case once the Board had determined, at the proposal of the remuneration committee that one-third relating to each plan had accrued:

	Thousands of euros			
	2017		2016	
	Cash paid (immediate payment 2015 variable remuneration)	Cash paid (one-third of deferred payment 2014, 2013 and 2012 variable remuneration)	Cash paid (immediate payment 2014 variable remuneration)	Cash paid (one-third of deferred payment 2013, 2012 and 2011 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,205	825	840	826
Mr. José Antonio Álvarez Álvarez (1)	814	461	558	448
Mr. Rodrigo Echenique Gordillo	603	124	414	-
Mr. Matías Rodríguez Inciarte	718	690	574	784
	3,339	**2,099**	**2,386**	**2,058**

(1) Includes paid cash corresponding to your participation in the corresponding plans during the ime as executive vice president.

v) Information on former members of the Board of Directors

Following is information on the maximum number of shares to which former members of the Board of Directors who ceased in office prior to January 1, 2016 are entitled for their participation in the various deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to the years in which they were Executive Directors. Also set forth below is information on the deliveries, whether shares or cash, made in 2017 and 2016 to former board members, upon achievement of the conditions for the receipt thereof (see Note 42):

Maximum number of shares to be delivered (1)	2017	2016
Deferred conditional variable remuneration plan (2013)	-	80,718
Deferred conditional variable remuneration plan (2014)	101,537	200,097
Deferred conditional variable remuneration plan (2015)	67,472	83,103
Plan performance shares (ILP 2015)	51,447	50,693

Number of shares delivered	2017	2016
Deferred conditional variable remuneration plan (2012)	-	120,297
Deferred conditional variable remuneration plan (2013)	80,718	80,718
Deferred conditional variable remuneration plan (2014)	100,049	100,049
Deferred conditional variable remuneration plan (2015)	16,621	55,402

(1) At the proposal of the remuneration committee, the board of directors approved adjusting the maximum number of shares to mitigate the dilutive effect of the capital increase with pre-emptive subscription rights of July 2017 as described in iv) below. The actions derived from this adjustment are 3,233 shares.

In addition, EUR 1,224 thousand and EUR 1,931 thousand relating to the deferred portion payable in cash on the aforementioned plans were paid each in 2017 and 2016.

f) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on terms equivalent to those that prevail in arm's-length transactions or the related compensation in kind was recognised:

	Thousands of euros					
	2017			2016		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	10	-	10	-	-	-
Mr. José Antonio Álvarez	9	-	9	9	-	9
Mr. Bruce Carnegie-Brown	-	-	-	2	-	2
Mr. Matías Rodríguez Inciarte (1)	-	-	-	-	-	-
Mr. Rodrigo Echenique Gordillo	22	-	22	21	-	21
Mr. Javier Botín-Sanz de Sautuola y O'Shea	17	-	17	4	-	4
Mrs. Sol Daurella Comadran	27	-	27	25	-	25
Mr. Ignacio Benjumea Cabeza de Vaca	-	-	-	2	-	2
Mrs. Belen Romana Garcia	3	-	3	-	-	-
Mr. Guillermo de la Dehesa Romero	-	-	-	11	-	11
	88	**-**	**88**	**74**	**-**	**74**

(1) Ceased to be a board director on November 28, 2017. On December 31, 2017, to loans and credits amounted to EUR 13 thousands (EUR 16 thousands in 2016).

g) Senior managers

In 2016 the Bank's Board of Directors approved a series of appointments and organisational changes aimed at simplifying the Group's organisation and rendering it more competitive.

The table below includes the amounts relating to the short-term remuneration of the members of senior management at December 31, 2017 and those at December 31, 2016, excluding the remuneration of the executive directors, which is detailed above:

		Thousands of euros						
		Short-term salaries and deferred remunation						
			Variable remuneration (bonus) - Immediate payment		Deferred variable remuneration			
Year	Number of persons	Fixed	In cash	In shares (2)	In cash	In shares	Other remuneration (1)	Total
2017	19	17,847	8,879	8,879	4,052	4,052	7,348	51,058
2016	18	17,258	8,126	8,126	3,745	3,745	4,430	45,430

(1) Includes other remuneration items such as life insurance premiums and localization aids totalling EUR 692 thousand (2016: EUR 557 thousand).

(2) The amount of the immediate payment in shares for 2017 relates to Santander shares 1,430,143 (2016: 1,596,248 Santander shares) and 225,564 shares of Banco Santander Mexico,S.A.

(3) Addiotional, and as a result of the incorporation and compensation agreements of long-term and deferred compensation lost in previous jobs, compensations have been agreed in 2017 for the amount of EUR 4.650 thousand and 648.457 shares of Banco Santander, S.A. These compensations are partially subject to deferral and / or recovery in certain cases.

Also, the detail of the breakdown of the linked to multiannual objective salaries of the members of senior management at December 31, 2017 and 2016 is provided below. These remuneration payments shall be received, as the case may be, in the corresponding deferral periods upon achievement of the conditions stipulated for each payment (see Note 42).

		Thousands of euros		
		Deferred salaries (1)		
Year	Number of people	Cash payment	Share payment	Total
2017	19	4,255	4,255	8,510
2016	18	3,933	3,933	7,866

(1) Relates in 2017 with the fair value of the maximum annual amounts for years 2021, 2022 and 2023 of the second cycle of the deferred conditional variable remuneration plan (2020, 2021 and 2022 for the first cycle of the deferred variable compensation plan linked to annual objectives for the year 2016).

Also, executive vice presidents who retired in 2017 and, therefore, were not members of senior management at year-end, received in 2016 salaries and other remuneration relating to their retirement amounting to EUR 5,237 thousand, and remained entitled to long-term salary remuneration of EUR 999 thousand.

Following is a detail of the maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive at December 31, 2017 and 2016 relating to the deferred portion under the various plans then in force (see Note 42):

Maximum number of shares to be delivered	2017	2016
Deferred conditional variable remuneration plan (2013)	-	271,996
Deferred conditional variable remuneration plan (2014)	323,424	759,950
Deferred conditional variable remuneration plan (2015)	1,296,424	1,981,670
Performance shares plan ILP (2015)	1,050,087	1,339,506
Deferred conditional variable remuneration plan and linked to objectives (2016)	1,854,495	1,954,431
Deferred conditional variable remuneration plan and linked to objectives (2017) (2)	1,779,302	-

(1) At the proposal of the remuneration committee, the board of directors approved adjusting the maximum number of shares to mitigate the dilutive effect of the capital increase with pre-emptive subscription rights of July 2017 as described in iv) below. The actions derived from this adjustment are 66,339 shares.

(2) Also, they were entitled to a maximum of 225,564 Banco Santander (México) S.A. shares at December 31, 2017.

In 2017 and 2016, since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, in addition to the payment of the related cash amounts, the following number of Santander shares was delivered to the executive vice presidents:

Number of shares delivered	2017	2016
Deferred conditional variable remuneration plan (2012)	-	251,445
Deferred conditional variable remuneration plan (2013)	226,766	271,996
Deferred conditional variable remuneration plan (2014)	318,690	379,978
Deferred conditional variable remuneration plan (2015)	349,725	-

As indicated in Note 5.c above, in 2012 the contracts of the members of the Bank's senior management which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros Compañía Aseguradora, S.A. The new system grants the senior executives the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank's employ on that date, based on the contributions made to the aforementioned system, and replaces the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executives other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made. In the event of pre-retirement, and up to the retirement date, senior managers appointed prior to September 2015 are entitled to receive an annual allowance.

Likewise, the contracts of certain senior managers include a supplementary pension scheme for cases of death (widowhood and orphans) and permanent disability in active employment.

In addition, in application of the provisions of the remuneration regulations, as of 2016 (inclusive), a discretionary pension benefit component of at least 15% of the total has been included in contributions to the pension system. Under the regime corresponding to these discretionary benefits, the contributions made that are calculated on variable remunerations are subject to malus and clawback clauses according to the policy in force at each moment and during the same period in which the variable remuneration is deferred.

Likewise, they must be invested in Bank shares for a period of five years from the date of the cessation of senior management in the Group, whether or not as a result of retirement. After that period, the amount invested in shares will be invested together with the rest of the accumulated balance of the senior manager, or he will be paid to him or her beneficiaries if there were any contingency covered by the forecasting system.

The balance as of December 31, 2017 in the pension system for those who were part of senior management during the year amounted to EUR: 118.7 million (EUR: 99.3 million in December 31, 2016).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR 14.5 million in 2017 (EUR: 12.9 in 2016).

In 2017 there is no payments in the form of a single payment of the annual voluntary pre-retirement allowance (EUR: 6.7 million in 2016).

Additionally, the capital insured by life and accident insurance at December 31, 2017 of this group amounts to EUR 53.6 million (EUR: 59.1 million at December 31, 2016).

h) Post-employment benefits to former Directors and former executive vice presidents

The post-employment benefits and settlements paid in 2017 to former directors of the Bank, other than those detailed in Note 5.c amounted to EUR 26.2 million (2016: EUR 7.3 million). Also, the post-employment benefits and settlements paid in 2017 to former executive vice presidents amounted to EUR 17.7 million (2016: EUR 134.7 million).

Contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits to previous members of the Bank's Management Board, amounted to EUR 0.5 milllion in 2017 (EUR 0.66 million in 2016). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous managing directors amounted to EUR 5.5 million in 2017 (EUR 6.6 million in 2017)

In 2017 a period provision of EUR 0.5 thousand (release of EUR 0.3 million in 2016) was recognised in the consolidated income statement in connection with the Group's pension and similar obligations to former directors of the Bank (including insurance premiums for supplementary surviving spouse/child and permanent disability benefits), and a period provision of EUR 5.6 thousand was also recognised in relation to former executive vice presidents (2016: a period provision of EUR 0.5 thousand was recognised).

In addition, Provisions - Provision for pensions and similar obligations in the consolidated balance sheet as at December 31, 2017 included EUR 81.8 million in respect of the post-employment benefit obligations to former Directors of the Bank (December 31, 2016: EUR 96.8 million) and EUR 175.8 million corresponding to former executive vice presidents (2016: EUR 171 million).

i) Pre-retirement and retirement

The following executive directors will be entitled to take pre-retirement in the event of termination, if they have not yet reached the age of retirement, on the terms indicated below:

Ms. Ana Botín-Sanz de Sautuola y O'Shea will be entitled to take pre-retirement in the event of termination for reasons other than breach. In such case, she will be entitled to an annual emolument equivalent to her fixed remuneration plus 30% of the average of her latest amounts of variable remuneration, up to a maximum of three. This emolument would be reduced by up to 16% in the event of voluntary retirement before the age of 60. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years. Mr. José Antonio Álvarez Álvarez will be entitled to take pre-retirement in the event of termination for reasons other than his own free will or breach. In such case, he will be entitled to an annual emolument equivalent to the fixed remuneration corresponding to him as executive vice president. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years.

j) Contract termination

The executive directors and senior executives have indefinite-term employment contracts. Executive directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit, without prejudice to the compensation that corresponds to the non-competition obligations, as detailed in the remuneration policy of the directors

If the Bank were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

Other non-director members of the Group's senior management, other than those whose contracts were amended in 2012 as indicated above, have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare system in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

k) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the Board of Directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their equity interests in companies not related to the Group whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Administrator	Denomination	Number of shares	Functions
Dª. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. *	5,179,932	-
Mr. Bruce Neil Carnegie-Brown	Moneysupermarket.com Group plc Lloyd's of London Ltd	- -	President (1) President (1)
D. Rodrigo Echenique Gordillo	Mitsubishi UFJ Financial Group *	17,500	- -
D. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.)	19,546	-
D. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. JB Capital Markets Sociedad de Valores, S.A.	6,929,853 2,077,198	- President
Dª. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	-	Manager officer (1)
D. Ramiro Mato García-Ansorena	BNP Paribas	13,806	-

(*) Indirect ownership.
(1) Non-executive.

With regard to situations of conflict of interest, as stipulated in Article 30 of the Rules and Regulations of the Board, the directors must notify the board of any direct or indirect conflict with the interests of the Bank in which they or persons related thereto may be involved. The director involved shall refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a conflict of interest.

Also, under Article 33 of the Rules and Regulations of the Board, following a favourable report by the audit committee, the board must authorise the transactions which the Bank performs with directors (unless the power to approve them is vested by law in the general meeting), excluding the transactions indicated in Article 33.2.

Accordingly, the related party transactions performed during the year met the conditions established in the Rules and Regulations of the Board not to require authorisation of the governing bodies, or obtained such authorisation, following a favourable report by the audit committee, after confirming that the consideration and the other conditions agreed upon were within market parameters.

In addition, other directors abstained from participating in and voting on the deliberations of the meetings of the Board of Directors or the board committees on 86 occasions in 2017. The breakdown of these 86 cases is as follows: 27 related to proposals for the appointment, re-election or removal of directors, or the appointment of members of the board committees or committees in Group companies; 25 related to matters connected with remuneration or the extension of loans or credits; 22 related to the debate of proposed financing or other lending transactions involving companies related to directors; and on 12 occasions the abstention occurred in connection with the annual verification of the directors' status which, pursuant to Article 6.3 of the Rules and Regulations of the Board, was performed by the appointments committee.

6. Loans and advances to central banks and credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the accompanying balance sheets is as follows:

	Millons of euros	
	2017	2016
CENTRALS BANKS		
Classification:		
Loans and receivables	96	47
	96	**47**
Breakdown by product:		
Other term loans	96	47
Advances different from loans	-	-
Of which: impaired assets	-	-
Of which: valuation adjustments for impairment	-	-
	96	**47**
Currency:		
Euros	96	47
	96	**47**
CREDIT INSTITUTIONS		
Classification:		
Financial assets designated at fair value through profit or loss	11,243	8,533
Loans and receivables	31,617	25,763
	42,860	**34,296**
Breakdown by product:		
Credit card Debt	-	-
Commercial credit	363	152
Finance leases	1	2
Reverse repurchase agreements	17,946	13,626
Other term loans	16,133	11,099
Advances different from loans	8,417	9,417
Of which: impaired assets	-	4
Of which: valuation adjustments for impairment	*(14)*	*(15)*
	42,860	**34,296**
Currency:		
Euro	35,338	29,162
US dollar	5,775	3,711
Chilean Pesos	576	681
Pound sterling	873	380
Brazilian reais	195	214
Other currencies	103	148
	42,860	**34,296**
TOTAL	**42,956**	**34,343**

In addition, at December 31, 2017, there were outstanding balances with central banks and credit institutions for EUR 30,800 million and EUR 2,162 million, respectively (2016: EUR 13,377 million and EUR 1,538 million, respectively). These balances are included under Cash, cash balances at central banks and other deposits on demand.

Note 48 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

7. Debt instruments

The detail, by classification, type, listing status and currency, of Debt instruments in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
Classification:		
Financial assets held for trading	15,242	17,889
Financial assets available-for-sale	31,946	27,625
Loans and receivables	13,492	13,681
Held-to-maturity investments	1,892	1,953
	62,572	**61,148**
Sectoralization:		
Central banks	409	277
Public sector	42,361	39,975
Credit institions	8,535	9,076
Other financial institutions	10,032	10,756
Non-financial institutions	1,235	1,064
Of which: impaired assets	-	-
Of which: value adjustments for impairment	*(88)*	*(41)*
	62,572	**61,148**
Currency:		
Euro	50,567	47,580
US dollar	6,871	7,888
Pound sterling	2,318	2,868
Brazilian reais	1,865	2,566
Other currencies	951	246
	62,572	**61,148**

At 31 December 2017, the nominal amount of debt instruments assigned to the Bank's own obligations, mainly to secure financing facilities received by the Bank, amounted to EUR 36,332 million (31 December 2016: EUR 33,668 million), of which EUR 29,370 million related to Spanish government debt (31 December 2016: EUR 16,708 million).

Note 25 contains a detail of other comprehensive income recognised in equity on available-for-sale financial assets, and also the related impairment losses.

Note 48 contains a detail of the residual maturity periods of loans and advances and of available-for-sale financial assets, as well as their average interest rate.

8. Equity instruments

a) Breakdown

The detail, by classification, listing status, currency and type, of Equity instruments in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
Classification:		
Financial assets held for trading	10,168	7,249
Financial assets available-for-sale	1,863	2,443
	12,031	**9,692**
Listing status:		
Listed	10,714	8,179
Unlisted	1,317	1,513
	12,031	**9,692**
Currency:		
Euro	10,384	7,644
Chinese yuan	919	1,237
Brazilian real	455	458
US dollar	128	202
Other currencies	145	131
	12,031	**9,692**
Type:		
Shares of Spanish companies	3,726	2,944
Shares of foreign companies	8,271	6,176
Investment fund units and shares	34	572
	12,031	**9,692**

Note 25 contains a detail of other comprehensive income recognised in equity on available-for-sale financial assets, as well as the related impairment losses.

b) *Changes*

The changes in Equity instruments - Available-for-sale financial assets in 2017 and 2016 are as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	2,443	1,505
Purchases and capital increases	43	521
Of which:		
Sociedad de gestión de activos procedentes de la reestructuración bancaria S.A.	-	361
Condesa Tubos, S.L. (previously Bagoeta S.L.)	-	83
Disposals and capital reductions	(141)	(204)
Of which:		
SPB RF Corto Plazo, Clase I	-	(92)
RFS Holding, B.V.	-	54
Sales of investment funds in April /17	*(84)*	-
Other comprehensive income and other changes	(482)	621
Of which:		
Bank of Shanghai Co., Ltd. (Due to a listing variation)	*(336)*	675
Balance at end of the year	**1,863**	**2,443**

i. Bank of Shanghai Co., Ltd.

In June 2015 the Group subscribed to a capital increase at this company for EUR 109 million, thereby retaining its ownership interest percentage.

In November 2016, the securities of Bank of Shanghai Co., Ltd. began trading. With the closing price of Decembe 31, 2017, the accumulated goodwill for valuation on the cost of adquisition of this participation was 339 million euros, recorded in Other comprehensive income – Items that may be reclassified to profit or loss – financial assets available for sale (675 million as of December 31, 2016), so the fall in value in 2017 was 336 million euros.

c) *Notifications of acquisitions of investments*

The notifications made by the Bank in 2017, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Derivatives (assets and liabilities) and Short positions

a) *Trading derivatives*

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Bank at 31 December 2017 and 2016 is as follows.

	Millions of euros			
	2017		2016	
	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate	23,665	23,643	28,012	28,203
Equity instruments	1,708	1,989	1,852	2,427
Currency and Gold	13,165	13,305	14,819	15,865
Credit	258	197	360	347
Commodities	-	-	109	28
Others	98	100	106	105
	38,894	**39,234**	**45,258**	**46,975**

Note 32 contains a detail, by residual maturity, of the notional and/or contractual amounts.

b) *Short positions*

Following is a breakdown of the short positions:

	Millions of euros	
	2017	2016
Securities lending:		
Equity instruments	98	103
Uncovered on assignments:		
Debt instruments	8,620	7,472
Total short positions	**8,718**	**7,575**

10. Loans and advances to customers

a) *Detail*

The detail, by classification, of Loans and advances to customers in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
Financial assets held for trading	22	41
Other Financial assets designated at fair value through profit or loss	22,778	16,736
Loans and receivables	174,814	178,797
Of which:		
Disregarding impairment losses	*179,446*	*185,525*
Impairment losses	*(4,632)*	*(6,728)*
	197,614	195,574
Loans and advances to customers disregarding impairment losses	**202,246**	**202,302**

Note 48 contains a detail of the maturity periods of loans and advances as well as their related average interest rates.

At 31 December 2017 and 2016, there were no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

The following is a breakdown of the loans granted to the Bank´s clients, which include exposure to the Bank´s credit risk in its main activity, without considering the balance of impairment reserve or the valuation adjustments (except accrued interest) depending on the modality and situation of the operations, the geographical area of the residence of the borrower and the modality of interest rate of the operation:

	Millions of euros	
	2017	2016
Loan type and status:		
On demand and with a short prior period	2,172	3,201
Credit cards receivables	1,289	1,020
Commercial credit	7,885	6,546
Finance leases	2,087	2,103
Reverse repurchase agreements	13,190	8,975
Other term loans	163,891	167,495
Non loans advances	7,100	6,234
Of which:		
Impaired assets	*9,276*	*12,591*
Impairment losses	*(4,632)*	*(6,728)*
Mortgage loans	*69,656*	*69,537*
Other secured loans	*28,521*	*25,384*
Book value	197,614	195,574
Gross book value	**202,246**	**202,302**
By sector:		
Public sector	14,589	16,323
Other financial institutions	46,494	43,529
Non-financial institutions	77,888	79,010
Households	63,275	63,440
	202,246	**202,302**
Geographical area:		
Spain	162,351	165,969
European Union (excluding Spain)	23,472	18,401
United States of America and Puerto Rico	5,184	6,424
Other OECD countries	4,134	3,904
Latin America (non-OECD)	3,803	4,273
Rest of the world	3,302	3,331
	202,246	**202,302**
Interest rate:		
Fixed rate	69,464	76,920
Floating rate	132,782	125,382
	202,246	**202,302**

Following is a detail, by activity, of the loans and advances to customers at 31 December 2017:

	2017								
	Millions of euros								
			Secured loans						
			Net exposure		*Loan-to-value ratio (a)*				
	Total (*)	Without collateral	Of which: Property collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	12,710	10,909	247	1,554	85	66	66	1,474	110
Other financial institutions and individual traders (business financial activity)	41,516	28,294	653	12,569	207	441	194	12,212	168
Non-financial companies and individual entrepeneurs (non-financial business activity) (broken down by purpose)	79,230	49,355	16,526	13,349	6,977	5,134	3,901	5,014	8,849
Of which:									
Construction and property development (including land)	*2,881*	*13*	*2,868*	*-*	*882*	*887*	*512*	*171*	*416*
Civil engineering construction	*1,632*	*813*	*128*	*691*	*52*	*197*	*86*	*168*	*316*
Large companies	*49,396*	*35,850*	*3,636*	*9,910*	*2,071*	*1,027*	*1,120*	*3,454*	*5,874*
SMEs and individual traders	*25,321*	*12,679*	*9,894*	*2,748*	*3,972*	*3,023*	*2,183*	*1,221*	*2,243*
Other households (broken down by purpose)	57,057	5,972	50,030	1,055	12,245	13,187	15,245	6,807	3,601
Of which:									
Residential	*46,145*	*571*	*45,436*	*138*	*11,121*	*12,054*	*14,089*	*5,887*	*2,423*
Consumer loans	*6,340*	*4,720*	*1,206*	*414*	*548*	*416*	*318*	*189*	*149*
Other purposes	*4,572*	*681*	*3,388*	*503*	*576*	*717*	*838*	*731*	*1,029*
Total *(*)*	**190,513**	**94,530**	**67,456**	**28,527**	**19,514**	**18,828**	**19,406**	**25,507**	**12,728**
Memorandum item									
Refinanced and restructured transactions (**)	*8,879*	*768*	*6,885*	*1,226*	*1,262*	*1,076*	*1,281*	*1,755*	*2,737*

(*) Includes the net balance of the valuation adjustments associated with impaired assets.
(**) Not including loans advances.
(a) The ratio of the carrying amount of the transactions at 31 December 2017 to the latest available appraisal value of the collateral.

c) *Impairment losses*

The following details the movement that has occurred in the balance of the provisions that cover the losses due to the impairment of the assets that make up the balances of Loans and advances:

	Millions of euros	
	2017	2016
Balance at beginning of the year	6,728	8,905
Net impairment losses charged to income for the year	599	735
Of which:		
Impairment losses charged to income	*2,884*	*3,403*
Impairment losses reversed with a credit to income	*(2,285)*	*(2,668)*
Decreases due to amounts used against value adjustments	(2,384)	(2,453)
Exchange differences and other changes	(311)	(459)
Balance at end of the year	**4,632**	**6,728**
Of which:		
By status of the asset:		
Impaired assets	*4,160*	*5,949*
Of which: due to country risk	*12*	*13*
Other assets	*472*	*779*
Balance at end of the year	**4,632**	**6,728**
Of which:		
Individually calculated:	*1,422*	*2,996*
Collective calculated:	*3,210*	*3,732*

Previously suspensed assets recovered in 2017 amounted to EUR 194 million (31 December 2016: EUR 247 million).

Taking into account these deferred suspensed assets, as well as the net impairment recorded under the Loans and advances of central banks and credit institutions, debt securities (see notes 6 and 7, respectively) and customers (detailed in the previous table), impairment losses recognised as Loans and receivables amounted to EUR 451 million (31 December 2016: EUR 529 million).

The decrease in net provisions to the allowance for loan losses is due to the improved economic situation in Spain mainly as a result of recovery in the global macroeconomic environment evidenced by a recovery in growth, an improvement in the financial conditions -with the normalized risk premium - and a boost of retail banking´s credit flows.

d) *Impaired assets*

Below is a detail of the movement produced in the balances of the financial assets classified as loans and receivables –Customers considered as impaired due to their credit risk during the years 2017 and 2016:

	Millions of euros	
	2017	2016
Balance at beginning of the year	**12,591**	**16,340**
Net additions	(353)	(696)
Written-off assets	(2,384)	(2,453)
Other changes (*)	(578)	(600)
Balance at end of the year	**9,276**	**12,591**

(*) These relate mainly to foreclosed assets and dations in payment.

This amount, once the corresponding provisions have beed deducted, is the Bank´s best estimate of the discounted value of the flows that are expected to be recovered from impaired assets.

At 31 December 2017, the balance of the assets written-off amounted to EUR 6,459 million. (2016: EUR 7,954 million).

	Millions of euros	
	2017	2016
Balance at beginning of the year	**7,954**	**8,353**
Additions	3,434	2,559
Written-off assets	(3,918)	(2,981)
Other changes	(11)	3
Balance at end of the year	**6,459**	**7,954**

Following is a detail of the financial assets classified as Loans and receivables - Loans and advances to customers considered to be impaired due to credit risk at 31 December 2017 and 2016, classified by the sector where risks are located, as well as by age of the oldest past-due amount:

	2017				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	16	1	-	69	86
Other financial institutions	4	-	-	4	8
Non-financial institutions	2,561	158	340	2,692	5,751
Households	762	212	286	2,171	3,431
	3,343	**371**	**626**	**4,936**	**9,276**

	2016				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	16	2	4	81	103
Other financial institutions	11	-	38	7	56
Non-financial institutions	3,875	172	330	4,349	8,726
Households	771	276	350	2,309	3,706
	4,673	**450**	**722**	**6,746**	**12,591**

e) Securitisation

The heading loans and advances to customers includes, among other, the securitised loans transferred to third parties on which the Bank has retained risk, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of original financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (see Note 2.e) is shown below. The liabilities associated with these securitisation transactions are detailed in Note 19.

	Millions of euros	
	2017	2016
Derecognised (*)	742	825
Of which mortgage assets are securitised through:		
Mortgage participation certificates	*562*	*620*
Mortgage transfer certificates	*111*	*129*
Retained on the balance sheet	19,541	24,420
Of which mortgage assets are securitised through:		
Mortgage transfer certificates	*17,030*	*19,380*
	20,283	**25,245**

(*) At 31 December 2017, non-securitised assets amounting to EUR 70 million had been derecognised from the balance sheet which continued to be managed by the Bank (31 December 2016: EUR 76 million).

The evolution of this activity responds to its use as a regulatory capital management tool and as a resource for the diversification of Bank´s liquidity sources.

f) Guarantee

Following is a detail of the mortgage-backed bonds and securitised bonds, excluding treasury shares, securing liabilities or contingent liabilities at 31 December 2017 and 2016:

	Millions of euros	
	2017	2016
Guarantee:		
Mortgage-backed bonds	13,442	16,951
Asset-backed securities	603	1,534
	14,045	**18,485**

The mortgage-backed bonds are secured by mortgage loans with average maturities of more than ten years. In order to calculate the amount of the qualifying assets, the following transactions are excluded from the total base of the unsecuritised mortgage portfolio:

- Transactions classified as at pre-action stage and procedural stage.
- Transactions without appraisal by a specialist valuer.
- Transactions exceeding 80% of the appraised value in residential financing and 60% in the case of other assets.
- Second mortgages or mortgages with insufficient collateral.
- Transactions without insurance or with insufficient insurance.

The asset-backed securities, including asset-backed securities and notes issued by special-purpose vehicles (SPVs), are secured by:

- Mortgage loans to individuals to finance the acquisition and refurbishment of homes with an average maturity of more than ten years.
- Personal consumer finance loans with no specific guarantee and unsecured loans with an average maturity of five years.
- Loans to SMEs (non-financial small and medium-sized enterprises) secured by State guarantees, and loans to companies (SMEs -self-employed, microbusinesses, small and medium-sized enterprises- and large companies) secured by property mortgages, the borrower's personal guarantee, guarantees and other collateral other than property mortgages, with an average maturity of seven years.
- Mortgage and non-mortgage loans to finance municipalities, autonomous communities and subsidiaries with an average maturity of more than ten years.
- Asset-backed securities issued by various European special-purpose vehicles backed by German and Italian loans for the purchase of vehicles and Italian personal loans, with an average maturity of eight years.
- Commercial credit of Banco Santander (ordinary and occasional invoice discounting and advances to customers on legitimate receivables) with an average maturity of 45 days.

The fair value of the guarantees received by the Bank (financial and non-financial assets) which the Bank is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Bank's financial statements as a whole.

11. Hedging derivatives

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting at 31 December 2017 and 2016 is as follows:

	Millions of euros			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges	1,614	3,886	1,933	3,062
Of which:				
Portfolio -hedges	*22*	*89*	*20*	*114*
Cash flow hedges	-	-	-	-
Hedges of net investments in foreign operations	459	128	350	1,135
	2,073	**4,014**	**2,283**	**4,197**

Note 32 contains a detail, by residual maturity, of the notional and/or contractual amounts.

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
Foreclosed assets	1,652	1,842
Other assets leased out under an operating lease	7	6
Investment property	61	75
	1,720	**1,923**

At 31 December 2017, Non-current assets held for sale was reduced by impairment losses amounting to EUR 1,450 million (2016: EUR 1,700 million), of which EUR 100 million were recognised in 2017 (2016: EUR 105 million) under Gains/losses on non-current assets held for sale not classified as discontinued operations in the income statement (see Note 46).

At December 31, 2017 and 2016, there are no liabilities asociated in disposable groups of items that have been classified as held for sale associated with other non-current assets and alienable groups of items that have been classified as held for sale.

13. Investments

a) *Associates*

Investments - Associates in the accompanying balance sheets includes the Bank's ownership interests in associates (see Note 2.b).

Appendix II contains a detail of these companies, indicating the percentages of direct or indirect ownership and other relevant information.

At 31 December 2017 there were no capital increases in progress at any major associate.

i. Breakdown

The detail, by currency and listing status, of Investments - Associates in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
Currency:		
Euro	2,199	2,167
	2,199	**2,167**
Listing status:		
Listed	936	898
Unlisted	1,263	1,269
	2,199	**2,167**

ii. Changes

The changes in 2017 and 2016 in Investments - Associates, disregarding impairment losses, were as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	2,459	752
Purchases, capital increases and mergers	15	379
Of which:		
CNP Santander Insurance Europe Designated Activity Company	-	*105*
CNP Santander Insurance Life Designated Activity Company	-	*194*
Disposals, reductions and mergers:	(5)	(53)
Of which:		
Yaap Digital Services, S.L.	-	*(12)*
Transfers	-	1,343
Of which:		
Merlin Properties, SOCIMI, S.A.	-	*1,087*
Testa Residencial, SOCIMI, S.A.	-	*287*
Other changes (net)	(11)	38
Balance at end of the year	**2,458**	**2,459**

On December 31, 2017, there have been no significant movements of associates companies.

On 20 October, 2016, the merger of Metrovacesa, S.A. was effected through the contribution of assets to Merlin Properties, SOCIMI, S.A., Testa Residencial, SOCIMI, S.A. and to the newly created company Metrovacesa Promotion y Arrendamiento, S.A.

Through this operation, the Bank acquired 16.40% of the assets of Merlin Properties, SOCIMI, S.A. and 34.52% of Testa Residencia, SOCIMI, S.A. resulting in a cost of EUR 1,087 million and EUR 287 million respectively in exchange for the assets qualified as "Commercial Patrimony" and "Residencial Patrimony", (see note 3.b).

iii. Impairment losses

The changes in the balance of this item were as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	292	30
Net impairment losses (reversals) (Note 44)	(33)	13
Other changes	-	249
Balance at end of the year	**259**	**292**

b) Subsidiaries

Investments - Subsidiaries includes the equity instruments owned by the Bank and issued by subsidiaries belonging to Santander Group.

Relevant information on these companies is provided in Appendix I.

i. Breakdown

The detail, by currency and listing status, of Investments - Subsidiaries in the balance sheets as at 31 December 2017 and 2016 is as follows.

	Millions of euros	
	2017	2016
Currency:		
Euro	41,297	36,499
Pound Sterling	15,128	15,509
Other currencies	26,502	26,049
	82,927	**78,057**
Listing status:		
Listed	11,371	11,305
Unlisted	71,556	66,752
	82,927	**78,057**

ii. Changes

The changes in 2017 and 2016 in Investments - Subsidiaries, disregarding impairment losses, were as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	84,991	86,481
Acquisitions, contributions, capital increase payments and mergers	10,671	8,077
Of which:		
Banco Popular, S.A. (Note 3)	*6,880*	-
Metrovacesa, S.A. (Note 3)	-	*484*
Metrovacesa, Suelo y Promoción, S.A.	*360*	-
Santander Consumer Finance, S.A	*1,063*	-
Santander Consumer USA Inc.	*804*	-
Grupo Financiero Santander México, S.A.B. de C.V.	-	*2,561*
Santander Holdings USA, Inc.	*1,106*	*2,030*
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	-	*1,188*
Disposals, capital reductions and mergers	*(5,240)*	*(9,484)*
Of which:		
Grupo Empresarial Santander, S.L.	-	*(1,583)*
Santander Consumer Bank S.A. (previously Santander Benelux S.A. / N.V.)	-	*(1,125)*
Santusa Holding, S.L.	-	*(3,352)*
Banco Santander International	-	*(478)*
Parasant S.A.	-	*(442)*
Santander Bancorp	-	*(886)*
Cavalsa Gestión, S.A.U.	-	*(250)*
Santander Insurance Holding, S.L.U.	-	*(383)*
Santader Financial Exchange Ltd.	*(306)*	-
Metrovacesa Promoción y Arrendamiento, S.A.	*(212)*	-
Santander Consumer USA Inc.	*(804)*	-
Santander Financial Services, Inc.	*(400)*	-
Santander Holding Internacional, S.A.	*(1,582)*	-
Sterrebeeck B.V.	*(1,296)*	-
Santander Global Facilities, S.L.	*(363)*	-
Inversiones Capital Global, S.A.U.	*(165)*	-
Fomento e Inversiones, S.A.U.	*(31)*	-
Transfers		
Of which:	*161*	*(1,344)*
Escisión de Metrovacesa, S.A. (Nota 13.a.ii)		
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	-	*(1,375)*
Santander España Merchant Services, Entidad de Pago, S.L. (previously, Santander Elavon Merchant Services Entidad de Pago, S.L.U.)	-	*31*
Exchange differences and other changes	*161*	-
	(542)	1,261
Balance at end of the year	**90,041**	**84,991**

During the first quarter of 2017, Santander Financial Exchange Ltd, has made a capital reduction with contributions´return to its shareholder, for wich the Bank received an amount to EUR 306 million.

During May 2017, Santander Holding Internacional, S.A. has made a capital reduction with contributions return to its shareholders for which Banco Santander, S.A. has received 2,151 million euros, making a profit of 569 million euros. In addition, the Dutch company Sterrebeeck B.V. has agreed to return the share premium to its only shareholder for an amount of 1,231 million euros, recording a loss of 65 million euros, decreasing non finacial assest accounts and net shares of profit and loss account.

On June 7, 2017 (the acquisition date), as part of its growth strategy in the markets where it is present, the Group communicated the acquisition of 100% of the share capital of Banco Popular as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the Single Resolution Board ("SRB") and executed by the FROB ("Fund for Orderly Bank Restructuring" in Spanish), in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of May 15, 2014, and Law 11/2015, of June 18, for the recovery and resolution of credit institutions and investment firms.

On June 30, 2017, Inversiones Capital Global S.A.U. approved an issue premium distribution to its shareholders for which the Bank receive an amount of 170 million euros, making a profit of 5 million euros with this transaction under Gains or losses on non financial assets and investments, net of the profit and loss account.

On July 28, 2017, the Bank repurchased the 51% of its ownwrship in Santander Elavon Merchant Services, Entidad de Pago, S.L. (currently Santander España Merchant Services, Entidad de Pago, S.L.), for 161 million euros, reaching a 100% stake in this company. Due to, it has been reclassified to this financial statement line item, since up to that date this participation was recorded in the jointly entities financial statement line item (See Note 13.c).

Also in July 2017, in relation with the process of corporate reorganization of the United States subsidiaries, the Bank proceeded to contribute to Santander Holdings USA, Inc. 100% of its ownership in Santander Financial Services, Inc. for a net book value of 281 million euros. Moreover, in November 2017, the Bank made a purchase of 10% of the ownership rate of Santander Consumer USA Holdings Inc. owned by DDFS LLC for an amount of 804 million, for its simultaneous contribution to Santander Holdings USA, Inc. In addition, during the year, the company made two cash contributions to the equity of this company for an overall amount of 21 million euros.

During October 2017 there was a non-monetary capital increase through the contribution of assets to the company Metrovacesa Suelo y Promoción, S.A. (currently Metrovacesa, S.A.) in which the Bank contributes 148 million euros. Moreover, in December 2017, there was another capital increase of this same company in which the Bank contributed all of its participation in Metrovacesa Promoción y Arrendamiento, S.A. for an amount of 212 million euros.

On October 27, 2017 the entity Santander Global Facilities, S.L. has approved a refund of share premium to its partners getting the Bank an amount of 405 million euros and making a profit of 42 million euros for this operation.

On December 29, 2017, the bank recorded a merger by absorption of the entity Fomento e Inversiones, S.A.U. described in Note 1.i). As a result of this operation, the company has recorded an increase in this financial statement line item of 1,063 million euros corresponding to 11.81% ownership that this company had in Santander Consumer Finance, S.A.

On April 28, 2016, the Bank sold its ownership rate in Santander Benelux S.A. / N.V. (actually, Santander Consumer Bank, S.A.) to Santander Consumer Finance, S.A. for EUR 1,170 million, thus registering a profit of EUR 45 million.

On May 23, 2016, the Bank purchased from Santusa Holding S.L. a 23.71% ownership in Grupo Financiero Santander, S.A.B. de C.V. for EUR 2,561 million. This acquisition represented an increase to 74.97% ownership in the entity.

In July 2016, a corporate restructuring of the US subsidiaries, required by local regulation, was carried out in which the Bank, contributed to Santander Holdings USA, Inc. with 100% of its ownership rate in Banco Santander International, Services and Promotions Delaware Corp., Santander Bancorp, Santander Securities LLC and Santander Investment Securities Inc. This contribution has been valued at EUR 2,030 million (USD 2,254 million), representing the consolidated cost of the contributed entities and registering a result of EUR 450 million (see Note 45).

On October 20, 2016, the corporate spin-off of Metrovacesa, S.A. was effected through the contribution of assets to Merlin Properties, SOCIMI, S.A., Testa Residencial, SOCIMI, S.A. and to the newly created company Metrovacesa Promoción y Arrendamiento, S.A. As a result of this transaction, the ownership rate in Merlin Properties, SOCIMI, S.A. and Testa Residencial, SOCIMI, S.A. was 16.40% and 34.52% respectively, which entailed the transfer of the related cost to associates by EUR 1,375 million (see Note 13.a.ii).

During November 2016, the entity Grupo Empresarial Santander, S.L. made a capital reduction with repayment to its shareholders for which the Bank received EUR 1,286 million, registering a loss for this operation of EUR 297 million. Also in that month Santusa Holding, S.L. agreed to return the share premium to its shareholders for which the Bank received EUR 3,362 million, which resulted in the recording of a profit of EUR 10 million.

Similarly, in December 2016 the entity Parasant, S.A. approved a capital reduction amortizing securities with repayment to its sole shareholder, Banco Santander, SA, amounting to EUR 546 million (CHF 586 million) and recording a profit of EUR 104 million for this operation (see Note 45).

On December 28, 2016, the mergers by absorption described in Note 1.i) were carried out. As a result of these operations, several subsidiaries were recognised under this heading by the absorbed companies amounting to EUR 1,511 million. The merged entities derecognised a cost of EUR 941 million.

iii. Impairment losses

The changes in the balance of this item were as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	6,934	6,737
Net impairment losses (reversals) (Note 44)	306	471
Other changes (*)	(126)	(274)
Balance at end of the year	**7,114**	**6,934**

(*) Includes in 2017 the use of the existing 118 million euro impairment fund for the stake in Santander Financial Services, Inc. a company that has been contributed to Santander Holdings USA, Inc.

In 2016 includes the change from this item to the associates entities item of provision for impairment amounting to EUR 264 million on Merlin Properties, SOCIMI, S.A. and Testa Residencial, SOCIMI, S.A. as a consequence of the segregation process of Metrovacesa, S.A. (Note 13.a.iii)

The address of the company make an analysis of the potential loss of value of the investments in Group companies, jointly entities and associates that it has registered in relation to its book value. This analysis is carried out using different parameters, such as equity value, list value and recoverable value, which is obtained from the estimates of expected cash flows or net equity corrected by the unrealized capital gains existing on the valuation date, including the goodwill registered at that date.

The impairment losses recognised by the Bank in 2017 included EUR 111 million (2016: EUR 294 million) for impairment on the investment held in Altamira Santander Real Estate, S.A.

c) Jointly controlled entities

On July 28, 2017, the Bank acquired 51% of Santander Elavon Merchant Services, Entidad de Pago, S.L.U. (actually Santander España Merchant Services, Entidad de Pago, S.L.) for amount of 72 million euros. With this acquisition, the Bank reaches 100% of the company, this is the reason why the total cost in this entity is transferred for 161 million euros to the Group Entities financial statement line item (See note 13 b i.i.).

During 2017 the Bank recovered EUR 3 million (EUR 1 million provision in 2016), of which almost in their entirety EUR 1 million corresponds to the provision release in UCI, S.A.

On 7 September, 2016 the Bank subscribed to a capital increase at Inbond Inversiones 2014, S.L for EUR 32 million, maintaining the ownership rate of 34.18% in this entity.

14. Reinsurance assets

The detail of Insurance contracts linked to pensions in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
Assets relating to insurance contracts covering post-employment benefit plan obligations (Notes 17 & 23)	1,732	1,834
	1,732	**1,834**

15. Tangible assets

a) Changes

The changes in Tangible assets in the balance sheets were as follows:

	Millions of euros			
	Property, plant and equipment			
	For own use	Leased out under an operating lease	Investment property	Total
Cost:				
Balance at 1 January 2016	**2,968**	**484**	**356**	**3,808**
Additions/disposals (net)	177	18	1	196
Transfers and other	(91)	-	30	(61)
Balances at 31 December 2016	**3,054**	**502**	**387**	**3,943**
Additions/disposals (net)	158	69	(4)	223
Transfers and others	(32)	-	32	-
Balances at 31 December 2017	**3,180**	**571**	**415**	**4,166**
Accumulated depreciation:				
Balance at 1 January 2016	**(1,689)**	**(187)**	**(15)**	**(1,891)**
Charge for the year	(106)	-	(3)	(109)
Disposals	15	81	(1)	95
Transfers and others	31	(79)		(48)
Balances at 31 December 2016	**(1,749)**	**(185)**	**(19)**	**(1,953)**
Charge for the year	(117)	-	(5)	(122)
Disposals	23	60	6	89
Transfers and other	16	(87)	-	(71)
Balances at 31 December 2017	**(1,827)**	**(212)**	**(18)**	**(2,057)**
Impairment losses:				
Balance at 1 January 2016	**(6)**	**-**	**(130)**	**(136)**
Transfers and others	-	-	(20)	(20)
Balances at 31 December 2016	**(6)**	**-**	**(150)**	**(156)**
Transfers and other	(16)	-	(8)	(24)
Balances at 31 December 2017	**(22)**	**-**	**(158)**	**(180)**
Tangible assets, net:		- -		
Balances at 31 December 2016	**1,299**	**317**	**218**	**1,834**
Balances at 31 December 2017	**1,331**	**359**	**239**	**1,929**

b) *Property, plant and equipment for own use*

The detail, by class of asset, of Property, plant and equipment - For own use in the balance sheets is as follows:

	Millions of euros			
	Cost	Accumulated depreciation	Impairment losses	Carrying amount
Land and buildings	630	(186)	(6)	438
Furniture, fixtures and vehicles	1,919	(1,141)	-	778
Computer hardware	471	(422)	-	49
Other	34	-	-	34
Balances at 31 December 2016	**3,054**	**(1,749)**	**(6)**	**1,299**
Land and buildings	588	(176)	(22)	390
Furniture, fixtures and vehicles	2,049	(1,214)	-	835
Computer hardware	509	(437)	-	72
Other	34	-	-	34
Balances at 31 December 2017	**3,180**	**(1,827)**	**(22)**	**1,331**

The carrying amount at 31 December 2017 in the table above includes the following approximate amounts:

- EUR 2 million (31 December 2016: EUR 3 million) relating to property, plant and equipment owned by the Bank's branches located abroad.

- EUR 691 million (31 December 2016: EUR 611 million) relating to property, plant and equipment held under finance leases by the Bank, of which EUR 574 million related to leases in force at 31 December 2017 (31 December 2016: EUR 502 million) (see Note 2.l).

c) *Sale of properties*

In 2007 and 2008 the Group sold ten hallmark properties, 1,152 Bank branch offices in Spain and its head office complex (Ciudad Financiera or Santander Business Campus) to various buyers. Also, the Group entered into operating leases (with maintenance, insurance and taxes payable by the Group) on those properties with the buyers for various compulsory terms (12 to 15 years for the hallmark properties, 24 to 26 years for the branch offices and 40 years for the Santander Business Campus), with various rent review agreements applicable during those periods and the possible extensions thereof. The agreements between the parties also provided for purchase options that in general are exercisable by the Group on final expiry of the leases at the market value of the properties on the expiry dates; the market value will be determined, where appropriate, by independent experts.

The rental expense recognised by the Group in 2017 in connection with these operating lease agreements amounted to EUR 330 million (2016: EUR 297 million). At December 31, 2017, the present value of the minimum future payments that the Group will incur in the compulsory term amounted to EUR 246 million payable within one year, EUR 672 million payable at between one and five years and EUR 1,461 million payable at more than five years.

16. Intangible assets

a) *Breakdown*

The detail of Intangible assets in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
With finite useful life		
IT developments	392	256
Accumulated amortization	(167)	(96)
Balance at end of year	**225**	**160**

b) *Changes*

The changes in Intangible assets in the accompanying balance sheets were as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	160	85
Net additions/(disposals)	136	126
Amortization charge	(71)	(51)
Balance at end of the year	**225**	**160**

In 2017 and 2016 impairment losses were not recognised under non financial assets (net) Impairment losses in the income statement.

17. Other assets and Other liabilities

The detail of Other assets and Other liabilities in the accompanying balance sheets is as follows:

	Millions of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Transactions in transit	-	5	6	-
Insurance contracts linked to pensions (Note 14)	1,732	1,834	-	-
Inventory	-	-	-	-
Prepayments and accrued income	264	311	1,396	1,297
Other (*)	1,169	960	1,323	735
	3,165	**3,110**	**2,725**	**2,032**

(*) Includes, mainly, unsettled transactions.

18. Deposits from central banks and credit institutions

The detail by classification, type and currency of Deposits from central banks and Deposits from credit institutions in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
CENTRAL BANKS		
Classification:		
Financial liabilities designated at fair value through profit or loss	7,913	8,401
Financial liabilities at amortised cost	25,016	25,067
	32,929	**33,468**
Type:		
Time deposits	32,480	33,366
Deposits available with prior notice	-	-
Repurchase agreements	449	102
Of which: valuation adjustments	*(90)*	*11*
	32,929	**33,468**
Currency:		
Euro	23,610	23,543
US dollar	8,736	9,691
Sterling Pound	37	234
Other currencies	546	-
	32,929	**33,468**
CREDIT INSTITUTIONS		
Classification		
Financial liabilities designated at fair value through profit or loss	15,209	3,141
Financial liabilities at amortised cost	60,008	49,287
	75,217	**52,428**
Nature:		
Current accounts / Intraday deposits	18,297	16,529
Time deposits	22,821	22,099
Deposits available with prior notice	-	-
Repurchase agreements	34,099	13,800
Of which: valuation adjustments	27	*40*
	75,217	**52,428**
Currency:		
Euro	62,876	42,920
US dollar	10,548	7,777
Pound sterling	1,534	1,267
Other currencies	259	464
	75,217	**52,428**

The Bank, having benefited from the various long-term financing programs of the European Central Bank (TLTRO I, TLTRO II), maintains deposits at amortised cost from these programs amounting to EUR 22,000 million as at 31 December 2017 (2016: EUR 23,000 million).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

19. Customer deposits

The detail by classification, type and geographical area, of Customer deposits in the accompanying balance sheets is as follows:

	Millions of euros	
	2017	2016
CUSTOMER DEPOSITS		
Classification:		
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	9,192	3,582
Financial liabilities at amortised cost (*)	179,558	206,742
	188,750	**210,324**
Type:		
Current accounts / Intraday deposits	151,169	132,846
Time deposits (*)	31,621	72,351
Deposits available with prior notice	-	-
Repurchase agreements	5,960	5,127
Of which: subordinated deposits	-	*12,397*
Of which: issued securities	600	*708*
Of which: valuation adjustments	197	*272*
	188,750	**210,324**
Sector:		
Public sector	11,441	9,895
Other financial companies (*)	32,486	46,804
Non-financial companies	45,117	42,192
Households	99,706	111,433
	188,750	**210,324**
Geographical area:		
Spain (*)	167,660	192,489
European Union (excluding Spain)	16,481	12,429
United States and Puerto Rico	977	1,436
Other OECD countries	1,215	1,528
Latin America (non-OECD)	1,642	1,629
Rest of the world	775	813
	188,750	**210,324**

(*)As a result of the merger of the bank with certain issuing companies in 2017 (see Note 1.i), there has been the elimination of the existing deposits at December 31, 2016 amounting to 34 trillion euros, arising representative debt values for the same amount (see Note 20).

Funds received under financial asset transfers in the table above includes the liabilities associated with securitisation transactions (see Note 10.e).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

20. Marketable debt instruments

a) *Breakdown*

The detail by classification and type, of Marketable debt securities in the accompanying balance sheets is as follows.

	Millions of euros	
	2017	2016
Classification:		
Financial liabilities at amortised cost (Note 19)	53,058	22,955
	53,058	**22,955**
Type:		
Certificates of deposit	34	81
Guaranteed bonds	29,774	31,277
Mortgage bonds	*21,911*	*21,971*
Others mortgage bonds and guaranteed bonds	*7,863*	*9,306*
Other non-convertible issued securities (Notes 19&21)	41,109	4,566
Of wich subordinated liabilities	*15,413*	*4,563*
Treasury shares (*)	(19,067)	(14,105)
Valuation adjustments (**)	1,208	1,136
	53,058	**22,955**

(*) At 31 December 2017, the registered balance corresponds mainly to guaranteed bonds.

(**) Includes a loss of EUR 21 million for the valuation adjustments of the subordinated loans corresponding to the debt securities issued in 2016.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

b) *Certificates of deposit*

The detail of Certificates of deposits by currency of issuance is as follows:

	Millions of euros		31 December 2017	
Currency of issuance	2017	2016	Outstanding issue amount in foreign currency (millions)	Annual interest rate (*)
Euro	-	-	41	1.29%
US dollar	34	81		
Balance at end of the year	**34**	**81**		

(*) Average interest rate of the issuances at 31 December 2017 based on their principal amounts.

i. Changes

The changes in Certificates of deposits in 2017 and 2016 were as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	81	40
Issues	237	170
Redemptions	(83)	(128)
Exchange differences and other changes	(1)	(1)
Balance at end of the year	**34**	**81**

In 2017 the Bank issued certificates of deposits amounting to EUR 237 million (2016: EUR 170 millon), with an average maturity of three months (four months during 2016) and of which EUR 283 million were amortised in 2017 (2016: EUR 128 millon).

c) Marketable mortgage-backed securities

The detail by currency of issuance, of Marketable mortgage-backed securities is as follows:

Currency of issuance	Millions of euros		31 December 2017
	2017	2016	Annual interest rate (*)
Euros	21,911	21,971	1.58%
Balance at end of the year	**21,911**	**21,971**	

(*) Average interest rate of the various issues at 31 December 2017 based on their norminal amounts. Incluir comparative.

i. Changes

The changes in 2017 and 2016 in Marketable mortgage-backed securities were as follows:

	Millions of euros	
	2017	2016
Balance at 31 December 2016	21,971	20,714
Reclassification of deposits (*)	400	-
Issues	4,375	6,432
Of which:		
January 2016	-	*999*
February 2016	-	*393*
March 2016	-	*100*
April 2016	-	*285*
May 2016	-	*255*
June 2016	-	*4,150*
December 2016	-	*250*
June 2017	*4,350*	-
Novembre 2017	*12*	-
Transfers	-	-
Amortizations on maturity	(4,835)	(5,175)
Advanced amortizations	-	-
Balance at end of the year	**21,911**	**21,971**

(*) At December 31, 2016, there were mortgage bonds related to the European Investment Bank (EIB), as well as issued by Securitization of mortgage certificates Program (PITCH) classified at deposits amortized cost amounting to 600 million euros, of which 400 million euros have been classified during 2017 as Securities representing debt at amortized cost (the remaining balance has been amortized during the year 2017).

ii. Disclosures required pursuant to the Mortgage Market Law 2/1981, of 25 March, of the Spanish Royal Decree 716/2009, of 24 April, implementing certain provisions of this Law, and to Bank of Spain Circular 7/2010, of 30 November, and Bank of Spain Circular 5/2011, of 30 November.

The members of the Board of Directors hereby state that the Group entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency (Note 49).

The Bank´s procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Bank.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation (See note 2.i).

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Group entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register, by mortgage on all those that at any time are recorded in favor of the issuer and are not affected by the issuance of mortgage bonds and / or are subject to mortgage participations, and / or mortgage transfer certificates, and, if they exist, by substitution assets eligible to be hedged and for the economic flows generated by derivative financial instruments linked to each issue, and without prejudice to the issuer's unlimited liability.

The mortgage bonds include the credit right of its holder against the issuing entity, guaranteeing in the manner provided for in the previous paragraph, and involve the execution to claim from the issuer the payment after due date. The holders of these securities are recognized as preferred creditors, singularly privileged, with the preference, included in number 3º of article 1,923 of the Spanish Civil Code against any other creditor, in relation with the entire group of loans and mortgage loans registered in favor of the issuer, except those that act as coverage for mortgage bonds and / or are subject to mortgage participations and / or mortgage transfer certificates.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

Following is a detail, by their main features, of the marketable mortgage-backed bonds outstanding at 31 December 2017 and 2016:

	Millions of euros			Annual interest rate (%)	Maturity date
	31/12/2017	31/12/2016	Principal Amount		
Euros					
March 2002 issuance	-	1,083	1,085	5.75	March 2017
April 2005 issuance	993	988	1,001	4.00	April 2020
February 2006 issuance	1,488	1,485	1,500	3.88	February 2026
September 2006 issuance	-	1,498	1,499	4.13	January 2017
May 2007 issuance	1,494	1,494	1,500	4.63	May 2027
January 2010 issuance	100	100	100	0.13	January 2022
April 2010 issuance	-	1,232	1,250	3.63	April 2017
February 2011 issuance	100	100	100	0.16	February 2019
December 2011 issuance	-	500	500	4.75	December 2017
June 2012 issuance	100	100	100	0.81	June 2020
June 2012 issuance	500	500	500	4.50	December 2018
September 2012 issuance	-	500	500	4.75	January 2017
January 2013 issuance	1,985	1,990	2,000	2.88	January 2018
November 2014 issuance	1,728	1,731	1,750	1.13	November 2024
November 2014 issuance	1,238	1,242	1,250	2.00	November 2034
September 2015 issuance	994	995	1,000	0.75	September 2022
January 2016 issuance	997	999	1,000	1.50	January 2026
February 2016 issuance	933	934	907	2.04	February 2036
March 2016 issuance	100	100	100	1.52	March 2028
June 2016 issuance	4,000	4,000	4,000	0.13	June 2021
June 2016 issuance	150	150	150	0.00	June 2020
December 2016 issuance	250	250	250	0.27	December 2021
June 2017 issuance	2,000	-	2,000	0.03	June 2021
June 2017 issuance	350	-	350	0.11	June 2022
June 2017 issuance	2,000	-	2,000	0.16	June 2022
Novembre 2017 issuance	12	-	12	0.00	November 2029
EIB Bond	100	-	100	0.13	August 2019
PITCH Bond	299	-	300	0.51	July 2022
Balance at end of the year	**21,911**	**21,971**			

The detail of the principal amount of the Bank's mortgage securities outstanding at 31 December 2017 and 2016 is as follows:

	Principal amount (Millions of euros)	
	2017	2016
1. Mortgage bonds outstanding	-	-
2. Mortgage-backed bonds issued	21,970	22,642
Of which: Recognised in liabilities	*8,528*	*5,391*
2.1. Debt instruments. Issued through a public offering	21,970	22,042
- Term to maturity of up to one year	2,500	4,835
- Term to maturity of one to two years	200	2,500
- Term to maturity of two to three years	1,250	100
- Term to maturity of three to five years	10,000	5,500
- Term to maturity of five to ten years	5,750	5,350
- Term to maturity of more than ten years	2,270	3,757
2.2. Debt instruments. Other issues	-	-
2.3. Deposits (1)	-	600
- Term to maturity of up to one year	-	200
- Term to maturity of one to two years	-	-
- Term to maturity of two to three years	-	100
- Term to maturity of three to five years	-	-
- Term to maturity of five to ten years	-	300
- Term to maturity of more than ten years	-	-
3. Mortgage participation certificates issued (2)	-	-
4. Mortgage transfer certificates issued (2) (3)	17,030	19,380
4.1. Issued through a public offering (Note 10.e)	17,030	19,380

(1) At December 31, 2016, there were mortgage bonds related to the European Investment Bank (EIB), as well as issued by Securitization of mortgage certificates Program (PITCH) classified at deposits amortized cost amounting to 600 million euros, of which 400 million euros have been classified during 2017 as Securities representing debt at amortized cost (the remaining balance has been amortized during the year 2017).

(2) Relating solely to mortgage loans and credits not derecognised.

(3) The average term to maturity weighted by amount, expressed in months, rounded up, was 489 months (498 months during 2016).

Asset transactions

Pursuant to Bank of Spain Circulars 7/2010 and 5/2011, of 30 November, on the implementation of certain aspects of the mortgage market, the table below details: the principal amount of all the mortgage loans and credits, those that are eligible pursuant to Royal Degree 716/2009 on the regulation of the Spanish mortgage market for the purposes of calculating the limit of mortgage-backed bond issues, the mortgage loans and credits covering mortgage bond issues, those that have been transferred through mortgage participation certificates or mortgage transfer certificates, and the uncommitted transactions relating to the Bank. The breakdown of the mortgage loans at 31 December 2017 and 2016 indicating their eligibility and computability for mortgage market regulatory purposes, is as follows:

	Principal amount (Millions of euros)	
	2017	2016
Total mortgage loans and credits (1)	70,875	74,787
Mortgage participation certificates issued	561	620
Of which: loans recognised in assets	-	-
Mortgage transfer certificates issued	17,141	19,509
Of which: loans recognised in assets	*17,030*	*19,380*
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (2)	53,173	54,658
i) Non-eligible mortgage loans and credits (3)	15,757	17,536
- *Which comply with the eligibility requirements, except for the limit established in Article 5.1 of Royal Decree 716/2009*	*9,099*	*11,597*
- *Other non-eligible loans*	*6,658*	*5,939*
ii) Eligible mortgage loans and credits (4)	37,416	37,122
- *Un-measurable amounts* (5)	-	-
- *Measurable amounts*	*37,416*	*37,122*
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues (6)	*37,416*	*37,122*

(1) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognised.

(2) Total loans less mortgage participation certificates issued, mortgage transfer certificates issued and mortgage loans securing borrowings.

(3) Due to non-compliance with the requirements of Art. 3 of Royal Decree 716/2009.

(4) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.

(5) Pursuant to Art. 12 of Royal Decree 716/2009.

(6) The Bank revalues its mortgage portfolio on a regular basis and, as a result, the measurable amount is updated.

Following is a detail of the principal amount of the outstanding mortgage loans and credits and of the principal amount of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the measurement limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average term to maturity, interest rate, borrower and type of guarantee:

	Principal amount (millions of euros)			
	2017		2016	
	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)
By origin of transactions				
Originated by the entity	52,074	36,389	53,422	35,968
From subrogations	1,099	1,027	1,236	1154
	53,173	**37,416**	**54,658**	**37,122**
By currency				
Euro	52,929	37,416	54,248	37,122
Other currencies	244	-	410	-
	53,173	**37,416**	**54,658**	**37,122**
By payment status				
Current	46,882	36,447	45,531	35,838
Past due	6,291	969	9,127	1,284
	53,173	**37,416**	**54,658**	**37,122**
By term to maturity				
Less than 10 years	19,817	10,701	22,161	10,995
10 to 20 years	19,915	16,671	19,992	16,744
20 to 30 years	11,514	9,404	10,420	8,505
More than 30 years	1,927	640	2,085	878
	53,173	**37,416**	**54,658**	**37,122**
By interest rate				
Fixed-rate loans	5,523	3,480	5,414	2,893
Floating-rate loans	47,650	33,936	49,244	34,229
	53,173	**37,416**	**54,658**	**37,122**
By borrower				
Legal entities and individual traders	18,140	8,309	20,187	8,737
Of which: Property developments(including land)	*2,709*	-	*4,202*	-
Other individuals and non-profit institutions serving households	35,033	29,107	34,471	28,385
	53,173	**37,416**	**54,658**	**37,122**
By type of guarantee				
Completed buildings – residential	38,802	30,692	38,576	29,837
Of which: Officially sponsored housing	*2,524*	*1,716*	*2,333*	*1,478*
Completed buildings – commercial	4,876	2,401	4,916	2,573
Completed buildings – other	6,442	3,194	6,986	3,585
Buildings under construction – residential	516	*1*	380	-
Of which: Officially sponsored housing	*32*	-	*21*	-
Buildings under construction – commercial	19	*2*	11	1
Buildings under construction – other	76	*1*	56	1
Land – developed consolidated land	1,382	569	2,485	523
Land – other	1,060	556	1,248	602
	53,173	**37,416**	**54,658**	**37,122**

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.

Following is a detail, by loan-to-value ratio, of the principal amount of the eligible mortgage loans and credits pursuant to Royal Decree 716/2009, without considering the measurement limits established in Article 12 of Royal Decree 716/2009:

	31 December 2017				
	Principal amount by LTV range (millions of euros)				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	TOTAL
Mortgage loans and credits for mortgage and mortgage-backed bond issues	15,443	13,887	8,086	-	37,416
Home property	*11,927*	*10,680*	*8,086*	-	*30,693*
Other property	*3,516*	*3,207*	-	-	*6,723*

(*)Pursuant to Art. 3 of Royal Decree 716/2009.

Following is a detail of the changes in 2017 in the principal amount of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	Millions of euros	
	Eligible mortgage loans and credits (*)	Non-eligible mortgage loans and credits (**)
Balance at 31 December 2016	**37,122**	**17,536**
Period additions:	5,991	4,485
Originated by the Bank	*4,339*	*2,382*
Subrogations from other entities	*16*	*2*
Other	*1,636*	*2,101*
Period disposals:	5,697	6,264
Repayments on maturity	*279*	*2,170*
Early repayments	*1,565*	*1,205*
Other (***)	*3,853*	*2,889*
Balance at 31 December 2017	**37,416**	**15,757**

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.

(**) That do not comply with the requirements of Art. 3 of Royal Decree 716/2009.

(***) The Bank performs a reappraisal its mortgage portfolio on a regular basis and, as a result, the measurable amount is updated.

Following is a detail of the undrawn balances of the mortgage loans and credits backing mortgage and mortgage-backed bond issues:

	Millions of euros	
	Principal amount (*)	
	2017	2016
Potentially eligible (**)	285	342
Non-eligible	1,492	1,091

(*) Amounts committed less amounts drawn down, including amounts delivered to property developers only when the housing units are sold.

(**) Pursuant to Art. 3 of Royal Decree 716/2009.

d) Other non-convertible marketable securities

The balance of Other non-convertible marketable securities relates to territorial bonds (cédulas territoriales), non-convertible bonds and internationalisation bonds. The detail, by issue currency and interest rate, is as follows:

Currency of issuance	Millions of euros		31 December 2017
	2017	2016	Annual interest rate (*)
Euro	5,863	7,933	0.15%
US dollar	2,000	1,373	1.86%
Balance at end of the year	**7,863**	**9,306**	

(*) Average interest rate of the various securities at 31 December 2017 based on their nominal amounts.

i. *Changes*

The changes in Other non-convertible marketable securities were as follows:

	Millions of euros		31 December 2017	
	2017	2016	Annual interest rate (%) (*)	Maturity date
Balance at beginning of year	9,306	8,151		
Issues	1,000	5,335		
Of which:				
March 2016	-	*163*	2.27%	*March 2020*
May 2016	-	*2,500*	0.15%	*May 2020*
July 2016	-	*2,500*	0.10%	*July 2020*
December 2016	-	*172*	2.42%	*December 2020*
October 2017	1,000	-	*1.81%*	*October 2022*
Redemptions	(2,327)	(4,221)		
Exchange differences	(116)	41		
Balance at end of the year	**7,863**	**9,306**		

(*) Based on the nominal amount.

On 10 October 2017, the Bank launched an internationalization bond issue for a nominal amount of US 1,200 million which matures on October 9, 2022, represented by 8,000 internationalisation bonds with a face value of US 150,000 each. Likewise, during 2017, the bank partially amortized internationalisation bonds issued in 2016 amounting to 237 million euro.

On 17 March 2016, the Bank launched an internationalization bond issue for a nominal amount of USD 180 million which matures on March 17, 2020, represented by 1,200 internationalisation bonds with a principal of US 150,000 each.

On 23 March 2016, the Bank redeemed an issuance of non-convertible obligations for a nominal amount of EUR 488.5 million. Issued on March 23, 2013 represented by 4,885 non-convertible bonds with a principal of EUR 100,000 each.

On 21 June 2016, the Bank redeemed an issuance of territorial bonds for a principal amount of EUR 1,000 million, issued on 21 June 2011 and comprising 10,000 bonds with a face value of EUR 100,000 each.
On 21 May 2016, the Bank launched an issuance of territorial bonds for a nominal amount of EUR 2,500 million, which matures on 31 May 2020, comprising 25,000 bonds with a principal of EUR 100,000 each.

On 11 July 2016, the Bank redeemed an issuance of territorial bonds for a nominal amount of EUR 2,000 million, issued on 11 July 2013 and comprising 20,000 bonds with a principal of EUR 100,000 each.

On 12 July 2016, the Bank redeemed an issuance of territorial bonds for a nominal amount of EUR 2,500 million, which matures on 12 July 2020, comprising 25,000 bonds with a principal of EUR 100,000 each.

On 20 October 2016, the Bank redeemed an issuance of territorial bonds for a nominal amount of EUR 500 million, issued on 20 October 2012 and comprising 5,000 bonds with a principal of EUR 100,000 each.

On 22 December 2016, the Bank launched an internationalization bond issue for a nominal amount of US 180 million which matures on March 17, 2020, represented by 1,200 internationalisation bonds with a principal of US 150,000 each.

Also, in 2016 the Bank partially redeemed issues of internationalisation bonds launched in 2016 for an amount of EUR 233 million.

ii. Disclosures required by Bank of Spain Circular 4/2015, of 29 of July, amending Bank of Spain Circular 4/2004, of 22 of December, to credit institutions, on public and confidential financial reporting rules and formats, Bank of Spain Circular 1/2013, of 24 of May, on the Central Credit Register, and Bank of Spain Circular 5/2012, of 27 June, to credit institutions and payment service providers, on the transparency of banking services and responsible lending.

Territorial bonds

The members of the board of directors have stated that in the territorial bond issuances the Bank has established specific policies and procedures in relation to the financing activities of public entities pursuant to Bank of Spain Circular 4/2015, of 29 July.

Following is a detail of the total principal amount of the loans used to secure the territorial bonds outstanding at 31 December 2017:

	Principal amount (*) (Millions of euros)
	Residents in Spain
Central governments	254
Autonomous or regional governments	8,000
Local governments	1,488
	9,742

(*) Unrepaid portion of the loan nominal amounts.

Following is a detail of the territorial bonds issued outstanding at 31 December 2017:

	Principal amount (Millions of euros)
Issued through a public offering	-
Other issues	5,592
Of which: Treasury shares	-
Term to maturity of up to one year	-
Term to maturity of one to two years	-
Term to maturity of two to three years	5,200
Term to maturity of three to five years	392
Term to maturity of five to ten years	-
Term to maturity of more than ten years	-
	5,592

The coverage ratio of the territorial bonds with respect to the loans was 57.41% at 31 December 2017 (70.10% at 31 December 2016).

Internationalisation bonds

The members of the board of directors have stated that in the internationalisation bond issuances the Bank has established specific policies and procedures in relation to its financing activities with regard to agreements to export goods and services and business internationalisation processes pursuant to Bank of Spain Circular 4/2015, of 29 July.

Following is a detail of the outstanding internationalisation bonds issued, and of the loans used to secure them, at 31 December 2017:

Issue date	Maturity date	Millions of euros					Coverage ratio of bonds to loans
		Internationalisation bonds			Cover loans		
		Principal amount		Present value (**)	Principal amount	Present value (**)	
		Not issued through a public offering (*)	Of which: Own securities		Computable for the purposes of the issue limit		
February 2015	February 2019	273	273	273	275	294	92.89%
April 2015	April 2019	792	792	798	866	944	84.48%
March 2016	March 2020	86	85	87	99	108	80.20%
December 2016	December 2020	122	122	124	145	149	82.99%
October 2017	October 2022	1,001	1,001	1,021	1,186	1,268	80.52%
		2,274	**2,273**	**2,303**	**2,571**	**2,763**	

(*) Relate in full to Debt securities.

(**) Represents the value pursuant to Article 12 of Royal Decree-Law 579/2014.

None of the internationalisation bonds issued by the Bank had replacement assets assigned to them.

21. Other non convertible issuances

a) Breakdown

The detail by type and currency of Subordinated liabilities in the accompanying balance sheets is as follows:

	Millions of euros (*)	
	2017	2016
Type:		
Other non convertible issuances	41,109	4,566
Of wich subordinated liabilities	*15,413*	*4,563*
	41,109	**4,566**
Currency:		
Euro	25,259	8,823
US dollar	12,835	7,510
Sterling Pound	643	293
Other currencies (**)	2,372	315
	41,109	**16,941**

(*) This amount includes the principal, in other currencies.
(**) This amount mainly includes Japanese yens, for the year 2017.

b) Changes

The changes in Subordinated marketable debt securities in the foregoing table for the years 2017 and 2016 are as follows:

	Millions of euros	
	2017	2016
Balance at beginning of the year	4,566	4,521
Merger of issuing companies	34,311	-
Issues	18,857	-
Redemptions	(15,204)	-
Exchange differences	(1,421)	45
Balance at end of the year	**41,109**	**4,566**

Inside the account balance recorded in Other non-convertible negotiable securities, is included commercial paper issues, as well as other issues made by the bank.

- Commercial paper

At January 31, 2017, Banco Santander, S.A. has approved the annual renewal of the "Program for the issuance of commercial paper or promissory notes in the United States", agreed on September 10, 2008, allowing specific authorized persons to set the necessary conditions to execute this renewal, as well as those of the emissions that are made under its protection. The issuers of this Program are Banco Santander, S.A. and Santander Commercial Paper, S.A.U. (with the guarantee of the Bank in the last case), for a maximum nominal global amount to 15,000,000 thousand US dollars.

In this way, on April 18, 2017, Banco Santander, S.A. adopt the annual renewal of the "Program for the issuance of commercial paper or promissory notes in Euros", which was originally agreed on May 29, 2008, allowing certain authorized persons to set the necessary conditions to realize this renewal, as well as the emissions that are made under his protection. The issuers of this program are Banco Santander, S.A. and Santander Commercial Paper, S.A.U. (with the guarantee of the Bank in the last case), for a maximum nominal global amount to 15,000,000 thousand euros

Commercial paper issues in both currencies are accept on the Irish Stock Exchange and grant their holders the right to receive a remuneration payable at maturity of the issue, at the fixed or variable interest rate that each of them offers , and that at the close of 2016 and 2015 were between -0.005% and 1.48% annual and -0.04% and 0.89% per annum, respectively, with the average nominal interest rate of the 0.292% and 0.277% annual, respectively, and that at the end of 2017 was between -0.535% and 1.85% annual, with an average annual interest rate of 0.069%.

- Remmaining issuances

During 2017, Banco Santander, S.A. it has reported 47 issues for a nominal amount of 11,477 million euros (without considering perpetual issues amounting to 1,700 million euros, (see note 21.c)). The average remuneration of these emissions has been fixed at 2.31% annual.

During the year 2016, Banco Santander, S.A. announced nine new bond issues through Santander Issuances, S.A.U.:

On 8 June and 23 August 2016, Banco Santander, S.A. announced two new issues through Santander Issuances, S.A.U., for a nominal amount of EUR 82 million, equivalent to JPY 10,100. The interest of these new issues has been fixed at 1.94% and 2.20% per annum for the following ten years.

On 4 April and, 1 December and 29 December 2016, Banco Santander, S.A. announced three new issues, through Santander Issuances, S.A.U., for a nominal amount of EUR 1,610 million. The interest of these new issues has been fixed at 3.25%, 4.35% and 4.46% per annum for the following ten years.

On 20 September and, 19 October, 30 November and 2 December 2016, Banco Santander, S.A. announced four new issues, through Santander Issuances, S.A.U., for a nominal amount of EUR 654 million equivalent to USD 690. The interest of these new four issues has been fixed at 4.60%, 4.70%, 5.20% and 5.20% per annum for the following ten years.

During the year 2016, 8 bond issues of Santander Issuances S.A.U., were amortized amounting to EUR 4,630 million (EUR 278 million in 2015 corresponding to payments of subordinated deposits amounting to EUR 61 million and maturities of a Santander Central Hispano Issuances Limited issue amounting to EUR 163 million and issuance of subordinated debentures of the Bank SA amounting to EUR 54 million).

c) Other information

This item includes the preference shares (participaciones preferentes) and other financial instruments issued by the Bank which, although equity for legal purposes, do not meet the requirements for classification as equity (preference shares).

The preference shares do not carry any voting rights and are non-cumulative. They were subscribed to by non-Bank third parties and, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

For the purposes of payment priority, preference shares (participaciones preferentes) are junior to all general creditors and to subordinated deposits. The remuneration of these securities, which have no voting rights, is conditional upon the obtainment of sufficient distributable profit and upon the limits imposed by Spanish banking regulations on equity. The other issues are subordinated and, therefore, for the purposes of payment priority, they are junior to all general creditors of the issuers.

At December 31, 2017, the following issues were convertible into Bank shares:

On March 5, May 8 and September 2, 2014, Banco Santander, S.A. announced that its executive committee had resolved to launch three issues of preference shares contingently convertible into newly issued ordinary shares of the Bank (“CCPSs”) for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million, respectively. The interest on the CCPSs, payment of which is subject to certain conditions and is discretionary, was set at 6.25% per annum for the first five years (to be repriced thereafter by applying a 541 basis-point spread to the 5-year Mid-Swap Rate) for the March issue, at 6.375% per annum for the first five years (to be repriced thereafter by applying a 478.8 basis-point spread to the 5-year Mid-Swap Rate) for the May issue and at 6.25% per annum for the first seven years (to be repriced every five years thereafter by applying a 564 basis-point spread to the 5-year Mid-Swap Rate) for the September issue.

On March 25, May 28, and September 30, 2014, the Bank of Spain confirmed that the CCPSs were eligible as Additional Tier 1 capital under the new European capital requirements of Regulation (EU) No 575/2013. The CCPSs are perpetual, although they may be redeemed early in certain circumstances and would convert into newly issued ordinary shares of Banco Santander if the Common Equity Tier 1 ratio of the Bank or its consolidated group fell below 5.125%, calculated in accordance with Regulation (EU) No 575/2013. The CCPSs are traded on the Global Exchange Market of the Irish Stock Exchange.

On April 25, and September 29, 2017, Banco Santander, S.A. issued preferred shares contingently convertible in newly issued common shares of the Bank (the "CCPP"), for a nominal amount of 750 million euros, and 1,000 million euros, respectively. The remuneration of the CCPPs, whose payment is subject to certain conditions and is also discretionary, was fixed at 6.75% annually for the first five years (being reviewed thereafter by applying a margin of 680.3 basis points over the 5-year Mid-Swap Rate) for the issue paid out in April, and at 5.25% annually for the first six years (reviewed thereafter by applying a margin of 499.9 basis points over the 5-year Mid-Swap Rate) for the issue paid out in September.

The interest on the CCPSs in 2017 amounted to EUR 310 million (2016: EUR 274 million).

22. Other financial liabilities

Following is a detail of Other financial liabilities in the accompanying balance sheets:

	Millions of euros	
	2017	2016
Trade payables	701	614
Payment obligations	2,173	1,765
Public agency revenue collection accounts	2,030	1,785
Unsettled financial transactions	2,872	3,559
Other accounts	1,604	1,608
	9,380	**9,331**

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2017	2016
	Days	
Average period of payment to suppliers	10	11
Ratio of transactions paid	10	11
Ratio of transactions pending payments	36	40
	Millions of euros	
Total payments made	2,947	2,708
Total payments outstanding	4	-

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

"Average period of payment to suppliers" is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction.

Note 48 contains a detail of the residual maturity periods of Other financial liabilities at each year-end.

23. Provisions

a) Breakdown

The detail of Provisions in the balance sheets at 31 December 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Provision for pensions and similar obligations	5,372	6,215
Of which:		
Pensions and similar defined benefit obligations post-employment	*4,141*	4,627
Other long-term remunerations to employees	*1,231*	*1,588*
Provisions for taxes and other legal contingencies	316	*262*
Provisions for commitments and guarantees given	196	267
Other provisions	731	595
	6,615	**7,339**

b) Changes

The changes in Provisions in 2017 and 2016 were as follows:

	Millions of euros									
	2017					2016				
	Post-employment	Long - Term	Commitments and guarantees given	Other provisions	Total	Post-employment (*)	Long - Term	Contingent liabilities and commitments	Other provisions (**)	Total
Balance at beginning of year	4,627	1,588	267	857	7,339	4,747	1,737	291	860	7,635
Changes in value recognised in equity	23	-	-	-	23	106	-	-	-	106
Additions charged to income:										
Interest expense (Note 35)	77	20	-	-	97	89	27	-	-	116
Staff costs (Note 42)	10	1	-	-	11	10	1	-	-	11
Provisions (net)	-	82	(66)	481	497	(10)	353	(10)	381	714
	87	103	(66)	481	605	89	381	(10)	381	841
Payments to pensioners and pre-retirees	(584)	(468)	-	-	(1,052)	(342)	(556)	-		(898)
Amounts used and other changes	(12)	8	(5)	(291)	(300)	27	26	(14)	(384)	(345)
Balances at end of year	**4,141**	**1,231**	**196**	**1,047**	**6,615**	**4,627**	**1,588**	**267**	**857**	**7,339**

(*) Includes EUR 6 million in 2016 related to Provision for pensions and similar obligations and defined benefit plans (See Note 23.c).

(**) Including EUR 265 million in Provision or reversal of provision.

c) *Provision for pensions and similar obligations*

The detail of Provision for pensions and similar obligations at 31 December 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Provisions for pensions and similar defined benefit plan obligations	5,372	6,209
Of which:		
Provisions for pensions	*4,141*	*4,621*
Provisions for similar obligations	*1,231*	*1,588*
Of which: pre-retirements	*1,220*	*1,578*
Provisions for pensions and similar defined contribution plan obligations	-	6
Total provisions for pensions and similar obligations	**5,372**	**6,215**

i. Post-employment benefits

At the end of 2012, the Bank reached an agreement with the employees' representatives to convert the defined benefit obligations arising from the collective agreement into defined contribution plans. In addition, the senior executives' contracts with defined-benefit pension obligations were amended to convert such obligations into a defined-contribution employee welfare system.

The amount of the obligations accrued by the totality of the personal assets, both collective agreement and management, object of transformation of a defined benefit to measure, amounted to 999 million euros. The transformed processes were externalized by the subscription of various insurance contracts with Spanish insurance entities. After the election of a transformation, at December 31, 2017 and 2016, practically all pension commitments with active personnel correspond to defined contribution plans. The total contributions made to said aircraft during the year 2017 amounted to 74 million euros (80 million during the year 2016) (See Note 42).

In addition, at 31 December 2017 and 2016, the Bank had certain defined benefit obligations. The table below shows the present value of the Bank's defined benefit post-employment benefit obligations and the value of the reimbursement rights under the insurance policies linked to these obligations at 31 December 2017 and for the preceding four years:

	Millions of euros				
	2017	2016	2015	2014	2013
Present value of the obligations:					
To current employees	22	43	44	38	20
To retired employees	4,244	4,433	4,567	4,657	4,436
Other	19	297	286	304	253
	4,285	4,773	4,897	4,999	4,709
Fair value of plan assets	(146)	(154)	(155)	(164)	(157)
Assets not recognised	2	2	1	-	2
Provisions - Provisions for pensions	**4,141**	**4,621**	**4,743**	**4,835**	**4,554**
Of which:					
Internal provisions for pensions	*2,409*	*2,787*	*2,819*	*2,868*	*2,658*
Insurance contracts linked to pensions (Note 14)	*1,732*	*1,834*	*1,924*	*1,967*	*1,896*
Of which:					
Group insurance entities	*1,494*	*1,565*	*1,625*	*1,622*	*1,554*
Other insurers	*238*	*269*	*299*	*345*	*342*

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2017	2016
Annual discount rate	1.40%	1.50%
Mortality tables	PE2000P M/F	PE2000P M/F
Cumulative annual CPI growth	1%	1%
Annual pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	2017	2016
Expected rate of return on reimbursement rights	1.40%	1.50%

The amounts recognised in the accompanying income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros	
	2017	2016
Service cost:		
Current service cost (Note 42)	10	10
Past service cost (including reductions)	-	6
Pre-retirement cost	-	6
Settlements	(2)	(21)
Net interest (Note 35)	77	89
Expected return on insurance contracts linked to pensions (Note 34)	(35)	(42)
	50	**48**

In addition, in 2017 Other comprehensive income – items not reclassified to profit or loss– Actuarial gains or (-) losses on defined benefit pension plans has caused an additional actuarial loss of EUR 25 million respect to defined benefit obligations (2016: EUR 74 million of actuarial loss).

The changes in 2017 and 2016 in the present value of the accrued defined benefit obligations were as follows:

	Millions of euros	
	2017	2016
Present value of the obligations at beginning of the year	4,773	4,897
Current service cost	10	10
Interest cost	80	93
Pre-retirement cost	-	6
Settlements	(2)	(21)
Benefits paid for settlements(*)	(260)	-
Other benefits paid	(332)	(350)
Past service cost	-	6
Actuarial (gains)/losses (**)	35	133
Exchanges rate differences and others	(19)	(1)
Present value of the obligations at end of the year	**4,285**	**4,773**

(*) In October 2017, the Bank and the employees' representatives get an agreement for the elimination and compensation of specific passive rights based on extra-agreement agreements. The settlement of this commitments was made through the payment of 260 million euros, without generating an impact on equity or the profit and loss account during the year.

(**) Including in 2017 demographic actuarial gains of EUR 5 million and financial actuarial losses of EUR 40 million (2016: demographic actuarial losses of EUR 15 million and financial actuarial losses of EUR 118 million).

The changes in 2017 and 2016 in the fair value of the plan assets are as follows:

	Millions of euros	
	2017	2016
Fair value of plan assets at beginning of year	154	155
Expected return on plan assets	3	4
Benefits paid	(7)	(8)
Contributions payable by the employer	(1)	8
Exchange rate differences and others	(6)	(3)
Actuarial gains/(losses)	3	(2)
Fair value of plan assets at end of year	**146**	**154**

The changes in 2017 and 2016 in the fair value of the insurance contracts linked to pensions are as follows:

	Millions of euros	
	2017	2016
Fair value of insurance contracts linked to pensions at beginning of the year	1,834	1,924
Expected return on insurance contracts (Note 34)	35	42
Actuarial gains/(losses)	8	30
Premiums paid/(surrenders)	-	(2)
Benefits paid	(145)	(160)
Fair value of insurance contracts linked to pensions at end of the year (Note 14)	**1,732**	**1,834**

Plan assets and pension insurance contracts linked to pensions are mainly instrumented in insurance policies.

ii. Other long-term employee benefits

In various years the Bank offered to some certain of its employees the possibility of leaving its employ prior to their retirement. Therefore, provisions are recognised to cover the obligations to pre-retirees -in terms of both salaries and other employee benefit costs- from the date of their pre-retirement to the date of their effective retirement.

In 2017, Banco Santander, S.A. reached an agreement with the employees representatives to accept the pre-retirement and voluntary redundancy offer.The provision recognised to cover these obligations amounted to EUR 70 million at 31 December 2017 (31 December 2016: EUR 347 million), corresponding to the pre-retirement offer for that year).

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2017 and for the preceding four years were as follows:

	Millions of euros				
	2017	2016	2015	2014	2013
Present value of the obligations:					
To pre-retirees	1,220	1,578	1,727	2,144	2,070
Long-service bonuses and other benefits	11	10	10	10	9
Provisions - Provisions for pensions	**1,231**	**1,588**	**1,737**	**2,154**	**2,079**

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2017	2016
Annual discount rate	1.40%	1.50 %
Mortality tables	PE2000 M/F	PE2000P M/F
Cumulative annual CPI growth	1%	1%
Annual benefit increase rate	Entre 0% y 1,5%	0% to 1.5%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the income statement in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros	
	2017	2016
Current service cost	1	1
Interest cost (Note 35)	20	27
Extraordinary charges - *Actuarial (gains)/losses recognised in the year*	*12*	*6*
Pre-retirement cost	70	347
Other	-	-
	103	**381**

The changes in 2016 and 2017 in the present value of the accrued obligations for other long-term benefits were as follows:

	Millions of euros	
	2017	2016
Present value of the obligations at beginning of the year	1,588	1,737
Current service cost	1	1
Interest cost (Note 35)	20	27
Pre-retirement cost	70	347
Effect of curtailment/settlement	-	-
Benefits paid	(468)	(556)
Actuarial (gains)/losses	12	6
Other	8	26
Present value of the obligations at end of the year	**1,231**	**1,588**

iii. Sensitivity analysis

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2017, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of +5.37% and -4.92%, respectively, and an increase or decrease in the present value of the long-term obligations of +1.05% and - 1.03%. These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

d) Provisions for taxes and other legal contingencies and Other provisions

Provisions - Provisions for taxes and other legal contingencies and Provisions - Other provisions, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

e) Litigation and other matters

i. Tax-related litigation

At December 31, 2017, the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11,727/2008, a provision having been recognized for the amount of the estimated loss.

- Legal actions filed by Banco Santander, S.A. (currently Banco Santander (Brasil) S.A.) and other Group entities claiming their right to pay the Brazilian PIS and COFINS social contributions only on the income from the provision of services. In the case of Banco Santander, S.A., the legal action was declared unwarranted and an appeal was filed at the Federal Regional Court. In September 2007 the Federal Regional Court found in favor of Banco Santander, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. On April 23, 2015, the Federal Supreme Court issued a decision granting leave for the extraordinary appeal filed by the Brazilian authorities with regard to the PIS contribution to proceed, and dismissing the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office in relation to the COFINS contribution. The Federal Supreme Court has not yet handed down its decision on the PIS contribution and, with regard to the COFINS contribution, on May 28, 2015, the Federal Supreme Court in plenary session unanimously rejected the extraordinary appeal filed by the Brazilian Public Prosecutor's Office, and the petition for clarification ("embargos de declaraçao") subsequently filed by the Brazilian Public Prosecutor's Office, which on September 3, 2015 admitted that no further appeals may be filed. In the case of Banco ABN AMRO Real, S.A. (currently Banco Santander (Brasil) S.A.), in March 2007 the court found in its favor, but the Brazilian authorities appealed against the judgment at the Federal Regional Court, which handed down a decision partly upholding the appeal in September 2009. Banco Santander (Brasil) S.A. filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a program of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the program and withdrew the legal actions brought by them were exempted from paying late-payment interest. In November 2013 Banco Santander (Brasil) S.A. partially availed itself of this program but only with respect to the legal actions brought by the former Banco ABN AMRO Real, S.A. in relation to the period from September 2006 to April 2009, and with respect to other minor actions brought by other entities in its Group. However, the legal actions brought by Banco Santander, S.A. and those of Banco ABN AMRO Real, S.A. relating to the periods prior to September 2006, for which a provision for the estimated loss was recognized, still persist.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) on the ground that the relevant requirements under the applicable legislation were not met. No provision was recognized in connection with the amount considered to be a contingent liability. In august 2017, the Bank and other entities of the Group have adhered to the program of fractioning and payment of tax debts provided for in Provisional Measure 783/2017 in relation to different administrative processes of the years 1999 to 2005.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. No provision was recognized in connection with the amount considered to be a contingent liability.

- In addition, Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. A provision was recognized in connection with the amount of the estimated loss.

- In December 2008 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2002 to 2004. The tax authorities took the view that Banco Santander (Brasil) S.A. did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Banco Santander (Brasil) S.A.). Banco Santander (Brasil) S.A. filed an appeal against the infringement notice at Conselho Administrativo de Recursos Fiscais (the Brazilian Tax Appeal Administrative Council, CARF), which on October 21, 2011 unanimously decided to render the infringement notice null and void. The tax authorities appealed against this decision at a higher administrative level. On May 11, 2017, the Superior Chamber of Tax Appeals of the Administrative Council of Tax Appeals, in a split decision, reverted the previous unanimous decision reached by the Brazilian Tax Appeal Administrative Council and issued a judgment in favor of the Brazilian taxing authorities. This decision has been subject to clarification action which has been dismissed, as such, the decision has been appealed In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Banco Santander (Brasil) S.A. filed an appeal against these procedures at CARF, which was partially upheld on October 8, 2013. This decision has been appealed. On July 4, 2017 and November 8, 2017, the CARF ruled in favor of the Brazilian taxing authorities with regards to the annual periods for the years ended 2005, 2006 and 2007. These rulings have been subject to a clarification action. In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for amortization of the goodwill. Banco Santander (Brasil) S.A. appealed against this infringement notice and the court found in its favor. The Brazilian tax authorities appealed against this decision at CARF. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defense arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, no provisions were recognized in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Produban Serviços de Informática S.A.) and Banco Santander (Brasil) S.A. (currently Banco Santander (Brasil) S.A.) in relation to the Provisional Tax on Financial Movements (CPMF) with respect to certain transactions carried out by DTVM in the management of its customers' funds and for the clearing services provided by Banco Santander (Brasil) S.A. to DTVM in 2000, 2001 and the first two months of 2002. The two entities appealed against the infringement notices at CARF, with DTVM obtaining a favorable decision and Banco Santander (Brasil) S.A. an unfavorable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavorable decisions were obtained by Banco Santander (Brasil) S.A. and DTVM on June 12 and 19, 2015, respectively. Both cases were appealed at court in a single proceeding and a provision was recognized for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brazil), current Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brazil Dois Participações, S.A., in relation to income tax (IRPJ and CSLL) for 2005. The tax authorities questioned the tax treatment applied to a sale of shares of Real Seguros, S.A. made in that year. The bank filed an appeal for reconsideration against this infringement notice and subsequently appealed before the CARF, whose resolution partly in favour has been appealed by the Unión Federal and Zurich Santander Brasil Seguros e Previdência S.A. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- In June 2013, the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. as the party liable for tax on the capital gain allegedly obtained in Brazil by the entity not resident in Brazil, Sterrebeeck B.V., as a result of the “incorporação de ações” (merger of shares) transaction carried out in August 2008. As a result of the aforementioned transaction, Banco Santander (Brasil) S.A. acquired all of the shares of Banco ABN AMRO Real, S.A. and ABN AMRO Brasil Dois Participações, S.A. through the delivery to these entities' shareholders of newly issued shares of Banco Santander (Brasil) S.A., issued in a capital increase carried out for that purpose. The Brazilian tax authorities take the view that in the aforementioned transaction Sterrebeeck B.V. obtained income subject to tax in Brazil consisting of the difference between the issue value of the shares of Banco Santander (Brasil) S.A. that were received and the acquisition cost of the shares delivered in the exchange. In December 2014 the Group appealed against the infringement notice at CARF after the appeal for reconsideration lodged at the Federal Tax Office was dismissed. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defense arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognized any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortization of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortization performed after the merger. On the advice of its external legal counsel, Banco Santander (Brasil) S.A. lodged an appeal against this decision at the Federal Tax Office and obtained a favorable decision in July 2015. Such decision was appealed by the Brazilian tax authorities before the CARF, which ruled in their favor. Consequently, in November 2016 the Bank lodged an appeal before the Higher Chamber of Tax Appeals. No provision was recognized in connection with this proceeding as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortization of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. No provision was recognized in connection with this matter as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 in connection with a Trust created by Santander Holdings USA, Inc. in relation to financing transactions carried out with an international bank. Santander Holdings USA, Inc. considered that, in accordance with applicable tax legislation, it was entitled to recognize the aforementioned tax credits as well as the related issuance and financing costs. In addition, if the final outcome of this legal action were to be favorable to the interests of Santander Holdings USA, Inc., the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. On November 13, 2015, the District Court Judge ruled in favor of Santander Holdings USA, Inc., ordering the amounts paid over with respect to 2003 to 2005 to be refunded. The US Government appealed the decision at the US Court of Appeals for the First Circuit and on December 16, 2016 said Court reversed the District Court's decision as to the economic substance of the Trust transaction and the foreign tax credits claimed for the Trust transaction, and referred the case back to the District Court for its ruling over certain matters pending resolution, including the refund claim and the justification of sanctions. On March 16, 2017, Santander Holdings USA, Inc. filed a petition with the U.S. Supreme Court to hear its appeal of the First Circuit Court's decision and on June 26, 2017, the U.S. Supreme Court denied Santander Holdings USA, Inc.´s petition to hear its appeal and returned the case to the District Court as ordered by the U.S. Court of Appeals for the First Circuit. The parties are currently awaiting the District Court´s decision over Santander Holdings USA, Inc. petition to have a summary judgement related to the matters pending resolution. The estimated loss relating to this litigation is provided for.

- In 2007 the European Commission opened an investigation into illegal state aid to the Kingdom of Spain in connection with Article 12.5 of the former Consolidated Text of the Corporate Tax Law. The Commission issued the Decision 2011/5/CE of October 28, 2009, on acquisitions of subsidiaries resident in the EU and decision 2011/282/UE of January 12, 2011, on the acquisition of subsidiaries not resident in the EU, ruling that the deduction regulated pursuant to Article 12.5 constituted illegal State aid. These decisions were subject to appeal by Banco Santander and other companies before the European Union General Court. In November 2014, the General Court delivered judgment annulling the prior decisions, and that judgment was appealed before the European Court of Justice by the Commission. In December 2016 the European Court of Justice delivered judgment setting aside the appeal and remanded the file to the General Court, which shall deliver a new judgment assessing the other annulment pleas raised by the petitioners, which, in turn, may be subject to an appeal before the Court of Justice. The Group, in accordance with the advice from its external lawyers, has not recognized provisions for these suits since they are considered to be a contingent liability.

At the date of approval of these consolidated financial statements certain other less significant tax-related proceedings were also in progress.

ii. Non-tax-related proceedings

At December 31, 2017, the main non-tax-related proceedings concerning the Group were as follows:

- Customer remediation: claims associated with the sale by Santander UK of certain financial products (principally payment protection insurance or PPI) to its customers.

  In August 2010, the FSA (Financial Services Authority) (now the FCA (Financial Conduct Authority)) published a Policy Statement on the valuation and compensation of claims for payment protection insurance (PPI). The policy established rules that changed the bases for the analysis and treatment of the claims for PPI sales and increased the amounts to be paid to customers whose claims were ratified.

In November 2015, the FCA published the consultation 15/39 (Regulations and guides on the payment of claims related to insurance for credit protection) that introduced the concept of unfair commission in connection with case Plevin for the customer compensation, as well as the term for customers to formulate their PPI complaints. On 2 August 2016, the FCA issued a new consultative document (CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation). The document described the FCA's proposal to address the PPI claims following the UK Supreme Court's ruling on the Plevin v. Paragon Personal Finance Ltd case (Plevin) and included the recommendation that the period for filing claims should be extended by two years from June 2017, which was later than proposed in CP 15/39 issued by the FCA in November 2015. The document also included proposals on the calculation of compensation in claims related to Plevin, including considerations on how the participation in benefits should be reflected in the calculation. The final regulation (Policy Statement 17/3 (Payment Protection Insurance Complaints: Feedback on CP16/20 and final rules and guidance)) published on 2 March, 2017 confirms that the two year term for the formulation of claims started on August 2017. It also requires to proactively contact with the claimants whose claims were rejected in accordance with article 140ª of Consumer Credit Act. Finally, the standard introduced some clarifications on the calculation of the profit participation percentage. These changes may have an impact on the amounts expected to be paid in the future.

A provision for conduct remediation has been recognised in respect of the misspelling of PPI policies in the UK. This provision has been calculated using the following variables:

- Number of claims - estimated number of claims;
- Percentage of claims lost - estimated percentage of claims that are or will be favourable to the customer; and
- Average cost - estimated amount to be paid to customers, including compensation for direct loss plus interest.

For the calculation of the provision has been considered

- Full analysis of causes of the claims, probability of success, market fluctuations, possible activities/supervisor and guidelines of the FCA and how these may affect the future;
- Activity recorded with regard to the number of claims received;
- Amount of compensation paid to customers, together with a forecast of the probability of this varying in future;
- The impact on complaints levels of proactive customer contact;
- Effect media coverage and time bar are expected to have on the complaints inflows.
- Commission and profit margin obtained from the insurance provider during the products' lifespan.
- In relation to a specific PPI portfolio of complaints, an analysis of the relevant facts and circumstances including legal and regulatory responsibilities.

These criterias are kept under review and regularly compared to the customer information (claims received, percentage of successful claims, impact of changes in the percentage of successful claims and assessment of the customers potentially affected) to ensure their validity. The provision represents management's best estimate of Santander UK's future liability in respect of mis-selling of PPI policies.

The most critical factor in determining the level of provision is the volume of claims. The uphold rate is informed by historical experience and the average cost of redress can be predicted reasonably accurately given that management is dealing with a high volume and reasonably homogeneous population. In setting the provision, management estimated the total claims that were likely to be received until August 2019.

2017 compared to 2016

The remaining provision for PPI redress and related costs amounted to £356m (EUR 401 million). The total charge for the year was £109m (EUR 124 million) (2016: £144m (EUR 140 million) and was driven by an increase in estimated future claims driven by the start of the FCA advertising campaign for PPI, offset by an expected decline relating to a specific PPI portfolio review. We continue to monitor our provision levels in respect of recent claims experience. In 2016, a provision of £114m (EUR 140 million) was made when we applied the principles published in the August 2016 FCA papers, and a further £32m (EUR 37 million) was made in relation to a past business review.

Monthly utilisation increased from the 2016 average following the confirmation of a deadline for customer complaints, broadly in line with our assumptions. We continue to monitor our provision levels in respect of recent claims experience.

2016 compared to 2015

We made an additional £144m provision charge in the year, which included our best estimate of Plevin related claim costs and a £30m charge for a portfolio under a past business review. With the FCA consultation that was expected to close in the first quarter of 2017, we assessed the adequacy of our provision and applied the principles published in the August 2016 FCA consultation paper to our current assumptions. We continued to review our provision levels in respect of recent claims experience and noted that once the final FCA guidance was published it was possible further PPI-related provision adjustments would be required in future years.

Monthly utilisation during the year, excluding the impact of past business review activity, was slightly higher than the 2015 average and in line with our assumptions.

The following table shows the main factors to calculate the provisions and the future forecast as well as the sensitivity analysis in the faceof future changes. It reflects a blended view across all our retail products and portfolios and includes redress for Plevin-related claims:

	Accumulated at December 31, 2017	Future forecast (unaudited figures)	Sensitivity analysis: increases / decreases in provision
Claims received [1] (000)	1,623	660	25 = £9m
Claims received for proactive contact (000)	487	127	25 = £5m
% Response to complaints received by proactive contact	54%	100%	1% - £0,3m
% Of claims accepted by the Entity [2]	47%	68%	1% - £2,6m
Average compensation by accepted claim [3]	**£1,378**	**£564**	**£100 = £50 m**

[1] Includes all claims received regardless of whether we expect to make a payment; i.e. regardless of the likelihood of the Santander UK group incurring a liability. Excludes claims where the complainant has not held a PPI policy.

[2] It includes both claims received directly from customers and those contacted proactively by the Entity.

[3] The average claim compensation was reduced from an accumulated average amount of £1,378 (EUR 1,222) on December 31, 2017 to an average future amount of £564 due to the effect of Plevin cases in the provision, as well as a shift in the complaints mix to a greater proportion of storecards which typically carry lower average balances.

- Delforca: Dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial. An initial arbitration ruled in favour of the Bank, but this ruling was annulled due to issues regarding the president of the tribunal and one of the items of evidence presented by Delforca. Faced with a second arbitration initiated by the Bank, and after the latter had obtained a preventive attachment in its favour (currently waived), Delforca declared bankruptcy. Prior to this, Delforca and its parent, Mobiliaria Monesa, S.A., launched other lawsuits claiming damages due to the Bank's actions before civil courts in Madrid, later shelved, and in Santander, currently stayed on preliminary civil ruling grounds.

  During the insolvency proceeding, Barcelona Commercial court no. 10 ordered the stay of the arbitration proceeding, the termination of the arbitration agreement, the lack of recognition of the contingent claim and a breach by the Bank, and dismissed the Bank's request to conclude the proceeding due to the non-existence of insolvency. Following the appeals filed by the Bank, the Barcelona Provincial Appellate Court revoked all these decisions, except that relating to the rejection of the conclusion of the proceeding, which gave rise to the resumption of the arbitration process, in which the Partial Award was issued, rejecting the procedural exceptions raised by Delforca, resolution which was appealled by Delforca. Delforca appealed against the decisions rejected the resolution of the arbitration agreement and the recognition of the contingent claim in favour of the Bank. Furthermore, Delforca and its parent have requested from the judge of the insolvency case the repayment of the security deposit executed by the Bank to settle the swaps, being these processes under processing. The Bank has not recognised any provisions in this connection.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) on behalf of its members, requesting the payment of a half-yearly bonus initially envisaged in the entity's Bylaws in the event that the entity obtained a profit and that the distribution of this profit were approved by the Board of Directors. The bonus was not paid in 1994 and 1995 since the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the Board of Directors, and the relevant clause was eliminated in 2001. The Regional Employment Court ordered the bank to pay this half-yearly bonus in September 2005 and the bank filed an appeal against the decision at the High Employment Court ("TST") and, subsequently, at the Federal Supreme Court ("STF"). The TST confirmed the judgment against the bank, whereas the STF rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the STF in plenary session. The STF recently handed down a decision on a matter relating to a third party that upholds one of the main arguments put forward by the Bank. The Bank has not recognised any provisions in this connection.

- "Planos Económicos": Like the rest of the banking system, Santander Brazil has been the subject of claims from customers, mostly depositors, and of civil class actions brought for a common reason, arising from a series of legislative changes relating to the calculation of inflation ("planos económicos"). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice (STJ) set the limitation period for these class actions at five years, as claimed by the banks, rather than 20 years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the STJ and the Federal Supreme Court (STF) with which the matter is expected to be definitively settled. In August 2010, the STJ handed down a decision finding for the plaintiffs in terms of substance, but excluding one of the "planos" from the claim, thereby reducing the amount thereof, and once again confirming the five-year statute-of-limitations period. Shortly thereafter, the STF issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter. Various appeals to the STF are currently being considered in which various matters relating to this case are discussed.

- At the end of 2017, the Advocacia Geral da União (AGU), Bacen, Instituto de Defesa do Consumidor (Idec), the Frente Brasileira dos Poupadores (Febrapo) and Federação Brasileira dos Bancos (Febraban) signed an agreement with the aim of terminating the judicial disputes related to economic situation. Discussions have focused on specifying the amount to be paid to each affected customer according to the balance in their notebook at the time of the Plan. Finally, the total value of the payments will depend on the amount of endorsements that there have been and the number of savers who have showed the existence of the account and its balance on the date on which the indexes were changed. The terms of the agreement signed by the parties have been subject to the approval of the Supreme Federal Court (STF), to whom the final word on the viability of the agreement corresponds. Provisions registered in order to hedge risks that may derive from the "economic plans", including those derived from the agreement pending approval by the STF, are deemed sufficient.

- The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC ("Madoff Securities") by the US Securities and Exchange Commission ("SEC") took place in December 2008. The exposure of customers of the Group through the Optimal Strategic US Equity ("Optimal Strategic") subfund was EUR 2,330 million, of which EUR 2,010 million related to institutional investors and international private banking customers, and the remaining EUR 320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors.

  At the date of these consolidated financial statements, certain claims had been filed against Group companies in relation to this matter. The Group considers that it has at all times exercised due diligence and that these products have always been sold in a transparent way pursuant to applicable legislation and established procedures. The risk of loss is therefore considered to be remote or immaterial.

- At the end of the first quarter of 2013, news stories were published stating that the public sector was debating the validity of the interest rate swaps entered into between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

  The swaps under debate included swaps entered into by Banco Santander Totta, S.A. with the public companies Metropolitano de Lisboa, E.P.E. (MdL), Metro de Porto, S.A. (MdP), Sociedade de Transportes Colectivos do Porto, S.A. (STCP) and Companhia Carris de Ferro de Lisboa, S.A. (Carris). These swaps were entered into prior to 2008, i.e. before the start of the financial crisis, and had been executed without incident.

  In view of this situation, Banco Santander Totta, S.A. took the initiative to request a court judgment on the validity of the swaps in the jurisdiction of the United Kingdom to which the swaps are subject. The corresponding claims were filed in May 2013.

  After the Bank had filed the claims, the four companies (MdL, MdP, STCP and Carris) notified Banco Santander Totta, S.A. that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013. Banco Santander Totta, S.A. extended each of the claims to include the unpaid amounts.

  On November 29, 2013, the companies presented their defence in which they claimed that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid.

  On March 4, 2016, the Court handed down a judgment in which it upheld all the matters raised by the Bank and declared al the swap agreements to be valid and binding. The transport companies appealed against this decision. The Appellate Court dismissed the appeal through a decision handed down on 13 December 2016, in which it stated that a cassation appeal cannot be filed against this decision. The transport companies have filed an appeal against this decision at the Supreme Court.

On May 2, 2017, Portuguese shipping companies, Banco Santander Totta, SA and the Portuguese Republic reached an agreement regarding these legal proceedings which were terminated. Shipping companies withdrew their request for admission of a pending appeal before the English Supreme Court. This matter has concluded.

- In April 2016, the Competition Directorate of the Spanish "Comisión Nacional de los mercados y la Competencia" (CNMC) commenced an administrative investigation on several financial entities, including Santander Bank in relation to possible collusive practices or price-fixing agreements, as well as exchange of commercially sensitive information in relation to financial derivative instruments used as hedge of interest rate risk for syndicated loans. In accordance with the Competition Directorate this conduct could constitute a breach of article 1 of Competition Directorate Law 15/2007, of July 3, as well as article 101 of Treaty on the Functioning of the European Union (TFEU). The procedure is now pending under the Council of the CNMC. If the resolution is not favorable, Santander Bank could be exposed to the imposition of sanctions that could be significant, as well as incidental consequences, including civil liability claims and regulatory restrictions or limitations to Santander activities. The bank's legal services consider that no infringement existed, since the syndicated nature of the transactions referred to in the record justify the performance of the entities.

- Floor clauses ("cláusulas suelo"): as a result of the acquisition of Banco Popular Español, S.A., the Group is exposed to material transactions containing floor clauses. Floor clauses are clauses whereby the borrower agrees to pay a minimum interest rate to the lender regardless of the applicable benchmark interest rate. Banco Popular, S.A. has included floor clauses in certain asset operations with customers. Banco Popular's position in respect of these floor clauses is as follows:

  On December 21, 2016, the European Court of Justice overruled the ruling established through Spanish Supreme Court Judgement of May 9, 2013, and by virtue of which the retroactive effect of declaring the floor clauses null and void was limited so that the amounts charged in application of these clauses would only be refunded from May 9, 2013. Subsequently, the Judgement handed down by the Spanish Supreme Court on February 24, 2017, ruling on a cassation appeal ("recurso de casación") filed by another entity, adapted its jurisprudence in line with the Judgement of the European Court of Justice of December 21 2016 and, in particular, considered that its ruling of May 9, 2013, which related to a collective action, did not have res judicata effect with respect to individual suits filed by consumers in this regard.

  These legal rulings and the social impact of the floor clauses led the Spanish government to establish, through Spanish Royal Decree-Law 1/2017, of January 20, urgent measures to protect consumers against floor clauses, a voluntary and extrajudicial process whereby consumers who consider themselves affected by the potential nullity of a floor clause claim repayment. This ruling establishes an extrajudicial channel for conflict resolution but adds nothing that affects the criteria describing the validity of the clauses. Provisional results arising from claims received via this process seem to confirm the Bank's estimates.

  In 2015 and 2016, Banco Popular made extraordinary provisions that, following the Judgment of the European Union's Court of Justice on December 21, 2016, were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. As of December 31, 2017, the amount of the Group's provisions in relation to this matter goes up to EUR 223 million. For this concept, after the purchase of Banco Popular, EUR 238 million provisions have been used by the Group mainly for refunds as a result of the extrajudicial process mentioned above. The Group considers that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. Considering the provisioned amount referred before and the refunds performed, the maximum and not probable risk derived would have a coverage greater than 50% of this maximum risk scenario.

- Other aspects: given that no precedent exists in either Spain or any other European Union member state for the declaration setting out the resolution of Banco Popular, the redemption and conversion of its capital instruments and the subsequent transfer to Banco Santander of the shares resulting from this conversion in exercise of the resolution instrument involving the sale of the institution's business, all in accordance with the single resolution framework regulation referred to in Note 3, the possibility of future appeals being submitted against the EU's Single Resolution Board decision, the FROB's resolution executed in accordance to the aforementioned decision, and claims against Banco Popular Español, S.A., Banco Santander or other Santander Group companies deriving from or related to the acquisition of Banco Popular. Several investors, advisors and financial dealers have stated that they intend to analyze and, in some cases, have already submitted different types of claims in respect to the acquisition. To date, 65 procedures have been filed before the European Union Court of Justice and more than 30 have been brought before the Spanish Audiencia Nacional.With respect to possible appeals or claims, it is not possible at this time to foresee the total of the specific petitions that could be put forth, nor their economic implications (particularly when these possible future claims might not specify any specific amount, or when they allege new legal interpretations or involve a large number of parties). The estimated cost of the potential compensation to the shareholders of Banco Popular has been accounted for as disclosed in Notes 1.k and 3 of the consolidated financial statements.

In this context, it must be considered that the outcome of court proceedings is uncertain, particularly in the case of claims for indeterminate amounts, those based on legal issues for which there are no precedents, those that affect a large number of parties or those at a very preliminary stage.

The Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business (including those in connection with lending activities, relationships with employees and other commercial or tax matters).

With the information available to it, the Group considers that it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal situations. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations.

.24. Tax matters

a) Consolidated Tax Group

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the Parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

b) Years open for review by the tax authorities

In 2015 notification was received of the final agreed payments relating to the assessments arising from the outcome of the tax audit of the Consolidated Tax Group of the years 2005 to 2007, which were signed partly on an uncontested basis and partly on a contested basis. As the Parent of the Consolidated Tax Group, in accordance with the advice of its external lawyers, Banco Santander, S.A. considers that the aforementioned final agreed payments should not have a material impact on the Group of the Bank consolidated financial statements as there are sound defence arguments in relation to the appeals filed against them. As a result, no provision has been recognised in this connection. As regards the tax inspections relating to prior years, in 2016 notification was received of the Supreme Court judgment on the years 2001 and 2002, and it is considered that the effect thereof on the consolidated financial statements is not material.

Also, in 2014 an audit by the tax authorities was initiated at the Consolidated Tax Group in relation to the years up to 2011, and the Consolidated Tax Group has the years subject to that audit and the subsequent years up to and including 2016 open for review in relation to the main taxes applicable to it. Likewise, in 2017 the procedure for recovering aid corresponding to the EC Decision of 15 October 2014 on the deduction of financial goodwill in indirect acquisitions has been initiated.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Bank's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Bank's financial statements or the Group's consolidated financial statements.

c) Reconciliation

The reconciliation of the income tax expense calculated at the standard tax rate (30%) and the related expense recognised are as follow (in millions of euros):

	Millions of euros	
	Expenses / (Incomes)	
	2017	2016
Profit before taxes	2,977	2,129
Income and expense with no tax effect due to permanent differences	(4,138)	(3,307)
Of which Exemption for dividend and capital gains	*(3,813)*	*(3,929)*
Adjusted profit or loss	(1,161)	(1,178)
Income tax at 30%	893	639
Income and expense with no tax effect	(922)	(991)
	(29)	**(352)**

d) Tax recognised in equity

In addition to the income tax recognised in the income statement, the Bank recognised the following amounts in equity in 2017 and 2016:

	Millions of euros	
	Amounts receivable/ (Amounts payable)	
	2017	2016
Fixed-income securities - Available for sale	59	21
Equity securities - Available for sale	230	(204)
Cash flow hedges	2	(1)
Other valuation adjustments (Note 25)	8	31
	299	**(153)**

e) Deferred taxes

Tax assets in the balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets. Tax liabilities includes the liability for the Bank's various deferred tax liabilities.

In Spain Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, established a regime whereby certain deferred tax assets may continue to be computable as prudential capital, within the "Global regulatory framework for more resilient banks and banking systems" (known as the Basel III accords) and pursuant to the implementing regulations of these accords, namely, Regulation (EU) No 575/2013 and Directive 2013/36/EU, both of 26 June 2013 ("CRD IV").

Under prudential capital regulations, deferred tax assets that rely on future profitability to be realised should be deducted from regulatory capital while taking into consideration whether they arise from tax loss and tax credit carryforwards or temporary differences. The deferred tax assets in the latter category, including those arising from allowances for loan losses, allowances for foreclosed assets and provisions for pension and pre-retirement obligations, do not rely on future profitability since they may be converted into tax receivables in specific circumstances and, therefore, they are not deducted from regulatory capital (hereinafter "monetizable tax assets").

In 2015 the regulations on monetizable tax assets were completed with the introduction of a financial contribution which involved the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetizable assets generated prior to 2016.

The detail of Tax assets and Tax liabilities is as follows:

	Millions of euros	
	2017	2016
Tax assets:	**10,009**	**9,586**
Current	2,240	1,378
Deferred	7,769	8,208
Of which:		
Relating to pensions	*3,387 (*)*	*3,444 (*)*
Relating to allowances for loan losses	*1,545 (*)*	*1,666 (*)*
Relating to deductions and negative tax bases	*2,452*	*2,676*
Tax liabilities:	**1,208**	**1,378**
Of which, deferred tax liabilities	*1,208*	*1,378*

(*) Monetizable, not deducted from regulatory capital.

At the accounting closing date, deferred taxes, both assets and liabilities, are reviewed in order to verify if adjustments to them are necessary in accordance with the results of the analyses performed.

These analyses include, among other, (i) the results generated in previous years, (ii) projections of results, (iii) estimation of the reversal of the temporary differences according to their nature and (iv) period and limits established in the legislation in force for the recovery of the different deferred tax assets, concluding on the Bank's ability to recover its deferred tax assets recorded.

The Group has performed an analysis of the recoverability of deferred tax assets recorded as of December 31, 2017, which supports their recoverability in a maximum term of 15 years.

In this context, the Resolution of 9 February 2016 of the ICAC makes the temporal limit criterion for the registration of deferred assets easier and takes into account the amendments introduced by Royal Decree Law 3/2016 which introduces new limits on the compensation of monetizable tax assets, negative tax bases and deductions to avoid double taxation. As a result of these regulatory changes, the Bank has considered a period of 15 years in which the group estimates the tax assets arising from other temporary differences, negative tax credits and deductions will be able to be recovered.

Additionally, the Tax Group in Spain has not recognised deferred tax assets in respect of tax losses, investment deductions and other incentives that amounted to approximately EUR 4.800 million from which EUR 210 million is subject, among other requirements, to time limits.

F) Regulatory changes

In 2016, Royal Decree-Law 3-2016 was approved in Spain, adopting the following tax measures with effect in 2016: (i) Reduction of the limit for the integration of monetizable deferred tax assets, as well as for the compensation for negative tax bases (the limit is reduced from 70% to 25% of the tax base), (ii) a new limit of 50% of the fee for the application of deductions is established to avoid double taxation, (iii) it establishes the obligation to reverse the impairment of the shares that were deductible in past years by fifths regardless of the recovery of the value of the investees, and (iv) the non-deductibility of losses generated in the transfer of shares made from now on January 1, 2017.

g) Other information

In compliance with the disclosure requirement established in the Listing Rules Instrument 2005 published by the UK Financial Conduct Authority, it is hereby stated that shareholders of the Bank resident in the United Kingdom will be entitled to a tax credit for taxes paid abroad in respect of withholdings that the Bank has to pay on the dividends to be paid to such shareholders if the total income of the dividend exceeds the amount of exempt dividends of GBP 2000 for the year 2017/18. The shareholders of the Bank resident in the United Kingdom who hold their ownership interest in the Bank through Santander Nominee Service will be informed directly of the amount thus withheld and of any other data they may require to complete their tax returns in the United Kingdom. The other shareholders of the Bank resident in the United Kingdom should contact their bank or securities broker.

25. Other comprehensive income

The balances of Other comprehensive income in the accompanying balance sheets include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the statement of recognised income and expense

The mentioned statement presents items separately according to their nature, grouping together those which, pursuant to the applicable accounting standards, will not be subsequently reclassified to profit or loss when the requirements established by the related accounting standards are met. Also, with respect to items that may be reclassified to profit or loss, the statement of recognised income and expense includes changes in Valuation adjustments as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to profit or loss: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between balances of Other comprehensive income.

The amounts of these items are recognised gross and the corresponding tax effect is presented under a separate item.

a) Items that may be reclassified to profit or loss – Hedging derivatives – Cash flow hedges (effective portion).

Items that may be reclassified to profi or loss – Hedging derivatives – Cash flow hedges (effective portion) includes the profit or loss attributable to the hedging instrument rated as effective hedge. This amount will remain under this rubric until they are recorded in the income statement in the periods in which the hedged items affect that account (see Note 11).

Therefore, amounts that involve valuation losses will be offset in the future by gains generated by hedged instruments.

b) ***Items that may be not reclassified to profi or loss – Financial assets available-for-sale***

Includes the net amount of unrealized changes in fair value of financial assets classified as available for sale (see Notes 7 and 8).

Following is a breakdown of items of the balance at December 31, 2017 and 2016 of Other accumulated global income - Items that can be reclassified to profit or loss – Financial assets available-for-sale depending on the type of instrument:

	Millions of euros							
	2017				2016			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments	527	(29)	498	31,946	675	(39)	636	27,625
Equity instruments	448	-	448	1,863	645	-	645	2,443
	975	**(29)**	**946**	**33,809**	**1,320**	**(39)**	**1,281**	**30,068**

At each reporting date the Bank assesses whether there is any objective evidence that the instruments classified as available-for-sale (debt securities and equity instruments) are impaired.

This assessment includes but is not limited to an analysis of the following information: i) the issuer's economic and financial position, the existence of default or late payment, analysis of the issuer's solvency, the evolution of its business, short-term projections, trends observed with respect to its earnings and, if applicable, its dividend distribution policy; ii) market-related information such as changes in the general economic situation, changes in the issuer's sector which might affect its ability to pay; iii) changes in the fair value of the security analysed, analysis of the origins of such changes - whether they are intrinsic or the result of the general uncertainty concerning the economy or the country - and iv) independent analysts' reports and forecasts and other independent market information.

In the case of quoted equity instruments, when the changes in the fair value of the instrument under analysis are assessed, the duration and significance of the fall in its market price below cost for the Bank is taken into account. As a general rule, for these purposes the Bank considers a significant fall to be a 40% drop in the value of the asset or a continued fall over a period of 18 months. Nevertheless, it should be noted that the Bank assesses, on a case-by-case basis, each of the securities that have suffered losses, and monitors the performance of their prices, recognising an impairment loss as soon as it is considered that the recoverable amount could be affected, even though the price may not have fallen by the percentage or for the duration mentioned above.

If, after the above assessment has been carried out, the Bank considers that the presence of one or more of these factors could affect recovery of the cost of the asset, an impairment loss is recognised in the income statement for the amount of the loss under Other comprehensive income. Also, in the case of the Bank does not intend and/or is not able to hold the investment for a sufficient amount of time to recover the cost, the instrument is written down to its fair value.

At the end of 2017 the Bank performed the assessment described above and recognised impairment losses in the income statement of EUR 7 million in respect of equity instruments (2016: EUR 10 million). Additionally, at the end of 2016 the Bank reversed in the income statement impairment losses of EUR 22 million in respect of debt instruments.

At December 31, 2017, there are no capital losses recognised under Other comprehensive income – Items that may be reclassified to profit or loss - Financial assets available-for-sale arising from equity instruments.

At December 31, 2017, the losses incurred in more than twelve months recognised under Other comprehensive income – Items that may be reclassified to profit or loss - Financial assets available-for-sale arising from debt securities are not significant.

c) Items that may not be reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans

Other comprehensive income - Actuarial gains or (-) losses on defined benefit pension plans include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

26. Shareholders' equity

Shareholders' equity includes the amount of equity contributions from shareholders, accumulated profit or loss recognised through the income statement, and components of compound financial instruments having the substance of permanent equity.

The changes in Shareholders' equity are presented in the Statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2017 is set forth below.

27. Issued capital

a) Changes

On November 4, 2016, a capital increase of EUR 74 million was made, through which the Santander Dividendo Elección scrip dividend scheme took place, whereby 147,848,122 shares were issued (1.02% of the share capital).

At December 31, 2016 the Bank's share capital consisted of 14,582,340,701 shares with a total par value of EUR 7,291 million.

As a result of the acquisition of Banco Popular described in Note 3, and in order to strengthen and optimize the Bank's equity structure to provide adequate coverage of the acquisition, the Group, on July 3, 2017, reported on the agreement of the executive committee of Banco Santander to increase the capital of the Bank by EUR 729 million by issuing and putting into circulation 1,458,232,745 new ordinary shares of the same class and series as the shares currently in circulation and with preferential subscription rights for the shareholders.

The issue of new shares was carried out at a nominal value of fifty euro cents (EUR 0.50) plus a premium of EUR 4.35 per share, so the total issue rate of the new shares shares was EUR 4.85 per share and the total effective amount of the capital increase (including nominal and premium) of EUR 7,072 million.

Each outstanding share had been granted a preferential subscription right during the preferential subscription period that took place from July 6 to 20, 2017, where 10 preferential subscription rights were required to subscribe 1 new share.

On November 1, 2017, a capital increase of EUR 48 million was made, through which the Santander Dividendo Elección scrip dividend scheme took place, whereby 95,580,136 shares were issued (0.6% of the share capital).

Therefore, the Bank's new capital consists of EUR 8,068 million, represented by 16,136,153,582 shares of EUR 0.50 of nominal value each one and all of them from a unique class and serie.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges, and all of them have the same features and rights. Santander shares are listed on the London Stock Exchange under Crest Depository Interest (CDI's), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDRs), each BDR representing one share. At December 31, 2017, the only shareholders listed in the Bank's shareholders register with ownership interests of more than 3%[1] were State Street Bank & Trust Company (13.32%), The Bank of New York Mellon Corporation (8.83%), Chase Nominees Ltd. (7.41%), EC Nominees Limited (3.43%) and Clearstream Banking S.A. (3,10%) and BNP Paribas (3.03%).

However, the Bank considers that these ownership interests are held in custody on behalf of third parties and that none of them, as far as the Bank is aware, has an ownership interest of more than 3% of the Bank's share capital [2] or voting power.

As of December 31, 2017, the shareholders of the Bank did not have owners of shares resident in tax havens with a participation of more than 1% of the share capital.

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

(2) The website of the *Comisión Nacional del Mercado de Valores* (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 09 August 2017, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.940%, plus a further stake of 0.158% held through financial instruments. However, according to the Bank's shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date, or on 31 December 2017.

b) Other considerations

The shareholders at the Annual General Meeting of March 18, 2016 also resolved to increase the Bank's capital by a par value of EUR 500 million and granted the board the broadest powers to set the date and establish the terms and conditions of this capital increase within one year from the date of the aforementioned Annual General Meeting. If the board does not exercise the powers delegated to it within the period established by the Annual General Meeting, these powers will be rendered null and void.

In addition, the ordinary general meeting of shareholders of April 7, 2017 also agreed to delegate to the board of directors the broadest powers so that, within one year from the date of the meeting, it can indicate the date and set the conditions for a capital increase with the issuance of new shares, for an amount of EUR 500 million. The capital increase will have no value or effect if, within the period of one year, the board of directors does not exercise the powers delegated to it.

Likewise, the additional capital authorized by the ordinary general meeting of shareholders on April 7, 2017 is not more than 3,645,585,175 euros. The term available to the Bank's administrators to execute and carry out capital increases up to that limit ends on April 7, 2020. The agreement grants the board the power to totally or partially exclude the pre-emptive subscription right under the terms of article 506 of the Capital Companies Law, although this power is limited to 1,458,234,070 euros.

At December 31, 2017 the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) or jointly managed was EUR 52 million, which represented 0.32 % of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was EUR 217 million (equal to 1.35 % of the Bank's share capital).

At December 31, 2017 the capital increases in progress at Group companies and the additional capital authorized by their shareholders at the respective general meetings were not material at Group level.

28. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The reduction of EUR 74 million in 2016 is the result for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme. The increase in the balance of Share premium in 2017 is the result of the capital increase of EUR 6,343 million approved on July 3, 2017 (See note 27.a) and the reduction of EUR 48 million is due the capital increases charge to reserve arising from the Santander Diviendo Elección program.

Also, in 2017 and 2016 amounts of EUR 154 and 15 million respectively, were transferred from the Share premium account to the Legal reserve (see Note 29.b.i).

29. Accumulated retained and other reserves

a) Definitions

The balance of the captions Own funds – Accumulated retained and Other reserves includes the net amount of the accumulated results (profits or losses) recognized in previous years through the profit and loss account that, in the distribution of the benefit, was allocated to the net equity, as well as the expenses of issuances of own equity instruments and the differences between the amount for which the equity securities are sold and their acquisition price, as well as the net amount of the results accumulated in previous years, generated by the result of non-current assets and disposable groups of items held for sale, recognized through the profit and loss account.

b) Breakdown

The detail of Shareholders' Equity - Reserves at 31 December 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Legal reserve	1,613	1,459
Voluntary reserve	7,087	7,191
Reserve for amortised capital	11	11
Reserve for treasury shares	1,029	1,173
Other reserves	43	43
	9,783	**9,877**

i. Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

In 2017 the Bank transferred EUR 154 million from the Share premium account to the Legal reserve (2016: EUR 15 million) (See Note 28). Consequently, once again, after the capital increases described in Note 27 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and the Legal reserve was at the stipulated level.

ii. Voluntary Reserve

During 2017 there has been an decrease in voluntary reserves amounting to EUR 104 million due to the registry of merger reserves (EUR 364 million) (Note 1.i) compensated by the interest on the CCPSs (EUR 310 million) (Note 21), capital increase expenses (EUR 154 million) and other concepts (EUR 4 million).

iii.Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve has been recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares.

30. Other equity instruments

Other equity instruments includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration and other items not recognised in other Shareholders' equity items.

During the year 2017, equity instruments other than capital have been issued (Note 1.k).

31. Memorandum items

a) *Guarantees and contingent and commitments*

The detail of Memorandum items is as follows:

	Millions of euros	
	2017	2016
Granted guarantees:		
Financial guarantees (*)	7,212	44,009
Other bank guarantees and indemnities provided	15,658	15,015
Irrevocable documentary credits	1,365	1,009
Other contingent risks	-	26
	24,235	60,059
Contingent commitments:		
Drawable by third parties	61,067	58,262
Other commitments	25,003	26,988
	86,070	85,250
Total Guarantees and contingent commitments	**110,305**	**145,309**

(*) At year end of 2016 the Bank had granted financial guarantees guaranteeing the debt issues of the merged companies (see note 1.i) for an amount of 35,515 million euros.

i. Granted Guarantees.

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the Bank although they may not impinge on its net assets.

A significant portion of these guarantees will expire without any payment obligation materialising for the Bank and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Bank to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the income statement and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

Financial guarantees

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees and risks arising from derivatives arranged for the account of third parties.

Other bank guarantees and indemnities provided

This item includes guarantees other than those classified as financial, such as technical guarantees, guarantees covering the import and export of goods and services, irrevocable formal undertakings to provide bank guarantees, legally enforceable letters of guarantee and other guarantees of any kind.

Irrevocable documentary credits

This item includes irrevocable payment commitments acquired on delivery of documents.

ii. Contingent commitments

Contingent commitments includes those irrevocable commitments that could give rise to the recognition of financial assets.

The detail is as follows:

	Millions of euros	
	2017	2016
Drawable by third parties	61,067	58,262
Other contingent commitments:	25,003	26,988
Of which:		
Securities subscribed but not paid	*12*	*12*
Financial asset forward purchase commitments	*1,166*	*2,217*
Regular way asset purchase contracts	*12,264*	*12,360*
Other contingent commitments	*11,561*	*12,399*
Total contingent commitments	**86,070**	**85,250**

b) Other information

i. Assets advanced as collateral

At 31 December 2017 and 2016 there were certain assets owned by the Bank that secured transactions performed by it or by third parties, as well as various liabilities and contingent liabilities assumed by the Bank, with respect to which the transferee has the right, by contract or by custom, to transfer them again or to pledge them.

The carrying amount at 31 December 2017 and 2016 of the Bank's financial assets pledged as security for these liabilities, contingent liabilities and similar items was as follows:

	Millions of euros	
	2017	2016
Financial assets held for trading (*)	21,212	8,272
Of which:		
Public debt Public Sector Agencies	*5,424*	*2,417*
Fix rent instruments	*8,634*	*2,231*
Equity instruments	*7,154*	*3,624*
Financial assets dessignated at fair value through profit or loss	3,812	308
Financial assets available-for-sale (**)	25,259	9,991
Loans and receivables	3,532	3,514
Investments held to maturity	286	449
	54,101	**22,534**

(*) The variation of the trading portfolio is mainly due to the increase in securities loans, repo assignments and assets delivered as collateral.
(**) The increase in financial assets available for sale is mainly due to the increase in the repo assignments of the firm portfolio, with the Spanish public administrations.

32. Derivatives - Notional amounts and market values of trading and hedging derivatives

The detail, by residual maturity period, of the notional and/or contractual amounts of the trading and hedging derivatives held by the Bank at 31 December 2017 and 2016 is as follows:

	Millions of euros			
	2017		2016	
	Notional amount	Market value	Notional amount	Market value
Held for trading:				
Interest rate	2,792,742	21	2,695,412	(191)
Options	*323,220*	*41*	*323,386*	*(121)*
Other	*2,469,522*	*(20)*	*2,372,026*	*(70)*
Equity instruments	50,880	(282)	63,342	(575)
Options	*37,617*	*(829)*	*52,089*	*(836)*
Other	*13,263*	*547*	*11,253*	*261*
Currency	457,763	(139)	388,581	(1,046)
Options	*40,328*	*21*	*31,511*	*16*
Other	*417,435*	*(160)*	*357,070*	*(1,062)*
Credit	25,115	62	38,811	13
Hedging default derivative	*25,115*	*62*	*38,811*	*13*
Securities and commodities derivatives and other	4,639	(2)	4,269	82
	3,331,139	**(340)**	**3,190,415**	**(1,717)**
Hedging derivatives:				
Interest rate	29,512	(2,116)	31,239	(1,025)
Options	*247*	*4*	*2,461*	-
Other	*29,265*	*(2,120)*	*28,778*	*(1,025)*
Equity instruments	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Currency	23,147	175	24,803	(888)
Options	-	-	-	-
Other	23,147	175	24,803	(888)
Credit	-	-	186	(1)
Hedging default derivative	-	-	186	(1)
	52,659	**(1,941)**	**56,228**	**(1,914)**
	3,383,798	**(2,281)**	**3,246,643**	**(3,631)**

The notional and/or contractual amounts of the contracts entered into (shown above) do not reflect the actual risk assumed by the Bank, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Bank basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognised under Gains/losses on financial assets and liabilities (net) in the income statements and increase or offset, as appropriate, the gains or losses on the investments hedged (see Note 11).

Additionally, in order to interpret correctly the results on the Securities and commodities derivatives shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Bank's held-for-trading portfolio.

The Bank manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions. (See Note 2.f)

The net fair value (see Note 11) of the hedging derivatives at 31 December 2017 and 2016, by type of hedge, is as follows:

	Millions of euros	
	2017	2016
Fair value hedges	(2,272)	(1,129)
Of which: Portfolio hedges	*(67)*	*(94)*
Cash flow hedges	-	-
Of which: Recognised in equity	-	-
Hedges of net investments in foreign operations	331	(785)
	(1,941)	**(1,914)**

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

i. Fair value and cash flow hedges

Micro-hedges and macro-hedges

The financial management area of the Bank, as Parent of the Santander Group, uses derivatives to hedge the interest rate risk and foreign currency risk of the issues of instrumental companies of the Group directly guaranteed by the Bank. These derivatives are accounted for as fair value hedging derivatives. For this purpose, at 31 December 2017, it held derivatives with an equivalent euro notional amount of EUR 12,220 million, mainly in euros (EUR 9,915 million). The net result of this hedge was a net loss of EUR 24 million.

Also, Banco Santander, S.A. uses derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. The notional amount of these derivatives was EUR 14,857 million and their market value gave rise to a loss of EUR 557 million at 31 December 2016, which was offset in profit or loss by the gain on the value of the bonds attributable to their hedged risk, giving rise to a net overall gain of EUR 1 million.

Also, the Bank has two fair value macro-hedges from its merger with Banesto in 2013. At year-end, the notional amount of the macro-hedge derivatives was EUR 902 million and their market value gave rise to a loss of EUR 60 million.

At 31 December 2016, hedging derivatives were held with an equivalent euro notional amount of EUR 15,309 million, mostly euros (EUR 14,364 million). The net result of these hedges was a net loss of EUR 20 million.

In addition to fair value hedges of liabilities, Banco Santander, S.A. used derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. The notional amount of these derivatives was EUR 9,203 million and their market value gave rise to a loss of EUR 814 million, which was offset in profit or loss by the gain on the value of the bonds attributable to their hedged risk, giving rise to a net overall result of these hedges of EUR 8 million.

Also, Banco Santander had two fair value macro-hedges from its merger with Banesto in 2013. At year-end, the notional amount of the macro-hedge derivatives was EUR 981 million and their market value gave rise to a loss of EUR 94 million.

ii. Foreign currency hedges (net investments in foreign operations)

The Santander Group assumes as a priority objective in risk management, to minimize - to the extent determined by those responsible for the Group's Financial Management - the impact on the calculation of the capital ratio of its permanent investments included within the Group's consolidated perimeter, and whose shares are legally nominated in a currency other than that of the group's parent company. For this purpose, financial instruments (generally derivatives) are contracted in exchange rates, which allow the impact on the capital ratio to be immunized against changes in the forward exchange rates.

As of December 31, 2017, the notional of hedging instruments of these investments represented a total, countervalued to euros, of 19,953 million euros (net), of which 18,612 million euros corresponds to hedges with products Forex Swap and Forex Forwards, and 1,341 million euros for purchases / sales of currency spot (Spot).

By currency:

- The hedging of the Brazilian real includes Forex Forward Non Delivery coverage of 7,010 million euros (27,850 million Brazilian reais), with a negative result of 306 million euros in the year.

- The position in Mexican pesos is covered by Forex Forward and Forex Swap, for a notional of 2,051 million euros (48,523 million Mexican pesos), and a capital loss of 52 million euros.

- The Polish zloty is hedged by Forex Forward and Forex Swap for a notional amount of 2,328 million euros (9,725 million Polish zlotys), with a capital gain of 163 million euros in the year.

- The hedging of the Chilean peso is hedged by Forex Forward Non Delivery in the amount of 2,994 million euros (2,206,000 million Chilean Pesos) with a loss of 21 million euros in the year.

- The Colombian peso is hedged by Forex Forward Non Delivery, for a notional amount of 13 million euros (46,973 million Colombian pesos), with a loss of 1 million euros in the year.

- The position in Chinese yuan is hedged by Forex Forward Non Delivery, for an amount of 857 million euros (6,692 million Chinese Yuan). These instruments generated a capital gain at the end of the year of 8 million euros.

- The hedge of the pound sterling is instrumented through Forex Swap for the amount of 3.359 million euros (2,980 million pounds sterling). Additionally, the investment in this currency is covered by spot purchases and / or spot sales of this currency against euros, amounting to 264 million euros (235 million pounds sterling), generating in net terms a gain of 113 million euros Euros at year-end.

Investments in US dollars, Canadian dollars and Swiss francs are exclusively covered by purchases / sales of these currencies against the euro (Spot).

The US dollar hedged position amounted to Euro 987 million at the end of the year (US $ 1,183 million), with an impairment in the year of Euro 86 million.

On the other hand, the position covered in Canadian dollars amounts to € 15 million at the end of the year ($ 23 million), with a loss in the year of € 1 million.

Finally, the hedged position in Swiss francs amounted to € 75 million at year-end (88 million Swiss francs), generating a loss of € 6 million in that year.

At year-end 2016 hedge derivatives (Forex Swap and Forex Forward) were maintained to hedge the Group's non-euro currency investments: Chilean pesos for a notional of 3,773 million euros, which generated a negative result of 447 million euros; Brazilian reales for a notional amount of 7,404 million euros and a negative result of 1,877 million euros; Mexican pesos for a total notional of 2,140 million euros with a capital gain of 247 million euros; Polish zlotys for a notional of 2,032 million euros with a gain of 26 million euros; Colombian pesos amounting to 33 million euros, with a capital loss of 5 million euros, and Chinese yuan for a notional of 1,202 million euros, with a capital gain of 8 million euros.

In addition to the above, investments in US dollars, sterling, Canadian dollars and Swiss francs were hedged by purchases and sales of spot currency against euros (Spot).

In the case of US dollars, there were at the end of the year purchases / sales of this currency against spot currency (Spot) for an amount of 304 million euros, with a total impairment in the year for this operation of 38 million euros.

On the other hand, for the pound sterling, there were derivatives at the end of the year (Forex Swap) for a notional of 3,516 million euros and, in addition, purchases / sales of this currency against spot euros (Spot) for an amount of 388 million euros, with a total impairment in the year for this operation of 739 million euros.

Finally, investments in Canadian dollars and Swiss francs are exclusively covered by purchases / sales of these currencies against spot euros. The Canadian dollar for a total of 21 million euros at the end of the year, which yielded a capital loss of 1 million euros. The Swiss franc, for a total of 53 million euros at the end of the year, with a loss of 1 million euros.

According to the purpose of these forward rate hedges, and due to the fact that the notional amount of the hedging instruments used does not exceed the amount of the hedged item and, in addition, the currencies of these hedges are the functionalities of the parent company and the business abroad, the effectiveness of these accounting hedges is total, not being recorded in the income statement due to inefficiencies during the 2017 financial year.

33. Off-balance-sheet funds under management

At 31 December 2017, the Bank held off-balance-sheet funds under management, namely investment funds and assets under management, amounting to EUR 66,912 million (31 December 2016: EUR 28,145 million). Also, at 31 December 2017, the funds marketed but not held under management amounted to EUR 12,522 million (31 December 2016: EUR 46,227 million).

The reduction in unmanaged resources and the contract for the increase in managed resources off-balance, is mainly due to the acqusition by SAM UK Investment Holding Limited (subsidiary 100% owned by Banco Santander, S.A.) of 50% of Santander Asset Management, on 22 December 2017, reaching thus Santander Group the control of 100% of the asset management business of this entity at 31 December 2017.

34. Interest income

Interest and similar income in the accompanying income statements comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value, and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned in 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Debt instruments		
Central Banks	12	1
Public sector	756	881
Credit entities	397	341
Other financial companies	243	418
Non-financial companies	26	19
	1,434	**1,660**
Loans and advances		
Central Banks	49	68
Public sector	166	216
Credit entities	239	273
Other financial companies	285	347
Non-financial companies	1,770	1,800
Households	1,064	1,169
	3,573	**3,873**
Other assets		
Of which: Insurance contracts linked to pensions (Note 23.c)	*35*	*42*
	84	**76**
Deposits		
Central Banks	110	2
Public sector	1	1
Credit entities	136	70
Other financial companies	29	6
Non-financial companies	2	1
Households	-	-
	278	**80**
Hedging derivatives - Interest rate risk	**81**	**74**
Debt securities issued	**10**	**-**
	5,460	**5,763**

35. Interest expense

Interest expense and similar charges in the accompanying income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Debt securities Issued	**1,153**	**597**
Debt securities		
Central Banks	-	-
Public sector	20	-
Credit entities	2	-
Other financial companies	-	-
Non-financial companies	-	-
	22	**-**
Loans and advances		
Central Banks	64	9
Public sector	10	8
Credit entities	95	74
Other financial companies	58	18
Non-financial companies	1	1
Households	-	-
	228	**110**
Deposits		
Central Banks	117	90
Public sector	142	148
Credit entities	337	350
Other financial companies	374	918
Non-financial companies	140	188
Households	515	627
	1,625	**2,321**
Other financial liabilities	**111**	**123**
Hedging derivatives - Interest rate risk	**(33)**	**(154)**
Pensions and other obligations of defined post-employment benefits (Note 23)	**97**	**116**
	3,203	**3,113**

36. Dividend income

Income from equity instruments in the accompanying income statements includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of income from equity instruments is as follows:

	Millions of euros	
	2017	2016
Financial assets held for trading	**237**	**244**
Of which:		
Spain	*128*	*127*
Rest of Europe	*104*	*111*
America	*5*	*5*
Rest of the world	*-*	*1*
Financial assets available-for-sale	**36**	**16**
Investments in subsidiaries, jointly controlled entities and associates	**3,320**	**3,459**
Group entities	3,123	3,331
Associates	197	128
	3,593	**3,719**

Investments in subsidiaries, jointly controlled entities and associates

The detail of the dividends from subsidiaries, jointly controlled entities and associates recognised in 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Grupo Financiero Santander México, S.A.B de C.V.	365	564
Sterrebeeck B.V.	790	500
Santander Consumer Finance, S.A.	380	342
Santander Financial Exchanges Limited	463	-
Santander UK Group Holdings PLC	487	543
Santusa Holding, S.L	-	240
Santander Totta, SGPGS, S.A.	63	-
Banco Santander (Brasil) S.A.	225	209
Bank Zachodni WBK S.A.	89	202
Santander Holding Internacional, S.A.	-	178
Santander Investment Services, S.A. (actually Santander Investment, S.A.)	-	140
Zurich Insurance América, S.L. (actually Zurich Santander Insurance America, S.L.)	171	118
SAM UK Investment Holding Limited	-	47
Fomento e Inversiones, S.A.U.	71	-
Vista Desarrollo, S.A.U.	-	43
Santander Chile Holding, S.A.	35	35
Banco Santander, S.A. (Uruguay)	28	-
Santander Benelux, S.A./N.V. (actually Santander Consumer Bank, S.A.)	-	35
Bst International Bank Inc.	-	31
Santander Global Property, S.L.	-	27
Other companies	153	205
	3,320	**3,459**

37. Commission income

Fee and commission income comprises the amount of all fees and commissions accruing in favour of the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission income in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Collection and payment services:		
Bills	21	22
Demand accounts	219	203
Cards	250	174
Cheques	12	12
Direct debit and payroll orders	24	26
Transfers, drafts and other payment orders	60	59
	586	**496**
Marketing of non-banking financial products:		
Investment funds	312	293
Pension funds	84	83
Insurance	206	222
Other	3	4
	605	**602**
Securities services:		
Securities underwriting and placement	136	99
Other	4	4
	140	**103**
Clearing and settlement	**32**	**29**
Asset management	**39**	**27**
Custody	**55**	**48**
Structured finance	**200**	**164**
Loan granted commitments granted	**127**	**120**
Financial granted guarantees granted	**190**	**202**
Other:		
Foreign currency exchange	56	3
Documentary credits	22	24
Other concepts	230	217
	308	**244**
	2,282	**2,035**

38. Commission expense

Fee and commission expense shows the amount of all fees and commissions paid or payable by the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission expense in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Clearing and settlement	70	63
Loan commitments received	10	2
Financial guarantees received	39	53
Other (*)	191	225
	310	**343**

(*) Other includes mainly commissions paid for financial and mediation services, as well as credit cards.

39. Gains or losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the Other comprehensive income of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by classification of the related instrument, of Gains/losses on financial assets and liabilities in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	**367**	**289**
Financial Assets available for sale	*348*	*267*
Loans and receivables	*19*	*22*
Investments held-to-maturity	*-*	*-*
Financial liabilities at amortised cost	*(5)*	*(1)*
Other	*5*	*1*
Gains or losses on financial assets and liabilities held for trading, net	**348**	**310**
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	**(32)**	**177**
Gains or losses from hedge accounting, net	**(11)**	**(17)**
	672	**759**

(*) Includes the net result obtained by operations with debt securities, equity instruments and derivatives included in this portfolio, since the Bank manages its risk in these investments on a global basis.

b) Financial assets and liabilities measured at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Millions of euros	
	2017	2016
Loans and receivables to credit institutions	11,243	8,533
Loans and receivables to customers	22,800	16,777
Debt instruments (*)	15,242	17,889
Equity instruments	10,168	7,249
Derivatives	38,894	45,258
	98,347	**95,706**

(*) Include EUR 11,129 million related to Spanish and foreign government debt securities at 31 December 2017 (31 December 2016: EUR 13,488 million).

The foregoing table shows the maximum credit risk exposure of these assets at 31 December 2017 and 2016, respectively. The Bank mitigates and reduces this exposure as follows.

With respect to derivatives, the Bank has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment. The Bank also applies a risk premium accrual policy for derivatives arranged with customers.

Loans and receivable to credit institutions and loans and receivable to customers included reverse repos amounting to EUR 23,347 million at 31 December 2017 (31 December 2016: EUR 15,569 million).

In addition, assets amounting to EUR 1,262 million have a mortgage guarantee at 31 December 2017 (EUR 1,051 million at 31 December 2016).

The detail of the amount of the liability balances is as follows:

	Millions of euros	
	2017	2016
Deposits from central banks	7,913	8,401
Deposits from credit institutions (*)	15,209	3,141
Deposits from customers (*)	9,192	3,582
Short positions	8,718	7,575
Derivatives	39,234	46,975
	80,266	**69,674**

(*) The variation in financial liabilities at fair value with credit institutions is due to an increase in assets sold under repurchase agreements during fiscal year 2017. Similarly, customers' balances have raised due to this increase in assets sold under repurchase agreements as well as the deposits taken by non-residents.

40. Exchange differences, net

The detail of Exchange differences (net) in the accompanying income statements for 2017 and 2016 is as follows:

Net gains/losses on:	Millions of euros	
	2017	2016
Foreign currency purchases and sales	463	44
Translation of monetary items to the functional currency	(708)	(631)
	(245)	**(587)**

The Bank manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains/losses on financial assets and liabilities (see Note 39).

41. Other operating income and other operating expenses

The detail of Other operating income in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Exploitation of investment property and operating leases	155	156
Commissions on financial instruments offsetting related direct costs	47	39
Sales and other income from the provision of non-financial services	12	20
Other (*)	88	32
	302	**247**

(*) The “Other” line mainly includes fees charged for expenses passed on to Group entities.

The detail of Other operating expenses in the income statements is as follows:

	Millions of euros	
	2017	2016
Contribution to Deposit Guarantee Fund (Note 1.h)	(154)	(141)
Contribution to Resolution Fund (*) (Note 1.h)	(181)	(150)
Other operating expenses	(171)	(171)
	(506)	**(462)**

(*) Includes the expense incurred by contribution to the National Resolution Fund and to the Single Resolution Fund.

42. Staff costs

a) *Breakdown*

The detail of Staff costs in 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Wages and salaries	1,511	1,504
Social security costs	299	307
Additions to provisions for defined benefit pension plans (Note 23)	11	11
Contributions to defined contribution pension funds (Note 23)	74	80
Equity-instrument-based remuneration	5	3
Other staff costs	209	249
	2,109	**2,154**

b) *Headcount*

The average number of employees at the Bank, by professional category, is as follows:

	Average number of employees	
	2017	2016
Senior management (*)	64	76
Other line personnel	21,327	22,208
Staff at branches abroad	469	452
	21,860	**22,736**

(*) Categories of deputy assistant executive and above, including senior executives.

The number of employees, at the end of 2017 and 2016 was 21,755 and 22,014 respectively.

The functional breakdown, by gender, at 31 December 2017 is as follows:

	Breakdown by gender			
	Executives		Other line personnel	
	Men	Women	Men	Women
Breakdown by gender	84%	16%	54%	46%

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

The number of employees with disabilities greater than or equal to 33%, distributed by professional categories at December 31, 2017 and 2016, is as follows:

	Number of employees	
	2017	2016
Senior management (*)	-	-
Other management	18	17
Other staff	193	196
	211	**213**

(*) Categories of deputy assistant executive vice president and above, including senior management.

The average number of Bank employees with disabilities greater than or equal to 33%, at the end of 2017 and 2016 fiscal years, was 209 and 216, respectively.

c) Share-based payments

The main share-based payments granted by the Group in force at December 31, 2017, 2016 and 2015 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject. These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans that include share-based payments are as follows: (i) deferred conditional delivery share plan; (ii) deferred conditional variable remuneration plan, (iii) performance share plan and (iv) Deferred variable compensation plan linked to multiannual objectives. The characteristics of the plans are set forth below:

(i) Deferred conditional delivery share plan

In 2013 the Bank’s Board of Directors, at the proposal of the appointments and remuneration committee, approved the fourth cycle of the deferred conditional delivery share plan to instrument payment of the share-based bonus of the Group executives or employees whose variable remuneration or annual bonus for 2013 exceeded, in general, EUR 0.3 million (gross), with a view to deferring a portion of the aforementioned variable remuneration or bonus over a period of three years in which it will be paid in Santander shares. Since this cycle entailed the delivery of Bank shares, the shareholders at the Annual General Meetings of March 22, 2013 approved the application of the fourth cycle of the deferred conditional delivery share plan. This cycle is not applicable to the executive directors or other members of senior management or other executives who are beneficiaries of the deferred conditional variable remuneration plan described below.

The share-based bonus is being deferred over three years and will be paid, where appropriate, in three instalments starting after the first year (2015). The amount in shares is calculated based on the tranches of the following scale established by the Board of Directors on the basis of the gross variable cash-based remuneration or annual bonus for the year:

Benchmark bonus (thousands of euros)	Percentage (deferred)
300 or less	0%
300 to 600 (inclusive)	20%
More than 600	30%

The condition for accrual of the share-based deferred remuneration was, in addition to that of the beneficiary remaining in the Group's employ, with the exceptions envisaged in the plan regulations, that none of the following circumstances should occur in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

(ii) Deferred conditional variable remuneration plan

In 2014 and 2015 the Bank's Board of Directors, at the proposal of the appointments and remuneration committee in 2014 and of the remuneration committee in 2015, approved the third, fourth and fifth cycles of the deferred conditional variable remuneration plan to instrument payment of the bonus for 2014 and 2015, respectively, of the executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (all of whom are referred to as the "Identified Staff", in accordance to Article 92(2) of Directive 2013/36/EU of the European Parliament and of the Council, of June 26, 2013, and the related implementing legislation in 2014; and in 2015, pursuant to Article 32.1 of Law 10/2014, of 26 June on the regulation, supervision and capital adequacy of credit institutions, and the related implementing legislation).

In 2016 and 2017, and taking into account regulatory developments and international practices in remuneration matters, the sixth and the seventh cycle of the variable remuneration plan for the group identified with the exception of executive directors and certain executives (including senior management) were approved. First line of responsibility of the Group, for which the first and second cycle of deferred and conditioned variable remuneration described in item (v) below were approved. The recommendations issued in the Guidelines on sound remuneration policies under Articles 74 (3) and 75 (2) of Directive 2013/36 / EU and disclosures under Article 450 of Regulation (EU) No. 575/2013, Published by the European Banking Authority on 21 December 2015.

Since the aforementioned cycles entail the delivery of Bank shares, the shareholders at the Annual General Meetings of March 28, 2014, March 27, 2015 ,March 18, 2016 and April 7, 2017 approved, respectively, the application of the fourth, fifth ,sixth and seventh cycles of the deferred conditional variable remuneration plan.

The purpose of these cycles is to defer a portion of the bonus of the beneficiaries thereof over a period of three years for the fourth sixth and seventh cycles, and over three or five years for the fifth cycle, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

In the case of the sixth cycle, the bonus will be immediately paid in 60% (at the beginning of 2017) and deferred by 40% over a three year period. In the case of the other fifth and fourth cycles, will be paid according to the following payment percentages and periods of deferment:

	2017 (seventh cycle)		
	Immediate payment percentage (*)	Deferred percentage (*)	Deferral period
Executive directors and members of the Identified Staff with total variable remuneration (*) ≥ EUR 2.7 million	40%	60%	5 years
Executive directors and members of the Identified Staff with total variable remuneration (**) ≥ EUR 1.7 million (< EUR 2.7 million)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

(*) In certain contries the deferred percentage or the deferred period could be diferent to comply with local rules or the authority requierements.

(**) Total variable remuneration in case of standard fulfilment (100% target).

	2015 (fifth cycle)		
	Immediate payment percentage (*)	Deferred percentage (*)	Deferral period
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%	5 years
Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.7 million (< EUR 2.6 million)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

(*) Generally applicable percentages. In some countries deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

	2014 (fourth cycle) (*)	
	Immediate payment percentage (**)	Deferred percentage (**)
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%
Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.8 million (< EUR 2.6 million)	50%	50%
Other beneficiaries	60%	40%

(*) Deferreal period for all the categories is 3 years.

(**) Generally applicable percentages. In some countries deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

For the fourth sixth and seventh cycle, the payment of the deferred percentage of the bonus applicable in each case will be deferred over a period of three years and will be paid in three instalments, within 30 days following the anniversaries of the initial date (the date on which the immediate payment percentage is paid) in 2016, 2017 and 2018 for the fourth cycle, in 2018, 2019 and 2020 for the sixth cycle, and in 2018, 2019 and 2020 for the seventh cycle 50% being paid in cash and 50% in shares, provided that the conditions described below are met.

For the fifth cycle, the payment of the deferred percentage of the bonus applicable in each case based on the group to which the beneficiary belongs will be deferred over a period of three or five years and will be paid in three or five instalments, as appropriate, within 30 days following the anniversaries of the initial date in 2017, 2018 and 2019 and, where appropriate, in 2020 and 2021, provided that the conditions described below are met.

For the fourth, fifth and sixth cycle, the accrual of deferred compensation is conditioned, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: (i) poor financial *performance* of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

In the case of the seventh cycle, the accrual of deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, to no assumptions in which there is a poor performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered: (i) significant failures in risk management committed by the entity , or by a business unit or risk control unit; (ii) the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; (iii) regulatory sanctions or judicial sentences for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and (iv) irregular behaviors, whether individual or collective, considering in particular the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made those decisions.

On each delivery of fourth and fifith, the beneficiaries will be paid an amount in cash equal to the dividends paid on the deferred amount in shares and the interest on the amount accrued in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares. In the case of the seventh cycle and, on the occasion of each payment of the deferred amount in cash, it will be possible to pay de Beneficiary the amount derived from the adjustment of the deferred amount with the inflation rate up to the date of payment of each corresponding cash amount.

The maximum number of shares to be delivered is calculated taking into account the amount resulting from applying the applicable taxes and the volume-weighted average share prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's executive directors for 2013, 2014 and 2015 for the third, fourth and fifth cycle, respectively. In the case of the sixth and seventh cycle, it is determined according to the same procedure in the fifteen sessions prior to the previous Friday (excluded) on the date on which the board decides the bonus for the Bank's executive directors for 2016 and 2017, respectivily.

(iii) Performance share plan

In 2014 and 2015 the Bank's Board of Directors approved the first and second cycles, respectively, of the performance share plan by which to instrument a portion of the variable remuneration of the executive directors and other members of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on the Bank's performance over a multiannual period. In addition, the second cycle also applies to other Bank employees not included in the Identified Staff, in respect of whom it is deemed appropriate that the potential delivery of Bank shares be included in their remuneration package in order to better align the employee's interests with those of the Bank.

Since the aforementioned plans entail the delivery of Bank shares, the Annual General Meetings of March 28, 2014 and March 27, 2015 approved the application of the first and second cycles of the plan, respectively.

The maximum amounts of the plan and, consequently, the maximum number of shares to which a beneficiary may be entitled under this plan was set at 15% and 20% of the beneficiaries' benchmark bonus for 2014 and 2015, respectively.

The Board of Directors, following a proposal of the remuneration committee, set the amount of the ILP for each beneficiary for 2014 and 2015.

For the second cycle, based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the Board of Directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (RoTE) for 2015 with respect to those budgeted for the year.

Both items had the same weighting when setting the ILP and each of them were measured based on the following scales of target compliance:

- Scale applicable to EPS of Santander Group in 2016 with respect to the budgeted EPS for the year:

EPS in 2015 (% of budgeted 2015 EPS)	2015 EPS coefficient
≥ 90%	1
> 75% but < 90%	0.75 – 1 (*)
≤ 75%	0

(*) Straight-line increase of the 2015 EPS coefficient based on the specific percentage that the 2015 EPS represents of the budgeted EPS within this line of the scale.

- Scale applicable to Santander Group's 2015 RoTE with respect to the RoTE budgeted for the year:

RoTE in 2015 (% of budgeted 2016 RoTE)	2015 RoTE coefficient
≥ 90%	1
> 75% but < 90%	0.75 – 1 (*)
≤ 75%	0

(*) Straight-line increase of the 2016 RoTE coefficient based on the specific percentage that the 2016 RoTE represents of the budgeted RoTE within this line of the scale.

Based on the Group's performance at the end of 2015, the coefficient to be applied was 91.50%.

For the first cycle, the following percentages were applied to 15% of the benchmark bonus in accordance with the relative performance of the Bank's Total Shareholder Return (TSR) in 2014 compared to a benchmark group:

Santander's place in the TSR ranking	Percentage of maximum shares to be delivered
1st to 8th	100%
9th to 12th	50%
13th and below	0%

Since the Bank’s TSR was in fourth place, the applicable percentage was 100%.

Also, for the second cycle, the agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, at the beginning of 2019 (foreseeably, in the first quarter) based on compliance with the multiannual targets and other plan terms and conditions. Thus, prior to the payment date, the Board of Directors, following a proposal of the remuneration committee, will calculate the amount, where appropriate, to be received by each beneficiary based on the agreed-upon amount of the ILP. The multiannual targets, the related metrics and scales of compliance are as follows:

- Relative performance of the Group's EPS growth for 2015-2017 with respect to a benchmark group of 17 credit institutions

Position of Santander's EPS growth 2015-2017	EPS coefficient
1st to 5th	1
6th	0.875
7th	0.75
8th	0.625
9th	0.50
10th and below	0

- Santander Group's 2017 RoTE:

RoTE in 2017 (%)	RoTE coefficient
≥ 12%	1
> 11% but < 12%	0.75 - 1 (*)
≤ 11%	0

(*) Straight-line increase of the RoTE coefficient based on the specific percentage, within this line of the scale, of Santander Group's RoTE in 2017.

- Employee satisfaction, measured by the inclusion or exclusion of the related Group company in 2017 among the “Top 3” best banks to work for.

  - Scale of compliance at country level:

Position among the best banks to work for in 2017	Employee coefficient
1st to 3rd	1
4th or below	0

- Scale of compliance at Santander Group level:

No. of main markets in which Santander is ranked in the top three of the best banks to work for in 2017	Employee coefficient
6 or more 5 or less	1 0

- Customer satisfaction, measured by the inclusion or exclusion of the related Group company in 2017 among the top three best banks in the customer satisfaction index.

  - Scale of compliance at country level:

Position among the best banks as per the customer satisfaction index in 2017	Customer coefficient
1st to 3rd 4th or below	1 0

  - Scale of compliance at Santander Group level:

No. of main markets in which Santander is ranked in the top three of the best banks in the customer satisfaction index in 2017	Customer coefficient
10 Between 6 and 9 5 or less	1 0.2 - 0.8 (*) 0

(*) Straight-line increase of customer coefficient, whereby, within this line of the scale, the coefficient is increased by 0.2 for each additional main market in which the customer satisfaction index ranks it in the top three.

- Customer loyalty, taking into account that the targets at Santander Group level are 17 million individual customers and 1.1 million SME and business customers at December 31, 2017.

- Scales of compliance at country level:

Individual customers (% of the budget for the related market)	Individual coefficient
≥ 100%	1
> 90% but < 100%	0.5 - 1 (*)
≤ 90%	0

SME and business customers (% of the budget for the related market)	Business coefficient
≥ 100%	1
> 90% but < 100%	0.5 - 1 (*)
≤ 90%	0

(*) Straight-line increase of the individual coefficient and business coefficient based on the specific percentage, within these lines of each scale, that the number of customers of each type represents of the budgeted number at December 31, 2017.

- Scales of compliance at Santander Group level:

Individual customers (millions)	Individual coefficient
≥ 17	1
> 15 but < 17	0.5 - 1 (*)
≤ 15	0

SME and business customers (millions)	Business coefficient
≥ 1.1	1
> 1 but < 1.1	0.5 - 1 (*)
≤ 1	0

(*) Straight-line increase of the individual coefficient and business coefficient based on the number of customers of each type at December 31, 2017.

Based on the foregoing metrics and compliance scales and the data relating to the end of 2017, the amount accrued of the ILP for each beneficiary (the "Accrued Amount of the ILP") will be calculated by weighting the above coefficients by 0.25, 0.25, 0.2, 0.15, 0.075 and 0.075, respectively.

For the first cycle, the agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, in thirds in June 2016, 2017 and 2018 based on compliance with the multiannual TSR targets. Thus, for each payment date, the Board of Directors, following a proposal of the remuneration committee, will calculate the amount, where appropriate, to be received by each beneficiary applying to the third of the agreed-upon amount of the ILP for that year the percentage resulting from the following table:

Santander's place in the TSR ranking	Percentage of maximum shares to be delivered
1st to 4th	100.0%
5th	87.5%
6th	75.0%
7th	62.5%
8th	50.0%
9th and below	0%

For the accrual for 2016, the benchmark TSR will be that accumulated between January 1, 2014 and December 31, 2015, for the accrual for 2017, the benchmark TSR will be that accumulated between January 1, 2014 and December 31, 2016 and for the accrual for 2018, the benchmark TSR will be that accumulated between January 1, 2014 and December 31, 2017. In 2016, a position in the RTA ranking has not been reached that determines the accrual of the first and second third, so it has been extinguished.

In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be paid on the ILP payment date based on compliance with the related multiannual target is conditional upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries as a result of the actions taken in 2014 and 2015, respectively: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

(iv) Deferred variable compensation plan linked to multiannual objectives

In 2016 and 2017, the Board of Directors of the Bank, at the proposal of the remuneration committee, approved the first and secondcycle of the deferred variable remuneration plan linked to multi-year objectives that implements the variable remuneration corresponding to 2016 and 2017 for executive directors and certain executives (Including top management) of the Group's first lines of responsibility (formerly Promontorio and Faro, before,Top Network managers). The cycles plan was approved by the general meeting on March 18, 2016 and April 7, 2017 with the aim of simplifying the remuneration structure, improving the ex ante risk adjustment and increasing the impact of the long-term objectives on the Group's first guidelines. The plan also takes into account the recommendations issued in the Guidelines on sound remuneration policies under Articles 74 (3) and 75 (2) of Directive 2013/36 / EU and disclosures under Article 450 of Regulation (EU) No. 575/2013, Published by the European Banking Authority on 21 December 2015.

This plan includes the bonus (deferred and conditioned variable compensation plan mentioned in item (iii) above and the ILP of item (iv) above and is intended to defer a portion of the variable remuneration over a period of three or five Years to be paid in cash and in shares, linking part of this amount to the Bank's performance over a multi-year period and paying the other part of the variable remuneration in cash and in stock at the beginning. Detailed below.

The variable remuneration of the beneficiaries will be paid according to the following percentages, depending on when the payment occurs and the group to which the beneficiary belongs:

	2016 and 2017 (first and second cycle)		
	Immediate payment percentage (*)	Deferred percentage (*)	Deferral period (*)
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.7 million (**)(***)	40%	60%	5 years
Division managers, country heads of countries that represent at least 1% of the Group's economic capital, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.7 million (< EUR 2.7 million) (**)(***)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

(*) In some countries the percentage and the period of deferral may be higher to comply with local regulations or with the requirements of the competent authority in each case.

(**) Variable reference remuneration for the standard compliance (100% of the objectives).

(***) In the first cycle (2016), the quantitative amount that determines by itself being in one category or another refers to the total variable remuneration effectively approved at year end and do not refers to target or reference remuneration.

Each beneficiary receives, in 2017 and 2018 (frist and second cycle, respectively), according to the group to which it belongs, the percentage of immediate payment that corresponds, by half in cash and in shares. The payment of the percentage of deferral of the variable remuneration that corresponds in each case according to the group to which the beneficiary belongs will be deferred for a period of three or five years and will be paid by thirds or fifths, as the case may be, within thirty Days following the anniversaries of the initial date in the years 2018, 2019 and 2020 and, if applicable, 2021 and 2022 for the first cycle and in the years 2019, 2020 and 2021, and, if applicable 2022 and 2023, for the second cycle, provided that the conditions set out below are met.

In 2016, the accrual of the deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, in the opinion of the board, at the proposal of the remuneration committee, none of The following circumstances during the period prior to each of the deliveries in the terms set forth in each case in the plan's regulations: (i) poor performance of the Group; (Ii) breach by the beneficiary of the internal regulations, including in particular that relating to risks; (Iii) material restatement of the Group's financial statements, except when appropriate under a change in accounting regulations; Or (iv) significant changes in the Group's economic capital or risk profile.

In 2017, the accrual of deferred remuneration is conditioned, in addition to the beneficiary permanence in the Group, with the exceptions contained in the plan's regulations, to the non-occurrence of instances of poor financial performance from the entity as a whole or of a specific division or area thereof or of the exposures generated by the personnel, at least the following factors must be considered: (i) significant failures in risk management committed by the entity, or by a business unit or risk control unit; (ii) the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; (iii) regulatory sanctions or court rulings for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and (iv) irregular behaviors, whether individual or collective, considering in particular negative effects derived from the marketing of inappropriate products and responsibilities of persons or bodies that made those decisions.

In addition, the accrual of the deferral corresponding to the third annuity of deferral for the Group that differs in three years and the third, fourth and fifth for which it differs in five years, is conditional on the fulfillment of certain objectives related to the period 2016-2018 and The metrics and compliance scales associated with these multi-year objectives:

For 2016 (first cycle, period 2016-2018), the metrics and the method for determining the deferred amount subject to long term objectives are as follows:

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

BPA growth in 2018 (% Over 2015)	BPA coefficient
≥ 25%	1
≥ 0% but < 25%	0 – 1 (*)
< 0%	0

BPA growth in 2018 (% Over 2015)	BPA coefficient
< 0%	0

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

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

Position of the Santander RTA	BPA coefficient
Exceeding the 66th percentile	1
Between the 33rd and 66th percentiles	0-1(*)
Inferior al percentil 33	0

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

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

(C) Compliance with the fully loaded common equity tier 1 ("CET1") target for the year 2018, with this objective being that at 31 December 2018 the consolidated CET1 ratio of Grupo Santander Fully loaded is greater than 11%. If this objective is met, a coefficient ("Coefficient CET1") of 1 will be assigned to this metric and, if it is not met, the Coefficient CET 1 will be 0. For verification of compliance with this objective, Increases in CET1 derived from capital increases (except those that implement the Santander Dividendo Elección program) will not be taken into account. In addition, CET1 as of 31 December, 2018 may be adjusted to eliminate the effects of the regulatory changes that may occur with respect to its calculation up to that date.

Compliance with Santander Santander's underlying return on risk-weighted assets for 2018 compared to 2015. The corresponding coefficient (the "RoRWA Coefficient"), Will be obtained from the following table:

BPA growth in 2018 (% Over 2015)	RoRWA coefficient
≥ 20%	1
≥ 10% but < 20%	0,5 – 1 (*)
< 10%	0

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

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

Final Annuity = Imp. x (0,25 x A + 0,25 x B + 0,25 x C + 0,25 x D)

where:

- "Imp." Corresponds to a fifth or a third, depending on the profile of the beneficiary, the Deferred Amount of Incentive A.
- "A" is the BPA Coefficient that is in accordance with the scale of section (a) above in relation to the growth of BPA in 2018 compared to 2015.
- "B" is the RTA Coefficient that is in accordance with the scale of section (b) above depending on the performance of the Bank's RTA in the period 2016-2018 with respect to the Reference Group.
- "C" is the CET 1 Coefficient resulting from the fulfillment of the CET1 target described in section (c) above.
- "D" is the RoRWA Coefficient that conforms to the scale of section (d) above depending on the growth level of RoRWA 2018 compared to 2015.

(e) Compliance with the consolidated earnings per share growth ("EPS") of Santander Bank in 2019 in comparison with 2016. The coefficient corresponding to this objective (EPS coefficient) will be obtained in accordance with the following table:

EPS growth in 2019 (% over 2016)	EPS coefficient
≥ 25%	1
≥ 0% but < 25%	0 – 1 (*)
< 0%	0

(*) Lineal increase of the EPS Coefficient according to the specific EPS growth in 2019 with respect to 2016 within this scale line.

(f) Relative behavior of the total shareholder return ("TSR") [4]of the Bank in the period 2017-2019 in relation with the TSR of a reference group comprised by 17 credit entities (the Reference Group), assigning a TSR Coefficient that corresponds depending on the TSR position of the Bank within the Reference Group.

Santander's TSR positon	TSR Coefficient
Greater than percentile 66	1
Percentiles between 33 and 66	0-1(*)
Smaller than percentile 33	0

(*) Proportional increase of the TSR Coefficient in accordance with the number of positions moved forward in the ranking within this scale line.

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

(g) Compliance with the level 1 ordinary capital ratio target (common equity tier 1 or "CET1") fully loaded set for year 2019. The coefficient related to this target (CET1 Coefficient) will be obtained from the following table:

CET1 en 2019	CET1 Coeficient
≥ 11.30%	1
≥ 11% pero < 11.30%	0.5 – 1 (*)
< 11%	0

For the verification of compliance with this target, it will not be taken into account the possible increases of CET1 derived from increases of capital 2 [5](except from those implemented by the Santander Dividendo Elección program). Furthermore, CET1 coefficient as of December 31, 2019 shall be adjusted in order to eliminate impact that a regulatory change may have with respect its calculation as of yet.

In order to determine the annual deferred amount subject to the targets that, where appropriate, corresponds to each executive director for years 2021, 2022 and 2023 (each of these payments, a "final annuity"), notwithstanding the adjustments that may result from malus clauses, the next formula will apply:

Final Annuity = Amount. x (1/3 x A + 1/3 x B + 1/3 x C)

[4] For these purposes, TSR means the difference (expressed as a percentage relation) between the final value of an investment in ordinary shares of Banco Santander and the initial value of that same investment, taking into account for the calculation of said final value that the dividends will be considered and also other similar concepts (such as the Santander Dividendo Elección program) received by the shareholder from said investment during the corresponding period of time as if they had been invested in more shares of the same type on the first date on which the dividend or similar concept is owed to the shareholders at the weighted average price of said date. To calculate the TSR, we will take into account the weighted average per daily volume of the weighted average prices corresponding to the fifteen trading sessions prior to January 1, 2017 (excluded) (to calculate the initial value) and the fifteen trading sessions prior to January 1, 2020 (excluded) (to calculate the final value).

[5] The neutral effect of the Capital Increase destined to finance the acquisition of Banco Popular Español, S.A. announced in June 2017 and carried out in July 2017 will be taken into account.

Where:

- “Amount” is the incentive amount equivalent to an annuity (this term is defined in section 4 below).

- “A” is the EPS Coefficient resulting from the scale in section (a) above according to the EPS growth in 2019 with respect to 2016.

- “B” represents the TSR Coefficient that results from the scale in section (b) above in accordance with the Bank’s TSR behaviour in the period 2017-2019 in comparison with the Reference Group.

- “C” represents the Coefficient CET 1 that results from the compliance with the CET1 target for 2019 described in section (c) above.

In addition, the amounts paid under this plan are subject to recovery or *clawback* clauses in the event of the circumstances providing in the current legislation. The application of clawback will be supplemented by that of malus, so that it will take place when it is considered insufficient to collect the effects that the event must have on the assigned variable remuneration. The application of clawback will be decided by the Board of Directors on the proposal of the remuneration committee and can not be proposed, in the case of the first cycle (2016), once the last payment in cash or shares corresponding to the plan is made in 2022, or in the case, in 2020. In the second cycle, the application of clawback cannot be proposed once the term has expired for the withholding of the last payment in shares that corresponds to the plan, in 2024 or, as the case may be, in 2022.

The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluding) on the date on which the board decides the bonus for the Executive directors of the Bank.

ii. Santander UK plc

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousands)	Exercise price in pounds sterling (*)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/15	**19,122**						
Options granted (Sharesave)	14,074	3,13	2015	Employments	7,759(**)	01/11/15 01/11/15	01/11/18 01/11/20
Options exercised	(1,839)	3,75					
Options cancelled (net) or not exercised	(6,595)	4,50					
Plans outstanding at 31/12/15	**24,762**						
Options granted (Sharesave)	17,296	4,91	2016	Employments	7,024	01/11/16 01/11/16	01/11/19 01/11/21
Options exercised	(338)	3,67					
Options cancelled (net) or not exercised	(12,804)	3,51					
Plans outstanding at 31/12/16	**28,916**						
Options granted (Sharesave)	3,916	4.02	2017	Empleados	4.260	01/11/17 01/11717	01/11/20 01/11/22
Options exercised	(1,918)	3.77					
Options cancelled (net) or not exercised	(3,713)	3.40					
Plans outstanding at 31/12/17	**27,201**						

(*) At December 31, 2017, 2016, 2015 and 2014, the euro/pound sterling exchange rate was EUR 1.16798 GBP 1; EUR 1.36249/GBP 1 and EUR 1.28386/GBP 1, respectively.

(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme between GBP 5 and GBP 500 in 2015, 2016 and 2017 deducted from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the Board of Directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorized by the Annual General Meeting held on 21 June 2008. Also, the scheme was authorized by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the Annual General Meetings held on June 19, 2009, June11, 2010, June 17, 2011, March 28, 2012, March 22, 2013, March 28, 2014, March 27, 2015 and April 7, 2017, respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

a) Deferred variable compensation plan linked to multi-year objectives 2016 and 2017:

The fair value of the plan has been determined, at the grant date, based on the valuation report of an independent expert. Depending on the design of the plan for 2016 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. Has considered that the fair value is 70% of the maximum.

b) 2015 *Performance share* plan:

The fair value of this plan was calculated at the grant date based on a valuation report by an independent expert. On the basis of the design of the plan for 2015 and the levels of achievement of similar plans at comparable entities, the expert concluded that the reasonable range for estimating the initial achievement coefficient was approximately 60% to 80% and, accordingly, the fair value was considered to be 70% of the maximum. Therefore, as the maximum level was determined as being 91.50%, the fair value is 64.05% of the maximum amount.

c) *Performance share* plans 2014:

- It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.

- The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform 10,000 simulations to determine the TSR of each of the companies in the benchmark group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI14
Expected volatility (*)	51.35%
Annual dividend yield based on last few years	6.06%
Risk-free interest rate (Treasury Bond yield (zero coupon) over the period of the plan)	4.073%

(*) Calculated on the basis of historical volatility over the corresponding period (three years).

The application of the simulation model resulted in a percentage value of 55.39% for Plan I-13 and 55.39% for Plan I-14. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

d) Santander UK *Sharesave* plans:

The fair value of each option granted by Santander UK was estimated at the grant date using a European/American Partial Differential Equation model with the following assumptions:

	2017	2016	2015
Risk-free interest rate	0.89%-1.08%	0.31%-0.41%	1.06%-1.37%
Dividend increase	5.48%-5.51%	5.92%-6.21%	6.91%-7.36%
Volatility of underlying shares based on historical volatility over five years	26.16%-26.31%	31.39%-32.00%	28.54%-29.11%
Expected life of options granted	3 y 5 años	3 and 5 years	3 and 5 years

43. Other general administrative expenses

a) *Breakdown*

The detail of Other general administrative expenses in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Technology and systems	479	490
Fixtures and supplies	535	563
Other administrative expenses	482	512
Technical reports	144	152
Advertising	136	155
Per diems and travel expenses	41	60
Surveillance and cash courier services	42	39
Communications	15	9
Taxes other than income tax	65	67
Insurance premiums	12	10
	1,951	**2,057**

b) *Technical reports and other*

Technical reports include the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows (amounts corresponding to PwC in 2017 and 2016):

	Millions of euros	
	2017 (*)	2016
Audit fees	76.2	73.7
Audit-related fees	13.4	7.2
Tax fees	1.3	0.9
All other fees	3.1	3.6
Total	**94.0**	**85.4**

(*) From which corresponding to Banco Santander, S.A., 16.9 million euros, 5.6 million euros, 0,0 million euros and 0.9 million euros, respectively. (17.1 million euros, 1.4 million euros, 0.0 million euros and 2.1 million euros, respectively at 31 December 2016)

The Audit fees heading includes auditing fees for the Banco Santander, S.A. individual and consolidated annual accounts, as the case may be, of the companies forming part of the Group, the integrated audit prepared for the annual report filling in the 20-F Form required by the U.S. *Securities and Exchange Commission* (SEC) for those entities currently required to do so, the internal control audit (SOx) for those required entities, the audit of the consolidated financial statements as of June 30 and limited quarterly consolidated reviews for the Brazilian regulator as of March 31, June 30 and September 30 and the regulatory reports required by the auditor corresponding to the different locations of the Santander Group.

The main concepts included in Audit-related fees correspond to aspects such as the issuance of Comfort letters, or other reviews required by different regulations in relation to aspects such as, for example, Securitization.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US *SEC* rules and the *Public Company Accounting Oversight Board* (PCAOB), applicable to the Group, and they did not involve in any case the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 115.6 million in 2017 (2016: EUR 127.9 million to other auditing firms other than PwC).

c) Number of offices

The number of offices at December 2017 and 2016, is as follow:

Number of offices	Group	
	31/12/2017	31/12/2016
Spain (*)	4,681	2,911
Group	9,016	9,324
	13,697	**12,235**

(*) Of wich belong to Banco Santander, S.A. 2,820 offices at 31 December 2017.

44. Impairment or (-) reversal of the impairment of investments in joint ventures and associates and of non-financial assets, net

The detail of Impairment losses on other assets (net) in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Investments in subsidiaries, joint ventures and associates (Note 13)	273	484
	273	**484**

45. Gains or losses on non financial assets and investments, net

The detail of Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
On disposal of tangible assets	13	11
On disposal of investments in subsidiaries, jointly controlled entities and associates *(Note 13.b.i.i)*	559	334
Of which:		
Contribution of US subsidiaries to Santander Holdings USA, Inc.	-	*450*
Santander Benelux, S.A./N.V. (actually Santander Consumer Bank, S.A.)	-	*45*
Capital reductions and refunds of share premium by subsidiaries	*551*	*(183)*
	572	**345**

46. Gains or losses on non-current assets held for sale classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations in the accompanying income statements for 2017 and 2016 is as follows:

	Millions of euros	
	2017	2016
Impairment of non-current assets held for sale (Note 12)	(100)	(105)
Gain / (loss) on disposal	5	-
	(95)	**(105)**

47. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2017, distinguishing between subsidiaries, associates and jointly controlled entities, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties. Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

	Millions of euros			
	Subsidiaries, associates and jointly controlled entities	Members of the board of directors (*)	Executive vice presidents (*)	Other related parties (*)
Assets	**140,439**	**-**	**21**	**316**
Equity instruments	85,453	-	-	17
Debt instruments	10,978	-	-	21
Loans and advances	44,008	-	21	278
From which: impaired financial assets	*17,202*	-	-	-
Liabilities	**19,083**	**19**	**14**	**61**
Deposits credit institution and clients	19,083	19	14	61
Marketable debt securities	-	-	-	-
Income statement	**5,201**	**-**	**-**	**14**
Interest and similar income	860	-	-	8
Interest expense and similar charges	290	-	-	-
Interest from equity instruments	3,311	-	-	-
Gains / (Losses) on financial instruments and other	(25)	-	-	-
Fee and commission income	647	-	-	6
Fee and commission expense	118	-	-	-
Other	**352,183**	**1**	**2**	**3,667**
Contingent liabilities	6,018	1	2	381
Contingent commitments	5,961	-	-	3,101
Financial instruments - derivatives	340,204	-	-	185

(*) Includes transactions performed both with the Bank and with other Group entities.

Additionally, the above-mentioned breakdown shows pension insurance contracts with Group insurance companies amounting to 1,494 million euros as of December 31, 2017 (1,565 million euros as of December 31, 2016).

48. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the balance sheets as at 31 December 2017 and 2016 is as follows:

	31 December 2017							
	Millions of euros							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	
Assets:								
Cash and balances with central banks and deposits on demand	33,734	-	-	-	-	-	33,734	(0.40)%
Available-for-sale financial assets								
Debt instruments	-	474	462	630	6,754	23,626	31,946	2.08%
Loans and receivables								
Debt instruments	-	163	188	87	1,157	11,897	13,492	0.82%
Loans and advances	20,132	16,519	26,453	26,945	36,734	79,744	206,527	1.94%
Credit institution and central banks	8,961	*3,252*	*3,260*	*10,715*	*4,472*	*1,053*	*31,713*	*0.66%*
Customers	*11,171*	*13,267*	*23,192*	*16,230*	*32,262*	*78,692*	*174,814*	*2.17%*
Investment held-to-maturity investments								
Debt instruments	-	-	-	1,892	-	-	1,892	0.41%
	53,866	**17,155**	**27,103**	**29,554**	**44,645**	**115,268**	**287,591**	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits	178,472	19,906	11,528	19,590	33,762	1,324	264,582	0.51%
Credit institution and central banks	*28,123*	15,637	6,160	8,220	25,588	1,296	85,024	0.37%
Customers	*150,349*	4,269	5,368	11,370	8,174	28	179,558	0.58%
Marketable debt securities	-	3,703	1,307	1,986	17,588	28,474	53,058	2.11%
Other financial liabilities	3,362	6	1,951	570	1,286	2,205	9,380	n.a
	181,834	**23,615**	**14,786**	**22,146**	**52,636**	**32,003**	**327,020**	
Difference (assets less liabilities)	**(127,966)**	**(6,459)**	**12,316**	**7,408**	**(7,991)**	**83.265**	**(39,429)**	

	31 December 2016							
	Millions of euros							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	
Assets:								
Cash and balances with central banks and deposits on demand	15,605	3	-	-	11	16	15,635	(0.40) %
Available-for-sale financial assets								
Debt instruments	(1)	320	628	233	8,712	17,733	27,625	1.93%
Loans and receivables								
Debt instruments	-	11	22	197	394	13,057	13,681	1.74%
Loans and advances	22,403	13,885	13,187	35,221	38,344	81,567	204,607	2.15%
Credit institution and central banks	*10,385*	*3,055*	*2,931*	*4,049*	*5,072*	*318*	*25,810*	*0.39%*
Customers	*12,018*	*10,830*	*10,256*	*31,172*	*33,272*	*81,249*	*178,797*	*2.40%*
Investment held-to-maturity investments								
Debt instruments	-	-	-	-	1,953	-	1,953	0.41%
	38,007	14,219	13,837	35,651	49,414	112,373	263,501	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits	154,110	18,263	17,267	28,517	49,320	13,619	281,096	0.63%
Credit institution and central banks	*20,255*	10,420	7,288	8,867	26,528	996	74,354	0.36%
Customers	*133,855*	7,843	9,979	19,650	22,792	12,623	206,742	0,73%
Marketable debt securities	94	2,004	858	1,250	4,848	13,901	22,955	2,91%
Other financial liabilities	3,910	8	1,730	29	1,489	2,165	9,331	n.a
	158,114	20,275	19,855	29,796	55,657	29,685	313,382	
Difference (assets less liabilities)	**(120,107)**	**(6,056)**	**(6,018)**	**5,855**	**(6,243)**	**82,688**	**(49,881)**	

b) *Equivalent euro value of assets and liabilities*

The detail of the main foreign currency balances in the balance sheets as at 31 December 2017 and 2016, based on the nature of the related items, is as follows:

	Equivalent value in millions of euros	
	2017	2016
Assets		
Cash and balances at central banks and other deposits on demand	6,145	5,199
Financial assets held for trading	17,036	16,286
Financial assets designated at fair value through profit or loss	2,052	627
Financial assets available-for-sale	2,501	2,502
Loans and receivables	35,391	36,410
Investments held to maturity	-	-
Hedging derivatives	214	97
Changes in the fair value of hedged ítems in portfolio hedges of interés rate risk	-	1
Investments	41,685	42,882
Tangible assets	1	1
Intangible assets	-	-
Tax assets	4	5
Other assets	115	84
Non-current assets held-for-sale	-	-
	105,144	**104,094**
Liabilities		
Financial liabilities held for trading	13,800	12,344
Financial liabilities designated at fair value through profit or loss	11,459	9,328
Financial liabilties at amortised cost	34,307	31,065
Hedging derivatives	218	295
Changes in the fair value of hedged ítems in portfolio hedges of interest risk rate	-	-
Provisions	49	61
Tax liabilities	-	-
Refundable equity on demand	-	-
Other liabilities	426	131
	60,259	**53,224**

c) *Fair value of financial assets and liabilities not measured at fair value*

Financial assets are measured at fair value in the accompanying balance sheets, except for loans and receivables, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof.

Similarly, financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives having equity instruments whose market value cannot be estimated reliably as their underlyings- are measured at amortised cost in the accompanying balance sheets.

The following is a comparison between the value of the Group's financial instruments valued using other criteria rather than fair value and their corresponding fair value at year-end:

Financial assets and liabilities measured at other than fair value

The fair value of financial instruments measured at amortised cost at 31 December 2017 was as follows:

a. The fair value of Loans and receivables is 0.34% less than the carrying amount.

b. The fair value of Deposits is 0.12% less than the carrying amount.

c. The fair value of Investments Held-to-maturity is 0.72% greater than the carrying amount.

d. The fair value of Marketable debt securities is 8.22% greater than the carrying amount.

Set forth below are the main valuation methods and inputs used in the estimates made at 31 December 2017 to determine the fair values of the financial assets and liabilities recognised at cost detailed above:

- Loand and receivables: The fair value has been estimated using the present cost method. The estimation has considered factors such as the expected maturity of the portfolio, market interest rates, spreads of new concession of operations, or market spreads – If these were available.

- Held to maturity portfolio: The fair value has been determined based on market prices for those instruments.

- Financial liabilities at amortised cost:

    i. The fair value of deposits at Central Banks has been assimilated to their carrying amount because they are mainly short-term balances.

    ii. Credit Institutions: Fair value has been obtained using the present value technique by applying interest rates and market spreads.

    iii. Customer deposits: Fair value has been estimated using the present value technique. The estimation has considered factors such as the expected maturity of the operations and the current financing cost of the Group in similar operations.

    iv. Marketable debt securities: Fair value has been determined based on market prices for these instruments, when available, or using the present value technique, by applying interest rates and market spreads.

  Additionally, the fair value of Cash, Cash Balances at central banks and other deposits on demand has been assimilated to its carrying amount, mainly because of short-term balances.

Also, Available-for-sale financial assets at 31 December 2017 included certain equity instruments amounting to EUR 550 million relating to companies that are not listed on organised markets (EUR 642 million in 2016). These equity instruments were recognised at cost, because it was not possible to estimate their fair value reliably since it was based on significant non-observable inputs.

49. Risk management

a) Cornerstones of the risk function

The risk management and control model deployed by the Santander Group is based on the principles set down below, which are also aligned with the Group's strategy and, in addition take into account the regulatory and supervisory requirements, as well as the best market practices:

- An advanced and comprehensive risk management policy, with a forward-looking approach that allows the Group to maintain a medium-low risk profile, through a risk appetite defined by Banco Santander's board of directors and the identification and assessment of all risks.
- Lines of defence that enable risk to be managed at source, controlled and monitored, in addition to an independent assessment.
- A model predicated on autonomous subsidiaries with robust governance based on a clear committee structure that separates the risk management and control functions.
- Information and technological management processes that allow all risks to be identified, developed, managed and reported at appropriate levels.
- A risk culture integrated throughout the organisation, composed of a series of attitudes, values, skills and action guidelines to deal with all risks.
- All risks are managed by the units that generate them, using advanced models and tools.

1. Risk map

The risk map covers the main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof.

The risk map includes the following:

- Credit risk: risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which the Santander Group has either directly provided credit or for which it has assumed a contractual obligation.

- Market risk: risk incurred as a result of changes in market factors that affect the value of positions in the trading book.

- Liquidity risk: risk that the Group does not have the liquid financial resources to meet its obligations when they fall due, or can only obtain them at high cost.

- Structural risk: risk arising from the management of different balance sheet items, not only in the banking book but also in relation to insurance and pension activities.

- Capital risk: risk of Santander Group not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements or market expectations.

- Operational risk: defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk.

- Conduct risk: risk arising from practices, processes or behaviors which are not adequate or compliant with internal regulation, legal or supervisory requirements.

- Reputational risk: risk of current or potential negative economic impact to the Bank due to damage to the perception of the Bank on the part of employees, customers, shareholders/investors and the wider community.

- Model risk: risk of loss arising from inaccurate predictions, causing the Bank to make suboptimal decisions, or from a model being used inappropriately.

- Strategic risk: risk of loss or damage arising from strategic decisions or their poor implementation, that impact the long term interests of our key stakeholders, or from an inability to adapt to external developments.

2. Risk governance

For the proper development of the risk function, the Group has a strong governance policy in place to ensure that the risk decisions taken are appropriate and efficient and that they are effectively controlled within the established risk appetite framework.

The Group Chief Risk Officer (GCRO) oversees this function within the Group, advises and challenges the executive line and also reports independently to the risk, regulatory and compliance committee and to the board.

2.1. Lines of defence

Banco Santander's management and control model is based on three lines of defence.

The business functions and all support functions that generate exposure to a risk make up the first line of defence. The role of these functions is to establish a management structure for the risks that are generated as part of their activity ensuring that these remain within the approved appetite risk and the established limits.

The second line of defence is composed by the risk control function, and the compliance and conduct function. The role of these functions is to provide independent oversight and challenge to the risk management activities performed by the first line of defence.

These functions are responsible for ensuring that the risks are managed in accordance with the risk appetite defined by senior management and to foster a strong risk culture across the whole organisation. They must also provide guidance, advice and expert opinion in all key risk-related matters.

Internal audit as the third line of defence. As the last layer of control, regularly assesses policies, methods and procedures to ensure they are adequate and are being implemented effectively in the management and control of all risks.

The risk control, compliance and conduct and internal audit functions are sufficiently separated and independent from each other and regarding to other functions they control or supervise for the performance of their duties, and they have access to the board of directors and/or its committees through their maximum responsibles.

2.2. Risk committee structure

Ultimately, the board of directors is responsible for the risk control and management, and, in particular, for setting the risk appetite for Santander Group. It can also delegate its powers to committees classed as independent control bodies or decision-making bodies. The board uses the Risk supervision, Regulation and Compliance Committee as an independent risk control and oversight committee. The Group's executive committee also pays special attention to the management of all risks.

The following bodies form the highest level of risk governance:

Independent control bodies

Risk, regulation and compliance oversight committee:

The purpose of this committee is to assist the board in matters of risk supervision and control, in the Group risk policies definition, in the relation with the supervisory authorities and in aspects of regulation and compliance, sustainability and corporate governance.

It is chaired by an independent director and is formed by external or non-executive directors, the majority of which are independent.

Risk control committee (CCR):

This collegiate body is responsible for the effective risk control, ensuring they are managed in accordance with the risk appetite level approved by the board, permanently adopting an all-inclusive overview of all the risks included in the general risk framework. This duty implies identifying and tracking both current and potential risks, and gauging their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) and is composed of senior management members. The risk function, which chairs the committee, as well as the functions of compliance and conduct, financial accounting and control, and management control are represented, among others. The risk function officers (CROs) of local entities take part in the committee meetings on a regular basis to report on the risk profile of the entities and other aspects.

The risk control committee reports to the Risk supervision, Regulation and Compliance Committee and assists it in its function of supporting the board.

Decision-making bodies

Executive risk committee (ERC):

This collegiate body is responsible for the management of all risks under the powers allocated to it by the board of directors.

The committee takes part in risk decisions at the highest level, ensuring that they are within the limits set out in the Group's risk appetite. It reports on its activity to the board or its committees whenever it is required to do so.

It is chaired by the CEO and comprises executive directors, and the entity's senior management. The risk function, finance and compliance and conduct, among others, are represented. The GCRO has a right to veto the decisions taken by this committee.

2.3. The Group's relationship with subsidiaries regarding risk management

Alignment of units with the corporate centre

The management and control model shares, in all the Group's units, basic principles via corporate frameworks. These frameworks are established by the Group's board of directors, and the local units adhere to them through their respective boards of directors, shaping the relationship between the subsidiaries and the Group, including the role played by the latter in taking important decisions by validating them.

Pursuant to these shared principles and basics, each unit adapts its risk management to its local reality, in accordance with corporate frameworks and reference documents provided by the Corporation, thus creating a recognisable and common risk management and control model in Santander Group.

Committee structure

The governance bodies of subsidiary entities are structured in accordance with local regulatory and legal requirements and the dimension and complexity of each subsidiary, being consistent with those of the parent company, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommends that each subsidiary should have bylaw-mandated risk committees and other executive risk committees, in line with best corporate governance practices, consistently with those already in place in the Group.

Given its capacity for comprehensive (enterprise wide) and aggregated oversight of all risks, the Corporation exercises a validation and questioning role with regard to the operations and management policies of the subsidiaries, insofar as they affect the Group's risk profile.

3. Management processes and tools

3.1 Risk appetite and limits structure

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. For the latter, severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring consistency between both of them.

The risk appetite is set for the whole Group, as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/market. At local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

Corporate risk appetite principles

The following principles govern the Santander Group's risk appetite in all its units:

- Responsibility of the board and of senior management. The board is the maximum body responsible for setting the risk appetite and its regulation support, as well as supervising its compliance.

- Enterprise Wide Risk, backtesting and challenging of the risk profile. The risk appetite must consider all significant risks to which the Bank is exposed, facilitating an aggregate vision of the risk profile through the use of quantitative metrics and qualitative indicators.

- Forward-looking view. The risk appetite must consider the desirable risk profile for the current moment, as well as in the medium term, taking into account both the most plausible circumstances and the stress scenarios.

- Alignment with strategic and business plans and management integration (3 year plan, annual budget, ICAAP, ILAAP crisis recovery plans). The risk appetite is a benchmark in strategic and business planning and is integrated.

- Coherence in the risk appetite of the various units and common risk language throughout the Organization.

- Regular review, continuous backtesting and best practices and regulatory requirements adaptation.

Limits, monitoring and control structure

The risk appetite is formulated every year and includes a series of metrics and limits on these metric (statements) which express in quantitative and qualitative terms the maximum risk exposure that each unit of the Group or the Group as a whole is willing to assume.

Fulfilling the risk appetite limits is continuously monitored. The specialised control functions report at least every quarter to the board and its risk committee on the risk profile adequacy with the authorised risk appetite.

Linkage of the risk appetite limits with the limits used to manage the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio, segment and business line, in both current and stressed conditions. These metrics and risk appetite limits are articulated in five large areas that define the positioning that Santander's senior management wants to adopt or maintain in the development of its business model:

- The volatility in the income statement that the Group is willing to accept.

- The solvency position that the Group wants to maintain.

- The minimum liquidity position that the Group wants to have.

- The maximum levels of concentration that the Group considers reasonable to admit.

- Non-financial and transversal risks.

3.2. Risk identification and assessment (RIA)

Santander Group carries out the identification and assessment of the different risks it is exposed to involving the different lines of defence to strengthen its advanced and proactive risk management practice, establishing management standards that not only meet regulatory requirements but also reflect best practices in the market, and being also a risk culture transmission mechanism.

The function includes all the risk identification and assessment processes, as well as its integration within the Santander Group risk profile, its units and activities, thereby keeping the risk map up to date.

In addition to identifying and assessing the Group's risk profile by risk type and unit, RIA analyses the evolution of risks and identifies areas for improvement in each of the blocks that compose it:

- Risk performance, enabling understanding of residual risk by risk type through a set of metrics and indicators calibrated using international standards.

- Assessment of the control environment, measuring the degree of implementation of the target operating model, pursuant to advanced standards.

- Forward-looking analysis of the unit, based on stress metrics and identification and/or assessment of the main threats to the strategic plan (Top Risks), enabling specific action plans to be put in place to mitigate potential impacts and monitoring these plans.

In 2017, the function evolved along three main lines, ensuring the simplification and reinforcement of interaction among the communities of control and the completeness of the risk profile:

- Update of the control environment standards based on industry performance, internal management models and regulatory requirements:

  i) Homogeneous conceptual architecture developed to enable consistent analysis and assessments, and to simplify data execution/exploitation, as well as the reporting to senior management.

  ii) Environment control assessments simplification.

  iii) Greater involvement of the different stakeholders of the communities of control, particularly local risk functions, corporate risk control functions and internal audit.

  iv) Prioritisation of areas for improvement identified according to their materiality.

- New technology platform to facilitate data use and process implementation:

  i) Manual processes automatization

  ii) Real time access to information in the different units and for all stakeholders.

  iii) Internal technology solution with improved data safety and enhanced user experience.

  iv) Information reporting module to design and produce ad hoc reports.

- Wider scope by risk type and geography.

3.3. Scenario analysis

The Group conducts advanced management of risks by analysing the impact that different scenarios could trigger in the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables, as well as other variables that affect management.

Scenario analysis is a very robust and useful tool for management at all levels. It enables the assessment of - Group's resistance to stressed environments or scenarios, and puts into force a set of measures that reduce its risk profile to these scenarios. The objective is to maximise the stability of the income statement and capital and liquidity levels.

The robustness and consistency of the scenario analysis exercises are based on the following pillars:

- Developing and integrating mathematical models that estimate the future evolution of metrics (e.g. credit losses), based on both historic information (internal to the Bank and external from the market), as well as simulation models.

- Inclusion of expert judgement and know-how of portfolios, questioning and backtesting the models results.

- The backtesting of the models results against the observed data, ensuring that the results are adequate.

- The governance of the whole process, covering the models, scenarios, assumptions and rationale of the results, and their impact on management.

From January 1, 2018, the processes, models and scenario analysis methodology will be included in the new regulatory provisions requirements (IFRS 9).

The main uses of scenario analysis are as follows:

- Regulatory uses: in which stress tests of scenarios are performed under guidelines set by the European regulator or by each of the various national regulators that supervise the Group.

- Internal capital (ICAAP) or liquidity adequacy assessment processes (ILAAP) in which, although the regulator can impose certain requirements, the Group develops its own methodology to assess its capital and liquidity levels vis-à-vis various stress scenarios. These tools enable capital and liquidity management to be planned.

- Risk appetite: this contains stressed metrics on which maximum loss levels (or minimum liquidity levels) are established that the Bank does not wish to exceed.

- Recurrent risk management in different processes/tests:

    - Budgetary and strategic planning process, in the generation of commercial policies for risk approval, in the global risk analysis made by senior management and in specific analyses of activities and portfolios.

    - Identification of potential risks (“Top Risks”). After a systematic process to identify and assess all the risks to which the Group is exposed, the “Top Risks” are selected and the Entity’s risk profile is established. Each “Top Risk” has an associated macroeconomic or idiosyncratic scenario. To assess the impact of these risks on the Group, internal scenario analysis and stress testing models and methodologies are employed.

    - Recovery plan performed annually to establish the available measures the Bank will have, in order to survive an extremely severe financial crisis. The plan sets out a series of financial and macroeconomic stress scenarios, with differing degrees of severity, that include idiosyncratic and/or systemic events that are relevant for the Entity.

3.4. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years, Santander Group has developed and implemented the necessary structural and operating improvements to reinforce and consolidate enterprise-wide risk, based on complete, precise and regular data. This allows the Group's senior management to assess risk and act accordingly. In this sense, the strategic risk transformation plan is aligned with regulatory requirements, as evidenced in the review performed by the European supervisor with regard to compliance with the standards set forth in regulation BCBS 239.

In 2017, the Group has worked to consolidate the comprehensive data and information management model, and the implementation and renewal of technology systems, thereby enabling a balanced reporting taxonomy to be maintained that covers all the key risk areas within the Organization, in compliance with the Group’s size, risk profile and activity.

Therefore, three reports are submitted each month to senior management relating to risk management issues and the subsequent decision-making: the Group risks report, the risks report for each unit and the report on risk factors.

c) Credit risk

1. Introduction to the credit risk treatment

Credit risk is the risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which the Santander Group has either directly provided credit or for which it has assumed a contractual obligation.

The Group's risks function is organised on the basis of three types of customers:

- The Individuals segment includes all physical persons, except those with a business activity. This segment is, in turn, divided into sub-segments by income levels, which enables risk management adjusted to the type of customer.

- The SMEs, Commercial Banking and Institutions segment includes companies and physical persons with business activity. It also includes public sector activities in general and private sector non-profitable entities.

- The Santander Global Corporate Banking (*SGCB)* segment consists of corporate customers, financial institutions and sovereigns, comprising a closed list that is revised annually. This list is determined on the basis of a full analysis of the company (business type, countries of operation, product types, volume of revenues it represents for the Bank, etc.).

The Group's profile is mainly retail, accounting for 85% of total risk generated by the retail and commercial banking businesses.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk arising on customer business:

Main credit risk aggregates arising on customer business

(Management information data)

	Credit risk with customers[1] (millons of euros)			Non-performing rate (%)			Coverage rate (%)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Continental Europe	**337,768**	**331,706**	**321,395**	**4.50**	**5.92**	**7.27**	**58.0**	**60.0**	**64.2**
Spain	172,176	172,974	173,032	4.72	5.41	6.53	45.9	48.3	48.1
Santander Consumer Finance	92,589	88,061	76,688	2.50	2.68	3.42	101.4	109.1	109.1
Portugal	32,816	30,540	31,922	5.71	8.81	7.46	59.1	63.7	99.0
Polonia	24,391	21,902	20,951	4.57	5.42	6.30	68.2	61.0	64.0
UK	**247,625**	**255,049**	**282,182**	**1.33**	**1.41**	**1.52**	**32.0**	**32.9**	**38.2**
Latin América	**165,683**	**173,150**	**151,302**	**4.50**	**4.81**	**4.96**	**84.6**	**87.3**	**79.0**
Brasil	83,076	89,572	72,173	5.29	5.90	5.98	92.6	93.1	83.7
México	28,939	29,682	32,463	2.69	2.76	3.38	97.5	103.8	90.6
Chile	40,406	40,864	35,213	4.96	5.05	5.62	58.2	59.1	53.9
Argentina	8,085	7,318	6,328	2.50	1.49	1.15	100.1	142.3	194.2
US	**77,190**	**91,709**	**90,727**	**2.79**	**2.28**	**2.13**	**170.2**	**214.4**	**225.0**
Puerto Rico	2,944	3,843	3,924	7.13	7.13	6.96	55.2	54.4	48.5
Santander Bank	44,237	54,040	54,089	1.21	1.33	1.16	102.2	99.6	114.5
SC USA	24,079	28,590	28,280	5.86	3.84	3.66	212.9	328.0	337.1
Total Grupo excluding Banco Popular	**832,655**	**855,510**	**850,909**	**3.38**	**3.93**	**4.36**	**70.8**	**73.8**	**73.1**
Banco Popular	88,313	-	-	10.75	-	-	48.7	-	-
Total Grupo	**920,968**	**855,510**	**850,909**	**4.08**	**3.93**	**4.36**	**65.2**	**73.8**	**73.1**

(1) Includes gross lending to customers, guarantees and documentary credits.

Risk is diversified among the main regions where the Group operates[6]: Continental Europe (41%), UK (30%), Latin America (20%) and the US (9%), with a suitable balance between mature and emerging markets.

Credit risk with customers fell by 3% in 2017, considering an unchanged perimeter, mainly due to the US, UK and Brazil (as a result of exchange rate effects). Growth in local currency was generalized across all units with the exception of the United States and Spain.

These levels of lending, together with lower non-performing loans (NPLs) of EUR 28,104 million (-16% vs. 2016) reduced the Group's NPL ratio to 3.38% (-55 b.p. against 2016).

For coverage of these NPLs, the Group recorded provisions of EUR 8,997 million (-5.5% vs. December 2016), after deducting write-off recoveries. This fall is materialized in a decrease in the cost of credit to 1.12% (6 bp less than in the previous year).

Detail of the main geographical areas

3.1. United Kingdom

Credit risk with customers in the UK amounted to EUR 247,625 million at the end of December 2017, accounting for 30% of the Group total.

[1] Excluding Popular.

Mortage portfolio

It is worth highlighting the individuals mortgage portfolio because of its importance for Santander UK and all of the Group's lending. This stood at EUR 174,930 million at the end of 2017.

This portfolio consists of mortgages for the housing acquisition, granted to new, as well as existing customers and always constituting the first mortgage. There are no operations that entail second or successive liens on mortgaged properties.

Geographically, the credit exposures are predominantly concentrated in the south east area of the UK and, particularly, in the metropolitan area of London.

All properties are valued independently before each new transaction is approved, in accordance with the Group's risk management principles.

The value of the property used as collateral for mortgages that have already been granted is updated quarterly by an independent agency, using an automatic valuation system in accordance with market practices and in compliance with the prevailing legislation.

3.2. Spain

Portfolio overview

Total credit risk (including guarantees and documentary credits) at Santander Spain (excluding the real estate unit, which is discussed subsequently in more detail) amounted to EUR 172,176 million (20.7% of the Group total), with an adequate level of diversification by both product and customer segment.

Growth in new production in the main portfolios for individuals and corporates continued in 2017, underpinned by the improved economic situation and the different strategies implemented by the Bank. Total credit risk was down 0.5% in year-on-year terms, mainly due to decreased funding extended to public administrations and the pace of repayments that exceeded growth in new production in the housing mortgages segment. All other individuals loans (consumer loans and credit cards) returned to growth tendency, and the commercial banking segment consolidated its tendency started in 2016.

The NPL ratio for the total portfolio was 4.72% 69 bp less than in 2016. The fall in lending (which increased the NPL ratio by 3 bp) was offset by the better NPL figure (which reduced the ratio by 72 bp). This improvement was mainly due to gross NPL entries, which were 19% lower than in 2016, and to the normalization of several restructured positions and portfolio sales.

Portfolio of home purchase loans to families

Home purchase loans granted to families in Spain stood at 64,588 million at 2017 year-end. Of this amount, 99.18 % was secured by mortgages.

In millions of euros	31/12/2017			
	Santander Group Spain		*Of Wich: Banco Santander, S,A,*	
	Gross amount	*Of which: Non-performing*	Gross amount	*Of which: Non-performing*
Home purchase loans to families	64,588	2,594	45,765	1,625
Without mortgage guarantee	*532*	*147*	*292*	*40*
With mortgage guarantee	*64,056*	*2,447*	*45,473*	*1,585*

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- All mortgage transactions include principal repayments from the very first day.
- Early repayment is common practice and, accordingly, the average life of the transactions is far shorter than their contractual term.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.
- Stable average debt-to-income ratio at around 28.2%.
- 79.8% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal).

Breakdown of the credit with mortgage guarantee to households for house acquisition, according to the percentage that the total risk represents on the amount of the latest available valuation (loan to value).

In millions of euros	31/12/2017					
	Loan to value ratio					
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Grupo Santander España						
Gross amount	14,430	17,434	19,232	7,899	5,061	64,056
Of which: Watchlist /Non-performing	*224*	*354*	*591*	*504*	*774*	*2,447*
Of wich Banco Santander, S,A,:						
Gross amount	10,886	11,921	14,017	5,971	2,678	45,473
Of which: Watchlist /Non-performing	*155*	*205*	*296*	*332*	*597*	*1,585*

Credit policies limit the maximum loan to value to 80% for first residence mortgages and 70% in the case of second home mortgages.

Companies portfolio

Credit risk assumed directly with SMEs and Corporates (EUR 96,726 million) is the main lending segment in Spain (56% of the total).

Most of the portfolio (95%) corresponds to customers who have been assigned an analyst to monitor them continuously throughout the risk cycle.

The non-performing loans ratio of this portfolio stood at 4.88% in 2017.

Real estate business

The Group manages, as a separate unit, the real estate business portfolio as result of the previous year's sector crisis and the new business identified as viable. In both cases the Group has specialised teams not only involve in the risk areas, but also complement and support all these transactions life cycle: commercial management, legal treatment and an eventual recovery function.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

	Millions of euros		
	31/12/17	31/12/16	31/12/15
Balance at beginning of year	5,515	7,388	9,349
Foreclosed assets	(27)	(28)	(62)
Banco Popular (Perimeter)	2,934	-	-
Reductions (1)	(1,620)	(1,415)	(1,481)
Written-off assets	(330)	(430)	(418)
Balance at end of year	6,472	5,515	7,388

(1) Includes portfolio sales, cash recoveries and third-party subrogations.

The NPL ratio of this portfolio ended the year at 29.96% (compared with 61.87% at December 2016) due to the increase in the proportion of non-performing assets in the troubled loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate doubtful exposure in Spain stands at 38.73%.

Millions of euros	31/12/2017					
	Santander Group Spain			*Of wich: Banco Santander, S.A.*		
	Gross amount	Excess over collateral value	Specific allowance	Gross amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	6,472	1,513	1,131	3,620	801	869
Of which:Watchlist/ Non-performing	*1,939*	*708*	*751*	*1,234*	*490*	*823*
Memorandum items: Written-off assets	3,133			1,420		

Memorandum items:	31/12/2017	
Millions of euros	Carrying amount	
	Santander Group Spain	*Of wich: Banco Santander, S.A.*
Total loans and advances to customers excluding the public sector (business in Spain)	235,140	164,817
Total consolidated assets	1,444,305	492,415
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	1,289	608

At year-end, the concentration of this portfolio was as follows:

Millions of euros	31/12/2017	
	Loans: Gross amount	
	Santander Group Spain	*Of wich: Banco Santander, S.A.*
1. Without mortgage guarantee	664	124
2. With mortgage guarantee	5,808	3,496
2.1 Completed buildings	3,684	2,357
2.1.1 Residential	1,726	1,286
2.1.2 Other	1,958	1,071
2.2 Buildings and other constructions under construction	995	544
2.2.1 Residential	562	454
2.2.2 Other	433	90
2.3 Land	1,129	595
2.3.1 Developed consolidated land	900	491
2.3.2 Other land	229	104
Total	**6,472**	**3,620**

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by the Group's senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

In order to manage this credit exposure, the Group has specialised teams that not only form part of the risk areas but also supplement the management of this exposure and cover the entire life cycle of these transactions: commercial management, legal procedures and potential recovery management.

As has already been discussed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander Network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Medium-high level proyects, conducting to contracted demand and significant cities.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.
- Restricted financing of land purchases dealt with exceptional nature.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorized on a centralised basis.

Foreclosed properties

At December 31, 2017, the net balance of these assets amounted to EUR 4,592 million (gross amount: EUR 9,711 million; recognised allowance: EUR 5,119 million, of which EUR 2,776 million related to impairment after the foreclosure date).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2017:

	31/12/17			
Millions of euros	Gross carrying amount	Valuation adjustments	*Of which: Impairment losses on assets since time of foreclosure*	Carrying amount
Property assets arising from financing provided to construction and property development companies	6,775	3,821	2,343	2,954
Of which:	1,953	942	*781*	1,011
Completed buildings	*991*	*446*	*311*	*545*
Residential	*962*	*496*	*470*	*466*
Other	*406*	*151*	*51*	*255*
Buildings under construction	*405*	*151*	*51*	*254*
Residential	*1*	*-*	*-*	*1*
Other	*4,416*	*2,728*	*1,511*	*1,688*
Land	*1,406*	*879*	*287*	*527*
Developed land	*3,010*	*1,849*	*1,224*	*1,161*
Other land	*1,824*	*863*	*379*	*961*
Property assets from home purchase mortgage loans to households	1,112	435	54	677
Other foreclosed property assets	9,711	5,119	2,776	4,592
Total property assets	**9,711**	**5,119**	**2,776**	**4,592**

Additionally, the property included in the sale agreement of Banco Popular's real estate business amount to a net book value of EUR 5,944 million (gross amount amounts to EUR 16,134 million).

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Millions of euros	31-12-17			
	Gross carrying amount	Valuation adjustments	*Of which: Impairment losses on assets since time of foreclosure*	Carrying amount
Property assets arising from financing provided to construction and property development companies	1,566	671	307	895
Of which:				
Completed buildings	1,112	*453*	*203*	*659*
Residential	*356*	*137*	*57*	*219*
Other	*756*	*316*	*146*	*440*
Buildings under construction	*4*	*2*	*1*	*2*
Residential	*4*	*2*	*1*	*2*
Other	-	-	-	-
Land	*450*	*216*	*103*	*234*
Developed land	*359*	*186*	*92*	*173*
Other land	*91*	*30*	*11*	*61*
Property assets from home purchase mortgage loans to households	1,726	852	338	874
Other foreclosed property assets	179	77	34	102
Total property assets	**3,471**	**1,600**	**679**	**1,871**

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell).Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised.

The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions.

The management of real estate assets on the balance sheet is carried out through companies specializing in the sale of real estate that is complemented by the structure of the commercial network. The sale is realized with levels of price reduction in line with the market situation.

The changes in foreclosed properties were as follows:

	Thousands of millions of euros		
	2017	2016	2015
Gross additions	1.4	1.3	1.7
Disposals	(1.9)	(1.3)	(1.1)
Difference	(0.5)	-	0.6

(*) Without considering the Blackstone operation.

3.3. United States

Santander Holdings USA, Inc. (SHUSA), with a credit risk of EUR 77,190[7] million at the close of end of December (representing 9% of the total Group), is made up of the following business units:

- **Santander Bank, National Association**: with total loans, including off-balance sheet exposure, of EUR 44,237 million (57% of Santander US total). It focuses on retail and commercial banking, of which 38% is with individuals and approximately 62% with companies. One of the main strategic goals for this unit is to continue to roll out its transformation plan. This focuses on compliance with all regulatory programmes, together with the development of the retail and commercial banking model towards a comprehensive solution for its customers.

  Most of the lending of Santander Bank is secured - around 59% of the total - mainly through mortgages and lending to Commercial Banking. This explains its low NPL ratio and cost of credit. Lending has decreased by 16% over 2017, due to the sale of non-core assets in a bid to optimise its balance sheet and improve profitability, and due to the exchange rate effect.

- **Santander Consumer USA Holdings Inc. (SC USA):** vehicles finance company, with lending of EUR 24,079 million (31% of the total for the USA), with a vehicle leasing portfolio amounting to EUR 9,439 million. This activity is mainly based on its business relationship with the Fiat Chrysler Automobiles (FCA) group, which dates back to 2013. Through this agreement, SC USA became the preferred finance provider for Chrysler vehicles in the USA.

  The risk indicators for SC USA are higher than those of the other US units, due to the nature of its business, which focuses on vehicle financing through loans and leasings. The credit profile of the unit's customers covers a wide spectrum as SC USA seeks to optimise the risk assumed and the associated returns. As a result, the cost of credit is higher than in other Group units, but this is offset by the returns generated.

- **Other USA businesses**: Banco Santander Puerto Rico (BSPR) is a retail and commercial bank operating in Puerto Rico. Its lending stood at EUR 2,944 million at December 2017, 4% of the total. Santander Investment Securities Inc. (SIS), the New York, is dedicated to wholesale banking, with total lending at the end of December 2017 of EUR 2,451 million (3% of total in the USA). Finally, Banco Santander International (BSI), the Miami, focuses mainly on private banking. Its lending portfolio stood at EUR 3,471 million at the close of December 2017 with 4% of the total in the USA.

3.4. Brazil

Credit risk in Brazil amounts to EUR 83,076 million, down 7% against 2016 and largely due to the depreciation of the Brazilian currency. Santander Brazil therefore accounts for 10% of all Santander Group lending.

In December 2017, growth in local currency was approximately 7.5%. This increase was more pronounced in retail segments with a more conservative risk profile, at the same time boosting customer relations and loyalty and business attracted through digital channels.

The NPL ratio stood at 5.29% at year-end 2017 (-61 bp compared to the year-end of 2016). This fall was due to the preventive management of risks on the portfolio, in addition to the improved macroeconomic outlook and the implementation of certain structural reforms that were well received by the market.

[7] Includes EUR 11 million of lending under the holding company.

The outlook is optimistic since the economy returned to growth, with GDP rising on the back of private consumption and exports. This is significant as it marks a trend change after several years of recession. Investment has also picked up, supported by the improved business confidence climate. Additionally, inflation is below the government's target, which has allowed the Monetary Policy Committee to significantly reduce the country's official interest rate (SELIC). The unemployment rate, while still high, has also shown improvement signs.

4. Credit risk from other standpoints

4.1. Credit risk from financial market operations

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. Operations are developed through money market financial products with different financial institutions and through counter-party risk products which serve the Group's clients.

According to chapter six of the CRR (EU regulation 575/2013), the counterparty credit risk is the risk that the client in an operation could default before the definitive settlement of the cash flows of the operation. It includes the following types of operations: derivative instruments, operations with repurchase commitment, stock lending commodities, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring this exposure: i. mark to market (MtM) methodology (replacement value of derivatives) plus potential future exposure (*add on*) and ii. the calculation of exposure using Monte Carlo simulation for some countries and products. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recovery.

After markets close, exposures are re-calculated by adjusting all operations to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is performed through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any Group unit to be known at each moment.

4.2. Concentration risk

The concentration risk control is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographical areas and countries, economic sectors, products and groups of customers.

The board, via the risk appetite, determines the maximum levels of concentration. In line with the risk appetite, the Executive Risk Committee establishes the risk policies and reviews the appropriate exposure levels for the adequate management of the degree of concentration of credit risk portfolios.

The Group is subject to the regulation on large risks contained in the fourth part of the CRR (EU regulations 575/2013), according to which the exposure contracted by an entity with a customer or group of customers linked among themselves will be considered a large exposure when its value is equal or grater than 10% of eligible capital. In addition, in order to limit large exposures, no entity can assume exposure exceeding 25% of its eligible capital with a single customer or group of linked customers, after taking into account the impact of the reduction of credit risk contained in the regulation.

Regulatory credit exposure with the 20 largest groups within the sphere of large risks represented 4.7% of outstanding credit risk with customers (lending plus balance sheet risks) at December 2017.

The Group's risk division works closely with the financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques, such as using credit derivatives and securitisations to optimise the risk-return relationship for the whole portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at December 31, 2017 is as follows:

Millions of euros	31/12/17 (*)				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	243,319	56,369	95,749	81,566	9,635
Public sector	196,358	76,011	49,208	66,537	4,602
Of which:					
Central government	*166,926*	*62,707*	*37,416*	*62,244*	*4,559*
Other central government	*29,432*	*13,304*	*11,792*	*4,293*	*43*
Other financial institutions (financial bussiness activity)	81,392	16,250	39,440	19,393	6,309
Non-financial companies and individual entrepeneurs (Non-financial bussiness activity) (broken down by purpose)	377,314	128,818	113,384	124,118	10,994
Of which:					
Construction and property development	*30,451*	*8,179*	*5,003*	*17,077*	*192*
Civil engineering construction	*5,399*	*3,769*	*1,180*	*448*	*2*
Large companies	*206,250*	*54,517*	*65,606*	*76,691*	*9,436*
SMEs and individual entrepeneurs	*135,214*	*62,353*	*41,595*	*29,902*	*1,364*
Households – other (broken down by purpose)	477,882	89,821	272,612	107,659	7,790
Of which:					
Residential	*309,068*	*63,355*	*207,575*	*37,539*	*599*
Consumer loans	*145,619*	*16,288*	*62,584*	*62,248*	*4,499*
Other purposes	*23,195*	*10,178*	*2,453*	*7,872*	*2,692*
Total (*)	**1,376,265**	**367,269**	**570,393**	**399,273**	**39,330**

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Millions of euros	31-12-17 (*)				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	140,315	69,883	44,756	21,654	4,022
Public sector	57,824	49,876	4,275	2,812	861
Of which:					
Central government	45,977	38,099	4,275	2,742	861
Other central government	11,847	11,777	-	70	-
Other financial institutions (financial bussiness activity)	119,065	44,831	50,317	23,179	738
Non-financial companies and individual entrepeneurs (Non-financial bussiness activity) (broken down by purpose)	124,207	88,379	18,113	11,181	6,534
Of which:					
Construction and property development	2,881	2,866	15	-	-
Civil engineering construction	3,351	2,855	218	278	-
Large companies	89,560	54,711	17,613	10,732	6,504
SMEs and individual entrepeneurs	28,415	27,947	267	171	30
Households – other (broken down by purpose)	57,354	56,753	333	163	105
Of which:					
Residential	46,151	45,722	232	103	94
Consumer loans	6,353	6,303	21	24	5
Other purposes	4,850	4,728	80	36	6
Total	498,765	309,722	117,794	58,989	12,260

4.3. Sovereign risk and exposure to other public sector entities

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the treasur risk issuer or similar entity (public debt portfolio) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

This criterion, historically used by the Group, differs in some respects from that requested by the European Banking Authority (EBA) for its regular stress exercises. The main differences are that the EBA's criterion does not include risk with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general (including regional and local bodies), not only the state sector.

Exposure to sovereign risk (according to the criteria applied in the Group) mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks, the establishment of deposits with liquidity excess and fixed-income portfolios held as part of the structural interest rate risk-management strategy for the balance sheet and treasury trading books. The vast majority of such exposure is in local currency and is funded on the basis of customer deposits captured locally, also in the local currency.

The detail at December 31, 2017, 2016 and 2015, based on the Group's management of each portfolio, of the Group's sovereign risk exposure, net of the short positions held with the respective countries, taking into consideration the aforementioned criterion established by the European Banking Authority (EBA), is as follows:

	31/12/17				
	Millions of euros				
	Portfolio				
Country	Financial assets held for trading and Financial assets designated at fair value through profit or loss (*)	Financial assets available-for-sale	Loans and receivables	Held-to maturity investments	Total net direct exposure
Spain	4,928	37,748	18,055	1,906	62,637
Portugal	53	5,220	3,541	3	8,817
Italy	1,479	4,613	16	-	6,108
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	(1,192)	497	81	-	(614)
United Kingdom	2	1,751	7,236	7,414	16,403
Poland	1,034	5,566	40	-	6,640
Rest of Europe	172	358	40	-	570
United States	2,548	2,616	765	-	5,929
Brazil	3,202	20,201	1,171	2,720	27,294
Mexico	1,780	5,152	2,586	-	9,518
Chile	428	2,985	312	-	3,725
Other American countries	147	424	940	-	1,511
Rest of the world	3,422	512	920	-	4,854
Total	**18,003**	**87,643**	**35,703**	**12,043**	**153,392**

(*) Includes short positions.

In addition, at December 31, 2017 the Group had net direct derivative exposures the fair value of which amounted to EUR 1,681 million and net indirect derivative exposures the fair value of which amounted to EUR 15 million.

Country	31/12/16				
	Millions of euros				
	Portfolio				Total net direct exposure
	Financial assets held for trading and Financial assets designated at fair value through profit or loss (*)	Financial assets available-for-sale	Loans and receivables	Held-to maturity investments	
Spain	9,415	23,415	11,085	1,978	45,893
Portugal	(58)	5,982	1,143	4	7,072
Italy	1,453	492	7	-	1,952
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	(1,171)	751	79	-	(341)
United Kingdom	475	1,938	7,463	7,764	17,639
Poland	287	5,973	30	-	6,290
Rest of Europe	-	502	289	-	791
United States	1,174	3,819	720	-	5,713
Brazil	4,044	16,098	1,190	2,954	24,286
Mexico	2,216	5,072	3,173	-	10,461
Chile	428	2,768	330	-	3,525
Other American countries	134	497	541	-	1,172
Rest of the world	1,903	889	683	-	3,475
Total	**20,300**	**68,197**	**26,732**	**12,701**	**127,930**

(*) Includes short positions.

In addition, at December 31, 2016 the Group had net direct derivative exposures the fair value of which amounted to EUR 2,505 million and net indirect derivative exposures the fair value of which amounted to EUR 2 million.

Country	31/12/15				
	Millions of euros				
	Portfolio				Total net direct exposure
	Financial assets held for trading and Financial assets designated at fair value through profit or loss (*)	Financial assets available-for-sale	Loans and receivables	Held-to maturity investments	
Spain	8,954	26,443	11,272	2,025	48,694
Portugal	104	7,916	1,987	-	10,007
Italy	2,717	-	-	-	2,717
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	(211)	143	69	-	1
United Kingdom	(786)	5,808	141	-	5,163
Poland	13	5,346	42	-	5,401
Rest of Europe	120	312	238	-	670
United States	280	4,338	475	-	5,093
Brazil	7,274	13,522	947	2,186	23,929
Mexico	6,617	3,630	272	-	10,519
Chile	193	1,601	3,568	-	5,362
Other American countries	155	1,204	443	-	1,802
Rest of the world	3,657	1,687	546	-	5,890
Total	**29,087**	**71,950**	**20,000**	**4,211**	**125,248**

(*) Includes short positions.

In addition, at December 31, 2015 the Group had net direct derivative exposures the fair value of which amounted to EUR 2,070 million and net indirect derivative exposures the fair value of which amounted to EUR 25 million. Also, the Group did not have any exposure to held-to-maturity investments.

5. Credit risk cycle

Exclusively within the field of credit risk, the Credit Risk Control Committee is the collegiate body responsible for its oversight and control within Santander Group. The aim of the committee is to effectively control credit risk, ensuring and advising the Chief Risk Officer and the Risk Control Committee that credit risk is managed in accordance with the level of risk appetite approved by the board of directors.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and presale planning.

Each of these phases is associated with specific decision models established for decision-making in line with the business objectives and credit policies defined by the Group.

5.1. Planning

Identification

The identification of credit risk is a key component for the active management and an effective control of portfolios. The identification and classification of external and internal risk in each business allows corrective and mitigating measures to be adopted.

Strategic Commercial Plans

Strategic commercial plans (SCPs) are a basic management and control tool for the Group's credit portfolios. The plans are prepared jointly by the commercial and risks areas, and define the commercial strategies, risk policies and measures/infrastructures required to meet the annual budget targets. These three factors are considered as a whole, ensuring a holistic view of the portfolio to be planned and allowing a map of all the Group's credit portfolios to be drawn up.

Planning allows business targets to be set and specific action plans to be established, within the risk appetite defined by the Entity, and these targets to be met by assigning the necessary means (models, resources, systems).

The comprehensive management of the SCP means that an up-to-date view of the credit quality of the portfolios is available at all times, credit risk can be measured, internal controls carried out, in addition to regular monitoring of the planned strategies, to anticipate deviations and identify significant changes in risk and their potential impact, along with the application of corrective measures.

SCPs are approved by each entity's most senior Executive Risks Committee, and validated at corporate level in the executive risks committee or equivalent body at corporate level. The regular monitoring, established by the governance in place, is performed by the same bodies that approve and validate the plans.

Scenario analysis

Scenarios analysis of this report, credit risk scenario analysis enables senior management to better understand the portfolio's evolution in the face of market conditions and changes in the environment, It is a key tool for assessing the sufficiency of the provisions made and the capital to stress scenarios.

Scenario analysis is applied to all of the Group's significant portfolios, usually over a three year horizon, The process involves the following main stages:

- Definition of benchmark scenarios, both central or most likely scenarios (baseline), as well as economic scenarios that although less likely to occur can be more adverse (stress scenarios).

- Determination of the value of risk parameters and metrics (probability of default, loss given default, etc.) for the scenarios defined.

- Adaptation of the new projection methodology to the new regulatory requirements (IFRS 9), with an impact on the estimation of the expected loss associated with each of the scenarios put forward, as well as with other important credit risk metrics deriving from the parameters obtained (NPLs, provisions, allowances, etc.).

- Analysis and rationale for the credit risk profile evolution at portfolio, segment, unit and Group levels, in the face of different scenarios and compared to previous years.

- Integration of management indicators to supplement the analysis of the impact caused by macroeconomic factors on risk metrics.

- A series of controls and comparisons are run to ensure that the controls and backtesting are adequate, thus completing the process.

The entire process takes place within a corporate governance framework, and is thus adapted to the growing importance of this framework and to best market practices, assisting the Group's senior management in gathering knowledge and in their decision making.

5.2 Risk analysis and credit rating process

Generally speaking, risk study consists of analysing a customer's capacity to meet their contractual commitments with the Bank and other creditors. This entails analysing the customer's credit quality on a short and medium term horizon, risk operations, solvency and expected return on the basis of the risk assumed.

With this objective, the Group uses customer credit decision models in all segments in which it operates: SGCB (Santander Global Corporate Banking: sovereign, financial institutions and corporate companies), Commercial Banking, institutions, SMEs and individuals.

The decision models applied are based on credit rating drivers. These models and drivers are monitored and controlled to calibrate and precisely adjust the decisions and ratings they assign. Depending on the segment, drivers may be:

- Rating: resulting from the application of mathematical algorithms incorporating a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the analyst's expert judgement. Used for the SGCB, Commercial Banking, institutions and SMEs (treated on an individual basis) segments.

- Scoring*:* an automatic assessment system for credit applications. It automatically assigns an individual assessment of the customer for subsequent decision making. There are two types: approval or performance and it is used in the individuals and SMEs (treated on a standard basis) segments.

The resulting ratings are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The reviews are increased in the case of customers who reach certain levels previously determined in the automatic warning systems and who are classified as special watch.

5.3. Establishment of limits, pre-classifications and pre-approvals

This process establishes the risk that each customer is able to assume. These limits are set jointly by the business and risks areas and have to be approved by the executive risks committee (or committees delegated by it) and reflect the expected risk-return by the business.

Different models are used according to the segment:

- A pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. The result of pre-classification is the maximum risk level that a customer or group can assume, in terms of amount or maturity.

- For Commercial Banking and institutions that meet certain requirements (high knowledge, rating, etc.) a more simplified pre-classification model is used.

- For SMEs and individuals, in specific situations where a series of requirements are met, pre-approved operations are established for customers, or pre-approved operations for potential customers (campaigns and policies to encourage the use of limits).

5.4. Transaction decision-making

The sales phase is determined by the decision-making process which analyses and resolves operations Approval by the risk area is a prior requirement before contracting any risk operation. All decisions regarding risk must consider the risk appetite, limits and management policies defined in the planning stage, in addition to other factors relevant to the risk and profitability equilibrium.

According to the segment, decision-making follows different procedures:

- For SGCB, and according to the prior limit-setting phase, two types of decision will be available: (1) automatic, provided there is capacity for the proposed transaction (in terms of amount, product, maturity and other conditions) within the limits set under the pre-classification framework, (2) approval from a risk analyst or committee (although the operation meets the amount, maturity and other conditions set in the pre-approved limit).

- For Commercial Banking and institutions, approval is required from a risk analyst or committee (although the operation meets the amount, maturity and other conditions set in the pre-approved limit).

- In terms of individual customers and SMEs with low turnover, large volumes of credit operations can be managed more easily with the use of automatic decision models for classifying the customer/transaction binomial.

Credit risk mitigation techniques

The Group applies various credit risk mitigation techniques on the basis, among other factors, of the type of customer and product. Some are inherent to specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The different mitigation techniques can be grouped into the following categories:

Personal guarantees and credit derivatives

This type of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover credit risk by acquiring protection from a third party, through which the Bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded in non-organised markets. Hedging with credit derivatives, mainly through credit default swaps, is contracted with front-line banks.

Collateral

These are assets that are subject to compliance with the guaranteed obligation. They can be provided by the customer or by a third party. The real goods or rights used for the guarantee may be financial (cash, securities deposits, gold, etc.) or non-financial (property, other moveable property, etc.). Therefore, guarantees can be in the form of:

- Pledges / financial assets: debt/equity instruments or other financial assets received as the guarantee.

  A very important example of a real financial guarantee is the collateral, which is used for the purpose (as with the netting technique) of reducing counterparty risk. This is a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions of derivatives with risk existing between them. The operations subject to the collateral agreement are regularly valued (normally daily) applying the parameters defined in the contract so that a collateral amount is obtained (usually cash or securities), which is to be paid to or received from the counterparty.

- Real estate mortgages: real estate assets used in transactions with an ordinary or maximum mortgage guarantee. There are regular appraisal processes, based on real market values, for the different types of property, which meet the requirements established by local and Group regulators.

- Other real guarantees: any other type of real guarantee.

As a general rule, the repayment capacity is the most important aspect in decisions on the acceptance of risks, although this is no impediment to seek the highest level of real or personal guarantees. In order to calculate the regulatory capital, only those guarantees that meet the minimum qualitative requirements set out in the Basel agreements are taken into consideration.

Implementation of the mitigation techniques follows the minimum requirements established in the guarantee management policy: legal certainty (possibility of legally requiring the settlement of guarantees at all times), the lack of substantial positive correlation between the counterparty and the value of the collateral, the correct documentation of all guarantees, the availability of documentation for the methodologies used for each mitigation technique and appropriate monitoring, traceability and regular control of the goods/assets used for the guarantee.

Netting by counterparty

The concept of netting is the possibility of determining a net balance between operations of the same type, under the umbrella of a framework agreement such as the ISDA or similar.

It consists of aggregating the positive and negative market values of derivative transactions that Santander has with a certain counterparty, so that in the event of default it owes (or Santander owes, if the netting off is negative) a single net figure and not a series of positive or negative values corresponding to each operation with the counterparty.

An important aspect of framework contracts is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to net the risks of all operations covered by the contract with the same counterparty.

5.5. Monitoring / Anticipation

All customers must be monitored in an ongoing and holistic manner that enables the earliest detection possible of any incidents that may arise in relation to risk impacting the customer's credit rating, so that specific measures (predefined or ad-hoc) can be implemented to correct any deviations that could have a negative impact for the entity. This responsibility is shared by the commercial and risk functions.

Monitoring is carried out by local and global risk teams, supplemented by internal audit. It is based on customer segmentation:

- In the commercial banking, institutions and SMEs with individual treatment, the function consists of identifying and tracking customers whose situations require closer monitoring, reviewing ratings and continuously analysing indicators.

- In the individual customers, businesses and SMEs with a low turnover segment monitoring is carried out through automatic alerts for the main indicators, in order to detect shifts in the performance of the loan portfolio with respect to the forecasts in strategic plans.

5.6. Measurement and control

In addition to the monitoring customer credit quality, Santander establishes the control procedures needed to analyse portfolios and their performance, as well as possible deviations regarding planning or approved alert levels.

The function is developed through an integrated and holistic vision of credit risk, establishing as the main elements the control by countries, business areas, management models, products, etc., facilitating early detection of specific attention points, as well as preparing action plans to correct any deteriorations.

Portfolio analysis permanently and systematically controls the evolution of credit risk with regard to budgets, limits and benchmark standards, assessing the impacts of future situations, both exogenous and resulting from strategic decisions, to establish measures to bring the risk portfolio profile and volumes within the parameters set by the Group and in line with its risk appetite.

5.7. Recovery management

Recovery activity is a significant element in the Bank's risk management. This function is carried out by the recovery area, which defines a global strategy and an enterprise-wide focus for recovery management.

The Group has a corporate recovery management model that sets the guidelines and general lines of action to be applied in the various countries, always taking into account the local particularities that the recovery activity requires (economic environment, business model or a mixture of both).

Recovery activity has been aligned with the socio-economic reality of the Group's countries and different risk management mechanisms are used with adequate prudential criteria on the basis of age, guarantees and unpaid debt conditions.

The recovery areas are business areas that directly manage customers for which the corporate model has a business focus, where sustained value creation is based on effective and efficient collection management The new digital channels are becoming increasingly important in recovery management, and new forms of customer relations are developing.

The diverse features of Santander's customers make segmentation necessary in order to manage recoveries adequately. Mass management of large groups of customers with similar profiles and products is conducted through processes with a high technological and digital component, while personalised management focuses on customers who, because of their profile, require a specific manager and more individualised management.

Recovery management is divided into four phases: irregularity or early non-payment; recovery of non-performing loans; recovery of write-offs; and management of foreclosed assets.

The management scope for the recovery function includes management of non-productive assets (NPAs), corresponding to the forbearance portfolios, NPLs, written-off loans and foreclosed assets, where the Bank may use mechanisms to rapidly reduce these assets, such as disposals of loan portfolios or foreclosed assets.

The Bank employs specific policies for recovery management that include the principles of the different recovery strategies, while ensuring the required rating and provisions are maintained. Therefore, the Group is constantly seeking alternative solutions to legal channels for collecting debt.

In countries with a high exposure to real estate risk, very efficient sales management instruments have been put in place that enable capital to be recovered by the Bank, reducing the stock on the balance sheet.

Forborne loan portfolio

The Group has a detailed corporate policy for forbearance which acts as a reference in the various local transpositions of all the subsidiaries that form part of the Group. These share the general principles established by the Bank of Spain and the European Banking Authority.

This policy defines forbearance as the modification of the payment conditions of a transaction that allow a customer, who is experiencing financial difficulties (current or foreseeable), to fulfil their payment obligations, on the basis that if this modification were not made it would be reasonably certain that they would not be able to meet their financial obligations. The modification could be made to the original transaction or through a new transaction replacing the previous one.

In addition, this policy also sets down rigorous criteria for the evaluation, classification and monitoring of such transactions, ensuring the strictest possible care and diligence in their granting and follow up. Therefore, the forbearance transaction must be focused on recovery of the amounts due, the payment obligations must be adapted to the customer's actual situation and losses must be recognised as soon as possible if any amounts are deemed irrecoverable.

Forbearances may never be used to delay the immediate recognition of losses or to hinder the appropriate recognition of risk of default.

Further, the policies define the classification criteria for the forbearance transactions in order to ensure that the risks are suitably recognised, bearing in mind that they must remain classified as doubtful or watch-list performing for a prudential period of time to attain reasonable certainty that repayment capacity can be recovered.

The forbearance portfolio stood at EUR 47,705 million at the end of December.

In terms of credit quality, 42% of the forbearance portfolio is classified as non-performing loans, with average coverage of 58% (24% of the total portfolio).

Regarding its evolution, and considering a constant perimeter, the Group's forbearance exposure has decreased by 19.8%, in line with the trend marked in prior years.

The following terms are used in Bank of Spain Circular 4/2016 with the meanings specified:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES

Amounts in millions of euros, except number of operations that are in units.	31-12-2017													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.		
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	55	89	21	22	11	5	2	22	8	13	7	7	-	2
Other financial institutions and: individual shareholder	248	45	120	60	40	10	25	79	2	59	22	8	7	13
Non-financial institutions and individual shareholder	259,792	9,631	45,746	13,663	9,255	1,075	7,106	109,973	5,522	21,265	7,839	5,531	414	6,233
Of which: Financing for constructions and property development	1,259	236	2,861	2,612	2,125	30	1,111	803	130	2,099	1,718	1,363	24	847
Other warehouses	1,919,831	4,568	878,272	19,627	9,480	3,896	4,408	755,948	1,819	126,086	4,824	3,234	428	2,864
Total	**2,179,926**	**14,333**	**924,159**	**33,372**	**18,786**	**4,986**	**11,541**	**866,022**	**7,351**	**147,423**	**12,692**	**8,780**	**849**	**9,112**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	2,921	1,255	4,110	4,893	2,140	69	3,497	2,895	1,253	4,000	4,853	2,102	69	3,496

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Amounts in millions of euros, except number of operations that are in units.	31/12/2017													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.		
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	36	50	18	16	10	-	2	10	8	12	6	7	-	1
Other financial institutions and: individual shareholder	109	8	66	15	8	5	5	40	2	30	8	5	-	4
Non-financial institutions and individual shareholder	11,424	926	14,853	6,487	4,292	438	1,985	4,234	614	9,123	4,058	2,992	161	1,928
Of which: Financing for constructions and property development	58	24	2,027	1,288	1,084	-	509	58	24	1,634	1,062	861	-	505
Other warehouses	14,158	243	33,430	3,992	3,384	10	865	4,468	92	15,424	1,910	1,540	5	785
Total	**25,727**	**1,227**	**48,367**	**10,510**	**7,694**	**453**	**2,857**	**8,752**	**716**	**24,589**	**5,982**	**4,544**	**166**	**2,718**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the foregoing tables were classified at December 31, 2017 by nature, as follows:

- Non-performing: Operations that rest on an inadequate payment scheme will be classified within the non-performing category, regardless they include contract clauses that delay the repayment of the operation throughout regular payments or present amounts written off the balance sheet for being considered irrecoverable.

- Performing: Operations not classifiable as non-performing will be classified within this category. Operations will also will be classified as normal if they have been reclassified from the non-performing category for complying with the specific criteria detailed below:

    a) A period of a year must have expired from the refinancing or restructuring date.

    b) The owner must have paid for the accrued amounts of the capital and interests, thus reducing the rearranged capital amount, from the date when the restructuring of refinancing operation was formalized.

    c) The owner must not have any other operation with amounts past due by more than 90 days on the date of the reclassification to the normal risk category.

The table below shows the changes in 2017 in the forborne loan portfolio:

Millions of euros	31/12/2017	
	Loans: Gross amount	
	Santander Group Spain (*)	*Of wich: Banco Santander, S.A.*
Beginning balance	**37,365**	**14,114**
Refinancing and restructuring of the period	12,675	811
Memorandum item:Impact recorded in the income statement for the period	*2,406*	*165*
Debt repayment	(9,107)	(1,826)
Foreclousure	(950)	(861)
Derecognised from the consolidated balance sheet	(5,334)	(1,412)
Others variations (*)	1,515	(1,877)
Balance at end of year	**36,164**	**8,949**

(*) Included EUR 7,020 million refinancing loans from Grupo Banco Popular Adquisition.

58% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (50% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 24% of the total forborne loan portfolio and 45% of the non-performing portfolio).

d) Trading market and structural risk

1. Activities subject to market risk and types of market risk

The perimeter of activities subject to market risk involve these operations where patrimonial risk is assumed as a consequence of market factors variations. Thus they include trading risks and also structural risks, which are also affected by market shifts.

This risk comes from changes in risk factors - interest rates, inflation rates, exchange rates, share prices, the spread on loans, commodity prices and the volatility of each of these elements - as well as from the liquidity risk of the various products and markets in which the Group operates, and balance sheet liquidity risk.

- Interest rate risk is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.

- Inflation rate risk is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, where the return is linked to inflation or to a change in the actual rate.

- Exchange rate risk is the sensitivity of the value of a position in a currency other than the base currency to a movement in exchange rates. Hence, a long or open position in a foreign currency will produce a loss if that currency depreciates against the base currency. Among the positions affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any foreign currency transactions.

- Equity risk is the sensitivity of the value of positions in equities to adverse movements in market prices or expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, equity swaps, etc.).

- Credit spread risk is the risk or sensitivity of the value of positions in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is the difference between financial instruments listed with a margin over other benchmark instruments, mainly the IRR of Government bonds and interbank interest rates.

- Commodities price risk is the risk derived from the effect of potential changes in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with customers.

- Volatility risk is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by all financial instruments where volatility is a variable in the valuation model. The most significant case is financial options portfolios.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

Other types of market risk require more complex hedging. For example:

- Correlation risk. Correlation risk is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (for example, an interest rate and the price of a commodity).

- Market liquidity risk. Risk when a Group entity or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the cost of the transaction. Market liquidity risk can be caused by a reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or market instability. It increases as a result of the concentration of certain products and currencies.

- Prepayment or cancellation risk. When the contractual relationship in certain transactions explicitly or implicitly allows the possibility of early cancellation without negotiation before maturity, there is a risk that the cash flows may have to be reinvested at a potentially lower interest rate. This mainly affects mortgage loans and mortgage securities.

- Underwriting risk. Underwriting risk arises as a result of an entity's involvement in the underwriting of a placement of securities or other type of debt, thus assuming the risk of owning part of the issue or the loan if the entire issue is not placed among the potential buyers.

In addition to market risks, balance sheet liquidity risk must also be considered: unlike market liquidity risk, balance sheet liquidity risk is defined as the possibility of not meeting payment obligations on time, or doing so at excessive cost. Among the losses caused by this risk are losses due to forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.

Pension and actuarial risks, which are described below, also depend on shifts in market factors.

Depending on the nature of the risk, activities are segmented as follows:

a) Trading: financial services for customers and purchase-sale and taking positions in fixed-income, equity and currency products, mainly. The SGCB (Santander Global Corporate Banking) division is responsible for managing this risk.

b) Structural risks: market risks inherent in the balance sheet, excluding the trading portfolio. Management decisions on these risks are taken by the Assets and Liabilites Committee (ALCO) of each country in coordination with the Group's ALCO Committee and are executed by the Financial division. This management seeks to inject stability and recurrence into the financial margin on the Group's commercial activity and economic value, maintaining adequate levels of liquidity and solvency. The risks are:

- Structural interest rate risk: this arises from maturity mismatches and re-pricing of all assets and liabilities.

- Structural exchange rate risk/hedging: exchange rate risk occurs when the currency in which the investment is made is different from the euro, irrespective of whether the company consolidates or not (structural exchange rate). Exchange-rate hedging positions for future profits in currencies other than the euro (hedging of profits) are also included under this heading.

- Structural equity risk: this involves investments via stakes in financial or non-financial companies that are not consolidated, as well as available-for-sale portfolios consisting of equity positions.

c) Liquidity risk: when measuring liquidity risk, the following types of risk are considered:

- Financing risk (or short-term liquidity risk): this identifies the possibility that the entity is unable to meet its obligations as a result of the inability to sell assets or obtain financing.

- Mismatch risk (or long term liquidity risk): this identifies the possibility that differences between the maturity structures of assets and liabilities generate an additional cost to the entity as a consequence of unappropriated management or a market situation that might affect the availability or the cost of funding sources.

- Contingency risk: this identifies the possibility that adequate management levers will be unavailable to raise liquidity as a result of an outlier event that entails greater financing needs or more strict collateral requirements to raise funds.

- Concentration risk: this identifies the possibility that the entity is overly concentrated as to sources of funding in terms of counterparties, maturities, products or geographies, that might give rise to issues if such concentration were to lead to non-renewal of financing.

- Market risk for liquidity risk purposes: the risk of loss of value of the entity's liquid assets buffer and that changes in the value of the entity's transactions (derivatives and guarantees, among others) may imply additional collateral needs and therefore impair liquidity.

- Asset encumbrance risk or risk of excess assets committed in financing transactions and other types of market dealing: the risk of not having sufficient unencumbered assets available to meet collateral or margin requirements or to execute actions under the liquidity contingency plan.

d) Pension and actuarial risk:

- Pension risk: the risk assumed by the Bank in relation to pension commitments with its employees. The risk lies in the possibility that the fund will not cover these commitments in the accrual period for the provision and the profitability obtained by the portfolio will not be sufficient, requiring the Group to increase its contributions.
- Actuarial risk: unexpected losses resulting from an increase in commitments to holders of insurance policies, as well as losses from unforeseen cost increases.

2. Trading market risk [(*)]

The Group's trading risk profile remained moderately low in 2017, in line with previous years, due to the fact that the Group's activity has traditionally focused on providing services to its customers, with only limited exposure to complex structured assets, as well as geographic diversification and risk factors.

The standard methodology Santander Group applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and on a timely manner. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

[(*)] Excluding Popular. Trading portfolios of Popular represents less than 1% of the equivalent market risk of Santander Group with very low activity and complexity.

The detail of the metrics risk related to the Group's balance sheet items as of December 31, 2017 is as follows:

Millions of euros	Balance sheet amount	Main market risk metric		Main risk factor for "Other" balance
		VaR	Other	
Assets subject to market risk	**1,444,305**	**167,943**	**1,276,362**	
Cash and deposits at central banks	110,995		110,995	Interest rate
Trading portfolio	125,458	124,924	534	Interest rate, spread
Other financial assets at fair value	34,782	34,500	282	Interest rate, spread
Available-for-sale financial assets	133,271	-	133,271	Interest rate, Equity market
Participations	6,184	-	6,184	Equity market
Hedging derivates	8,537	8,519	18	Interest rate, exchange rate
Investments	916,504	-	916,504	Interest rate
Other financial assets[1]	47,390	-	47,390	Interest rate
Other non- financial assets[2]	61,184	-	61,184	
Liabilities subject to market risk	**1,444,305**	**175,088**	**1,269,217**	
Trading portfolio	107,624	107,442	182	Interest rate, spread
Other financial liabilities at fair value	59,616	59,609	7	Interest rate, spread
Hedging derivates	8,044	8,037	7	Interest rate, exchange rate
Financial liabilities at amortised cost	1,126,399		1,126,399	Interest rate
Provisions	14,489		14,489	Interest rate
Other financial liabilities	8,709		8,709	Interest rate
Equity	106,833		106,833	
Other non- financial liabilities	12,591		12,591	

(1) Includes adjustment to macro hedging, non-current assets held for sale, reinsurance assets, and insurance contracts linked to pensions and fiscal assets
(2) Includes intangible assets, material assets and other assets.
(3) Macro-hedging adjustment.

VaR during 2017 fluctuated between EUR 9.7 million and EUR 63.2 million (EUR 11.1 million and EUR 32.9 million in 2016). The most significant changes were related to changes in exchange rate and interest rate exposure and also market volatility.

The average VaR in 2017 was EUR 21.5 million slightly higher to the two previous years (EUR 18.3 million in 2016).

The following table shows the average and latest values of Var at 99% by risk factor in the last three years as well as the minimum and maximum values, and the expected shortfall (ES) to 97.5% at the end of 2017.

Total trading

Millions of euros	2017					2016		2015	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total	**9.7**	**21.5**	**63.2**	**10.2**	**11.5**	**18.3**	**17.9**	**15.6**	**13.6**
Diversification effect	(2.1)	(8.0)	(39.9)	(7.6)	(7.9)	(10.3)	(9.6)	(11.1)	(5.8)
Interest rate	7.7	16.2	70.4	7.9	10.0	15.5	17.9	14.9	12.7
Equities	1.0	3.0	5.9	1.9	2.1	1.9	1.4	1.9	1.1
Exchange rate	2.1	6.6	15.7	3.3	2.8	6.9	4.8	4.5	2.6
Credit spread	2.3	3.6	5.1	4.6	4.6	4.2	3.3	5.2	2.9
Commodities	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.2	0.1

The Group continued to have very limited exposure to complex structured instruments or vehicles, as a reflection of its culture of management in which prudence in risk management constitutes one of its principal symbols of identity. Specifically, at 2016 and 2017 year-end, the Group had:

- Hedge funds: the total exposure is not significant (EUR 32.6 million at close of December 2017) and is all indirect, acting as counterparty in derivatives transactions. The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- Monolines: exposure to bond insurance companies (monolines) as at December 2017 was EUR 27.3 million, all of it indirect, by virtue of the guarantee provided by this type of entity for various financing or traditional securitisation transactions. The exposure in this case is to double default, as the primary underlying assets are of high credit quality.

This was mainly due to the integration of positions of institutions acquired by the Group, as Sovereign in 2009. All these positions were known at the time of purchase, having been duly provisioned. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

Santander's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.

- The availability in the market of observable data (inputs) needed to be able to apply this valuation model.

Provided the two aforementioned conditions are met, the risk division ascertains:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.

- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed appropriate.

Calibration and test measures

The real losses can differ from the forecasts by the VaR for various reasons related to the limitations of this metric. This is set out in detail later in the section on the methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame. This enables anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc).

Santander calculates and evaluates three types of backtesting:

- "Clean" *backtesting*: the daily VaR is compared with the results obtained without taking into account the intra-day results or the changes in the portfolio's positions. This model serves to check the accuracy of the individual models used to assess and measure the risks of the various positions.

- *Backtesting* on complete results: daily VaR is compared with the day's net results, including the results of intra-day operations and those generated by fees and commissions.
- *Backtesting* on complete results without mark-ups or fees and commissions: daily VaR is compared with the day's net results, including the results of intra-day operations but excluding those generated by mark-ups and fees and commissions. This method is intended to obtain an idea of the intra-day risk assumed by the Group's treasury areas.

In 2017, for the total portfolio, there were two exceptions for Value at Earnings (VaE)[8] at 99% (day on which daily profit was higher than VaE). The first, on May 23, explained by the major shifts in the exchange rates of the euro and US dollar against the Brazilian real and the interest rate curves for Brazil, as a result of political events in the country, and the second, on December 28, due to a general markets movement favourable to the portfoio positions.

There was also an exception to VaR at 99% (day on which the daily loss was higher than the VaR) on May 18, for the same reason as the exception to VaE of the same month.

The number of exceptions occurred is consistent with the assumptions specified in the VaR calculation model.

3. Structural balance sheet risks[9] (*)

3.1. Main aggregates and variations

The market risk profile inherent in Grupo Santander's balance sheet, in relation to its asset volumes and shareholders' funds, as well as the budgeted financial margin, remained moderate in 2017, in line with previous years.

Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of Santander Global Corporate Banking distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rate and equities.

In general the structural VaR is not significant according to the assets amounts or Capital of the Group:

	2017				2016		2015	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Structural VaR	**754,9**	**878,0**	**991,6**	**815,7**	**869,3**	**922,1**	**698,5**	**710,2**
Diversification Effect	(258,9)	(337,3)	(407,5)	(376,8)	(323,4)	(316,6)	(509,3)	(419,2)
VaR Interest rate*	280,9	373,9	459,6	459,6	340,6	327,2	350,0	264,2
VaR Exchange rate	471,2	546,9	621,1	471,2	603,4	588,5	634,7	657,1
VaR Equities	261,6	294,5	318,4	261,6	248,7	323,0	223,2	208,1

(*) Includes credit spread Va Ron ALCO portfolios.

[8] The definition and calculation methodology for VaE is set out in section 2.2.2.1.

[9] Includes the total balance sheet, except for financial assets and liabilities held for trading.

(*) Includes the total balance sheet with the exception of trading portfolio. Excluding Popular with the exception in the VaR metric.

Structural interest rate risk

- **Europe and the United States**

The main balance sheets, i.e. those of Spain, the UK and the US, in mature markets and against a backdrop of low interest rates, reported positive sensitivities of the market value of equity and of the net interest margin to interest rate rises.

Exposure levels in all countries are moderate in relation to the annual budget and capital levels.

At the end of 2017, net interest income risk at one year, measured as sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in the British pound yield curve, at EUR 246 million, the EUR, at EUR 219 million, the US dollar, at EUR 190 million and the Polish zloty, at EUR 55 million, all relating to risks of rate cuts.

At the same date, the main risk to the most relevant economic value of equity, measured as its sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was in the euro interest rate curve, at EUR 4,902 million, followed by the US dollar at EUR 626 million, the British pound at EUR 431 million and the Polish zloty at EUR 72 million, all with a risk of falling interest rates, scenarios which are now very unlikely.

- **Latin America**

Latin American balance sheets are usually positioned for interest rate cuts for both economic value and net interest income, except for net interest income in Mexico, where liquidity excess is invested in the short term in the local currency.

In 2017, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

At the end of the year, net interest income risk over one year, measured as sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in three countries: Brazil (EUR 95 million), Chile (EUR 39 million) and Mexico (EUR 36 million)

Risk to the economic value of equity over one year, measured as sensitivity to parallel ± 100 basis point movements in the worst-case scenario, was also concentrated in Brazil (EUR 521 million), Chile (EUR 179 million) and Mexico (EUR 91 million).

- **VaR of on-balance-sheet structural interest rate risk**

In addition to sensitivities to interest rate movements (in which, assessments of ±100 bp movements are complemented by assessments of +/-25 bp, +/-50 bp and +/-75 bp movements to give a fuller understanding of risk in countries with very low rates), Santander also uses other methods to monitor structural balance sheet risk from interest rates: these include scenario analysis and VaR calculations, applying a similar methodology to that for trading portfolios.

Structural interest rate risk, measured in terms of VaR at one-day and at 99%, averaged EUR 373.9 million in 2017. It is important to note the high level of diversification between Europe and United States balance sheets and those of Latin America.

Structural foreign currency risk/hedges of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and hedging of these investments.

This management is dynamic and seeks to limit the impact on the core capital ratio of movements in exchange rates[10].

At the end of 2017, the largest exposures of permanent investments (with their potential impact on equity) were, in order, in Brazilian reais, UK pounds sterling, US dollars, Chilean pesos, Polish zlotys and Mexican pesos. The Group hedges some of these positions of a permanent nature with exchange-rate derivatives.

In addition, the financial area is responsible for managing exchange-rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as available for sale portfolios (capital instruments) or as equity stakes, depending on the percentage or control.

The equity portfolio available for the banking book at the end of 2017 was diversified in securities in various countries, mainly Spain, China, USA, Brazil and the Netherlands. Most of the portfolio is invested in the financial activitites and insurance sectors. Among other sectors, to a lesser extent, are for example, the public administrations or the professional, scientific and technical activities.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. At the close of 2017, the VaR at 99% with a one day time frame was EUR 261.6 million.

3.2. Methodologies

Structural interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Group. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, the sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

Structural foreign currency risk/hedges of results

These activities are monitored by measuring positions, VaR and results on a daily basis.

Structural equity risk

These activities are monitored by measuring positions, VaR and results on a monthly basis.

[10] In early 2015, the criterion for coverage of the core capital ratio was changed from phase-in to fully loaded.

Limit control system

As already stated for the market risk in trading, under the framework of the annual limits plan, limits are set for balance sheet structural risks, responding to the Group's risk appetite level.

The main limits are:

- Balance sheet structural interest rate risk:
  - Limit on the sensitivity of net interest income to 1 year.
  - Limit of the sensitivity of equity value.
- Structural exchange rate risk:
  - Net position in each currency (for hedging positions of results).

In the event of exceeding one of these limits or their sub limits, the risk management responsibles must explain the reasons it occurred and provide action plans to correct it.

4. Pensions and actuarial risks

4.1. *Pensions risk*

In managing the risk associated with the defined-benefit employee pension funds, the Group assumes the financial, market, credit and liquidity risks incurred in connection with the fund's assets and investments and the actuarial risks arising from the fund's liabilities, i.e. the pension obligations to its employees.

The aim pursued by the Group in pensions risk control and management is primarily to identify, measure, follow up, control, mitigate and report this risk. The Group's priority, therefore, is to identify and mitigate all clusters of pensions risk.

Therefore, in the methodology used by the Group, the total losses on assets and liabilities in a stress scenario defined by changes in interest rates, inflation, stock markets and property indices, as well as credit and operational risk, are estimated every year.

4.2. Actuarial risk

Actuarial risk arises from biometric changes in the life expectancy of insureds (life insurance), unexpected increases in projected indemnity payments in non-life insurance and, in any event, unexpected changes in the behaviour of insurance policyholders in exercising the options envisaged in the contracts.

A distinction is made between the following actuarial risks:

- Life liability risk: risk of loss in the value of life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:
  - Mortality/longevity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of death/survival of insureds.
  - Morbidity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of disability/incapacity of insureds.
  - Surrender/lapse risk: risk of loss due to changes in the value of liabilities as a result of the early termination of the contract or changes in the policyholders' exercise of rights with regard to surrender, extraordinary contributions and/or paid up options.

- Expense risk: risk of loss due to changes in the value of liabilities arising from adverse variances in expected expenses.

- Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's life liabilities.

- Non-life liability risk: risk of loss due to changes in the value of non-life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:

  - Premium risk: loss arising from the lack of sufficient premiums to cater for claims that might be made in the future.

  - Reserve risk: loss arising from the lack of sufficient reserves for claims incurred but not settled, including the expenses arising from the management of such claims.

  - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's non-life liabilities.

e) Liquidity and funding risk

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

Liquidity management at the Group is based on the following principles:

- Decentralised liquidity model.

- Medium- and long-term liquidity needs arising from the business must be funded using medium- and long-term instruments.

- High proportion of customer deposits, as a result of a commercial balance sheet.

- Diversification of wholesale funding sources by: instrument/investor; market/currency; and maturity.

- Restrictions on recourse to short-term wholesale financing.

- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.

- Compliance with the regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

In order to ensure the effective application of these principles by all the Group entities, it was necessary to develop a single management framework resting on the following three cornerstones:

- A solid organisational and governance model that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by Local Asset and Liability Committees (ALCO) in coordination with the Global ALCO, which is the body empowered by Banco Santander's board in accordance with the corporate Asset and Liability Management (ALM) framework. This governance model has been reinforced as it has been included within the Santander Risk Appetite Framework. This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

- In-depth balance sheet analysis and measurement of liquidity risk, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement, both in normal and stressed conditions. The Group's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite defines maximum tolerance levels for key risk factors using internal and regulatory metrics in both normal and stressed market conditions, which establish the limits within which the subsidiaries can operate in order to achieve their strategic objectives.

- Management adapted in practice to the liquidity needs of each business. Every year, based on business needs, a liquidity plan is developed which will ensure

  - a solid balance sheet structure, with a diversified presence in the wholesale markets in terms of products and maturities, with moderate recourse to short-term products.
  - the use of liquidity buffers and limited use of balance sheet assets.
  - complying with both regulatory metrics and other metrics included in each entity's risk appetite statement. Over the course of the year, all the dimensions of the plan are monitored.

The Group develops the **ILAAP**, or internal liquidity adequacy process), an internal self-assessment process of the adequacy of liquidity which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as input for the SREP (Supervisory Review and Evaluation Process). The ILAAP shares the stress scenarios described above, with the Santander Group recording sound liquidity ratios in all of these.

Funding strategy and evolution of liquidity in 2017

2.1. Funding strategy

Santander's funding activity over the last few years has focused on extending its management model to all Group subsidiaries, including new incorporations, and, in particular, adapting the strategies of the subsidiaries to the increasingly demanding requirements of both markets and regulators.

In general terms, the approaches to funding strategies and liquidity management implemented by Santander subsidiaries are being maintained.

- Maintaining adequate and stable medium and long-term wholesale funding levels.

- Ensuring a sufficient volume of assets which can be discounted in central banks as part of the liquidity reserve.

- Strong liquidity generation from the commercial business through lower credit growth and increased emphasis on attracting customer deposits

All these developments, built on the foundations of a solid liquidity management model, enable Santander to enjoy a very robust funding structure today. The basic features of this are:

- High share of customer deposits due to its retail focused balance sheet. Customer deposits are the Group's main source of funding, representing just over two-thirds of the Group's net liabilities (i.e. of the liquidity balance) and 92% of net loans as of December 2017, moreover, these deposits are a highly stable due to the fact that they mainly arise from retail client activity. This represents an increase with respect to the 2016 figure of 87%. The liquidity evolution over the year can explain the majority of this change.

- Diversified wholesale funding focused on the medium and long term, with a very small relative short-term component. Medium and long term wholesale funding accounts for 18% of the Group's net funding and comfortably covers the lending not financed by customer deposits (commercial gap).

2.2. Evolution of liquidity in 2017

At the end of 2017, in comparison with 2016, the Group reported:

- A stable ratio of credits over net assets (total assets minus trading derivatives and inter-bank balances) of 75%, similar to the level in recent years. This high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance shee.

- Net loan-to-deposit ratio (LTD ratio) at 109%, within a very comfortable range (below 120%). This stability shows a balanced growth between assets and liabilities.

- The ratio of customer deposits plus medium and long-term funding to lending was held at 115% in the year.

- Reduced recourse to short-term wholesale funding. The ratio was around 2%, in line with previous years.

- Lastly, the Group's structural surplus (i.e. the excess of structural funding resources - deposits, medium and long-term funding and capital - over structural liquidity needs - fixed assets and loans) rose in 2017, to an average of EUR 156,927 million, unchanged on the end of the previous year.

Early compliance with regulatory ratios

As part of its liquidity management model, in recent years the Group has been managing the implementation, monitoring and early compliance with the new liquidity requirements set by international financial legislation.

- **LCR (Liquidity Coverage Ratio)**

The regulatory requirement for this ratio in 2017 was set at 80%. As of 1 January 2018 the minimum increases to 100%. As a result, the Group, both at a consolidated and subsidiary level, has increased its risk appetite from 100% in 2017 to 105% in 2018.

The Group's strong short-term liquidity starting position, combined with autonomous management of the ratio in all major units, enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated and individual levels. As of December 2017, the Group's LCR ratio stood at 133%, comfortably exceeding the regulatory requirement. Although this requirement has only been set at the Group level, the other subsidiaries also comfortably exceed this minimum ratio.

- **NSFR (Net Stable Funding Ratio)**

The final definition of the net stable funding ratio approved by the Basel Committee in October 2014, has not yet come into effect. The Basel requirement still needs to be written into the CRR, which is expected to be published in the second half of 2018. The NSFR regulatory requirements will only become binding two years after its inclusion into European Law.

However, the Group has defined a management limit of 100% at the consolidated level and for almost all of its subsidiaries.

With regards to this ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs deriving from commercial activity funded by medium- and long-term instruments and limited recourse to short-term funds. Taken together, this enables Santander to maintain a balanced liquidity structure, reflected in NSFR ratios greater than 100%, both at Group and individual levels as at end December 2017.

In particular, the NSFR of the parent bank was 105%, the UK 121%, Brazil 109% and the United States 110%.

In short, the liquidity models and management of the Group and its main subsidiaries have enabled them to meet both regulatory metrics well ahead of schedule.

Asset encumbrance

It is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources.

Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The reported Group information as required by the EBA at 2017 year-end is as follows:

On-balance-sheet encumbered assets

Thousands of millions of euros	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets
Loans and advances	224.9	803.9
Equity instruments	16.3	10.8
Debt securities	89.8	109.6
Other assets	18.6	170.5
Total assets	**349.6**	**1,094.7**

Encumbrance of collateral received

Thousands of millions of euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	86.7	27.2
Loans and advances	-	-
Equity instruments	3.2	5.5
Debt securities	81.6	21.7
Other collateral received	1.9	-
Own debt securities issued other than own covered bonds or ABSs	-	3.6

Encumbered assets and collateral received and matching liabilities

Thousands of millions of euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	330.7	436.3

On-balance-sheet encumbered assets amounted to EUR 349.6 thousand million, of which 64% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 86.7 thousand million, relating mostly to debt securities received as security in asset purchase transactions and re-used. Taken together, these two categories represent a total of EUR 436.3 thousand million of encumbered assets, which give rise to EUR 330.7 thousand million of matching liabilities.

As at June 2017, total asset encumbrance in funding operations represented 28.0% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: €1,558 billion as of June 2017). The increase in this ration compared to the values reported in 2016 are due to the acquisition of Banco Popular in June 2017, whose balance sheet was more encumbered than the rest of Grupo Santander.

Lastly, regard should be had to the different sources of encumbrance and the role they play in the Group's funding:

- 45 % of total encumbered assets relate to security provided in medium- and long-term financing transactions (with residual maturity of more than one year) to fund the commercial balance-sheet activity. This places the level of asset encumbrance in "structural" funding transactions at 13 % of the expanded balance sheet under EBA standards.

  The other 55 % relate to transactions in the short-term market (with residual maturity of less than one year) or to security provided in derivative transactions whose purpose is not to fund the ordinary business activity but rather to ensure efficient short-term liquidity management.

f) Operational risk

Santander Group defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, people or systems, or external events, thus covering risk categories such as fraud, and technological, cyber, legal and conduct risk.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their sphere of action.

This chapter refers to operational risks in general (these are also referred to as non-financial risks in Santander). Particular aspects of some risk factors are set out in more detail in specific sections (e.g. section C.4. Compliance and conduct risk).

The Group's target in the area of OR management and control is to identify, assess and mitigate risk concentrations, regardless of whether they produce losses or not. Analysing exposure to OR helps to establish priorities in managing this risk. During 2017, the Group has sought further improvement in its management model through a number of different initiatives designed by the Risks division. One of these initiatives is to continue the AORM (Advanced Operational Risk Management) transformation project. This programme is designed to enhance operational risk management capacities through an advanced risk measurement approach, helping to reduce future exposure and losses impacting the income statement.

The various phases of the operational risk management and control model are the following:

• Identify the inherent risk in all the Group's activities, products, processes and systems.

• Define the target profile for the risk, specifying the strategies by unit and time frame, by establishing the OR appetite and OR tolerance for the annual losses estimation and monitoring thereof.

• Measure and assess operational risk objectively, continuously and consistently with regulatory and sector standards.

• Continuously monitor operational risk exposure, and implement control procedures and improve the internal control environment.

• Establish mitigation measures that eliminate or minimise the risk.

• Develope regular reports on operational risk exposure and its level of control for senior management and the Group's areas and units, and inform the market and regulatory bodies.

• Define and implement the methodology needed to calculate internal capital in terms of expected and unexpected loss.

The following are needed for each of the aforementioned processes:

• Define and implement systems that enable operational risk exposure to be monitored and controlled, taking advantage of existing technology and achieving the maximum automation of applications.

• Define and document policies for managing and controlling operational risk, and implement management tools for this risk in accordance with regulations and best practices.

• Define common tools, taxonomies and metrics for the entire Organisation.

Risk identification, measurement and assessment model

A series of quantitative and qualitative corporate techniques and tools have been defined by the Group to identify, measure and assess operational risk. These are combined to produce a diagnosis on the basis of the risks identified and an assessment of the area or unit through their measurement and evaluation.

The quantitative analysis of this risk is carried out mainly with tools that register and quantify the level of potential losses associated with operational risk events. Qualitative analysis seek to assess aspects (coverage, exposure) linked to the risk profile, enabling the existing control environment to be captured.

Implementation of the model and initiativess

Almost all the Group's units are now incorporated into the model with a high degree of homogeneity.

The Group completed its transformation to an advanced operational risk management (AORM) approach in 2017. The programme has a twofold objective: on one hand, to consolidate the current operational risk model, and, on the other, to adopt the best market practices and to use monitoring of an integrated and consolidated operational risk profile to direct the business strategy and tactical decisions in a proactive way.

Operational risk information system

The Group's corporate information system, called Heracles, supports operational risk management tools, providing information for reporting functions and needs at both local/corporate levels. The objective of *Heracles* is to improve decision making for OR management throughout the Organisation.

This objective will be achieved by ensuring that those responsible for risks in every part of the Organisation have a comprehensive vision of the risk, and the supporting information they need, when they need it. This comprehensive and timely vision of risk is facilitated by the integration of various programmes, such as assessment or risks and controls, scenarios, events and metrics, using a common taxonomy and methodological standards. This integration provides a more accurate risk profile and significantly improves efficiency by cutting out redundant and duplicated effort.

Cyber-security and data security plans:

Throughout 2017, Santander continued paying full attention to cyber-security risks, which affect all companies and institutions, including those in the financial sector. This situation is a cause of concern for all entities and regulators, prompting the implementation of preventative measures to be prepared for any attack of this kind.

A new organisational structure has been specified and Group governance for management and control of this risk has been reinforced. Specific committees have been set up and cyber-security metrics have been included in the Group's risk appetite. These metrics have been monitored and reported in the geographies and at global level.

The Group's intelligence and analysis function has also been reinforced, by contracting Bank threat monitoring services. In addition, progress is being made in mitigation activities related to the identification and access management in all geographies, with the backing of senior management.

Progress has also been made in the incident registration, notification and escalation mechanisms for internal reporting and reporting to supervisors.

Mitigation measures

The Group uses the model to monitor the mitigation measures for the main risk which have been identified through the internal OR management tools (internal event database, indicators, self-assessment, scenarios, audit recommendations, etc.) and other external information sources (external events and industry reports).

Active mitigation management became even more important in 2017, with the participation of the first line of defence and the operational risk control function, through which specialist business and support functions exercise additional control. Furthermore, the Group continued to move forward with pre-emptive implementation of operational risk management and control policies and procedures.

Business continuity plan

The Group has a business continuity management system (BCMS), which ensures that the business processes of the Bank's entities continue to operate in the event of a disaster or serious incident.

The basic objective is to:

- Minimise the possible damage from an interruption to normal business operations on people, and adverse financial and business impacts for the Group.
- Reduce the operational effects of a disaster, providing predefined and flexible guidelines and procedures to be used to re-launch and recover processes.
- Restart time-sensitive business operations and associated support functions, in order to achieve business continuity, stable profits and planned growth.
- Protect the public image of, and confidence in, the Santander Group.
- Meet the Group's obligations to its employees, customers, shareholders and other stakeholders.

During 2017, the Group continued to advance in implementing and continuously improving its business continuity management system. The Bank has reviewed the methods and approaches to reinforce governance of the review and approval of continuity strategies and plans, to ensure that this process is implemented at the appropriate level within the organisation, to comply with new regulatory requirements and to cover emerging risks (such as cyber-risk).

g) Compliance and conduct risk

Scope, aim, definitions and objective

The compliance and conduct function fosters the adherence of Santander Group to the rules, supervisory requirements, principles and values of good conduct, by setting standards, and discussing, advising and reporting in the interest of employees, customers, shareholders and the community as a whole.

This function addresses all matters related to regulatory compliance, prevention of money laundering and terrorism financing, governance of products and consumer protection, and reputational risk.

Compliance and Conduct has cemented the progress made in the two previous years. In 2017, the function has taken a leap forward at the corporate level and in the various units of the Group, as part of the strategic compliance programme now underway.

Under the current corporate configuration of the three lines of defence at Santander Group, Compliance and Conduct is an independent second-line control function under the CEO, reporting directly and regularly to the board of directors and its committees, through the GCCO (Group Chief Compliance Officer). This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The risk are defined as:

- Conduct and compliance risk: risk arising from practices, processes or behaviours that are inappropriate or in breach of internal regulations, the law or the supervisor's requirements.
- Reputational risk: risk of current or potential negative economic impact to the Bank due to damage to the perception of the Bank on the part of employees, customers, shareholders/investors and the wider community.

The Group's objective is to minimise the probability that irregularities occur and that any irregularities that should occur are identified, assessed, reported and quickly resolved.

Other control functions (risks and audit) also take part in controlling these risks.

Compliance risk control and supervision

The first lines of defence have the primary responsibility for managing compliance and conduct risks, jointly with the business units, that directly originate such risks, and the compliance and conduct function. This is performed either directly or through assigning compliance and conduct activities or tasks.

The function is also responsible for setting up, fostering and ensuring that units begin to use the standardised frameworks, policies and standards applied throughout the Group. For this purpose, in 2017 a standard regulatory tree has been developed throughout the Group, as well as a process for its monitoring and systematic control.

The GCCO is responsible for reporting to Santander Group's governance and management bodies, and must also advise and inform, as well as promote the development of the function. This is independently of the Risks function's other reporting to the governance and management bodies of all Group risks, which also includes compliance and conduct risks.

In 2017, the Bank has reinforced and evolved the new compliance and conduct model, especially at the Group's units. The Corporation has put in place the necessary components to ensure ongoing control and oversight by creating robust governance schemes, and systems for reporting and interacting with units in accordance with the parent/subsidiaries governance model operated by the Group.

Furthermore, Internal Audit - as part of the third line of defence functions - performs the tests and audits necessary to verify that adequate controls and oversight mechanisms are being applied, and that the Group's rules and procedures are being followed.

In 2017, the Bank has reviewed, updated and streamlined corporate frameworks for the compliance and conduct function. These are first-level documents that regulate the function, with which the management bodies of the various units must comply.

- General compliance framework.
- Products and services marketing and consumer protection framework.
- Anti-money laundering and anti-terrorist financing framework.

The General Code of Conduct enshrines the ethical principles and rules of conduct that govern the actions of all Santander Group's employees. It is supplemented in certain matters by the rules found in other codes and their internal rules and regulations.

In addition, the General Code of Conduct sets out:

- Compliance functions and responsibilities.
- The rules governing the consequences of non-compliance with it.
- A whistle-blowing channel for the submission and processing of reports of allegedly irregular conduct.

The Compliance and Conduct function, under the supervision of the Risk supervision, Regulation and Compliance Committee (RSRCC), is responsible for ensuring effective implementation and oversight of the General Code of Conduct, as the board is the owner of the Code and the corporate frameworks that implement it.

A highlight of 2017 was the development of a reputational risk model that captures the key elements for managing risk in this area. The model is being gradually implemented in the units.

This model identifies the main sources of reputational risk, establishing a preventive approach for its correct management, determines the functions involved in the management and control of this risk and its governance bodies.

Governance and the organisational model

In accordance with the mandate entrusted by the board to the Compliance and Conduct function, in 2017, great strides were made in the strategic compliance programme. In the two previous years, the scope and objectives of the model were defined, and the initiative was implemented at the corporate level. In 2017, it was implemented at the Group's various units, so that by the end of 2018 the Bank will have achieved compliance and conduct function in line with the highest standards of the finance industry.

Governance

The following corporate committees - each of which has a corresponding local replica - are collegiate compliance and conduct governance bodies:

The Regulatory Compliance Committee is the collegiate body for regulatory compliance matters. It has the following key functions:

(i) Controlling and overseeing regulatory compliance risk in the Group, as a second line of defence;
(ii) Specifying the regulatory compliance risk control model throughout the Santander Group, based on common regulations applicable to several countries where the Group operates.
(iii) Deciding on significant regulatory compliance issues that might pose a risk to the Group.
(iv) Fixing the correct interpretation of the General Code of Conduct and specialised codes, and making proposals for improvement.

In 2017, the Regulatory Compliance Committee held four meetings.

The Corporate Commercialisation Committee is the collegiate governance body for the approval of products and services. It has the following key functions:

(i) Validating new products or services proposed by the parent company or by any subsidiary/Group unit, prior to their launch.
(ii) Establishing the commercialisation risk control model in the Group, including risk assessment indicators, and proposing the commercialisation and consumer protection risk appetite to the Compliance Committee.
(iii) Establishing interpretation criteria and approving the reference models to develop the corporate product and service marketing and consumer protection framework, and its rules, and to validate the local adaptations of those models.
(iv) Assessing and deciding which significant marketing questions might pose a potential risk for the Group, depending on the authorities granted or the powers required to be exercised under legal obligations.

The Corporate Commercialisation Committee met 12 times in 2017 and presented a total of 148 proposals of new products/services and models or other reference documents regarding commercialisation, having validated all of them except one.

The Monitoring and Consumer Protection Committee is the Group's collegiate governance body for the monitoring of products and services, and the assessment of customer protection issues in all Group units. It has the following key functions:

(i) Monitoring the marketing of products and services by country and by product type, reviewing all the available information and focusing on products and services under special monitoring, and costs of conduct, compensation to customers, sanctions, etc.
(ii) Monitoring the common claim measurement and reporting methodology, based on root-cause analysis, and the quality and sufficiency of the information obtained.
(iii) Establishing and assessing how effective corrective measures can be when risks are detected in the governance of products and consumer protection within the Group.
(iv) Identifying, managing and reporting preventively on the problems, events, significant situations and best practices in commercialization and consumer protection in a transversal way across the Group.

The Monitoring and Consumer Protection Committee met 23 times in 2017.

The Anti-money Laundering/ Anti-terrorism Financing Committee is the collegiate body in this field. It has the following key functions:

(i) Controlling and overseeing the risk of anti-money laudering and anti-terrorism financing (AML/ATF) in the Group, as second line of defence
(ii) Defining the AML/ATF risk control model in Santander Group.
(iii) Creating reference models for the develoment of the AML/ATF frameworks and their regulations.
(iv) Monitor projects for improvement and transformation plans for AML/ATF and, where appropriate, set in motion supporting or corrective measures.

During 2017, this committee met four times.

The Reputational Risk Steering Committee. This governance body was created in September 2016 to safeguard proper implementation of the reputational risk model.

The committee is chaired by the Group Chief Compliance Officer, whose main functions are:

- Supporting implementation of the corporate reputational risk model.
- Evaluating sources of reputational risk, and their criticality.
- Defining action plans to prevent reputational risk.
- Analysing reputational risk events.
- Specifying processes for escalation and reporting to senior management in matters of reputational risk.

The committee met four times in 2017.

The Corporate Compliance and Conduct Committee is the high-level collegiate body of the Compliance and Conduct function, bringing together the objectives of the committee's referred to above.

Its main functions are as follows:

(i) Monitoring and assessing compliance and conduct risk which could impact Santander Group, as the second line of defence.
(ii) Proposing updates and modifications to the general compliance framework and corporate function frameworks for ultimate approval by the board of directors.
(iii) Reviewing significant compliance and conduct risk events and situations, the measures adopted and their effectiveness, and proposing that they be escalated or transferred, whenever the case may be.
(iv) Setting up and assessing corrective measures when risks of this kind are detected in the Group, either due to weaknesses in established management and control, or due to new risks appearing.
(v) Monitoring new regulations which appear or those modified, and establishing their scope of application in the Group, and, if applicable, the adaptation or mitigation measures necessary.

The Corporate Compliance and Conduct Committee met nine times in 2017.

Regulatory compliance

Functions

The following functions are in place for adequate control and supervision of regulatory compliance risks:

- Implement the Group's General Code Of Conduct and other codes and rules developing the same. Advise on resolving doubts that arise from such implementation.
- Receive and handle the accusations made by employees or third parties via the whistle blowing channel.
- Direct and coordinate investigations into non-compliance, being able to request support from Internal Audit and proposing the sanctions that might be applicable in each case to the Irregularities Committee.
- Control and oversee compliance risk relating to: (i) employee-related events (Corporate Defence); (ii) regulations affecting the organisation (General Data Protection Regulation – GDPR – and Foreign Account Tax Compliance Act –FATCA) ; (iii) compliance with specific regulations on international markets (Volcker Rule, EMIR, Dodd-Frank); (iv) publication of relevant Santander Group information; and (v) implementation of policies and rules to prevent market abuse.
- Report significant Group information to the Comisión Nacional del Mercado de Valores, Spain's securities market regulator, and the regulators of other exchanges on which Santander is listed.
- Oversee mandatory training activities on regulatory compliance.

Product governance and consumer protection

The products and consumer protection governance function defines the key elements needed for adequate management and control of commercialisation and consumer protection risks, which are defined as risks arising from inadequate practices in customer relations, customer treatement, the products offered to customers and their suitability for each specific customer.

Anti-money laundering and anti-terrorism financing

One of Santander Group's strategic objectives is to maintain an advanced and efficient anti-money laundering and anti-terrorism financing systems, constantly adapted to international regulations, with the capacity to confront the development of new techniques by criminal organisations.

h) Reputational risk

In 2017, the Group made significant progress implementing the corporate reputational risk model, which is now embedded in the Corporation.

The specific characteristics of reputational risk are a vast number of sources that requires a unique approach and control model, separate from other risks. The reputational risk management requires for a global interaction with both first and second lines of defence functions and with management functions in relation to the stakeholders in order to ensure a consolidated supervision of the risk, efficiently supported on the current control frameworks. The aim is for reputational risk to be integrated into both business and support activities, and internal processes, thus allowing the risk control and oversight functions to integrate them in their activities.

The reputational risk model is accordingly based on a prominently preventive approach to risk management and control, and also on effective processes for identification and early warning management of events, and subsequent monitoring of events and detected risks.

i) Model risk

The Santander Group has far-reaching experience in the use of models to help make all kinds of decisions, and risk management decisions in particular.

A model is defined as a system, approach or quantitative methods which applies theories, techniques or statistical, economic, financial or mathematical hypotheses to convert input data into quantitative estimates. The models are simplified representations of real world relationships between observed characteristics, values and observed assumptions. By simplifying in this way, the Group can focus attention on the specific aspects which are considered to be most important to apply a certain model.

Use of models entails model risk, defined as the risk of loss arising from inaccurate predictions that prompt the Bank to take sub-optimal decisions, or misuse of a model.

According to this definition, the sources of Model Risk are as follows:

- the model itself, due to the utilisation of incorrect or incomplete data, or due to the modelling method used and its implementation in systems,

- improper use of the model.

The materialisation of model risk may prompt financial losses, inadequate commercial and strategic decision making or damages to the Group's reputation.

Santander Group has been working towards the definition, management and control of model risk for several years. Since 2015, a specific area has been put aside to control this risk, within the Risk Division.

Model risk management and control functions are performed in the Corporation and in each of the Group's core entities. These functions are guided by the model risk management model, with principles, responsibilities and processes that are common across the Group. The model addresses organisation, governance, model management and model validation, among other matters.

j) Strategic risk

For Santander, strategic risk counts with a strategic risk control and management model which is used as a reference for Group subsidiaries. This model includes the definition of the risk, the principles and key processes for management and control, as well as functional and governance aspects.

Strategic risk is the risk of loss or harm arising from strategic decisions or poor implementation of decisions affecting the long-term interests of the Group's main stakeholders, or inability to adapt to changes in the environment.

The entity's business model is a key factor for strategic risk. It has to be viable and sustainable, and capable of generating results in line with the Bank's objectives and over time.

k) Capital risk

Santander Group defines capital risk as the risk that the Entity does not have sufficient capital, in quantitative or qualitative terms, to fulfil its internal business objectives, regulatory requirements, or market expectations.

The capital risk function, in its capacity as second line of defence, controls and oversees the activities of the first line of defence chiefly by means of the following processes:

- Supervision of capital planning and adequacy exercises through a review of all their components (balance sheet, profit and loss account, risk-weighted assets and available capital).

- Ongoing supervision of the Group's capital measurement activities, including single operations with capital impact.

The Group commands a sound solvency position, above the levels required by regulators and by the European Central bank.

In late 2017, the ECB sent each entity its minimum prudential capital requirements for the following year. In 2018, at the consolidated level, Grupo Santander has to maintain a minimum capital ratio of 8.655% CET1 phase-in (4.5% for Pillar I, 1.5% for Pillar 2 requirement, 1.875% for the capital conservation buffer, 0.75% as a Global Systemically Important Entity and 0.03% as a Counter-cyclical buffer). Grupo Santander must also maintain a minimum Tier 1 phase-in capital ratio of 1.5%, and minimum total phase-in capital of 12.155%.

1. Regulatory capital

In 2017, the solvency target set was achieved. Santander's CET1 fully loaded ratio stood at 10.84% at the close of the year, demonstrating its organic capacity to generate capital. The key regulatory capital figures are indicated below:

Reconciliation of accounting capital with regulatory capital (Millions of Euros)

	2017	2016
Subscrited capital	8,068	7,291
Share Premium account	51,053	44,912
Reserves	52,577	49,244
Treasury shares	(22)	(7)
Attributable profit	6,619	6,204
Approved dividend	(2,029)	(1,667)
Shareholders' equity on public balance sheet	**116,265**	**105,978**
Valuation Adjustments	(21,777)	(15,039)
Non- contrilling interests	12,344	11,761
Total Equity on public balance sheet	**106,832**	**102,700**
Goodwill and intangible assets	(28,537)	(28,405)
Elegible preference shares and participating securities	7,635	6,469
Accrued dividend	(968)	(802)
Other adjustments (*)	(7,679)	(6,253)
Tier I (Phase-in)	**77,283**	**73,709**

(1) Fundamentally for non-computable non-controlling interests and deductions and reasnable filters in compliance with CRR

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2017	2016
Capital coefficients		
Level 1 ordinary eligible capital (millions of euros)	74,173	73,709
Level 1 additional eligible capital (millions of euros)	3,110	-
Level 2 eligible capital (millions of euros)	13,422	12,628
Risk-weighted assets (millions of euros)	605,064	588,088
Level 1 ordinary capital coefficient (CET 1)	12.26%	12.53%
Level 1 additional capital coefficient (AT1)	0.51%	-
Level 1 capital coefficient (TIER1)	12.77%	12.53%
Level 2 capital coefficient (TIER 2)	2.22%	2.15%
Total capital coefficient	14.99%	14.68%

Elegible capital (Millions of Euros)

	2017	2016
Elegible capital		
Common Equity Tier I	**74,173**	**73,709**
Capital	8,068	7,291
(-) Treasure shares and own shares financed	(22)	(10)
Share Premium	51,053	44,912
Reserves	52,241	49,234
Other retained earnings	(22,363)	(14,924)
Minority interests	7,991	8,018
Profit net of dividends	3,621	3,735
Deductions	(26,416)	(24,548)
Goodwill and intangible assets	(22,829)	(21,585)
Others	(3,586)	(2,963)
Aditional Tier I	**3,110**	-
Elegible InstrumentsAT1	8,498	6,469
T1- excesses-subsidiaries	347	351
Residual value of dividends	(5,707)	(6,820)
Others	(27)	-
Tier II	**13,422**	**12,628**
Elegible Instruments T2	9,901	9,039
Gen. Funds and surplus loans loss prov. IRB	3,823	3,493
T2-excesses- subsidiaries	(275)	96
Others	(27)	-
Total elegible capital	**90,706**	**86,337**

Note: Santander Bank and its affiliates had not taken part in any State aid programmes.

Model roll-out

As regards credit risk, the Group continued its plan to implement Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities, as well as by the need for coordination between supervisors of the validation processes of internal models.

The Group operates in countries where the legal framework among supervisors is the same, as is the case in Europe via the Capital Directive. However, in other jurisdictions, the same process is subject to the cooperation framework between the supervisor in the home country and that in the host country with different legislations. This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

The Group currently has supervisory authorisation to use advanced approaches for calculating the regulatory capital requirements for credit risk of the parent bank and its main subsidiaries in Spain, the UK and Portugal, and certain portfolios in Mexico, Brazil, Chile, Scandinavia (Sweden, Finland, Norway), France and the US. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe. During 2017, the Portugal IFIC portfolios were authorised, and we a awaiting completion of the supervisory validation process for the Chile institutions and sovereigns, Santander Consumer Germany mortgages and most of its revolving products and PSA UK retail, dealers and fleets.

With regard to operational risk, Grupo Santander currently applies the standard approach to calculating regulatory capital, as set out in the European Capital Directive. In February 2016, the European Central Bank authorised the use of the alternative standard approach to calculate capital requirements at consolidated level in Banco Santander Brazil.

As for the other risks expressly considered in Basel Pillar I, in market risk this year the Group received permission to use its internal model in the treasury trading activity in the UK, in addition to those already authorised in Spain, Chile, Portugal and Mexico.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of January 17, 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS "Basel III leverage ratio framework" and "Disclosure requirements" documents.

This ratio is calculated as Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).
- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.
- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.
- A charge for the potential risk of security funding transactions.
- Lastly, it includes a charge for the risk of credit derivative swaps (CDS).

The European Commission's proposals to modify CRR and CRD IV on November 23, 2016, foresee a mandatory requirement of a 3% leverage ratio for Tier 1 capital, which would be added to the own funds requirements in the article 92 of the CRR. The proposals for the Commission's modification also point to the possibility of introducing a bufer of leverage ratio for global systemic entities in the future.

Millions of Euros	31-12-2017	31-12-2016
Leverage		
Level 1 Capital	77,283	73,709
Exposure	1,463,090	1,364,889
Leverage Ratio	5.28%	5.40%

Global systemically important banks

The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

The designation as a systemically important entity is based on the measurement set by regulators (the FSB and BCBS), based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity).

This definition means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (1%), in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

50. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1.b).

Appendix I

Subsidiaries of Banco Santander, S.A. (1)

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
2 & 3 Triton Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	48	1	12
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF December (1) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	13	0	0
A & L CF June (2) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
A & L CF June (3) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	10	(1)	0
A & L CF March (5) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
A & L CF September (4) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
Abbey Business Services (India) Private Limited (d)	India	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(1)	0	0
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	SECURITISATION	(394)	101	0
Abbey National Beta Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	BANKING	15	3	0
Abbey National Nominees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BROKERAGE	0	0	0
Abbey National PLP (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Property Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	528	(2)	156
Abbey National Treasury Services Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Treasury Services Overseas Holdings	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	401	(2)	406
Abbey National Treasury Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	4,227	143	3,211
Abbey National UK Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey Stockbrokers (Nominees) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BROKERAGE	0	0	0
Abbey Stockbrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BROKERAGE	2	0	2
Ablasa Participaciones, S.L.	Spain	18.94%	81.06%	100.00%	100.00%	HOLDING COMPANY	335	(36)	454
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	HOLDING COMPANY	2,545	(4)	1,863
Aevis Europa, S.L.	Spain	68.80%	27.54%	96.34%	68.80%	CARDS	1	0	1
AFB SAM Holdings, S.L.	Spain	1.00%	99.00%	100.00%	100.00%	HOLDING COMPANY	116	733	113
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	0	5
ALIL Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	6	0	6
Aliseda Participaciones Inmobiliarias, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Aliseda Real Estate, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	50	(2)	48
Aliseda, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	-	PROPERTY	4,203	(1,669)	2,537
Aljarafe Golf, S.A. (j)	Spain	0.00%	89.41%	89.41%	89.41%	PROPERTY	0	0	1
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,220	(10)	1,148
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Commercial Bank plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	25	0	25
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	1
Alliance & Leicester Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	6	0	1
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(230)	1	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	225	(189)	11
Amazonia Trade Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
AN (123) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	6
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	92	0	27
Andara Retail, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	0	0	0
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	3	0	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	SERVICES	0	1	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	1	0	2
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	0
Arcaz - Sociedade Imobiliária Portuguesa, Lda. (r)	Portugal	0.00%	99.90%	100.00%	100.00%	REAL ESTATE	(5)	0	0
Arco Organización, S.L.	Spain	0.00%	59.40%	59.40%	-	HOTEL ACTIVITIES	0	0	0
Argenline, S.A. (j) (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Atlantes Azor No. 1	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Azor No. 2	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No.1 FTC	Portugal	-	(b)	-	-	SECURITISATION	24	0	0
Atlantes Mortgage No.1 plc	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Atlantys Espacios Comerciales, S.L.	Spain	0.00%	71.45%	100.00%	100.00%	REAL ESTATE	25	0	17
Atual Companhia Securitizadora de Créditos Financeiros	Brazil	0.00%	89.67%	100.00%	100.00%	FINANCE SERVICES	30	(5)	27
Auto ABS 2012-3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Lease Master Compartiment 2016	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Loans Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French LT Leases Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS German Loans Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Italian Loans Master S.R.L.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Swiss Leases 2013 Gmbh	Switzerland	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans PLC	United Kingdom	-	(b)	-	-	SECURITISATION	(9)	12	0
Auto ABS2 FCT Compartiment 2013-A (j)	France	-	(b)	-	-	SECURITISATION	0	0	0
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	79.36%	100.00%	100.00%	IT SERVICES	3	1	3
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	40	4	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	11	1	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	35	2	25
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	RENTING	8	0	9
Aviación Intercontinental, A.I.E.	Spain	65.00%	35.00%	100.00%	65.00%	RENTING	79	3	63
Aviación Laredo, S.L.	Spain	99.00%	1.00%	100.00%	-	AIR TRANSPORT	4	0	5
Aviación Oyambre, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	RENTING	0	0	1
Aviación RC II, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	12	1	9
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	9	1	9
Aviación Regional Cántabra, A.I.E. (j)	Spain	73.58%	0.00%	73.58%	73.58%	RENTING	0	0	0
Aviación Scorpius, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	40	3	26
Aviación Suances, S.L.	Spain	99.99%	0.01%	100.00%	-	AIR TRANSPORT	3	0	2
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	23	3	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	FINANCE	267	147	349
Banca PSA Italia S.p.a.	Italy	0.00%	50.00%	50.00%	50.00%	BANKING	262	35	123
Banco Bandepe S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	BANKING	779	59	721
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	14	0	9
Banco de Asunción, S.A. en liquidación voluntaria (j)	Paraguay	0.00%	99.33%	99.33%	99.33%	BANKING	0	0	0
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	1,099	(10)	1,091
Banco Olé Bonsucesso Consignado S.A.	Brazil	0.00%	53.80%	60.00%	60.00%	BANKING	187	34	140
Banco Pastor, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	-	BANKING	536	(205)	321
Banco Popular Español, S.A.	Spain	0.00%	100.00%	100.00%	-	BANKING	19,384	(13,560)	6,880
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.84%	50.00%	50.00%	FINANCE	68	8	33
Banco S3 México, S.A., Institución de Banca Múltiple	Mexico	0.00%	100.00%	100.00%	-	CREDIT INSTITUTION	70	(1)	72
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	BANKING	3,624	766	3,306

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Banco Santander (Brasil) S.A.	Brazil	13.91%	75.77%	90.24%	90.00%	BANKING	13,919	2,013	10,151
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	0.00%	75.06%	99.99%	99.99%	BANKING	4,162	746	3,684
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	75.06%	100.00%	100.00%	FINANCE	49	18	50
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	75.19%	100.00%	100.00%	HOLDING COMPANY	11	0	9
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	75.06%	100.00%	100.00%	FINANCE	5	1	4
Banco Santander (Panamá), S.A. (j)	Panama	0.00%	100.00%	100.00%	100.00%	BANKING	33	1	31
Banco Santander (Suisse) SA	Switzerland	0.00%	100.00%	100.00%	100.00%	BANKING	550	26	325
Banco Santander Bahamas International Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	467	10	477
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	151	28	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCE	66	1	68
Banco Santander International	United States	0.00%	100.00%	100.00%	100.00%	BANKING	796	55	851
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	BANKING	149	19	121
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	752	(4)	749
Banco Santander Río S.A.	Argentina	0.00%	99.30%	99.20%	99.20%	BANKING	874	247	415
Banco Santander Totta, S.A.	Portugal	0.00%	99.85%	99.96%	99.95%	BANKING	2,815	705	3,415
Banco Santander, S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	BANKING	338	54	191
Banif International Bank, Ltd (j)	Bahamas	0.00%	99.85%	100.00%	100.00%	BANKING	(2)	2	0
Bank Zachodni WBK S.A.	Poland	0.00%	69.34%	69.34%	69.41%	BANKING	4,530	459	4,328
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	PROPERTY	9	15	24
Bansalud, S.L. (j)	Spain	72.34%	12.00%	84.34%	84.34%	IT SERVICES	0	0	0
Bansamex, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	CARDS	8	0	1
BCLF 2013-1 B.V.	Holland	-	(b)	-	-	SECURITISATION	0	0	0
Besaya ECA Designated Activity Company	Ireland	-	(b)	-	-	FINANCE	0	0	0
Bilkreditt 3 Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 4 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 5 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 6 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bodegas Señorío de Nevada, S.L.	Spain	0.00%	62.80%	62.80%	-	FOOD INDUSTRY	0	0	0
Bonsucesso Tecnología LTDA.	Brazil	0.00%	53.80%	100.00%	100.00%	IT SERVICES	0	1	0
BPE Financiaciones, S.A.	Spain	0.00%	100.00%	100.00%	-	FINANCE	1	0	0
BPE Representaçoes y Participaçoes, Ltda.	Brazil	0.00%	100.00%	100.00%	-	FINANCE	0	0	0
BPP Asesores S.A.	Argentina	0.00%	100.00%	100.00%	-	FINANCE	(1)	0	0
BPV Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	53.80%	100.00%	100.00%	FINANCE	2	1	2
BRL V - Fundo de Investimento Imobiliário - FII	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	130	(23)	96
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	36	8	73
BZ WBK F24 S.A.	Poland	0.00%	69.34%	100.00%	99.99%	FINANCE	0	0	0
BZ WBK Faktor Sp. z o.o.	Poland	0.00%	69.34%	100.00%	100.00%	FINANCE SERVICES	14	3	1
BZ WBK Finanse Sp. z o.o.	Poland	0.00%	69.34%	100.00%	100.00%	FINANCE SERVICES	49	10	22
BZ WBK Inwestycje Sp. z o.o.	Poland	0.00%	69.34%	100.00%	100.00%	BROKERAGE	10	0	8
BZ WBK Leasing S.A.	Poland	0.00%	69.34%	100.00%	100.00%	LEASING	129	4	31
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	34.67%	100.00%	100.00%	FUND MANAGEMENT COMPANY	4	16	39
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62.87%	0.00%	62.87%	62.87%	FINANCE	0	0	0
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	(12)	28	54
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	278	31	267
Cantera de Albanilla, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Capital Street Delaware LP	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Capital Street Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	13	0	13
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,082	12	1,094
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Carfax (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKERAGE	23	0	23

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Carfinco Financial Group Inc.	Canada	96.42%	0.00%	96.42%	96.42%	HOLDING COMPANY	199	(140)	56
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	FINANCE	41	5	44
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	75.04%	99.97%	99.97%	BROKERAGE	43	4	35
Cater Allen Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Cater Allen International Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BROKERAGE	0	0	0
Cater Allen Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	414	75	251
Cater Allen Lloyd's Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(9)	0	0
Cater Allen Syndicate Management Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	1	0	1
CCAP Auto Lease Ltd.	United States	0.00%	68.12%	100.00%	100.00%	LEASING	(72)	(5)	0
Centro de Capacitación Santander, A.C.	Mexico	0.00%	75.06%	100.00%	100.00%	CHARITABLE ENTITY	1	0	1
Cercebelo Assets, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	(1)	0	0
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	AIRCRAFT RENTING	(50)	(4)	0
Chrysler Capital Auto Funding I LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	0	(21)	0
Chrysler Capital Auto Funding II LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(24)	6	0
Chrysler Capital Auto Receivables LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	0	0	0
Chrysler Capital Auto Receivables Trust 2016-A	United States	-	(b)	-	-	SECURITISATION	13	7	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	148	(46)	0
Chrysler Capital Master Auto Receivables Funding 3 LLC	United States	0.00%	68.12%	100.00%	-	NO ACTIVITY	0	0	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	45	41	0
Club Zaudin Golf, S.A. (j)	Spain	0.00%	85.07%	95.15%	95.15%	SERVICES	0	0	0
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	BANKING	363	115	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	FINANCE	33	13	26
Consulteam Consultores de Gestão, Lda.	Portugal	0.00%	100.00%	100.00%	-	PROPERTY	(355)	(47)	0
Consumer Lending Receivables LLC	United States	0.00%	68.12%	100.00%	100.00%	SECURITISATION	0	0	0
Corporación Financiera ISSOS, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	37	0	37
Crawfall S.A. (g) (j)	Uruguay	100.00%	0.00%	100.00%	100.00%	SERVICES	0	0	0
Dansk Auto Finansiering 1 Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Darep Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	REINSURANCE	10	(1)	7
Desarrollo de Infraestructuras de Castilla, S.A. Unipersonal	Spain	0.00%	71.40%	100.00%	100.00%	WATER SUPPLY	0	0	0
Digital Procurement Holdings N.V.	Holland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	CARDS	10	2	9
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Dirgenfin, S.L. en liquidación (j)	Spain	0.00%	100.00%	100.00%	100.00%	REAL ESTATE DEVELOPMENT	(8)	(1)	0
Drive Auto Receivables Trust 2015-A	United States	-	(b)	-	-	SECURITISATION	(13)	10	0
Drive Auto Receivables Trust 2015-B	United States	-	(b)	-	-	SECURITISATION	(8)	21	0
Drive Auto Receivables Trust 2015-C	United States	-	(b)	-	-	SECURITISATION	(23)	9	0
Drive Auto Receivables Trust 2015-D	United States	-	(b)	-	-	SECURITISATION	(33)	14	0
Drive Auto Receivables Trust 2016-A	United States	-	(b)	-	-	SECURITISATION	(41)	12	0
Drive Auto Receivables Trust 2016-B	United States	-	(b)	-	-	SECURITISATION	(87)	33	0
Drive Auto Receivables Trust 2016-C	United States	-	(b)	-	-	SECURITISATION	(141)	81	0
Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	SECURITISATION	0	(79)	0
Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	SECURITISATION	0	(66)	0
Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	SECURITISATION	0	(124)	0
Drive Auto Receivables Trust 2017-A	United States	-	(b)	-	-	SECURITISATION	0	(65)	0
Drive Auto Receivables Trust 2017-B	United States	-	(b)	-	-	SECURITISATION	0	(63)	0
Drive Auto Receivables Trust 2018-1	United States	0.00%	68.12%	100.00%	-	NO ACTIVITY	0	0	0
Eagle Hispania, S.L.	Spain	0.00%	100.00%	100.00%	-	FINANCE	0	0	0
Edificaciones Nimec, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	(1)	(1)	0
Elbrus Properties, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	6	0	6
Electrolyser, S.A. de C.V.	Mexico	0.00%	75.06%	100.00%	100.00%	SERVICES	0	0	0
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	55.00%	0.00%	55.00%	55.00%	FINANCE	18	2	11
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	REAL ESTATE	1	0	1
Eurobanco S.A. en liquidación (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
Eurovida – Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.98%	100.00%	-	INSURANCE	101	8	111

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Evidence Previdência S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	HOLDING COMPANY	63	10	66
FFB - Participações e Serviços, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,786	(1)	1,020
Fib Realty Corporation	United States	0.00%	100.00%	100.00%	-	NO ACTIVITY	0	0	0
Finance Professional Services, S.A.S.	France	0.00%	100.00%	100.00%	100.00%	SERVICES	2	0	2
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	100.00%	FINANCE	8	1	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	FINANCE	214	76	140
Finespa, S.A.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	11	(1)	8
First National Motor Business Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Contracts Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Facilities Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
First National Motor Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Tricity Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	5	0	5
Fomento e Inversiones, S.A. Unipersonal (l)	Spain	0.00%	0.00%	0.00%	100.00%	HOLDING COMPANY	-	-	-
Fondo de Titulización de Activos PYMES Santander 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización PYMES Santander 12	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumo 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	0	0	0
Fortensky Trading, Ltd.	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Fórum de Negocios de Granada, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Fórum de Negocios de Motril, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Fórum de Negocios del Sur, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Fosse (Master Issuer) Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(10)	5	0
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	2	(3)	0
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
FTPYME Santander 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fuencarral Agrupanorte, S.L. Unipersonal	Spain	0.00%	71.45%	100.00%	100.00%	PROPERTY	98	3	72
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado	Brazil	-	(b)	-	-	INVESTMENT FUND	0	0	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado (s)	Brazil	-	(b)	-	-	INVESTMENT FUND	10	0	0
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.85%	100.00%	100.00%	SECURITISATION	7	0	8
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
General de Terrenos y Edificios Servicios Integrales, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	3	0	0
General de Terrenos y Edificios, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	21	(5)	15

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Geoban, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	24	14	24
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	SERVICES	3	1	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PAYMENTS AND COLLECTIONS SERVICES	1	0	0
Gestión de Activos Castellana 40, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	(16)	(44)	0
Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	0	0	0
Gestora de Investimentos Ipanema S.A.	Brazil	0.00%	62.77%	100.00%	-	FUND MANAGEMENT COMPANY	0	0	0
Gestora de Procesos S.A. en liquidación (j)	Peru	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Gestora Europea de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	-	SERVICES	(16)	(10)	0
Gestora Patrimonial Calle Francisco Sancha 12, S.L.	Spain	68.80%	27.54%	96.34%	68.80%	SECURITIES AND REAL ESTATE MANAGEMENT	40	(2)	19
Gestora Popular, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	5	(2)	2
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	79.36%	88.50%	88.50%	PAYMENT SERVICES	344	107	358
Gieldokracja Spólka z o.o.	Poland	0.00%	69.34%	100.00%	100.00%	SERVICES	0	0	0
Girobank Investments Ltd (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	0
Global Carihuela Patrimonio No Estratégico, S.L. Unipersonal	Spain	0.00%	71.40%	100.00%	100.00%	PROPERTY	16	2	16
Gold Leaf Title Company	United States	0.00%	100.00%	100.00%	-	FINANCE	1	0	0
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2014-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2015-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2016-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Whole Loan Note VFN 2013-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Green Energy Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1	0	0
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	HOLDING COMPANY	2,393	276	2,900
Grupo Financiero Santander México, S.A.B. de C.V.	Mexico	74.97%	0.10%	75.10%	75.09%	HOLDING COMPANY	4,159	749	4,361
Grupo La Toja Hoteles, S.L.	Spain	0.00%	90.00%	90.00%	-	HOLDING COMPANY	65	0	59
GTS El Centro Equity Holdings, LLC (c)	United States	0.00%	81.90%	81.90%	81.90%	HOLDING COMPANY	32	(1)	33
GTS El Centro Project Holdings, LLC (c)	United States	0.00%	81.90%	100.00%	100.00%	HOLDING COMPANY	30	1	33
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	AUTOMOTIVE	2	0	2
Habitatrix, S.L.	Spain	0.00%	71.45%	100.00%	100.00%	PROPERTY	0	0	0
Hercepopular, S.L.	Spain	0.00%	51.00%	51.00%	-	PROPERTY	8	(7)	3
Hipototta No. 1 plc (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	SECURITISATION	(45)	0	0
Hipototta No. 4 plc	Ireland	-	(b)	-	-	SECURITISATION	0	2	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	SECURITISATION	(36)	(2)	0
Hipototta No. 5 plc	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Hispamer Renting, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	RENTING	1	0	1
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	604	(14)	1,053
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	69	(4)	692
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(4)	(37)	0
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	3	(2)	0
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Holneth B.V.	Holland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	251	150	316
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-COMMERCE	6	1	6
IM Banco Popular MBS 2 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	5	3	0
IM Grupo Banco Popular Consumo 1 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	0	7	0
IM Grupo Banco Popular Empresas 7 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	3	21	0
IM Grupo Banco Popular Leasing 3 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	0	2	0
IM Grupo Banco Popular MBS 3 Fondo de Titulización de Activos	Spain	0.00%	100.00%	100.00%	-	SECURITISATION	1	3	0
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,588	35	3,623
Ingeniería de Software Bancario, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT SERVICES	187	30	144

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Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	54	0	54
Inmobiliária Das Avenidas Novas, S.A.	Portugal	0.00%	71.45%	100.00%	100.00%	PROPERTY	3	0	2
Inmobiliaria Viagracia, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	106	(3)	24
Insurance Funding Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(2)	0	0
Integry Tecnologia e Serviços A H U Ltda.	Brazil	0.00%	79.36%	100.00%	100.00%	IT SERVICES	19	0	15
Interfinance Holanda B.V.	Holland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Intermediacion y Servicios Tecnológicos, S.A.	Spain	0.00%	100.00%	100.00%	-	SERVICES	2	0	1
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	332	(5)	329
Inversiones Casado del Alisal, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	(1)	2	0
Inversiones Inmobiliarias Alprosa, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	414	1	389
Inversiones Inmobiliarias Canvives, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	-	PROPERTY	2,770	(1,176)	1,590
Inversiones Inmobiliarias Cedaceros, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	(25)	(4)	0
Inversiones Inmobiliarias Elencia, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Inversiones Inmobiliarias Gercebio, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	(10)	(1)	0
Inversiones Inmobiliarias Inagua, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Inversiones Inmobiliarias Jeráguilas, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	(27)	(5)	0
Inversiones Inmobiliarias Linara, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Inversiones Inmobiliarias Popsol, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	3	0	3
Inversiones Inmobiliarias Tamadaba, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	53	(23)	31
Inversiones Inmobiliarias Tamdab, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Inversiones Inmobiliarias Valabia, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Inversiones Marítimas del Mediterráneo, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INACTIVE	18	(2)	4
Ipanema Empreendimentos e Participações S.A.	Brazil	0.00%	62.77%	70.00%	-	COLLECTION SERVICES	0	0	0
Isban Argentina S.A.	Argentina	87.42%	12.58%	100.00%	100.00%	FINANCE SERVICES	4	1	2
Isban Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	SERVICES	15	5	22
Isban Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	IT SERVICES	22	6	20
Isban DE GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT SERVICES	7	0	7
Isban México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	IT SERVICES	32	2	38
Isla de los Buques, S.A.	Spain	0.00%	100.00%	100.00%	-	FINANCE	1	0	0
La Toja, S.A.	Spain	0.00%	86.22%	86.22%	-	HOTEL	36	0	27
La Unión Resinera Española, S.A. en liquidación (j)	Spain	76.79%	19.55%	96.35%	96.35%	CHEMISTRY	9	0	8
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	(20)	0
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2012-1) PLC (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	AGRICULTURAL AND LIVESTOCK	28	0	16
Las Albaryzas de Otura, S.L.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	0	0	0
Limatesa Gestión de Servicios Integrales, S.L.	Spain	0.00%	100.00%	100.00%	-	FINANCE	0	0	0
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FACTORING	0	0	0
Luri 1, S.A. (m)	Spain	31.00%	0.00%	31.00%	31.00%	PROPERTY	18	(2)	5
Luri 2, S.A. (j) (m)	Spain	30.00%	0.00%	30.00%	30.00%	PROPERTY	4	0	0
Luri 4, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	1	4	2
Luri 6, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE INVESTMENT	1,234	60	1,433
MAC No. 1 Limited (i)	United Kingdom	-	(b)	-	-	MORTGAGE	0	0	0
Manberor, S.A.	Spain	0.00%	100.00%	100.00%	-	PROPERTY	(90)	0	0
Marina Golf, S.L.	Spain	0.00%	100.00%	100.00%	-	SPORTS EXPLOITATION	(3)	(1)	0
Master Red Europa, S.L.	Spain	68.80%	27.54%	96.34%	68.80%	CARDS	1	0	1
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	PROPERTY	0	0	0
Meglahe, S.A.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	0	0	0
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	FINANCIAL ADVISORY	0	0	1
Merlion Aviation One Designated Activity Company	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	28	6	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Metrovacesa Inmuebles y Promociones, S.L.	Spain	0.00%	71.45%	100.00%	100.00%	PROPERTY	32	(10)	16
Metrovacesa Promoción y Arrendamiento, S.A.	Spain	0.00%	71.40%	99.93%	70.27%	REAL ESTATE DEVELOPMENT	310	26	240
Metrovacesa, S.A.	Spain	35.90%	35.55%	71.45%	70.27%	REAL ESTATE DEVELOPMENT	2,436	(38)	1,806
Moneybit, S.L.	Spain	100.00%	0.00%	100.00%	-	SERVICES	0	0	0
Mortgage Engine Limited	United Kingdom	0.00%	100.00%	100.00%	-	FINANCE SERVICES	0	0	0
Motor 2012 Holdings Limited (j)	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2012 PLC (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2014-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2014-1 PLC (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	2	(2)	0
Motor 2015-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2015-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(1)	1	0
Motor 2016-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2016-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2016-1M Ltd	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2017-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2017-1 PLC	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	6	2	46
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	LEASING	21	1	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	19	1	17
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	1	2	3
Naviera Transcantábrica, S.L.	Spain	100.00%	0.00%	100.00%	-	LEASING	4	0	4
Naviera Transchem, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	-	LEASING	0	0	0
Newcomar, S.L. en liquidación (j)	Spain	40.00%	40.00%	80.00%	80.00%	REAL ESTATE	1	0	0
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	SECURITIES INVESTMENT	94	(1)	94
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	79.40%	79.51%	79.08%	INVESTMENT FUND	329	8	265
Nuberos Retail 1, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	0	0	0
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	4	0	2
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	231	1	236
Open Digital Services, S.L.	Spain	99.97%	0.03%	100.00%	-	SERVICES	16	(13)	16
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	6	0	11
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	24	(1)	23
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0.00%	54.18%	51.25%	51.25%	FUND MANAGEMENT COMPANY	4	0	0
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0.00%	44.14%	51.62%	51.62%	FUND MANAGEMENT COMPANY	5	0	0
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidado) (c)	Bahamas	0.00%	55.62%	56.10%	56.10%	FUND MANAGEMENT COMPANY	43	1	0
Pandantan, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	8	(1)	7
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1,057	0	893
Pastor Privada Investment 1, S.L.	Spain	0.00%	100.00%	100.00%	-	HOLDING COMPANY	0	0	0
Pastor Privada Investment 2, S.L.	Spain	0.00%	100.00%	100.00%	-	HOLDING COMPANY	(5)	(2)	0
Pastor Privada Investment 3, S.L.	Spain	0.00%	50.00%	50.00%	-	HOLDING COMPANY	0	0	0
Pastor Vida, S.A. de Seguros y Reaseguros	Spain	0.00%	100.00%	100.00%	-	INSURANCE	39	1	40
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	PROPERTY	105	(1)	104
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	43	7	4
Phoenix C1 Aviation Designated Activity Company	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	1	1	0
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Platja Amplaries, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	(175)	(3)	0
Popular Banca Privada, S.A.	Spain	0.00%	100.00%	100.00%	-	BANKING	80	(2)	63
Popular Bolsa S.V., S.A.	Spain	0.00%	100.00%	100.00%	-	BROKERAGE	6	1	6
Popular Capital, S.A.	Spain	0.00%	100.00%	100.00%	-	FINANCE	1	2	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Popular Consumer Finance, S.A.	Spain	0.00%	100.00%	100.00%	-	FINANCE	0	0	0
Popular de Mediación, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	-	INSURANCE BROKERAGE	2	0	2
Popular de Participaciones Financieras, S.A.	Spain	0.00%	100.00%	100.00%	-	VENTURE CAPITAL	41	0	36
Popular de Renting, S.A.	Spain	0.00%	100.00%	100.00%	-	RENTING	7	1	3
Popular Gestão de Activos, S.A.	Portugal	0.00%	100.00%	100.00%	-	MANAGEMENT OF FUNDS AND PORTFOLIOS	2	0	2
Popular Gestión Privada S.G.I.I.C., S.A.	Spain	0.00%	100.00%	100.00%	-	MANAGEMENT OF FUNDS AND PORTFOLIOS	7	0	4
Popular Operaciones, S.A.	Spain	0.00%	100.00%	100.00%	-	FINANCE	0	0	0
Popular Seguros, S.A.	Portugal	0.00%	84.07%	84.07%	-	INSURANCE	9	1	6
Popularcompras, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	-	INTERNET	0	0	0
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	INTERNET	0	0	0
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Portal Universia, S.A.	Spain	0.00%	89.45%	89.45%	89.45%	INTERNET	1	0	1
Premier Credit S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCE ADVISORY	1	0	2
Prime Auto Issuance Notes Trust 2017-C	United States	-	(b)	-	-	SECURITISATION	0	0	0
Primestar Servicing, S.A.	Portugal	0.00%	79.88%	80.00%	-	REAL ESTATE	4	(1)	8
Produban Servicios Informáticos Generales, S.L.	Spain	99.96%	0.04%	100.00%	100.00%	SERVICES	193	11	202
Produban Serviços de Informática S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	IT SERVICES	11	1	4
Programa Multi Sponsor PMS, S.A. (j)	Spain	50.00%	50.00%	100.00%	100.00%	ADVERTISING	3	2	1
Promoción Social de Viviendas, S.A.	Spain	0.00%	91.84%	91.84%	-	PROPERTY	1	0	1
Promociones Vallebramen, S.L.	Spain	0.00%	71.45%	100.00%	100.00%	PROPERTY	(27)	7	0
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	BANKING	401	47	219
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	BANKING	1,001	184	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.80%	100.00%	100.00%	FINANCE	1	0	0
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	50.00%	FINANCE	94	14	42
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.80%	50.00%	50.00%	FINANCE	29	2	11
PSA Finance Suisse, S.A.	Switzerland	0.00%	50.00%	100.00%	100.00%	LEASING	25	8	15
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	FINANCE	306	37	123
PSA Financial Services Nederland B.V.	Holland	0.00%	50.00%	50.00%	50.00%	FINANCE	50	10	20
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	FINANCE	361	64	174
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	28	(10)	17
Read Leaf Holding	United States	0.00%	100.00%	100.00%	-	REAL ESTATE	67	0	50
Recovery Team, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	-	FINANCE	77	0	113
Retop S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE	12	18	63
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Roc Aviation One Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	RENTING	(1)	0	0
Roc Shipping One Designated Activity Company	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	0	(1)	0
Rojo Entretenimento S.A.	Brazil	0.00%	84.83%	94.60%	-	SERVICES	40	2	33
SAM Asset Management, S.A. de C.V., Sociedad Operadora de Fondos de Inversión	Mexico	0.00%	100.00%	100.00%	50.00%	FUND MANAGEMENT COMPANY	3	14	161
SAM Brasil Participações S.A.	Brazil	1.00%	99.00%	100.00%	50.50%	HOLDING COMPANY	35	1	38
SAM Finance Lux S.à r.l.	Luxembourg	0.00%	100.00%	100.00%	50.00%	MANAGER	4	0	2
SAM Investment Holdings Limited (n)	Jersey	0.00%	100.00%	100.00%	50.00%	HOLDING COMPANY	896	711	1,551
SAM UK Investment Holdings Limited	United Kingdom	81.08%	18.92%	100.00%	100.00%	HOLDING COMPANY	637	53	585
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	HOLDING COMPANY	104	29	89
Saninv - Gestão e Investimentos, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander (CF Trustee) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Santander Agente de Valores Limitada	Chile	0.00%	67.44%	100.00%	100.00%	BROKERAGE	36	18	37
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	Spain	97.95%	0.58%	98.54%	73.41%	REAL ESTATE INVESTMENT	24	(1)	23
Santander Ahorro Inmobiliario 2, S.I.I., S.A.	Spain	99.13%	0.78%	99.91%	95.22%	REAL ESTATE	24	(2)	23

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
						INVESTMENT			
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	51	4	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	199	39	164
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	26	1	26
Santander Asset Management Chile S.A.	Chile	0.01%	99.94%	100.00%	100.00%	SECURITIES INVESTMENT	4	(10)	0
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	100.00%	100.00%	50.00%	FUND MANAGEMENT COMPANY	3	1	0
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	100.00%	100.00%	49.99%	FUND MANAGEMENT COMPANY	16	12	132
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	50.00%	HOLDING COMPANY	193	719	186
Santander Asset Management UK Limited	United Kingdom	0.00%	100.00%	100.00%	50.00%	MANAGEMENT OF FUNDS AND PORTFOLIOS	31	29	201
Santander Asset Management, LLC	Puerto Rico	0.00%	100.00%	100.00%	50.00%	MANAGER	1	2	9
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	50.00%	FUND MANAGEMENT COMPANY	30	51	176
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	4	1	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCE SERVICES	1	0	1
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	876	3	879
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	792	4	403
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	BANKING	11,091	184	11,276
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.67%	100.00%	100.00%	SERVICES	34	25	53
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	50.50%	MANAGER	37	0	37
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	100.00%	100.00%	50.00%	REAL ESTATE INVESTMENT	488	71	576
Santander Brasil, EFC, S.A.	Spain	0.00%	89.67%	100.00%	100.00%	FINANCE	760	6	685
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL	12	(1)	8
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	TRADE	7	0	0
Santander Capitalização S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	INSURANCE	32	27	50
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	CARDS	(8)	0	0
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	CARDS	104	0	104
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	162	0	121
Santander Chile Holding S.A.	Chile	22.11%	77.72%	99.84%	99.83%	HOLDING COMPANY	1,426	269	1,434
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	ADVICE	7	1	4
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	507	99	293
Santander Consumer ABS Funding 3 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(26)	(34)	0
Santander Consumer Auto Receivables Funding 2011-A LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	259	19	0
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(15)	(18)	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(11)	27	0
Santander Consumer Auto Receivables Funding 2013-L1 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	204	104	0
Santander Consumer Auto Receivables Funding 2014-B2 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	16	6	0
Santander Consumer Auto Receivables Funding 2014-B5 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	35	10	0
Santander Consumer Auto Receivables Funding 2014-L1 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	50	9	0
Santander Consumer Auto Receivables Funding 2015-L1 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	15	4	0
Santander Consumer Auto Receivables Funding 2015-L2 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	18	5	0
Santander Consumer Auto Receivables Funding 2015-L3 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	27	17	0
Santander Consumer Auto Receivables Funding 2015-L4 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	23	25	0
Santander Consumer Auto Receivables Funding 2016-B1 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(25)	11	0
Santander Consumer Auto Receivables Funding 2016-B2 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(35)	19	0
Santander Consumer Auto Receivables Funding 2016-B3 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(39)	11	0
Santander Consumer Auto Receivables Funding 2016-B4 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(36)	20	0
Santander Consumer Auto Receivables Funding 2016-L1 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	10	19	0
Santander Consumer Auto Receivables Funding 2016-L2 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	10	12	0
Santander Consumer Auto Receivables Funding 2016-L3 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	4	4	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Santander Consumer Auto Receivables Funding 2016-L4 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	4	5	0
Santander Consumer Auto Receivables Funding 2017-L1 LLC	United States	0.00%	68.12%	100.00%	-	FINANCE	0	7	0
Santander Consumer Auto Receivables Funding 2017-L2 LLC	United States	0.00%	68.12%	100.00%	-	FINANCE	0	3	0
Santander Consumer Auto Receivables Funding 2017-L3 LLC	United States	0.00%	68.12%	100.00%	-	FINANCE	0	2	0
Santander Consumer Auto Receivables Funding 2017-L4 LLC	United States	0.00%	68.12%	100.00%	-	FINANCE	0	52	0
Santander Consumer Auto Receivables Funding 2018-L1 LLC	United States	0.00%	68.12%	100.00%	-	NO ACTIVITY	0	0	0
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	BANKING	3,063	392	4,820
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	FINANCE	1,740	286	1,770
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	BANKING	334	41	363
Santander Consumer Bank S.A.	Poland	0.00%	81.61%	100.00%	100.00%	BANKING	608	155	525
Santander Consumer Bank S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	BANKING	1,165	20	1,170
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	BANKING	663	80	603
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	BANKING	487	20	490
Santander Consumer Chile S.A.	Chile	51.00%	0.00%	51.00%	51.00%	FINANCE	61	17	17
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(35)	0	0
Santander Consumer Finance Benelux B.V.	Holland	0.00%	100.00%	100.00%	100.00%	FINANCE	109	31	190
Santander Consumer Finance Global Services, S.L.	Spain	0.00%	100.00%	100.00%	-	IT SERVICES	5	0	5
Santander Consumer Finance Media S.r.l. - in liquidazione (j)	Italy	0.00%	65.00%	65.00%	65.00%	FINANCE	7	0	5
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	FINANCE	162	52	130
Santander Consumer Finance, S.A.	Spain	63.19%	36.81%	100.00%	100.00%	BANKING	9,974	463	7,328
Santander Consumer Finanse Sp. z o.o.	Poland	0.00%	81.61%	100.00%	100.00%	SERVICES	16	0	13
Santander Consumer Funding 5 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	4	(10)	0
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	364	41	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4,516	236	5,677
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	68.12%	100.00%	100.00%	SERVICES	50	85	92
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	LEASING	20	49	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.61%	100.00%	100.00%	INSURANCE MEDIATIONS	0	0	0
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	81.61%	100.00%	100.00%	LEASING	21	3	5
Santander Consumer Receivables 10 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	563	118	0
Santander Consumer Receivables 11 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	148	75	0
Santander Consumer Receivables 12 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	(14)	34	0
Santander Consumer Receivables 3 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	207	(3)	0
Santander Consumer Receivables 7 LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	233	54	0
Santander Consumer Receivables Funding LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	0	0	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	LEASING	34	2	39
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Consumer Services, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	FINANCE	4	1	5
Santander Consumer USA Holdings Inc.	United States	0.00%	68.12%	68.12%	58.79%	HOLDING COMPANY	4413	990	4,498
Santander Consumer USA Inc.	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	3395	209	2,455
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	515	113	505
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander Mexico	Mexico	0.00%	75.06%	100.00%	100.00%	CARDS	572	102	506
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	INSURANCE BROKERAGE	88	2	61
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	BROKERAGE	56	2	48
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	BROKERAGE	141	1	128
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	FUND MANAGEMENT COMPANY	541	13	511
Santander de Titulización S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	2	2
Santander Drive Auto Receivables LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	1	0	0
Santander Drive Auto Receivables Trust 2013-3	United States	-	(b)	-	-	SECURITISATION	200	13	0
Santander Drive Auto Receivables Trust 2013-4	United States	-	(b)	-	-	SECURITISATION	62	8	0
Santander Drive Auto Receivables Trust 2013-5	United States	-	(b)	-	-	SECURITISATION	106	22	0
Santander Drive Auto Receivables Trust 2013-A	United States	-	(b)	-	-	SECURITISATION	43	8	0
Santander Drive Auto Receivables Trust 2014-1	United States	-	(b)	-	-	SECURITISATION	108	24	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Santander Drive Auto Receivables Trust 2014-2	United States	-	(b)	-	-	SECURITISATION	90	22	0
Santander Drive Auto Receivables Trust 2014-3	United States	-	(b)	-	-	SECURITISATION	73	24	0
Santander Drive Auto Receivables Trust 2014-4	United States	-	(b)	-	-	SECURITISATION	42	27	0
Santander Drive Auto Receivables Trust 2014-5	United States	-	(b)	-	-	SECURITISATION	26	21	0
Santander Drive Auto Receivables Trust 2015-1	United States	-	(b)	-	-	SECURITISATION	30	33	0
Santander Drive Auto Receivables Trust 2015-2	United States	-	(b)	-	-	SECURITISATION	18	32	0
Santander Drive Auto Receivables Trust 2015-3	United States	-	(b)	-	-	SECURITISATION	6	28	0
Santander Drive Auto Receivables Trust 2015-4	United States	-	(b)	-	-	SECURITISATION	(13)	35	0
Santander Drive Auto Receivables Trust 2015-5	United States	-	(b)	-	-	SECURITISATION	(11)	36	0
Santander Drive Auto Receivables Trust 2015-S5	United States	-	(b)	-	-	SECURITISATION	(2)	0	0
Santander Drive Auto Receivables Trust 2015-S6	United States	-	(b)	-	-	SECURITISATION	(1)	0	0
Santander Drive Auto Receivables Trust 2015-S7	United States	-	(b)	-	-	SECURITISATION	(4)	(1)	0
Santander Drive Auto Receivables Trust 2016-1	United States	-	(b)	-	-	SECURITISATION	(42)	40	0
Santander Drive Auto Receivables Trust 2016-2	United States	-	(b)	-	-	SECURITISATION	(64)	55	0
Santander Drive Auto Receivables Trust 2016-3	United States	-	(b)	-	-	SECURITISATION	(116)	89	0
Santander Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	SECURITISATION	0	(49)	0
Santander Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	SECURITISATION	0	(71)	0
Santander Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	SECURITISATION	0	(82)	0
Santander Drive Auto Receivables Trust 2018-1	United States	0.00%	68.12%	100.00%	-	NO ACTIVITY	0	0	0
Santander Energías Renovables I, S.C.R., S.A.	Spain	59.66%	0.00%	59.66%	56.76%	VENTURE CAPITAL	7	0	3
Santander Envíos, S.A. (j)	Spain	100.00%	0.00%	100.00%	100.00%	MONEY TRANSFERS SERVICES	3	0	1
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	45	2	47
Santander España Merchant Services, Entidad de Pago, S.L.	Spain	100.00%	0.00%	100.00%	49.00%	PAYMENT SERVICES	203	0	179
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	5	(1)	0
Santander Factoring S.A.	Chile	0.00%	99.84%	100.00%	100.00%	FACTORING	44	2	45
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	FACTORING	519	51	126
Santander FI Hedge Strategies	Ireland	0.00%	89.67%	100.00%	100.00%	INVESTMENT COMPANY	466	4	421
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	1	0	1
Santander Finance Arrendamento Mercantil S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	LEASING	93	5	73
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE	3	0	0
Santander Financial Services, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	FINANCE	266	0	266
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	SECURITISATION	91	(7)	84
Santander Fund Administration, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	3	(1)	3
Santander Fundo de Investimento Amazonas Multimercado Crédito Privado Investimento no Exterior (o)	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	122	16	135
Santander Fundo de Investimento Diamantina Multimercado Crédito Privado Investimento no Exterior (g)	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	340	23	459
Santander Fundo de Investimento em Cotas de Fundos de Investimento Contract i Referenciado DI (f)	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	57	12	190
Santander Fundo de Investimento Financial Curto Prazo (e)	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	2,319	298	2,441
Santander Fundo de Investimento Guarujá Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	77	15	83
Santander Fundo de Investimento Renda Fixa Capitalization (e)	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	147	21	193
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	82.76%	100.00%	100.00%	INVESTMENT FUND	239	9	222
Santander Fundo de Investimento Unix Multimercado Crédito Privado (o)	Brazil	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	74	12	83
Santander GBM Secured Financing Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	5	(4)	0
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.84%	100.00%	100.00%	FINANCE SERVICES	3	1	4
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	7	(1)	6
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	REAL ESTATE MANAGEMENT	88	2	93
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	281	(13)	250
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	SECURITIES INVESTMENT	258	0	255
Santander Global Services, S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SPORTS ACTIVITY	29	(5)	24
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	4	0	3
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	HOLDING COMPANY	3,517	235	2,555
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	17,368	443	12,208
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	75.06%	100.00%	-	FINANCE	2	0	2
Santander Insurance Agency, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKERAGE	17	1	6
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	INSURANCE	1	0	1
Santander Insurance Services UK Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	ASSET MANAGEMENT	39	1	40
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INSURANCE BROKERAGE	19	1	18
Santander International Products, Plc.	Ireland	99.99%	0.01%	100.00%	100.00%	FINANCE	1	0	0
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,551	217	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	958	0	899
Santander Investment Bolsa, Sociedad de Valores, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	BROKERAGE	192	7	197
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE	568	18	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	219	0	27
Santander Investment Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	BROKERAGE	198	19	217
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	191	63	186
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MANAGEMENT OF FUNDS AND PORTFOLIOS	7	7	6
Santander Lease, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	100.00%	LEASING	79	10	35
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.67%	99.99%	99.99%	LEASING	1,446	121	1,315
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	14	(2)	13
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MORTGAGE	213	9	223
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	96.70%	3.30%	100.00%	100.00%	INSURANCE MEDIATION	4	0	2
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	2
Santander Operaciones, S.L.	Spain	100.00%	0.00%	100.00%	-	SERVICES	18	0	18
Santander Paraty Qif PLC	Ireland	0.00%	89.67%	100.00%	100.00%	INVESTMENT FUND	0	0	0
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	100.00%	100.00%	50.00%	PENSION FUND MANAGEMENT COMPANY	25	20	127
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	4	0	4
Santander Prime Auto Issuance Notes Trust 2017-A	United States	-	(b)	-	-	SECURITISATION	0	(17)	0
Santander Prime Auto Issuance Notes Trust 2017-B	United States	-	(b)	-	-	SECURITISATION	0	0	0
Santander Prime Auto Issuance Notes Trust 2017-C	United States	-	(b)	-	-	SECURITISATION	0	0	0
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	43	8	35
Santander Private Banking s.p.a. in Liquidazione (j)	Italy	100.00%	0.00%	100.00%	100.00%	FINANCE	40	(1)	39
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	287	0	392
Santander Private Real Estate Advisory & Management, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	PROPERTY	5	0	4
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	10	1	11
Santander Real Estate, S.G.I.I.C., S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	119	0	118
Santander Retail Auto Lease Funding LLC	United States	0.00%	68.12%	100.00%	-	SECURITISATION	0	0	0
Santander Retail Auto Lease Trust 2017-A	United States	-	(b)	-	-	SECURITISATION	0	53	0
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	100.00%	100.00%	50.00%	FUND MANAGEMENT COMPANY	1	1	3

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Santander Río Servicios S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	SERVICES	0	0	0
Santander Río Valores S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	BROKERAGE	4	3	6
Santander RSPE 11 LLC	United States	0.00%	68.12%	100.00%	100.00%	NO ACTIVITY	0	0	0
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.24%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	0	0
Santander Secretariat Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander Securities LLC	United States	0.00%	100.00%	100.00%	100.00%	BROKERAGE	58	(36)	23
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	BROKERAGE	222	23	230
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	239	22	272
Santander Securities Services Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	100.00%	100.00%	-	FINANCE	7	(1)	7
Santander Securities Services, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	BANKING	462	51	372
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INSURANCE	1,091	76	1,188
Santander Service GmbH	Germany	0.00%	100.00%	100.00%	100.00%	SERVICES	2	0	1
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	75.06%	100.00%	100.00%	SERVICES	3	1	3
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	75.06%	100.00%	100.00%	FINANCE SERVICES	2	0	1
Santander Technology USA, LLC	United States	0.00%	100.00%	100.00%	100.00%	PRECIOUS METAL COMMERCE	126	0	126
Santander Tecnología y Operaciones A.E.I.E. (j)	Spain	-	(b)	-	-	SERVICES	0	(7)	0
Santander Tecnología, S.L.	Spain	100.00%	0.00%	100.00%	-	SERVICES	35	0	35
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.90%	100.00%	100.00%	INSURANCE	85	5	47
Santander Totta, SGPS, S.A.	Portugal	0.00%	99.90%	99.90%	99.90%	HOLDING COMPANY	3,362	448	3,923
Santander Trade Services Limited	Hong Kong	0.00%	100.00%	100.00%	100.00%	SERVICES	16	0	16
Santander UK Foundation Limited	United Kingdom	-	(b)	-	-	CHARITY SERVICES	0	0	0
Santander UK Group Holdings plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	14,259	743	20,330
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE	49	0	45
Santander UK Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	10	7	0
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	14,958	1,008	15,006
Santander UK Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	COMPUTER SERVICES	16	5	0
Santander Vivienda, S.A. de C.V., S.O.F.O.M.,E.R., Grupo Financiero Santander México	Mexico	0.00%	75.06%	100.00%	100.00%	FINANCE	290	23	235
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	SECURITISATION	5	0	0
Santotta-Internacional, SGPS, Sociedade Unipessoal, Lda. (j)	Portugal	0.00%	99.85%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	HOLDING COMPANY	6,314	617	6,461
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-2 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-2 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2013-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinta Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto I Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0

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Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
SCF Ajoneuvohallinto II Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Eastside Locks GP Limited	United Kingdom	0.00%	100.00%	100.00%	-	REAL ESTATE MANAGEMENT	0	0	0
SCF Rahoituspalvelut 2013 Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut I Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Ajoneuvohallinto Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Rahoituspalvelut Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Secucor Finance 2013-I Designated Activity Company (q)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	50	7	56
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	PROPERTY	50	(2)	48
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	SECURITY	2	0	1
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0.00%	85.30%	100.00%	100.00%	SERVICES	0	0	0
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	85.00%	FINANCE	24	2	7
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	18	0	17
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	277	9	286
Silk Finance No. 4	Portugal	-	(b)	-	-	SECURITISATION	(5)	(1)	0
Sistema 4B, S.L. (consolidado)	Spain	68.80%	27.54%	96.34%	68.80%	CARDS	1	0	1
Sobrinos de José Pastor Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	-	HOLDING COMPANY	(16)	(24)	0
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	APPRAISALS	1	2	1
Socur, S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE	35	27	59
Sol Orchard Imperial 1 LLC (c)	United States	0.00%	81.90%	100.00%	100.00%	ELECTRICITY PRODUCTION	30	1	33
Solarlaser Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	0	0	0
SOV APEX LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	34,281	510	34,791
Sovereign Capital Trust IX	United States	0.00%	100.00%	100.00%	100.00%	FINANCE	4	0	4
Sovereign Community Development Company	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	34	0	35
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	118	1	120
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCE SERVICES	119	3	122
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	6,611	78	6,689
Sovereign Securities Corporation, LLC	United States	0.00%	100.00%	100.00%	100.00%	NO ACTIVITY	47	0	47
Sovereign Spirit Limited (n)	Bermuda	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
SPAIN Revolving Funding LLC	United States	0.00%	68.12%	100.00%	100.00%	FINANCE	0	(36)	0
Sterrebeeck B.V.	Holland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	4,142	688	11,232
Suleyado 2003, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	5	(2)	5
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	PAYMENT SERVICES	10	0	11
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	INTERMEDIATION	4	1	0
Svensk Autofinans 1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	52	(52)	0
Taler Real Estate, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	4	(9)	143
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.85%	100.00%	100.00%	HOLDING COMPANY	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	HOLDING COMPANY	3,068	258	2,567
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	14	0	14
The National & Provincial Building Society Pension Fund Trustees Limited (d) (j)	United Kingdom	-	(b)	-	-	ASSET MANAGEMENT	0	0	0
Tiffany Investments, S.L.	Spain	0.00%	100.00%	100.00%	-	FINANCE	(23)	6	0
Time Retail Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	33	0	20
TOPSAM, S.A de C.V.	Mexico	0.00%	100.00%	100.00%	50.00%	FUND MANAGEMENT COMPANY	1	0	1
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	79.36%	100.00%	100.00%	MARKETING	1	0	1
Tornquist Asesores de Seguros S.A. (j)	Argentina	0.00%	99.99%	99.99%	99.99%	ADVISORY SERVICES	0	0	0

		% of ownership held by the bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Total Sunset Inc.	United States	0.00%	100.00%	100.00%	-	NO ACTIVITY	0	0	0
TotalBank	United States	0.00%	100.00%	100.00%	-	BANKING	280	20	222
Totta (Ireland), PLC (h)	Ireland	0.00%	99.85%	100.00%	100.00%	FINANCE	450	108	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.85%	100.00%	100.00%	REAL ESTATE	116	2	100
Trade Maps 3 Hong Kong Limited	Hong Kong	-	(b)	-	-	SECURITISATION	0	0	0
Trade Maps 3 Ireland Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Trans Rotor Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	RENTING	15	0	14
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	51.00%	LEASING	39	6	17
Trentis Retail, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	0	0	0
Tuttle & Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PAYMENTS AND COLLECTIONS SERVICES	1	0	1
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Chile S.A.	Chile	0.00%	86.72%	86.72%	86.60%	INTERNET	1	0	0
Universia Colombia S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	24	(12)	19
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Perú, S.A.	Peru	0.00%	96.51%	96.51%	96.51%	INTERNET	0	0	0
Universia Puerto Rico, Inc. (j)	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	INTERNET	1	(1)	0
Urbanizadora Española, S.A.	Spain	0.00%	97.74%	97.74%	-	REAL ESTATE	14	0	11
Vailen Management, S.L.	Spain	0.00%	71.40%	100.00%	100.00%	REAL ESTATE	0	0	0
Velázquez, 34, S.A.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	(14)	0	0
Vilamar Gestion, S.L.	Spain	0.00%	100.00%	100.00%	-	REAL ESTATE	(49)	(39)	0
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PORTFOLIO ASSETMANAGEMENT	0	0	0
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	(942)	0	0
Wave SME Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	-	TECHNOLOGY SERVICES	0	0	0
Wave SME Technology Limited	United Kingdom	0.00%	100.00%	100.00%	-	TECHNOLOGY SERVICES	0	0	0
Wave SME UK Limited	United Kingdom	0.00%	100.00%	100.00%	-	FINANCE	0	0	0
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	8	0	8
Webcasas, S.A.	Brazil	0.00%	89.67%	100.00%	100.00%	INTERNET	6	0	5
Whitewick Limited	Jersey	0.00%	100.00%	100.00%	100.00%	NO ACTIVITY	0	0	0
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
WTW Shipping Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	LEASING	10	1	9

(a) amount per provisional books of each company as of the date of publication of these annexes, generally referred to December 31, 2017 without considering, where appropriate, the interest dividends that has been made in the year. In the carrying amount (net cost of provision), the Group´s ownership percentage has been applied to the number of each of the holders, without considering the impairment of goodwill incurred in the consolidation process. The Data from foreign companies are converted in to euros at the exchange rate at the end of the period.
(b) companies over which effective control is exercised.
(c) data from the latest approved financial statement as at December 31, 2016.
(d) data from the latest approved financial statement as at March 31, 2017.
(e) data from the latest approved financial statement as at June 30, 2017.
(f) data from the latest approved financial statement as at 30 September 2017.
(g) data from the latest approved financial statement as at July 31, 2017.
(h) data from the latest approved financial statement as at November 30, 2017.
(i) data from the latest approved financial statement as at August 31, 2017.
(j) company in liquidation at 31 December 2017.
(k) pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(l) company merged in the absence of registration.
(m) see note 2.b.ii and 2.b.iii
(n) company resident in the UK for tax purposes.
(o) data from the latest approved financial statement as at February 28, 2017.
(p) data from the latest approved financial statement as at May 31, 2017.
(q) data from the latest approved financial statement as at January 31, 2017.
(r) data from the latest available approved financial statement as at December 31 2000.
(s) data from the latest approved financial statement as at October 31 2017.

(1) companies issuing shares and preference shares are listed in annex III, together with other relevant information.

Appendix II

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the bank		% of voting power (k)				Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Type of company**	**Assets**	**Capital + reserves**	**Net results**
3E1 Sp. z o.o (b)	Poland	0.00%	12.89%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	7	1	(3)
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	PAYMENTS AND COLLECTIONS SERVICES	Associated	70	19	2
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Jointly controlled	21	14	0
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Jointly controlled	92	19	6
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (e)	Portugal	0.00%	19.97%	20.00%	20.00%	NO ACTIVITY	-	0	0	0
Aguas de Fuensanta, S.A. (e)	Spain	36.78%	0.00%	36.78%	36.78%	FOOD	Associated	24	(40)	0
Alawwal Bank (consolidado) (b)	Saudi Arabia	0.00%	11.16%	11.16%	11.16%	BANKING	-	23,849	2,678	242
Aliseda Servicios de Gestión Inmobiliaria, S.L.	Spain	0.00%	49.00%	49.00%	-	REAL ESTATE	-	582	257	18
Allianz Popular, S.L. (Consolidado)	Spain	0.00%	40.00%	40.00%	-	INSURANCE	-	1,053	119	108
Anekis, S.A.	Spain	24.75%	24.75%	49.50%	49.50%	ADVERTISING	Associated	3	4	(2)
Arena Communications Network, S.L.	Spain	20.00%	0.00%	20.00%	20.00%	ADVERTISING	Associated	10	4	10
Attijariwafa Bank Société Anonyme (consolidado) (b)	Morocco	0.00%	5.26%	5.26%	5.26%	BANKING	-	38,213	3,722	504
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	14.17%	MOTORWAY CONCESSION	-	54	8	13
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (b)	Poland	0.00%	6.93%	10.00%	10.00%	PENSION FUND MANAGEMENT COMPANY	-	99	69	22
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.93%	10.00%	10.00%	INSURANCE	-	3,638	256	126
Banco RCI Brasil S.A.	Brazil	0.00%	35.77%	39.89%	39.89%	LEASING	Jointly controlled	2,595	245	27
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	FINANCIAL	Associated	603	104	2
Bank of Shanghai Co., Ltd. (consolidado) (b)	China	6.48%	0.00%	6.48%	6.48%	BANKING	-	224,921	13,055	1,836
Benim - Sociedade Imobiliária, S.A. (consolidado) (b)	Portugal	0.00%	25.77%	25.81%	25.81%	REAL ESTATE	Associated	11	7	0
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	33.98%	49.00%	49.00%	INSURANCE	Associated	233	14	11
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	0.00%	33.98%	49.00%	49.00%	INSURANCE	Associated	120	38	18
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	MANAGER OF VENTURE CAPITAL	Associated	0	0	0
Carnes Estellés, S.A. (e)	Spain	21.41%	0.00%	21.41%	21.41%	FOOD INDUSTRY	Associated	0	0	0
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	REAL ESTATE SERVICES	Jointly controlled	1	0	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	PAYMENTS AND COLLECTIONS SERVICES	Associated	9	6	1
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A. (b)	Spain	0.00%	49.00%	49.00%	49.00%	TECHNOLOGY	Associated	3	2	0
CNP Santander Insurance Europe Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	INSURANCE BROKERAGE	Associated	747	77	22
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	INSURANCE BROKERAGE	Associated	1,332	168	41
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	SERVICES	Associated	8	1	1
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	33.78%	39.74%	39.74%	COLLECTION SERVICES	Jointly controlled	7	6	0
Comder Contraparte Central S.A	Chile	0.00%	7.54%	11.23%	11.23%	FINANCIAL SERVICES	Associated	21	15	2
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	FINANCIAL SERVICES	Jointly controlled	1	(1)	0
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado) (b)	Spain	20.53%	0.55%	21.08%	21.08%	CREDIT INSURANCE	-	784	359	29
Compañía Española de Viviendas en Alquiler, S.A.	Spain	0.00%	24.07%	24.07%	-	PROPERTY	-	217	114	7
Condesa Tubos, S.L. (b)	Spain	30.61%	0.00%	30.61%	30.61%	SERVICES	-	301	(15)	(39)
Corridor Texas Holdings LLC (consolidado) (b)	United States	0.00%	32.61%	32.61%	32.61%	HOLDING COMPANY	-	169	181	11
Eko Energy Sp. z o.o (b)	Poland	0.00%	13.13%	22.00%	22.00%	ELECTRICITY PRODUCTION	-	39	14	(17)
Euro Automatic Cash Entidad de Pago, S.L.	Spain	0.00%	50.00%	50.00%	-	PAYMENT SERVICES	-	102	72	11
FAFER- Empreendimentos Urbanísticos e de Construção, S.A. (b) (e)	Portugal	0.00%	36.57%	36.62%	36.62%	PROPERTY	-	0	(1)	0
Farma Wiatrowa Jablowo Sp. z o.o (b)	Poland	0.00%	12.89%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	0	0	0
FC2Egestión, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	ENVIRONMENTAL MANAGEMENT	Jointly controlled	0	0	0
Federal Home Loan Bank of Pittsburgh (b)	United States	0.00%	6.33%	6.33%	8.66%	BANKING	-	84,433	3,780	217
Federal Reserve Bank of Boston (b)	United States	0.00%	30.44%	30.44%	30.44%	BANKING	-	91,797	1,444	18
FIDC RCI Brasil I – Financiamento de Veículos (c)	Brazil	-	(h)	-	-	SECURITISATION	Jointly controlled	139	120	17

		% of ownership held by the bank		% of voting power (k)				Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Type of company**	**Assets**	**Capital + reserves**	**Net results**
FIDC RN Brasil – Financiamento de Veículos	Brazil	-	(h)	-	-	SECURITISATION	Jointly controlled	96	81	14
Fondo de Titulización RMBS Prado V	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	4,267	0	0
Fondo de Titulización de Activos RMBS Prado I	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	394	0	0
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	196	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	524	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	619	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	862	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	731	(6)	0
Fondo de Titulización de Activos UCI 18	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	798	(7)	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	118	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	279	0	0
Fondo de Titulización RMBS Prado II	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	500	0	0
Fondo de Titulización RMBS Prado III	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	400	0	0
Fondo de Titulización RMBS Prado IV	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	391	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	FINANCIAL	Jointly controlled	2,035	172	49
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	PROPERTY	Associated	0	1	0
Generación Andina S.A.C.	Peru	0.00%	49.78%	49.78%	49.78%	ELECTRICITY PRODUCTION	Jointly controlled	71	0	(6)
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	17.93%	20.00%	-	COLLECTION SERVICES	Jointly controlled	42	43	(6)
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	PAYMENTS AND COLLECTIONS SERVICES	Associated	136	15	16
Grupo Alimentario de Exclusivas, S.A. (e)	Spain	40.53%	0.00%	40.53%	40.53%	FOOD INDUSTRY	Associated	0	0	0
Grupo Financiero Ve Por Más, S.A. de C.V. (consolidado)	Mexico	0.00%	24.99%	24.99%	-	FINANCIAL SERVICES	-	2,035	180	10
HCUK Auto Funding 2015 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	0	0	0
HCUK Auto Funding 2016-1 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	338	0	0
HCUK Auto Funding 2017-1 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	169	0	0
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	171	0	0
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	FINANCE	Jointly controlled	2,140	124	32
Iberalbión, A.I.E.	Spain	0.00%	49.00%	49.00%	-	SERVICES	-	2	0	0
IM Tarjetas 1 Fondo de Titulización de Activos	Spain	0.00%	49.00%	49.00%	-	SECURITISATION	-	0	0	0
Imperial Holding S.C.A. (e) (i)	Luxembourg	0.00%	36.36%	36.36%	36.36%	SECURITIES INVESTMENT	-	0	(113)	0
Imperial Management S.à r.l. (b) (e)	Luxembourg	0.00%	40.20%	40.20%	40.20%	HOLDING COMPANY	-	0	0	0
Inbond Inversiones 2014, S.L. (b)	Spain	40.00%	0.00%	40.00%	40.00%	FINANCIAL STUDIES	Jointly controlled	226	222	3
Indice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	IT SYSTEM	Jointly controlled	3	(2)	(1)
Inmo Alemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	HOLDING COMPANY	-	39	39	0
Inverlur Aguilas I, S.L.	Spain	0.00%	50.00%	50.00%	-	PROPERTY	-	0	0	0
Inverlur Aguilas II, S.L.	Spain	0.00%	50.00%	50.00%	-	PROPERTY	-	1	1	0
Inversiones en Resorts Mediterráneos, S.L. (e)	Spain	0.00%	43.28%	43.28%	-	PROPERTY	-	0	(1)	(1)
Inversiones Ibersuizas, S.A. (b)	Spain	8.00%	17.42%	25.42%	-	VENTURE CAPITAL	-	23	18	9
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associated	421	352	69
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associated	384	306	58
Invico S.A. (b)	Poland	0.00%	14.62%	21.09%	21.09%	TRADE	-	2	(3)	(1)
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	4.99%	4.99%	HOLDING COMPANY	-	2	(2)	3
J.C. Flowers II-A L.P. (b)	Canada	0.00%	69.40%	4.43%	4.43%	HOLDING COMPANY	-	35	35	(1)
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	HOLDING COMPANY	-	57	56	1
JCF BIN II-A (d)	Mauritania	0.00%	69.52%	4.43%	4.43%	HOLDING COMPANY	-	2	2	0
JCF II-A AIV K L.P. (b)	Canada	0.00%	69.52%	0.00%	0.00%	HOLDING COMPANY	-	4	3	1
JCF II-A Special AIV K L.P. (b)	Canada	0.00%	72.29%	4.99%	4.99%	HOLDING COMPANY	-	4	3	1
Jupiter III L.P. (k)	Canada	0.00%	96.45%	4.99%	-	HOLDING COMPANY	-	-	-	-
Luri 3, S.A.	Spain	0.81%	9.19%	10.00%	10.00%	PROPERTY	Jointly controlled	2	1	3
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	INVESTMENT FUND	Associated	144	94	4
Massachusetts Business Development Corp. (consolidado) (b)	United States	0.00%	21.60%	21.60%	21.60%	FINANCIE	-	64	9	0
MB Capital Fund IV LLC (b)	United States	0.00%	23.94%	23.94%	-	FINANCE	-	12	8	0

		% of ownership held by the bank		% of voting power (k)				Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Type of company**	**Assets**	**Capital + reserves**	**Net results**
Merlin Properties, SOCIMI, S.A. (consolidado) (b)	Spain	16.86%	5.71%	22.57%	22.38%	PROPERTY	Associated	10,919	4,258	583
New PEL S.à r.l. (b)	Luxembourg	0.00%	7.67%	0.00%	0.00%	HOLDING COMPANY	-	69	68	0
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.70%	4.99%	4.99%	HOLDING COMPANY	-	43	41	2
NIB Special Investors IV-B LP (b)	Canada	0.00%	95.80%	4.99%	4.99%	HOLDING COMPANY	-	14	14	1
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.50%	29.00%	29.00%	HOLDING COMPANY	Associated	31	23	1
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.84%	50.00%	50.00%	BROKERAGE	Jointly controlled	20	12	1
Nowotna Farma Wiatrowa Sp. z o.o (b)	Poland	0.00%	12.89%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	61	4	1
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A.	Brazil	0.00%	18.10%	20.19%	23.08%	TECHNOLOGY	-	1	1	0
Olivant Limited (consolidado) (b)	Guernsey	0.00%	10.39%	10.39%	10.39%	HOLDING COMPANY	-	18	14	0
Operadora de Activos Alfa, S.A. De C.V.	Mexico	0.00%	49.98%	49.98%	49.98%	FINANCE	Associated	0	0	0
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	FINANCE	Associated	2	2	0
Operadora de Tarjetas de Crédito Nexus S.A.	Chile	0.00%	8.66%	12.90%	12.90%	CARDS	Associated	44	15	5
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	Jointly controlled	31	0	0
Payever GmbH	Germany	0.00%	10.00%	10.00%	-	SOFTWARE	Associated	1	0	0
Pine Street Capital III (b)	United States	0.00%	22.49%	22.49%	-	INVESTMENT COMPANY	-	2	2	0
POLFUND - Fundusz Poręczeń Kredytowych S.A. (b)	Poland	0.00%	34.67%	50.00%	50.00%	MANAGEMENT COMPANY	Associated	23	20	0
Prisma Medios de Pago S.A.	Argentina	0.00%	17.35%	17.47%	-	SERVICES TO COMPANIES	Associated	638	10	74
Procapital - Investimentos Imobiliários, S.A. (b) (e)	Portugal	0.00%	39.96%	40.00%	40.00%	REAL ESTATE	-	4	(3)	0
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.84%	50.00%	50.00%	INSURANCE	Jointly controlled	1	0	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	INSURANCE	Jointly controlled	107	51	11
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	INSURANCE	Jointly controlled	43	11	6
PSA UK Number 1 plc	United Kingdom	0.00%	50.00%	50.00%	50.00%	LEASING	Associated	5	5	0
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	SERVICES	Associated	29	9	1
Redsys Servicios de Procesamiento, S.L. (b)	Spain	13.53%	6.47%	20.00%	17.56%	CARDS	Associated	147	32	9
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	SERVICES	Jointly controlled	52	(36)	(3)
Rías Redbanc, S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	SERVICES	-	3	1	0
Saite, S.A.	Spain	0.00%	50.00%	50.00%	-	REAL ESTATE	-	26	14	2
Saite-Cobal, S.A.	Spain	0.00%	50.00%	50.00%	-	REAL ESTATE	-	5	(11)	0
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled	344	88	12
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled	312	132	18
Saturn Japan II Sub C.V. (b)	Holland	0.00%	69.30%	0.00%	0.00%	HOLDING COMPANY	-	33	37	(4)
Saturn Japan III Sub C.V. (b)	Holland	0.00%	72.72%	0.00%	0.00%	HOLDING COMPANY	-	160	182	(22)
Servicios de Infraestructura de Mercado OTC S.A	Chile	0.00%	7.55%	11.25%	11.25%	SERVICES	Associated	24	15	1
Sistemas Españoles de Tarjeta Inteligente, S.C. (b)	Spain	0.00%	48.17%	50.00%	50.00%	IT SERVICES	-	0	0	0
Sistemas Técnicos de Encofrados, S.A. Unipersonal (consolidado) (b)	Spain	25.15%	0.00%	25.15%	-	BUILDING MATERIALS	-	76	(34)	(3)
Sociedad Conjunta para la emisión y gestión de medios de pago, E.F.C., S.A.	Spain	0.00%	42.50%	42.50%	-	PAYMENT SERVICES	-	93	28	0
Sociedad de Garantía Recíproca de Santander, S.G.R. (b)	Spain	25.50%	0.00%	25.50%	25.50%	FINANCIAL SERVICES	-	16	11	0
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	16.62%	5.60%	22.22%	16.62%	FINANCIAL SERVICES	-	44,092	3,283	(663)
Sociedad de Procedimientos de Pago, S.L. (b)	Spain	13.60%	4.66%	18.26%	-	PAYMENT SERVICES	-	3	6	(4)
Sociedad Española de Sistemas de Pago, S.L. (b)	Spain	16.24%	6.00%	22.24%	-	PAYMENT SERVICES	-	8	6	1
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	CUSTODY	Associated	5	4	1
Solar Energy Capital Europe S.à r.l. (consolidado) (b)	Luxembourg	0.00%	33.33%	33.33%	33.33%	HOLDING COMPANY	Jointly controlled	10	1	0
Stephens Ranch Wind Energy Holdco LLC (consolidado) (b)	United States	0.00%	28.80%	28.80%	28.80%	ELECTRICITY PRODUCTION	-	247	243	(2)
Syntheo Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	PAYMENT SERVICES	Jointly controlled	9	8	(4)
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.77%	19.81%	19.81%	SECURITY	Associated	45	34	(10)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.77%	19.81%	19.81%	TELECOMMUNICATIONS	Associated	26	36	(10)
Tecnologia Bancária S.A.	Brazil	0.00%	17.77%	19.81%	19.81%	ATM	Associated	371	102	11
Teka Industrial, S.A. (consolidado) (b)	Spain	0.00%	9.42%	9.42%	9.42%	HOUSEHOLD APPLIANCES	-	582	175	(13)
Testa Residencial, SOCIMI, S.A. (consolidado)	Spain	13.77%	24.97%	38.74%	46.21%	PROPERTY	Associated	2,352	1,565	80
The OneLife Holding S.à r.l. (consolidado) (b)	Luxembourg	0.00%	5.90%	0.00%	0.00%	HOLDING COMPANY	-	5,230	40	5
Tonopah Solar Energy Holdings I, LLC (consolidado)	United States	0.00%	26.80%	26.80%	26.80%	HOLDING COMPANY	Jointly controlled	572	236	(54)
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	SERVICES	Associated	2	0	0
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	CARDS	Associated	1,114	67	11
Trindade Fundo de Investimento Imobiliario Fechado	Portugal	0.00%	50.00%	50.00%	-	REAL ESTATE	-	52	41	3

		% of ownership held by the bank		% of voting power (k)				Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2017**	**Year 2016**	**Activity**	**Type of company**	**Assets**	**Capital + reserves**	**Net results**
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled	297	75	(4)
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Greece	0.00%	50.00%	50.00%	50.00%	FINANCIAL SERVICES	Jointly controlled	0	0	0
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled	2	(1)	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	INSURANCE BROKERAGE	Jointly controlled	0	0	0
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	REAL ESTATE SERVICES	Jointly controlled	2	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.50%	FINANCE	Associated	348	78	24
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	MORTGAGES	Jointly controlled	12,546	386	10
Urbanizadora Valdepolo I, S.A.	Spain	0.00%	35.73%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo II, S.A.	Spain	0.00%	35.73%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo III, S.A.	Spain	0.00%	35.73%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo IV, S.A.	Spain	0.00%	35.73%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Uro Property Holdings SOCIMI, S.A. (b)	Spain	14.95%	0.00%	14.95%	14.96%	PROPERTY	-	1,667	163	16
Valdicsa, S.A.	Spain	0.00%	23.78%	33.31%	33.00%	PROPERTY	-	3	(1)	0
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	50.00%	MARKETING	Jointly controlled	0	0	0
Vector Software Factory, S.L. (consolidado) (b)	Spain	0.00%	45.00%	45.00%	45.00%	IT SERVICES	Associated	52	10	0
Venda de Veículos Fundo de Investimento em Direitos Creditórios (c)	Brazil	-	(h)	-	-	SECURITISATION	Jointly controlled	64	56	8
Webmotors S.A.	Brazil	0.00%	62.77%	70.00%	70.00%	SERVICES	Jointly controlled	44	28	7
Wizink Bank, S.A.	Spain	0.00%	49.00%	49.00%	-	BANKING	-	5,209	1,034	110
WiZink Gestión, A.I.E.	Spain	0.00%	49.00%	49.00%	-	FINANCIAL	-	7	0	0
Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.	Spain	0.00%	49.00%	49.00%	-	FINANCIAL	-	21	8	1
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associated	12,553	622	181
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associated	201	1	41
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associated	940	936	185
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associated	384	384	153
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	HOLDING COMPANY	Associated	1,518	1,510	346
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	62	12	17
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	276	33	52
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	199	35	15
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	580	187	142
Zurich Santander Seguros Uruguay, S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	14	8	1

(a) amount per provisional books of each company as of the date of publication of these annexes, generally referred to December 31, 2017 without considering, where appropriate, the interest dividends that has been made in the year. In the carrying amount (net cost of provision), the Group´s ownership percentage has been applied to the number of each of the holders, without considering the impairment of goodwill incurred in the consolidation process. The Data from foreign companies are converted in to euros at the exchange rate at the end of the period.
(b) Data from the latest approved financial statements as at December 31, 2016.
(c) Data from the latest approved financial statements as at May 31, 2017.
(d) Data from the latest available approved financial statements as at September 30, 2016.
(e) company in liquidation to 31 December 2017.
(f) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent, For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(g) Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law).
(h) Companies over which the non-subsidiary investee of the Group exercises effective control
(i) Data from the latest available approved financial statements as at October 31, 2016.
(j) Data from the latest available approved financial statements as at June 30, 2017.
(k) Recent create company without approved financial statements available.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by the bank			Millions of Euros (a)			
Company	**Location**	**Direct**	**Indirect**	**Activity**	**Capital**	**Reservations**	**Cost of Preferred**	**Results NET**
Abbey National Treasury (Structured Solutions) Limited	United Kingdom	0.00%	100.00%	FINANCIAL	0	0	0	0
Emisora Santander España, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCIAL	2	0	0	0
Pastor Participaciones Preferentes, S.A.	Spain	0.00%	100.00%	FINANCIAL	0	1	0	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	FINANCIAL	4,777	(2,923)	64	21

(a) Amounts per the books of each company as at December 31, 2017, translated to euros (in the case of foreign companies) at the year-end exchange rates.

Appendix IV

Notifications of acquisitions and disposals of investments in 2016

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law).

On 04-03-2017, the communication made by Banco Santander was registered in the CNMV, in which it was reported that the participation of Santander Group in ABENGOA, S.A. had risen to 9.694% on 03.28.2017.

On 02-07-2017 the communication made by Banco Santander was registered in the CNMV, informing (voluntary communication) that Santander Group's participation in PROMOTORA DE INFORMACIONES, S.A. had varied from indirect to direct participation without changing the final position (4.145%) on 02.01.2017.

On 04-07-2017 the communication made by Banco Santander was registered in the CNMV, informing that Santander Group's participation in ABENGOA, S.A. had fallen to 3.876% on 04.04.2017.

On 04-07-2017 the communication made by Banco Santander was registered in the CNMV, informing that the Santander Group's participation in ABENGOA, S.A. had fallen to 2,414% on 04.06.2017.

COMMUNICATIONS DERIVED FROM THE CAPITAL INCREASE UNDER WHICH REPRESENTATIVE ACTIONS OF 100% OF THE CAPITAL OF BANCO POPULAR ESPAÑOL, S.A.U., WERE ISSUED. ACQUIRED BY BANCO SANTANDER, S.A. AS A RESULT OF THE RESOLUTION OF THE FROB ON 06.07.2017:

On 06-27-2017, the communication made by Banco Santander was registered in the CNMV, informing that Santander Group's participation in ABENGOA, S.A. had risen to 6.898% (> 5%) on 06.20.2017.

On 06-27-2017 the communication made by Banco Santander was registered in the CNMV, informing that the participation of Santander Group's participation in SPANISH COMPANY OF HOUSING IN RENT, S.A. had risen to 24.068% (> 20%) on 06.20.2017.

On 06-27-2017, the communication made by Banco Santander was registered in the CNMV, informing that the Santander Group's participation in NYESA VALORES CORPORACIÓN, S.A. had risen to 13.223% (> 10%) on 06.20.2017.

On 11-22-2017, the communication made by Banco Santander was registered in the CNMV, informing that the Santander Group's participation in ABENGOA, S.A. had fallen from the threshold of 5% to 4.9755% on 11.16.2017.

Appendix V

Deduction for reinvestment of extraordinary income.

Transitional Provision 24 of Law 27/2014, specifically article 42 of the Consolidated Text of the Income Tax Law on deduction for reinvestment of extraordinary income, establishes that such income shall be regulated by the said article 42 and in its section 10, establishing the duty to detail the amount of the income belonging to the companies of the Consolidated Tax Group 17/89, which dominant is Banco Santander, SA, to which the deduction applies, as well as the obligation to detail the year in which the reinvestment occurred. For all of this, the period of maintenance of the investment indicated in section 8 of the aforementioned precept should not have been finished. In relation to all of this, the following information regarding 2014 is presented.

The detailed information refers to both Banco Santander, S.A. as well as to other companies belonging to the Consolidated Tax Group 17/89 and which have applied the reinvestment deduction to their income and / or to those that have made investments in assets identified in section 3 of article 42.

- Amount of income to which apply the deduction of 12% in 2014: EUR 112,336,059.25

- Reinvestments carried out in 2014: EUR 10,684,477,264.19

Likewise, the amounts of income recognized in previous years subject to the reinvestment deduction, as well as the corresponding reinvestments, are included in the financial statements of the years in which the deduction was credited.

Appendix VI

List of Transactions subject to the Tax Regime of Mergers, Spin-offs, Assets Transmissions and Exchange of Securities in which the company acted as Acquiring Entity or Partner.

In compliance with the obligations on the communication of information established in article 86 of Law 27/2014 of Tax Income of November 27, the following information is provided for transactions under the tax regime of mergers, spin-offs, assets transmissions and exchange of securities, provided in Section VII of Title VII of Law 27/2014 of November 27, in which BANCO SANTANDER, S.A. has intervened during 2017:

I. As provided in section 1 of article 86, it is reported that the company BANCO SANTANDER, S.A. has intervened as a partner in the following operations:

- Merger by absorption of SANTANDER FINANCE CAPITAL, S.A.U., SANTANDER FINANCE PREFERRED, S.A.U., SANTANDER ISSUANCES, S.A.U., SANTANDER COMMERCIAL PAPER, S.A.U., SANTANDER INTERNATIONAL DEBT, S.A.U., SANTANDER PERPETUAL, S.A.U., SANTANDER US DEBT, S.A.U., SANTANDER EMISORA 150, S.A.U, SANTANDER INTERNATIONAL PREFERRED, S.A.U. carried out by BANCO SANTANDER, S.A., which held all the shares of the absorbed entities. This transaction constitutes a merger of those regulated in article 76.1 c) of Law 27/2014 of November 27. The information required in article 86.1 of Law 27/2014 of November 27 is incorporated into the present report.

- Merger by absorption of FOMENTO E INVERSIONES, S.A.U. by BANCO SANTANDER, S.A., which held all the shares of the absorbed entity. This transaction constitutes a merger of those regulated in article 76.1 c) of Law 27/2014 of November 27. The information required in article 86.1 of Law 27/2014 of November 27 is included in this report.

II. In compliance with Article 86.3, it is stated that the terms required by paragraphs 1 and 2 of Article 86, refers to the operations to the tax regime of mergers, divisions, contributions of assets and value of securities, provided for in Chapter VII of Title VII of Law 27/2014 of November 27, in which BANCO SANTANDER, SA has acted as acquirer or partner in previous years, are included in the first annual report approved by each of visit operations.

Appendix VII

Information to be included in compliance with the provisions of article 12.3 of TRLIS

The information requested in article 12.3 of the Consolidated Text, which approves the Tax Income Law based on the wording established by Law 4/2008 of December 23 of applicable to the tax periods that started from the 1st of January 2008 until its repeal by Law 16/2013 of October 29:

Participants entities	Millions of euros				
	2017				
	Amounts deducted in past years	Changes in Equity of attributable years	Deduction or integration of the year	Integration RDL 3/2016	Deduction pending integration
Alcanza, S.A. de C.V. Group (currently, Operadora de Carteras Gamma, S.A.P.I de C.V.)	(8)	-	-	2	(6)
Interfinance Holanda B.V.	-	-	-	-	-
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	(1)	(1)	-	1	-
Santander Ahorro Inmobiliario 2, S.I.I., S.A.	(3)	(5)	-	1	(2)
Santander Global Facilities México, S.A. de C.V.	(2)	(6)	-	-	(2)
Santander Private Banking s.p.a. in liquidazione	(36)	(2)	-	9	(27)
TOTAL	**(50)**	**(14)**	**-**	**13**	**(37)**

Appendix VIII

Information regarding the merger of Fomento e Inversiones, S.A.U., according to Article 86.1 of Law 27/2014 on Income Tax.

a) Year in which the transferring entity acquired the transmitted assets which are susceptible of redemption.

There are no assets subject to amortization in the transferring entity.

b) Last balance sheet closed by the transferring entity.

The latest closed balance sheet of Fomento e Inversiones, S.A.U. is in Note 1.i.

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting of both entities.

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfillment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S.A. must assume certain requirements.

Information regarding the merger of Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuances, S.A.U., Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander US Debt, S.A.U., Santander Emisora 150, S.A.U. y Santander International Preferred, S.A.U., according to Article 86.1 of Law 27/2014 of the Tax Income.

a) Exercise in which the transferring entity acquired the transmitted assets that are susceptible of amortization.

There are no assets in the transferring entity that are subject to amortization.

b) Last balance sheet closed by the transferring entity

The last closed balance sheet of absorved entities are found in Note 1.i.

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting of both entities.

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfillment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S.A. must assume certain requirements.

Appendix IX

Agent network - Collaborating agents. Agents empowered as at 31 December 2017

ACTIFISUR SRL

ADAN CABEZON, OSCAR

AGUADO Y ORTEGA ASESORES S L

AGUDO FRANCIA, AGUSTINA

AGUERRI MARTINEZ, FELIX

ALBARRAN FIGAL S.L.

ALBARRAN PELAYO, FRANCISCO

ALBERO FERRIZ, MIGUEL ANGEL

ALBERO TORRES, JOSEFA

ALCAIDE NAVARRO, JUAN ANTONIO

ALCALDE PITARCH, MIGUEL

ALFAGEME MARTIN, OSCAR MANUEL

ALFONSOCRIADO SL

ALLER ALONSO, JOSE ALBERTO

ALLUE GARCIA, JORDI

ALMA 812 S.L

ALMENA AMARO BRAULIO

ALONSO ARRIBAS, JORGE

ALONSO GONZALEZ, CRESCENCIA

ALONSO SALCEDO, PATRICIA

ALVARADO CAMARA JESUS

ALVARADO GARCIA, CECILIO

ALVAREZ ALVAREZ, MONICA

ALVAREZ CHICOTE, JOSE ANTONIO

ALVAREZ GONZALEZ, LUCIA

ALVAREZ LARA, FRANCISCO

ALVAREZ LORENZO, MARIA DEL ROSARIO

ALVAREZ RODRIGUEZ, MARIA DEL PILAR

ALVAREZ RODRIGUEZ, YOLANDA

ALVAREZ RUANO, MARIO

AMADOR ROJO CAROLINA

AMEAL MAS, JOSE MANUEL

ANDION ACEBOS, ALBERTO

ANDRES VILLALBA, LUIS FERNANDO

ANTOLIN FERNANDEZ, IGNACIO MARIA

ANTON GARCIA, JOSE MARIA

ANTONIA GALINDO AGENCIA DE SEGUROS S.L.

APARICIO GONZALEZ, JORGE

APARISI GRAU, JOSE JOAQUIN

ARAMBURU SANZ, JESUS MARIA

ARCE LANDETE, ROSA

AREA SUPORT EMPRESARIAL S.L.

AREVALO GOMEZ, FERNANDO

ARMENTEROS CUESTA, ANGEL

ARREAZA SERVICIOS FINANCIEROS, S.L.

ARRIBAS CRISTOBAL, JUAN ANTONIO

ARRIBAS DIAZ, ROSA ELENA

ARROYO RODRIGUEZ, IGNACIO

ARRUFAT RAFALES, GEMMA

ARTEAGA LOPEZ, FRANCISCO JAVIER

ASENJO HERNANDO, MARCOS

ASESORES FINANCIEROS VIANA SL

ASESORIA GESTION GLOBAL S.L.

ASEVAL ASESORES S.L

ASIS DE FEREZ S.L.

ASSESSORIA COFISCO, S.L.

ASSESSORIA OLESA S.L.

ATIENZA CALDERON, SANTIAGO

AURENSANZ MARCEN, FRANCISCO JAVIER

AUSEJO MARTINEZ, MARIA JOSE

AYALA ARNALDOS, JOSE MANUEL

AYZA ASESORES S.L.

BALAGUER BALAGUER, ARACELI

BAÑOS ALONSO, ALFONSO

BARBA ARRANZ ,RAQUEL

BARRERA PEREZ, JOSE

BARRERO GORDILLO, RAQUEL

BARRIGA DORADO, MANUEL

BAUTISTA CALEYA, MARIA LUISA

BEATRIZ GARRIDO SANTANDER S.L.

BECARES MARTÍNEZ, MARIA VISITACION

BEJAR ESCALANTE, FRANCISCO

BELLAUBI MIRO, ANTONI

BELLMUNT BELLMUNT, RAFAEL

BENAVIDES SANCHEZ, MARIA DEL SOCORRO

BENEITEZ SALINERO, ROSA ISABEL

BENEYTO MICO, BLAS

BENITO GOMEZ, MARIA DEL ROSARIO

BENLLOCH GRIMALT, JAIME

BERLANA DEL POZO, JULIANA

BERMUDEZ GALINDO, LORENA

BERNAL CAMPOS, LUIS MIGUEL

BERNAL MERINO, ANTONIO

BERNALDO DE QUIROS DE DOMPABLO, RUBEN

BERPISTE S.R.L.

BERTRAN CASALS, MARIA ROSA

BES LAGA DIGNA

BIERFINANTEC, S.L.

BLANCO DEL RIO, JAVIER

BLANCO GARCIA, ROBERTO

BLANCO GONZALEZ, PALOMA

BLASCO MARZA, RAFAEL

BLAY PASCUAL ,ROSA MARIA

BLAZQUEZ FERNANDEZ, JOSE LUIS

BLAZQUEZ FERNANDEZ, LUCIA

BLAZQUEZ FRAILE, MARIA ROSA AMPARO

BOL GARCIA, SANTOS

BOLINCHES IBAÑEZ,MARGARITA LUZ

BOLUFER DEVESA, MARIA DOLORES

BONILLA MARTINEZ, ENCARNACION

BONO QUEROL, IVAN

BORDALLO MEDINA, JOSE IGNACIO

BORRALLO SANCHEZ, ELVIRA

BORRELL-ALUJA S.L.

BOZAL HUGUE,T MARIA EUGENIA

BRAVO GARCIA, MARIA JOSE

BRAVO SAN INOCENTE, MARIA ELENA

BRIEVA DOMINGUEZ MARIA TRINIDAD

BROCH RUBERT, MARIA TERESA

BRUNA CEREZO JOSE MANUEL

BUENAGA PEÑA, MARIA CAMINO

BUERA GILABERT, MANUELA

BUIL GARCIA, SERGIO

CABALLERO DURAN, MARIA DE LOS ANGELES

CABALLERO MARTIN, ROBERTO

CABERO MATA, JOSE MARIA

CABEZAS MORENO ANGELA

CABRERA COLONQUES, PAULA GRACIA

CABRERA COSANO, JOSE

CABRERA ROCHA, JUAN MARIA

CAES ASSESSORS SL

CALBO PELLICER, ISIDRE

CALDERON IZQUIERDO, MARIA NIEVES

CALLEJAS CEBALLOS, JOSE MIGUEL

CALVENTUS RAJA, ANA MARIA

CAMBEIRO CAAMAñO, MARIA ELISA

CAMINO PEREZ OSCAR

CAMUS SAN EMETERIO, MARIA DEL CARMEN

CANIEGO SANS, MONICA

CANOVAS MARTINEZ, ROSA

CANTERO SANCHEZ, JUAN ANTONIO

CAPON FERNANDEZ, JOSE MANUEL

CARAVANTES CASTILLO, ARACELI

CARBALLO GOMEZ ,MARIA DEL CARMEN

CARCAS SANCHEZ, DIEGO

CARDIEL COLL, MARIA AFRICA

CARMONA HIDALGO, ROSA MARIA

CARMONA REQUENA, NOELIA

CARO CANO, PEDRO

CARPINTERO DELEITO FELIX

CARRO HERNANDO, MIRIAM

CASADO FERRERO, SUSANA

CASAHUGA FUSET, EVA

CASASOLA CASASOLA, MIGUEL ANGEL

CASTAÑEDA PUENTE, MARIA JOSE

CASTELLO APARISI, ANTONIO

CASTILLO CONTRERAS, FRANCISCO

CASTILLO MARTIN MARIA CARMEN

CASTILLO VILA, YOLANDA

CEA PEREZ, SALVADOR

CEBALLOS SORIA, DAMIAN

CELAVEDRA S.L

CEREIJO VARGAS, MARIA CARMEN

CHACON FERNANDEZ ENRIQUE

CHARNECO HERRERO, MARIA JOSE

CHILLARON CASTILLO, FELIPE

CLEMENTE DOMINGUEZ, MILAGROS

COBO CASADO, MARIA CASIMIRA

COFIGAL ASESORES SAL

COMAS ENCINAS GESTIO, SL

CONDE DIEZ, PEDRO

CONDE GARCIA BLANCO, PATRICIA

CONDE TABOADA, JOSE MANUEL

COOPERATIVA DEL CAMPO GABRIEL Y GALAN DE ALAGON DEL CAUDILLO

CORREA FOLGAR RICARDO

COUCEIRO DORELLE, JOSE LUIS

CRUZ SANCHEZ, CRISTINA

CULEBRAS RAMOS, MARIA PAZ

DE ANDRES LOPEZ, IGNACIO

DE CASTRO FERNANDEZ, ELVIRA

DE LA CRUZ DE LA ROSA, MARIA EUGENIA

DE LA ROSA DIEZ, MARIA SALOME

DE PABLO DEL OLMO, RAUL

DE SOLA BAREA, FRANCISCA

DEL BARRIO SAENZ, SHEILA

DELGADO CASEIRO ALEXANDRE

DELGADO EGIDO, JOSE JOAQUIN

DELPUEYO JUSTO RAUL

DEUTOR GARRIDO, PEDRO MIGUEL

DIAZ FERNANDEZ ELENA

DIAZ SANTANA, ANA MARIA

DIOS OUTEDA, NATALIA

DOLZ GARAGALLO, Mª ISABEL

DOMINGO PEñA PASCUAL, HIGINIO

DOMINGUEZ ZANON, ISABEL CARMEN

DOMONTE RODRIGUEZ, JOSE RAMON

DONET ALBEROLA, FERNANDO

DOVALE VAZQUEZ, MANUEL ARTURO

DUARTE FIGUEIRAS, ANA BELEN

DURAN AGUNDEZ, JUAN JOSE

DURAN ALVEZ, MARIA VICTORIA

EDO ALEGRE, HECTOR

EMPRESA GESTORA JUAN JOSE MUÑOZ S.L.

ENRIQUE Y SINDE ASOCIADOS SL

EQUITY CONSULTING FINANCIERO, S.L.

ESCUDERO ORTEGA, JOSE ANTONIO

ESTEBAN GARRIDO, ALICIA

FABREGAT PITARCH, JOSE MANUEL

FADRIQUE PICO, ALICIA

FALCES MELERO, TAMARA

FARFAN ASESORIA Y CONSULTORIA S.L.

FARIÑA FERNANDEZ, SUSANA

FARIÑA REBOREDO, BARBARA

FARIÑAS PEREZ, JOSE LUIS

FATAS LAPLANA, ROSA ANA

FAUS BLANES, MARTA

FEIJOO ARIAS, MARTA

FERNANDES DIAS, BARBARA

FERNANDEZ AMURRIO, LYDIA

FERNANDEZ CARRASCO, MARIA PILAR

FERNANDEZ CORRAL, CONCEPCION

FERNANDEZ DE JUBERA SIERRA, PABLO

FERNANDEZ FERNANDEZ, LAURA

FERNANDEZ GONZALEZ, VICTOR

FERNANDEZ MENDEZ, MIGUEL ANGEL

FERNANDEZ MURAS, BLANCA

FERNANDEZ PEÑO, PEDRO

FERNANDEZ RODRIGUEZ SANTIAGO

FERNANDEZ RUFO, MARIA

FERRANDEZ PARDOS, MARIA ESTHER

FERRE BERTOMEU, ANA CRISTINA

FERRUS AZNAR, INMACULADA

FLORES ROMERO, FRANCISCO

FOLLA-CISNEROS GARCIA, MARIA DOLORES

FONT VILASECA, JOSE MARIA

FORNE TENA, GUADALUPE

FORNOS ISERN, ANTONIO

FORT PONS, JORDI

FRUTOS BERNAL, MARIA TERESA

FUENTE PARGA, JOSE ALFONSO

GABARRI LLOP, JOAN ANDREU

GAGO MORENO ANTONIO LUIS

GAGO Y SOUTO FINANCIAL SERVICES S.L.

GALAN FREJO, SOLEDAD

GALIMANY&MORILLO S.L.

GALLEGO MARTIN, BEATRIZ

GAMERO MUÑIZ, JOSE

GARCES VIRGOS, JOSE DANIEL

GARCIA ABAD, MIGUEL

GARCIA DELGADO, RAFAEL

GARCIA ESTELLER TORRES, BEATRIZ

GARCIA FERNANDEZ, MANUEL MARIA

GARCIA GONZALEZ, MARIA ISABEL

GARCIA GUERRERO, ALEJANDRO

GARCIA LOPEZ, JESUS

GARCIA MEDIALDEA MARIA JOSEP

GARCIA MOLINA, FANDILA

GARCIA MORA, FRANCISCO JOSE

GARCIA MORENO, JORGE IVAN

GARCIA PEÑA, ANA ESTHER

GARCIA RODRIGUEZ, MIGUEL ANGEL

GARCIA SANTANA, MARIA MERCEDES

GARCIA SOLIS, FRANCISCO

GARCIA TAPIA, MIGUEL

GARCINUÑO CASELLES, MARTA MARIA

GARRIDO FERNANDEZ, MARTA

GARRIDO GALINDO, SEILA

GAVELA SANCHEZ, RAQUEL

GAVIN LORIENTE, CARLOS

GAZQUEZ MARTINEZ, ISABEL MARIA

GESESBAN SL

GESFINPRO, S.L

GESTICUR ASESORIA S.L.P.

GESTION FINANCIERA PALOMARES S.L.

GESTION INMOBILIARIA RUBAFER, S.L.

GESTION INTEGRAL SANTANDER, S.L.

GESTION MCFR BARBERA SOCIEDAD LIMITADA

GESTION SANTANDER CARBAJOSA, S.L.U.

GESTIONES MORENO E HIJOS S.L.

GIMENO TIRADO, LOURDES

GIRAPROL SL

GISBERT FERRERES, JUAN JOSE

GODINEZ GUERRERO, IVAN

GOMEZ BANGA MARTA

GOMEZ COLADO, JESUS

GOMEZ GARCIA, JUAN CARLOS

GOMEZ LOPEZ, JUAN MIGUEL

GOMEZ LOZANO, AROA

GOMEZ MARTINEZ, MARTINA

GOMEZ TOSTON LOPEZ, MARIA

GOMIS MARSAL, ELENA

GONZALEZ BARRAL, MARIA DEL CARMEN

GONZALEZ BECEIRO, DAVID

GONZALEZ CABO, VICTOR

GONZALEZ CUESTA, MARIA MANUELA

GONZALEZ GONZALEZ, ARACELI

GONZALEZ MARTIN, EDUARDO

GONZALEZ MARTINEZ, IVAN

GONZALEZ MEJIAS, ARACELI

GONZALEZ PALACIO, SERGIO

GONZALEZ RAMIREZ, BELEN

GONZALEZ RISCADO, ANTONIO

GONZALEZ SANCHEZ, MARIA EUGENIA

GONZALEZ VILA, VANESA

GONZALVEZ BOTELLA, JAVIER

GRAS CRUZANS DESAMPARADOS

GRUESO LOPEZ, MIGUEL

GRUPO ALMARES 2015 S.L.

GRUPO SUEIRO INGESFIN S.L.

GUERRA ABAD, ESTHER

GUERRERO RODRIGUEZ, MIGUEL

GUERRERO TORRES, MANUEL JESUS

GUEVARA GONZALEZ, JOSE MANUEL

GUIJO LOZANO, PATRICIA

GUILLAUMES MASSO, DAMIA

GUILLEN RAMIREZ, ANTONIO

GUIU FARRE, IVAN

GURIDI EZQUERRO, JAVIER

GUTIERREZ BERNAL, BENEDICTO

GUTIERREZ SANZ, MARIA LETICIA

GUZON LIEBANA, MERCEDES

HERNANDEZ ALONSO, MARIA

HERNANDEZ ATIENZA, LORENA

HERNANDEZ GARCIA, CARLOS

HERNANDEZ NOVOA, CLARA

HERNANDEZ PEREZ, MARTA

HERNANDEZ RANZ, ANSELMO

HERNANDEZ RANZ, JULIAN

HERNANDEZ-SONSECA MIRANDA, JOSE LUIS

HERRERO ALONSO, PABLO

HERRERO HIDALGO, RAUL IGNACIO

HORNERO HORNERO JOSE MANUEL

IBARRA RECHE, MARIA PAZ

IGLESIAS ALONSO, LOURDES

IGLESIAS GONTAN, CARLOS

IGLESIAS MATEOS, MARIA VICTORIA

IMIA RIVERA, MARIA LUZ

INCHAUSPE PEÑA, DAVID

INTERMEDIACION NASARRE S.L.

ISERN ROIG, ABEL

IZQUIERDO ROA, CESAREO

IZQUIERDO SANTOS, BENITO

JAIME GARCES, SILVANA

JERCANT DE FINANZAS, S.L

JIMENEZ AGUAYO, ANNA

JIMENEZ CHICO, ANTONIO JOSE

JIMENEZ OVEJAS, JOSE

JIMENEZ PERALVAREZ, FRANCISCO

JIMENEZ SAUCEDO MARIA CONCEPCION

JIMENEZ VERANO, VICTOR

JOTABAN SEGUROS SL

JOVANI BELTRAN, SUSANA MARIA

JUAREZ GARCIA, JUAN MARINO

JUNCAL RUA, CANDIDO

KÜHNEL AZNAR, LUIS

LAFAJA SANZ, BEATRIZ DEL CARMEN

LAMBERTO GARCIA, SOLEDAD

LANGA GOMEZ, RAUL

LAZARO BERDEJO, JUAN CARLOS

LEAL MORALEDA, GREGORIO

LERONES AGUADO, EDUARDO

LLOBELL PUCHOL , JOSE JUAN

LLORENTE DA COSTA, OLGA

LOMBARDIA PALOMAR, MANUEL

LOPEZ CACHAZA, ALBERTO

LOPEZ GARCIA, JESUS

LOPEZ GOMEZ, ROSA MARIA

LOPEZ GONZALEZ, ESTHER

LOPEZ LOPEZ, JOSE ANTONIO

LOPEZ LOPEZ, NATALIA

LOPEZ MARTINEZ, ANA MARIA

LOPEZ NIETO JOSE MANUEL

LOPEZ ROJO, OSCAR

LOPEZ RUIZ FRANCISCO JOAQUIN

LOPEZ TABOADA, MARIA ROCIO

LOSADA GIL ROSA MARIA

LOZANO CANO, JOSE CARLOS

LUJAN FERNANDEZ, MARTA

MACIA GONZALEZ, LAURA

MADRIGAL FINANCIERO SL

MALAVE FERNANDEZ, MIGUEL JOSE

MANCHADO CORDON, MARINA MILAGROS

MANSANET RIPOLL SL

MANUEL CERVERA, NURIA

MAQUEDA RUIZ, SAGRARIO

MARCOS SANCHEZ, SEVERO ENRIQUE

MARGALLO FERNANDEZ MIGUEL

MARIA CARRETERO, ESTHER

MARIN PEREZ, JOSE

MARINA MEDRANO, PEDRO MARIA

MARQUES ASENSIO, ERNESTO DAIMAN

MARQUEZ CONTRERAS, FRANCISCA

MARTI SEGARRA, VICENTE MANUEL

MARTIN ESCOBAR, CARLOS

MARTIN FUENTES, EUGENIO

MARTIN ISERTE, MIGUEL ANGEL

MARTIN LANCHAS EMILIO

MARTIN LOBO, ANA MARIA

MARTIN MORENO, REYES

MARTIN MUNIESA, MARIA TERESA

MARTIN MUÑOZ, MARIA MILAGROS

MARTIN RIVERO, ROBERTO

MARTIN RODRIGUEZ, MARIA JESUS

MARTIN SANCHEZ, MARIA

MARTINEZ BOHORQUEZ, CARMEN MARIA

MARTINEZ ESCOBAR MARTA ISABEL

MARTINEZ FERNANDEZ ERNESTO

MARTINEZ FERNANDEZ FRANCISCO JAVIER

MARTINEZ FERNANDEZ, HECTOR

MARTINEZ JIMENEZ LUIS ALFONSO

MARTINEZ MARTINEZ, JUANA

MARTINEZ OTERO, CELIA MONICA

MARTINEZ PEREZ, MARIA BELEN

MAS POMES, EDUARD

MASCITTI, QUIRINO

MATA VIDAL, OSCAR MANUEL

MATEO ITURRIA, LAURA

MATEOS GARCIA, MARIA VICTORIA

MATEOS PASCUAL ASUNCION

MATEOS SANCHEZ, ANNA LOURDES

MATO CORBACHO, CARMEN

MAYORAL SERRET, MARC

MAZUELA CREGO, JOSE JAVIER

MENA BARRIOS, ISAIAS

MENDEZ GONZALEZ, MARIA

MERINO LOBATO S.L.

MIRANDA GARCIA CARO, LORENZO

MISTERA BUSINESS SOLUTIONS S.L.

MOLINER ABADIA, ALVARO

MOLLEDA VELEZ, ANGEL

MONGE LOPEZ, JAVIER

MONROY CARNERO, MARIA JESUS

MONSO BONET, ANTONI

MONTANE DELCOR, AGUSTI

MONTEAGUDO MARTINEZ, JUAN JOSE

MONTERO DURAN, PATRICIA

MONTERO GONZALEZ, NURIA

MONTERO RODENAS, JUAN

MONTILLA GONZALEZ, LIDIA

MONTULL CACHO, ANA ISABEL

MORALES NUÑEZ, ANA MARIA

MORAN PEREZ ALBERTO

MORENO ALONSO, MIGUEL

MORENO LOPEZ SOLORZANO, CARLOS

MORERA JORDAN, MARIA ANGELES

MORERA SOLA, MARIA DOLORES

MORIANA RODRIGUEZ, MARIA DOLORES

MOROS CORTES, BEGOÑA

MOSCARDO TORRES, VICENTE

MOTOS RECUENCO, ANTONIO

MULTIALGAIDA, S.L.

MUNUERA SANZ, RAMON DANIEL

MUÑIZ ARROJO, ANGELA

MUÑOZ CARRION, JOSE JAVIER

MUÑOZ GARCIA, FRANCISCO

MUSITU CRUZ, PATRICIA

NADALES MARQUEZ, CARLOS

NAVARRO SIMON, LUIS JAVIER

NAVAS ALONSO, DANIEL

NEOBAN SL

NOGUERON MARTINEZ, RUBEN

NOVIO MIDON, JAVIER

NUÑEZ PUGA NIEVES

OFICINA LA POBLA DE SEGUR, S.L.

OLIVA MANDAÑA, MONTSERRAT

OLIVAS GONZALVO, FRANCISCO MIGUEL

OLIVER BURRO, JOSE MANUEL

ORDAS CASADO S.L.

PACHECO GALLEGO, MARIA JOSE

PALACIO TORRES, BELEN

PALACIOS MARTIN, CARLOS ALBERTO

PALMERO MORENO CID, MARIA DEL CARMEN

PALOMARES RUIZ, MARIA ASUNCION

PALOMERO PALOMERO, JACINTO

PAMPLONA CALAHORRA, ANA BELEN

PARDAL ANIDO, OSCAR

PARDO PARDO, YOLANDA

PARRA TELLEZ, MARIA JESUS

PARRADO PARRADO GEMA

PARRO CORTES, CECILIO

PASTOR MANZANO, JOSE GABRIEL

PASTRANA CASADO, EUSEBIO

PAYA GUILL, CESAR

PEIRO ORTEGA, ESTHER

PERAL DIAZ, MARIA ANTONIA

PEREZ CABEZAS, JESUS

PEREZ CUELLAR, LUCIA

PEREZ FERNANDEZ, EVA

PEREZ FERNANDEZ, JOSE MARIO

PEREZ GARCIA, BEATRIZ

PEREZ GARCIA, OMAR

PEREZ GUILLEN, MARIA LUISA

PEREZ IÑIGO, CARLOS

PEREZ JARA, JUAN ANTONIO

PEREZ MARCOS, MAGDALENA

PEREZ MILAN, RAUL

PEREZ MORALES, MARIA PAZ

PEREZ RAMOS Mª DE LA LUZ

PEREZ VAZQUEZ, JESUS

PINTO DIAZ, CARMEN

PIÑOL PASCUAL, MIGUEL ANGEL

PIÑOL PEREZ, ALEJANDRO

PLA PARES, MARIA CARME

PLANES GIMENEZ, FERNANDO

PLANES NOVAU, OSCAR

PLAZA MUÑOZ, MARIA DEL PILAR

PLUMED LUCAS, MAXIMO

POLO MATEOS, FERNANDO

POO GARCIA, CLARA

PORCUNA CASTILLA, JUANA

PRAMI FRADES S.L.

PRATS SEGURA, ANDREA

PRIETO CORDERO, MIGUEL ANGEL

PUENTE CAMINERO, MARIA JOSE

PUEY MUÑOZ, VERONICA

PUJOL ROVIRA, ENRIC

QUILES SANCHEZ, INGRID

QUINTANA FERNANDEZ, MARIA ANTONIA

QUINTANA MAULEON, JESUS

RAMIREZ DIEZ, MARIA DEL PILAR

RAMIREZ PEREA, DOLORES MARIA

RAMIREZ RODRIGUEZ, MARIA ISABEL

RAMIRO GIL S.L.

RAMOS RIDAO, GINES

RELUCIO FUENTES JUAN ELEUTERIO

REQUES VAZQUEZ, JUDITH

RIAÑO MOROCHO, ALBERTO

RIBALTA ARIAS, JORDI

RIERA FERRAN, BERTA

RISQUETE REQUENA PEDRO

RIVAS BOTELLA, PILAR

RIVAS GARCIA, FERNANDO

RIVAS PORTILLO, LUCAS

RIVAS VAL, RAUL

RIVERO GOMEZ, JULIO CANDIDO

RIVERO HERNANDEZ, SONSOLES

ROCA BLANCH, MARIA DOLORES

RODRIGO GUTIERREZ MARIA DE LOS ANGELES

RODRIGUEZ CARTON MARIA NIEVES

RODRIGUEZ CASTRO, IGNACIO JAVIER

RODRIGUEZ DIAZ, MARIA ANGELES

RODRIGUEZ FUENTES, MARIA TERESA

RODRIGUEZ GARCIA, DAVID

RODRIGUEZ GARCIA, GUILLERMO

RODRIGUEZ LOPEZ, JOSE ANTONIO

RODRIGUEZ MADROÑAL, ALFONSO

RODRIGUEZ MORENO, ANA MARIA

RODRIGUEZ ROMERO, OSCAR

ROIG ADRUBAU, TANIA

ROIGE VIDAL, SONIA GEMA

ROLDAN FERNANDEZ, ALFREDO

ROMERO JAROSO, ANTONIO

ROMERO LOPEZ, LOURDES

ROMERO RODRIGUEZ RAFAEL

ROVIROSA PIÑOL, MARIA ANTONIA

ROYO DELPOZO ,CARLES

RUBIO PALACIOS, ANA MARIA

RUIZ BURDALO, CARLOS

RUIZ CORTES, MARIA JOSE

RUIZ JOVER, ANTONIO

RUIZ MARCHESE, DAVID

RUIZ MARCHESE, OSCAR

RUIZ RIVA, LUIS

RUZ CARPIO, INMACULADA

S & G SERVICIOS FINANCIEROS Y CONTABLES S L

SAEZ CLEMENTE, ALBERTO

SAEZ SANZ, ARCADIO

SAEZ SOBORN, JUAN CARLOS

SAGASETA-ILURDOZ SOLCHAGA JAVIER

SAIZ CANO, FRANCISCO DAVID

SALAS BAENA, MARIA MERCEDES

SALAVERRI MARTINEZ, JOSE JAVIER

SALAZAR RUIZ, MANUEL

SALGADO ALVAREZ, MARIA JOSE

SALGADO RODRIGUEZ, MARIA TERESA

SALGUERO VARGAS, RAFAEL

SAMPEDRO FEIJOO, JOSE BENITO

SAMPEDRO NEGRITO, JOSE ANTONIO

SAN ROMAN FERNANDEZ, MARIA VICTORIA

SANAGUSTIN GIMENEZ, JORGE LUIS

SANCHEZ BERMUDEZ, ALEJANDRO

SANCHEZ CABALLERO FRANCISCO JAVIER

SANCHEZ CABANILLAS, DIEGO

SANCHEZ CASTAÑO MARIA, MANUELA

SANCHEZ CHAPARRO, S.L.

SANCHEZ HERNANDEZ, JUSTO

SANCHEZ JUAN, ALEJANDRA

SANCHEZ MARTIN, ANABEL

SANCHEZ PEÑA, CARMEN

SANCHEZ ROMERO FRANCISCO

SANCHEZ SANCHEZ NOELIA

SANCHEZ SECO, JORGE JAVIER

SANCHEZ UZAL MARIA CRISTINA

SANCHEZ-SIMON PEREZ, JOSE MARIA

SANCHO ARASA, OLGA MARIA

SANGUINO GUTIERREZ, MARIA LUISA

SANMAFRAILES S.L.

SANS GARDEÑES, ANNA

SANTAMARIA CABRERA, JOSE

SANTAMARIA GRAU, M BELEN

SANTANA CAMARA S.L

SANTOS SANCHEZ, MARCIAL

SANZ JIMENEZ, JOSE DANIEL

SANZ VILLARREAL, NOELIA

SASTRE GONZALEZ MARIA

SATURNINO MORENO, ENRIQUE

SAUSOLUCIONS SL

SECO MARTINEZ, MARIA JOSEFA

SENMU ASSESSORS LLAURI SLP

SERBAN AGUIÑO S.L.

SERRA BERTRAN, JOAQUIN

SERRANO LOPEZ, JUANA

SERVICIOS FINANCIEROS AHIGAL, S.L.

SERVICIOS FINANCIEROS DEL CONDADO S.L.U.

SERVICIOS FINANCIEROS FORCAREI, S.L.

SERVICIOS INTEGRALES DOÑANA

SIDRO TEIXIDO, GEMMA

SIMON YEBENES, JOSEFA

SOLE RIBERA, MARIA

SOMOZA RECIO, RODRIGO

SORIANO RAMIREZ, MARIA TRINIDAD

SORO GINER, VANESA

SOROLLA LLAQUET, FEDERICO

SOUTO LOPEZ, PATRICIA

SUAREZ GARCIA, JOSE

SUAREZ MENDEZ, ESTEBAN

TARI ESCLAPEZ, JOSE ALFONSO

TBL SEGUROS Y SERVICIOS FINANCIEROS SL

TELLA VILLAMARIN, ADRIAN

TELLEZ RUIZ, MARIA CONCEPCION

TORNAVACAS VINAGRE, AMBROSIO

TORRES BERMUDEZ, INMACULADA

TORRES GARCIA, MARIA AURORA

TORRES LOZANO, ANTONIO

TORRES MIGUEL, JOSE MANUEL

TORRES ROSA, GRATIANA

TORRUBIA ORTIGOSA, RAFAEL

TOVAR ASENSIO, SAUL

TREMPS ALDEA, MARIA ELENA

URGEL CASEDAS, CLARA

URUÑUELA NAJERA, MARIA DANIELA

USERO REYES, PATRICIA

VACA HIDALGO, TAMARA

VALCUENDE GARMON, MARIA INES

VALDES BRAVO, JAIME

VALDES MARTIN, JUAN MARIA

VALENZUELA HABA ANTONIO

VALENZUELA MARTIN ASESORES S.L.

VALERO LOZANO, MARIA BELEN

VALIENTE LORENZO, MARIA LUISA

VALIÑO IGLESIAS, MARIA LUISA

VALLECILLO MUÑOZ, BERNABE

VAZQUEZ COTO, GERARDO JOSE

VAZQUEZ NUÑEZ, NURIA

VEGA BLANCO, VANESA

VEGA JANILLO, LUIS MIGUEL

VEGUILLAS Y VEGUILLAS SL

VELASCO MAJADA, VIRGINIA

VENERO TANCO, JOSE CARLOS

VICENTE PEREZ, MARCOS

VIDAL JOVER, MIGUEL ANGEL

VIDAL VICENT, MARIA VICENTA

VILA AYERBE PILAR

VILAS PALOMINO, JUAN JOSE

VILCHEZ FERNANDEZ, ZAIDA

VILLALBA HERREROS, JESUS

VILLAMAÑAN MARTINEZ, ANA

VILLASANTE COTO, SUSANA

VILLEGAS MARTINEZ, PATROCINIO

VIÑAS RODRIGUEZ, LUIS EDUARDO

YEBEGEST S.L.

ZABALA USTARIZ,
CRISTINA

ZAYAS GOMEZ,
ESTIBALITZ

ZURITA MARTINEZ,
ANGELA

0880 SANTANDER
SANTIBAÑEZ, S.L.

6155 SANTANDER
LEDESMA, S.L.

Banco Santander, S.A.

Directors' Report for 2017

This report has been prepared following the Spanish Securities Market Commission (CNMV) recommendations on preparation of directors' reports for listed companies, issued in September 2013, and is arranged in the nine sections suggested. It also incorporates the non-financial information and information on diversity prescribed by Spanish Royal Decree-Law 18/2017.

1. SITUATION OF THE BANK

1.1 Description

At the end of 2017, the Group was the largest bank in the euro area and the fourteenth largest in the world in terms of stock market capitalisation: EUR 88,410 million.

It engages in all types of activities, operations and services that are typical of the banking business in general. Its business model is focused on commercial banking products and services with the aim of meeting the needs of its 133 million customers, including private individuals, SMEs and businesses. The Group operates through a global network of 13,697 branch offices, the most extensive in international banking, as well as digital channels, in order to provide top-quality service and the utmost flexibility. The Santander Group has EUR 1,444 billion in assets and manages customer funds worth EUR 986 billion across all its customer segments. It has four million shareholders and over 200,000 employees. Commercial and retail banking accounts for 89% of the Group's income.

The Group is highly diversified and operates in 10 main markets, where it holds significant market shares.

The Group's senior decision-making body is the board of directors, except in matters for which the shareholders, at the general meeting, have sole responsibility. The board is highly qualified and its main asset is the varied and extensive experience, knowledge, dedication and diversity of its directors. The board's operating procedures and actions are governed by the principles of transparency, responsibility, fairness and efficiency, whereby the Bank's best interests are aligned with the legitimate interests of its stakeholders.

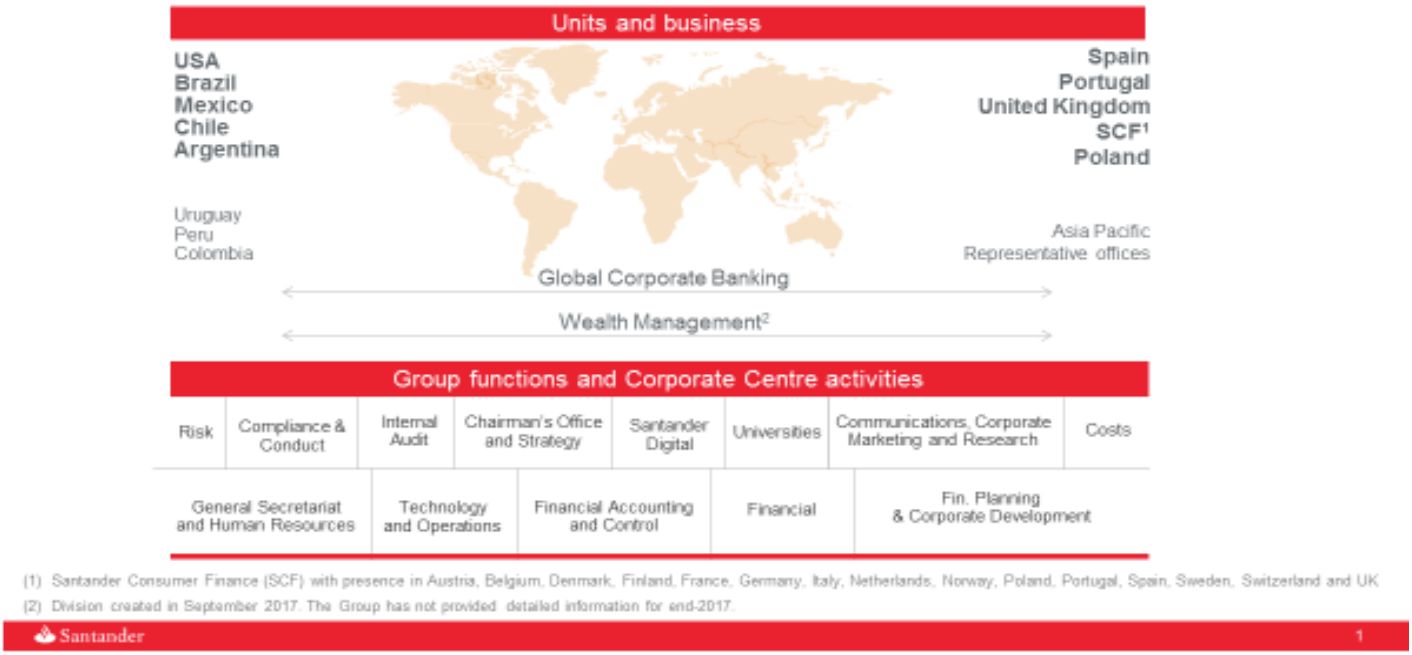
In line with the Bank's vision and mission and within its general supervisory framework, the board of directors takes decisions concerning the Group's main policies and strategies, its corporate culture, the definition of its structure and the promotion of suitable corporate social responsibility policies. In addition, and especially in exercising its responsibility in managing all risks, the board approves and monitors the risk framework and appetite and ensures that these are in line with the Bank's business, capital and liquidity plans. The board also verifies that risks are correctly reported by all units and oversees the operation of the three lines of defence, guaranteeing the independence of the heads of risk, compliance and internal audit and their direct access to the board.

Of the 14 members currently sitting on the board, three are executive and 11 are non-executive. Of the latter, eight are independent, one is proprietary and two, in the board's opinion, are neither proprietary nor independent. Six women serve on the board of directors, with one acting as the executive chairman and the remaining serving as independent external directors.
The board has set up an executive committee, entrusted with general decision-making powers. Other board committees are entrusted with supervisory, reporting, advisory and proposing functions (audit committee, risk supervision, regulation and compliance committee, appointments committee, remuneration committee and innovation and technology committee).

The Group's corporate governance model follows a set of principles designed to safeguard the equal rights of shareholders, such as the principle of one share, one vote, one dividend. The by-laws do not establish any protective measures, and steps are taken to encourage informed participation at shareholders' meetings.

A policy of maximum transparency is also applied, particularly as regards remuneration. This model of corporate governance has been recognised by socially-responsible investment indices. The Group has been included in the DJSI and FTSE4Good indices since 2000 and 2002, respectively. Further information on the Bank's administrative structure is provided in Section C of the Annual Corporate Governance Report.

The board holds regular (usually weekly) meetings, chaired by the CEO and attended by the executive vice presidents of each division and the country heads, to monitor the various businesses and other important matters concerning the day-to-day running of the Group.



At 31 December 2017, the operating business areas presented a two-tiered structure:

a) Geographic businesses

The activities of the operating units are segmented by geographical region, a view that coincides with the first level of Group management and reflects the positioning of Santander in the three areas of monetary influence in the world (euro, pound sterling and dollar). The segments reported on are as follows:

- Continental Europe, which comprises all the businesses in the region as well as real estate operations in Spain. This segment includes the following units for which information is disclosed: Spain, Poland, Portugal, Santander Consumer Finance (which incorporates all business within the region, including the business of the three countries just mentioned) and Real Estate Activity Spain.

- United Kingdom, which includes all the business carried out by the Group's units and branches operating in that country.

- Latin America, comprising all the financial business activities in which the Group engages through its banks and subsidiaries in the region. Information is disclosed for Brazil, Mexico, Chile, Argentina, Uruguay, Peru and Colombia.

- United States, which includes the holding company Santander Holdings USA (SHUSA) and its subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International and Santander Investment Securities, as well as Santander's branch in New York.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of the Group's underlying income.

b) Global businesses

The activities of the operating units are divided by type of business, into commercial banking, Santander Global Corporate Banking (SGCB) and the real estate operations in Spain.

- Commercial banking, which comprises all of the customer banking businesses, including consumer finance, except those of corporate banking, which are managed through SGCB. Also included in this business segment are the results of the hedging positions taken in each country within the scope of the relevant asset/liability committee (ALCO).

- Santander Global Corporate Banking (SGCB), which shows the income from global corporate banking, investment banking and markets businesses worldwide, including the globally-managed treasury departments (after passing the appropriate share to commercial banking customers), along with the equities business.

The business acquired from Grupo Popular will be presented separately for the time being and at year-end 2017 detailed information had yet to be provided on the Wealth Management division created in the second half of the year. This information will be reported from 2018 onward.

In addition to the operating businesses described above by region and business, the Group also has a Corporate Centre. This area encompasses the centralised management businesses relating to financial investments, the financial management of the structural currency position, taken from within the scope of the Group's corporate ALCO, as well as the management of liquidity and equity through securities issues.

As the Group's holding unit, this segment manages total capital and reserves, capital allocations and liquidity with the rest of the businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services, which are charged to the different areas, with the exception of corporate and institutional expenses related to the Group's functioning.

Lastly, at 31 December the Group had a number of support units, such as Risks, Compliance and Conduct, Internal Audit, Chairman's Office and Strategy, Universities, Communication, Corporate Marketing and Research, General Secretary's Office and Human Resources, Technology and Operations, Controller's Office and Management Control, Financial Management, Financial Planning and Corporate Development, Costs and Santander Digital.

The new Santander Digital division was created in 2017 by integrating the existing Commercial and Innovation and Wealth Management divisions. The main components of this division are the new private banking corporate unit, the asset management business (Santander Asset Management) and International Private Banking in Miami and Switzerland.

The purpose of all these units is to ensure that the Group is a cohesive, efficient and productive group. To that end, the units are entrusted with implementing the Group's corporate policies.

The financial statements of each business unit are drawn up by aggregating the core operating units currently existing at the Group. Input data for this process includes both the accounting information of the legal units belonging to each business and the information extracted from the management information systems. The process is governed in all cases by the same general principles as those used by the Group.

Information on the Group's different units, given below, has been prepared in accordance with these criteria and therefore may differ from the information published for each company on an individual basis.

1.2 Vision and business model

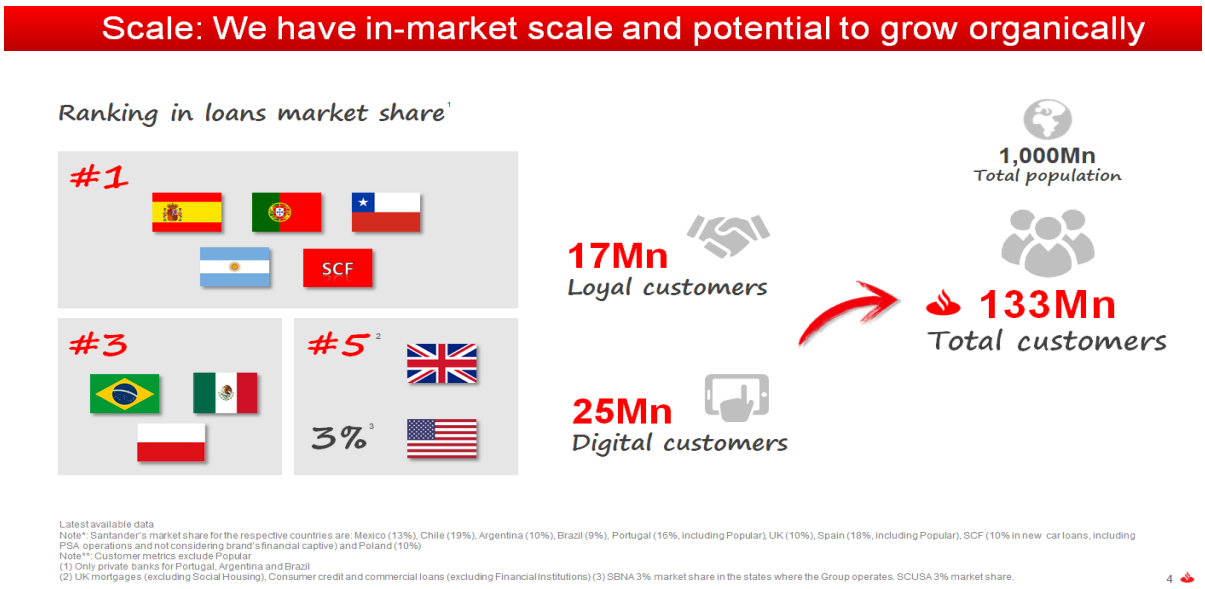
Santander's customer-focused business model enables it to fulfil its mission of helping people and businesses prosper.

At present, the Group's vision is to be the best retail and commercial bank by earning the trust and loyalty of employees, customers, shareholders and society at large, all under the Simple, Personal and Fair corporate culture. Looking ahead, we aim to become the best open digital platform for financial services.

The following strengths of our business model will enable us to continue growing while enjoying long-term success: scale, predictable growth and focus on innovation.

These solid foundations will lead to sustainable high returns allowing us to unlock growth opportunities, increase our cash dividend and continue to accumulate capital.

- **Scale and potential for organic growth.** Our critical mass affords us efficiency, growth sources and new business opportunities.
  - We have leading market shares in five of our main markets and we rank among the top five in a further nine of our markets when it comes to customer satisfaction.
  - We have 133 million customers across markets with a total population of over one billion and we now have more than 17 million loyal customers and over 25 million digital customers, which offers us enormous organic growth potential by further increasing loyalty and digitalisation.

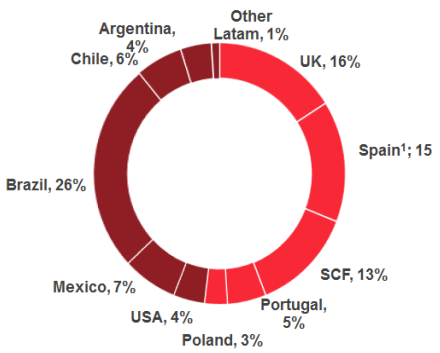


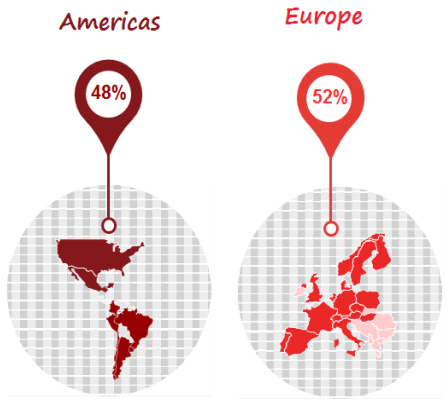
Predictable growth: diversification across countries and businesses offering greater and more stable rewards

- Our diversification by country and business allows us to maximise our results throughout the economic cycle and is key to our ongoing success.
- Geographically, we have ensured a balanced distribution between mature markets, which offer stability, and emerging markets, which promise higher levels of income growth.
- By business, we have also ensured a suitable distribution among products for individuals, consumer products and products and services for SMEs, businesses and large corporates.

Solid profit growth across the board with results well diversified by geography

2017 Underlying attributable profit





(*) Excluding Corporate Centre and Real Estate Activity Spain
(1) Popular included (3%)

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- **Focus on innovation to increase the loyalty of customers and operational excellence**
  - Our ongoing technological transformation is helping us increase the number of loyal customers and digital customers.
  - The digitalisation of our commercial business allows us to offer our customers a simpler and more customised and modern range of products and services, thus increasing their satisfaction and engagement.

Strategy and value creation

To secure the goal of becoming the best commercial and retail bank, the Group has set ambitious objectives and strategic priorities with respect to all its stakeholders, meaning employees, customers, shareholders and society at large. It has also designed clear indicators in order to gauge its progress in each objective and priority.

- When it comes to **employees**, Santander aims to become one of the best banks at which to work and to be capable of attracting talent and improving global talent. To that end, the Group's people management strategy focuses on six major areas: talent management, know-how and development, compensation and benefits, employee experience, culture and technology. The purpose of this strategy is for all Santander employees to be motivated and fully committed to the shared goal of helping both individual and corporate customers prosper.

- With respect to **customers**, Santander aims to deepen the quality of its relationships, by developing simple, customised solutions that increase their long-term engagement with and trust in the Bank by supporting the international expansion and growth of business customers within the new digital economy. The Group is well aware that today's banking customers need easily-accessible and readily-available digital channels. As such, it is transforming its commercial model, further enhancing the customer service and personalised attention that have long been Santander's hallmark.
- In terms of its **shareholders**, the objective is to offer attractive, growing and sustainable returns, thereby ensuring long-term trust. In 2017, the Bank made significant progress towards its strategic priorities and has successfully met its commercial and financial objectives while still remaining one of the world's most profitable and efficient banks.

- In relation to **society**, Santander carries on its business responsibly and helps to improve the economic and social advancement of the communities in which it operates. It also mitigates the environmental impact of its business and seeks to establish stable relationships with its main stakeholders.

  A key feature of the Group's contribution to society is the Santander Universities programme, the hallmark of its social commitment. Banco Santander's long-standing support for higher education gives it a unique value over other banking institutions. According to the first global study published by the Varkey Foundation, in collaboration with UNESCO, Santander is the world's top corporate contributor to education.

In short, Santander has a unique corporate culture and international positioning that truly exemplifies a Simple, Personal and Fair way of banking that contributes to the prosperity of individuals and companies.

1.3 Economic, regulatory and competitive context

Global economic growth in 2017 was up on the previous year (3.7% vs. 3.2%) as global confidence improved in response to less political uncertainty, especially in Europe, favourable borrowing conditions and more buoyant levels of international trade. Both advanced and emerging economies benefitted from this economic upturn.

Eurozone (GDP up 2.4% in 2017 vs. +1.8% in 2016). The economy rallied strongly during the year on the back of numerous support factors (internal demand and exports) and with most countries faring well. The unemployment rate fell to 8.8%, but is still higher than the levels seen pre-crisis. Meanwhile, the European Central Bank (ECB) made no changes to the official interest rates since inflation remained low (1.5%).

In the euro area, the ECB announced there would be no interest rate hike until the end of its bond buying programme, which will continue through to September 2018 at the earliest. Despite this message, unexpectedly high growth coupled with lower levels of political risk caused the euro to gain on the dollar.

Spain (GDP: +3.1% in 2017 vs. +3.3% in 2016). GDP growth exceeded 3% for the third straight year. Meanwhile, healthy job creation figures brought down unemployment (16.6%). Growth is currently well-balanced, with no inflationary pressures.

Poland (GDP: +4.6% in 2017 vs. +2.9% in 2016). Strong growth in 2017 on the back of private consumption and the external sector. Unemployment at an all-time low (4.7%) and inflation at 2.5%. The central bank kept its official rate unchanged at 1.5%.

Portugal (GDP: +2.6% in 2017 vs. +1.5% in 2016). Notable pick-up in growth in 2017 on the back of internal demand. Employment growth surpassing 3% and sharp reduction in unemployment (8.5%). Inflation remained moderate. The debt of the private sector continued to drop and the public deficit ended the year at 1.5% of GDP.

United Kingdom (GDP: +1.7% in 2017 vs. +1.9% in 2016). While the economy has largely withstood the uncertainty surrounding Brexit, it has shown a certain slowdown in growth. The country boasted full employment in 2017 and inflation, at around 3%, exceeded the target of 2%. The Bank of England hiked its official interest rate by 25 basis points in November, marking its first increase in over ten years and reversing its move to lower rates following the referendum. At year-end, the official interest rate was 0.5%.

Brazil (GDP: +1.0% in 2017 vs. -3.6% in 2016). The economy saw a gradual recovery throughout 2017, driven by consumption and investment. Inflation remained relatively calm at below 3%. The central bank continued to cut the Selic rate to 7%.

Mexico (GDP: +2.1% in 2017 vs. +2.3% in 2016). The economy reported a slight slowdown as internal demand lost some momentum. Inflation climbed sharply to 6.8% but is expected to remain relatively calm in 2018. The central bank hiked the official rate by 150 basis points to 7.25%.

Chile (GDP: +1.5% in 2017 vs. +1.6% in 2018). The economy rallied from mid-2017 onward. Inflation ended the year at 2.3%, below the 3% target, and the central bank lowered the official rate by 100 basis points to 2.5%.

Argentina (GDP: +3.0% in 2017 vs. -2.2% in 2016). The economic recovery gained steam over the year on the back of strong investment and private consumption. Inflation stabilised at around 2.0% monthly and the central bank hiked the official interest rate by 400 basis points to 28.75% in a show of its commitment to ensuring price stability.

Latin American currencies saw a mixed bag of results over the course of the year. They appreciated in the first half of the year in response to the expected recovery of the main economies on the continent. However, in the latter half of the year they lost ground due to the impact the Fed's monetary policy might have on the local economies.

United States (GDP: +2.3% in 2017 vs. +1.5% in 2016). Economic growth picked up while core inflation cooled to 1.5%. Unemployment was down to 4.1%,prompting a hike of 75 basis points in the interest rates on federal funds. The Fed raised interest rates on three occasions and in October embarked on the process of reducing its balance sheet, which will take several years to complete. However, the market responded well to these tentative early steps at the hands of the Fed.

The year was a relatively placid affair for the financial markets. The absence of any major upheavals encouraged risk taking, which in turn helped pushed up stock and commodity prices while also improving borrowing conditions on the corporate debt market.

Bank balance sheets continued to improve across the globe following gains in capital adequacy, liquidity position and unproductive assets. Even so, banks operating in developed countries, especially Europe, still have major challenges ahead when it comes to increasing their profitability. Although monetary normalisation is now under way across certain regions, interest rates and levels of business remain low. Moreover, competitive pressure continues to increase in most markets, both between the banks themselves and between the banks and the new market players and their new approaches to lending.

Turning to the supervisory and regulatory climate, key international new on the 2017 agenda included the start-up of the Fintech debate and completion of the Basel III agreement, which will take effect on 1 January 2022, although there will be a phase-in period through to 2027 for the capital floors there to limit the capital savings generated from the application of internal models. Within Europe, highlights included the European Commission's proposal relating to the capital and resolution framework and the measures to press on with the integration of the European retail market.

2. BUSINESS PERFORMANCE AND RESULTS

	2017	2016
Balance sheet (€ million)		
Total assets	1,444,305	1,339,125
Net customer loans	848,914	790,470
Customer deposits	777,730	691,111
Total customer funds	985,703	873,618
Total equity	106,832	102,699
Income statement (€ million)		
Net interest income	34,296	31,089
Gross income	48,392	43,853
Net operating income	25,473	22,766
Underlying profit before taxes *	13,550	11,288
Underlying attributable profit to the Group *	7,516	6,621
Attributable profit to the Group	6,619	6,204
EPS, profitability and efficiency (%)**		
Underlying EPS (euro) *	0.463	0.429
EPS (euro)	0.404	0.401
RoE	7.14	6.99
Underlying RoTE *	11.82	11.08
RoTE	10.41	10.38
RoA	0.58	0.56
Underlying RoRWA *	1.48	1.36
RoRWA	1.35	1.29
Efficiency ratio (with amortisations)	47.4	48.1
Solvency and NPL ratios (%)		
CET1 fully-loaded	10.84	10.55
CET1 phased-in	12.26	12.53
NPL ratio	4.08	3.93
Coverage ratio	65.2	73.8
Market capitalisation and shares		
Shares (millions)	16,136	14,582
Share price (euros) **	5.479	4.877
Market capitalisation (€ million)	88,410	72,314
Tangible book value per share (euro) **	4.15	4.15
Price / Tangible book value per share (X) **	1.32	1.17
P/E ratio (X) **	13.56	12.18
Other data		
Number of shareholders	4,029,630	3,928,950
Number of employees	202,251	188,492
Number of branches	13,697	12,235

(*).- Excluding net capital gains and provisionS
(**).- Data adjusted to capital increase of July 2017.

2.1 Review of the year

In 2017, the Santander Group carried on its business against a healthier economic backdrop than the one seen in recent years. The solidity of our business model has enabled us to post double-digit growth in underlying earnings at the Group and across most regions. Meanwhile, RoTE is among the best to be found in the sector and we have managed to ensure balance sheet growth while simultaneously improving our capital ratios and the dividend pay-out per share.

Our **strategic priorities** in the year have been:

1. Continuing the **process of commercial transformation** at both traditional banks and through new independent units under the start-up model. The three main pillars of the transformation programme are as follows:

    - Improving the engagement of our customers by offering innovative, simple and customised solutions. Among other actions, we have continued to entrench the 123 strategy in various regions; we have a global strategy for the SME segment tailored to the local characteristics of each market; we are seeing sharp growth in the cards market, especially in Europe and Brazil; and we have created the Wealth Management division to provide enhanced service to our private banking and asset management customers. Thanks to this transformation process, we have reached 17.3 million loyal customers (+13% in the year).

    - Championing the digital transformation of channels, products and services. Initiatives such as *Digilosofía* in Spain, Openbank as a 100% digital bank, *Superdigital* in Brazil, the *Cash Nexus* payments platform, Santander Pay and the new global machine learning platform are behind the digital transformation by making major improvements to the customer experience while opening up new sources of income. This strategy has allowed us to increase the number of digital customers by a further four million to bring the total to upwards of 25 million and also digital transactions, which now account for roughly 40% of total transactions.

    - Continuing to raise levels of satisfaction and experience among our customers through simpler and more efficient processes supported by a multi-channel approach. We ended the year with seven of our units ranking among the three best local banks when it comes to customer satisfaction. We were also named 'Global Bank of the Year' and 'Bank of the Year: Latin America' by The Banker and 'World's Best Bank for SMEs' and 'Best Bank in Latin America' by Euromoney.

2. **Strengthening our position in the markets in which we operate**. The main highlight here was the acquisition of Banco Popular, which has allowed us to cement our leadership in Spain and makes us the leading private bank for domestic business in Portugal. We have also bolstered our position in retail banking in Argentina, acquired a minority share in the United States and finalised an agreement to acquire the commercial banking business from Deutsche Bank in Poland.

3. **Withdrawing from businesses considered non-core.** The most notable actions here included the sale of TotalBank in the United States and the sale of 51% of the real estate business of Banco Popular.

In terms of **business performance**, the year saw appreciable **growth in business activity and results, increased profitability and a more robust balance sheet**.

1. Growth

Growth in business activity. Exchange rate fluctuations and changes in the scope of consolidation impacted the yearly performance under this heading.

Without the exchange rate effect, total lending was up 12%, largely in response to the integration of Popular (+2% without its contribution). Stripping out changes in the scope of consolidation, eight of the ten main units posted year-on-year growth. Highlights here included Argentina (+44% on the back of consumer loans and SMEs), Brazil (+7%, due to the sound performance of the individuals and SME segments), Portugal (+8%, partly down to the growth of the institutional segment), SCF (+6% in response to the healthy levels of vehicle financing) and Poland (+5% thanks to SMEs and businesses).

Meanwhile, the integration of Banco Popular helped to grow customer funds (+17% stripping out the exchange rate effect). Stripping out the impact of Popular, funds gained 8% largely in response to demand deposits and investment funds and were up in eight of the Group's main regions, with double-digit growth in Latin America.

Growing earnings. Santander's business model and geographic diversification between both developed and emerging markets afford us stable and recurring earnings and results.

In contrast to the balance sheet, the impact of exchange rates on the income statement has been practically non-existent.

Underlying profit before tax came to EUR 13,550 million, up 20% on 2016. The Group's strength is shown in the main lines of the income statement:

- Record year for income at EUR 48,392 million (+10%), with double-digit growth both in net interest income and fee and commission income, which accounted for 95% of total income.

- Stable costs adjusted for inflation and changes in the scope of consolidation despite the cost increase stemming from regulatory requirements and investments in the transformation process. The Santander Group remains one of the world's most efficient banks, with a cost-to-income ratio of 47%.

- Ongoing improvements in credit quality, reflected in the 4% drop in loan-loss allowances and an improvement in the cost of lending to 1.07%.

The bottom few lines of the income statement shows an increased tax charge, as well as the recognition of certain non-recurring positive and negative results grouped together under Net of capital gains and write-downs, which together reveal a net tax charge of EUR 897 million in 2017 versus the EUR 417 million reported in 2016.

Following on, the Group reported **attributable profit of EUR 6,619 million**, up 7% on 2016. Stripping out the contribution of Banco Popular, which was effectively a loss of EUR 37 million due to the costs of integrating the bank, profit would have been EUR 6,656 million.

2. Profitability

Increasing our returns and creating value for shareholders has been one of our main priorities.

Our ability to generate stable recurring profit over recent years has allowed us to continue accumulating capital, financing the growth of the business and increasing the cash pay-out to shareholders.

In 2017, underlying RoTE stood at 11.8% and underlying RoRWA at 1.48%, both up on 2016. We have increased attributable profit per share by 1% (8% in underlying terms) while managing to raise the cash dividend per share by 11%.

The process of executing our strategy and reflecting it in our business and results was widely welcomed by the market and we reported a total shareholder return (TSR) of 17% in the year, outperforming the return offered by the DJ Stoxx Banks and DJ Stoxx 50 indices.

3. Strength

We have generated additional capital quarter after quarter and in 2017 the ratio climbed 29 basis points, with a fully loaded CET1 ratio of 10.84%, exceeding the target we had set ourselves. This effectively means we are well on track to reaching our target of 11% in 2018.

We are comfortably clear of the regulatory minimum requirements, having ended the year with a phased-in CET1 ratio of 12.26%.

In relation to risk, Santander maintains a medium-low risk profile and high asset quality. Thanks to our proactive risk management, our credit quality ratios are among the best to be found in the sector. The NPL ratio was 4.08% in 2017, up 15 basis points following the arrival of Banco Popular, while our coverage ratio was 65%.

Stripping out Popular, the NPL ratio would have been 3.38%, showing an improvement of 55 basis points in the year and meaning it has now been falling for four years in a row.

Furthermore, the cost of lending has continued to improve to reach 1.07%, 11 basis points less than in 2016.

This positive trend in our credit quality ratios has been reported across virtually all the Group's countries and regions. The NPL ratio has improved in eight of them and the cost of lending in seven.

2.2 Earnings

A comparison of 2017 and 2016 earnings is set out below.

Consolidated income statement

€ million

	2017	2016
Interest income	56,041	55,156
Interest expense	(21,745)	(24,067)
NET INTEREST INCOME	**34,296**	**31,089**
Dividend income	384	413
Share of results of entities accounted for using the equity method	704	444
Commission income	14,579	12,943
Commission expense	(2,982)	(2,763)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	404	869
Gain or losses on financial assets and liabilities held for trading, net	1,252	2,456
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	(85)	426
Gain or losses from hedge a accounting, net	(11)	(23)
Exchange differences, net	105	(1,627)
Other operating income	1,618	1,919
Other operating expenses	(1,966)	(1,977)
Income from assets under insurance and reinsurance contracts	2,546	1,900
Expenses from liabilities under insurance and reinsurance contracts	(2,489)	(1,837)
GROSS INCOME	**48,355**	**44,232**
Administrative expenses	(20,400)	(18,737)
Staff costs	*(12,047)*	*(11,004)*
Other general administrative expenses	*(8,353)*	*(7,733)*
Depreciation and amortisation cost	(2,593)	(2,364)
Provisions, net	(3,058)	(2,508)
Impairment or reversal of impairment at financial assets measured at fair value through profit or loss, net	(9,259)	(9,626)
Financial assets measured at cost	*(8)*	*(52)*
Financial assets available-for-sale	*(10)*	*11*
Loans and receivables	*(9,241)*	*(9,557)*
Held-to-maturity investments	—	*(28)*
PROFIT FROM OPERATIONS	**13,045**	**10,997**
Impairment of investments in subsidiaries, joint ventures and associates, net	(13)	(17)
Impairment on non-financial assets, net	(1,260)	(123)
Tangible assets	*(72)*	*(55)*
Intangible assets	*(1,073)*	*(61)*
Others	*(115)*	*(7)*
Gain or losses on non financial assets and investments, net	522	30
Negative recognized in results	—	22
Gains or losses on non-current assets held for sale classified as discontinued operations	(203)	(141)
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**12,091**	**10,768**
Tax expense or income from continuing operations	(3,884)	(3,282)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**8,207**	**7,486**
Profit or loss after tax from discontinued operations	—	—
PROFIT FOR THE PERIOD	**8,207**	**7,486**
Profit attributable to non-controlling interests	1,588	1,282
Profit attributable to the parent	6,619	6,204

In the statement presented above, gains and write-downs considered non-recurring are included in each of the income statement line items where they were recognised due to their nature.

To provide a better understanding of the changes between the two years, the condensed income statement set out below shows non-recurring capital gains and write-downs for the net amount on a separate line just before the profit attributable to the Group ("Net of capital gains and write-downs").

In 2017, the net negative impact of non-recurring capital gains and write-downs was EUR 897 million. In particular, we reported a positive impact of EUR 297 million due to the capital gain obtained from the sale of Allfunds Bank and a further EUR 73 million due to the effect of the tax reform in the United States. Meanwhile, a total of EUR 603 million was booked to cover write-downs of goodwill; EUR 149 million following the hurricanes in the United States, the purchase of a stake in Santander Consumer USA and other funds; EUR 385 million in expenses in relation to integration processes (EUR 300 million at Banco Popular and EUR 85 million at Santander Consumer Finance); and EUR 130 million to cover write-downs of equity interests and intangible assets.

The net negative impact of non-recurring capital gains and write-downs was EUR 417 million in 2016. In particular, capital gains came to EUR 227 million and related to the sale of VISA Europe. During the year, the Group recognised expenses for a total amount of EUR 644 million in connection with restructuring costs (EUR 475 million), allowances to cover potential claims in connection with payment protection insurance (PPI) products in the UK (EUR 137 million) and the restatement of Santander Consumer USA data (EUR 32 million).

Summarised management income statement

€ million

	2017	2016
Net interest income	**34,296**	**31,089**
Net fee income	11,597	10,180
Gains (losses) on financial transactions	1,703	1,723
Other operating income	796	862
Gross income	**48,392**	**43,853**
Operating expenses	(22,918)	(21,088)
General administrative expenses	(20,325)	(18,723)
Personnel	*(11,972)*	*(10,997)*
Other general administrative expenses	*(8,353)*	*(7,727)*
Depreciation and amortisation	(2,593)	(2,364)
Net operating income	**25,473**	**22,766**
Net loan-loss provisions	(9,111)	(9,518)
Impairment losses on other assets	(414)	(247)
Other income	(2,398)	(1,712)
Underlying profit before taxes	**13,550**	**11,288**
Tax on profit	(4,587)	(3,396)
Underlying profit from continuing operations	**8,963**	**7,892**
Net profit from discontinued operations	—	0
Underlying consolidated profit	**8,963**	**7,893**
Minority interests	1,447	1,272
Underlying attributable profit to the Group	**7,516**	**6,621**
Net capital gains and provisions	(897)	(417)
Attributable profit to the Group	**6,619**	**6,204**

In 2017 the Santander Group carried on its business against a more favourable economic backdrop than that seen in recent years, although the climate of low interest rates in developed countries remains the biggest hindrance to banking activity.

The solidity of our business model has enabled us to post double-digit growth in underlying earnings at the Group and across most regions. Meanwhile, RoTE is among the best to be found in the sector and we have managed to ensure balance sheet growth while simultaneously improving our capital ratios and the dividend pay-out per share.

In 2017, the Group's attributable profit stood at EUR 6,619 million, up 7% year on year. Before factoring in the non-recurring earnings and taxes described previously, which reflect the higher fiscal pressure, underlying pre-tax profit stood at EUR 13,550 million, up 20% year on year.

Prior to analysing performance of the different income statement items, it should be noted that the year-on-year comparison has been affected by the following:

- The 2017 income statement includes the results generated by Banco Popular. Since its integration within the Group on 7 June, it has generated losses of EUR 37 million following the recognition of EUR 300 million in integration costs in the third quarter, as had been announced at the time of the integration.

- For the Group as a whole, exchange rate fluctuations had virtually no impact (less than one percentage point on attributable profit). However, the impact by unit was as follows: Brazil (+7 percentage points); Poland (+2 percentage points); Chile (+2 percentage points); United States (-2 percentage points); Mexico (-3 percentage points); United Kingdom (-7 percentage points) and Argentina (-14 percentage points).

Average exchange rates: 1 euro / currency parity

	2017	2016
US$	1.127	1.106
Pound sterling	0.876	0.817
Brazilian real	3.594	3.831
Mexican peso	21.291	20.637
Chilean peso	731.538	747.500
Argentine peso	18.566	16.316
Polish zloty	4.256	4.362

Breakdown of the main income statement items

Highlights of the change in the income statement from 2017 and 2016 are discussed below.

Income totalled EUR 48,392 million, up 10% year on year. The quality of the income also improved since customer revenues were the biggest contributor here (+11%).

The Group's income structure, where net interest income and fees and commissions account for 95% of total income, enables the Bank to secure steady, recurring revenue growth.

Net interest income in 2017 came to EUR 34,296 million, up 10% on 2016.

The table below shows the average balance sheet balances for each year, obtained as the average of the months in the period –which does not differ significantly from the average of the daily balances– plus the interest generated, which is presented in the management accounts. The distinction between domestic and international is based on the customer's home address.

Average balance sheet - assets and interest income

ASSETS	2017			2016		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in € million, except percentages)					
Cash and deposits at central banks and loans and advances to credit institutions						
Domestic	59,335	119	0.20%	47,985	171	0.36%
International	123,377	3,602	2.92%	115,435	4,307	3.73%
	182,712	**3,721**	**2.04%**	**163,420**	**4,478**	**2.74%**
Loans and advances to customers						
Domestic	220,067	4,828	2.19%	175,751	3,967	2.26%
International	604,159	38,812	6.42%	605,758	38,611	6.37%
	824,226	**43,640**	**5.29%**	**781,509**	**42,578**	**5.45%**
Debt securities						
Domestic	73,166	1,315	1.80%	65,026	1,060	1.63%
International	124,743	5,826	4.67%	116,163	5,867	5.05%
	197,909	**7,141**	**3.61%**	**181,189**	**6,927**	**3.82%**
Hedging income						
Domestic	—	2		—	56	
International	—	505		—	533	
	—	**507**		—	**589**	
Other interest						
Domestic	—	432		—	194	
International	—	600		—	390	
	—	**1,032**		—	**584**	
Total interest-earning assets						
Domestic	352,568	6,696	1.90%	288,762	5,448	1.89%
International	852,279	49,345	5.79%	837,356	49,708	5.94%
	1,204,847	**56,041**	**4.65%**	**1,126,118**	**55,156**	**4.90%**
Other assets	**202,834**			**211,543**		
Assets from discontinued operations	—			—		
Average total assets	**1,407,681**	**56,041**		**1,337,661**	**55,156**	

The average balance of interest-earning assets was EUR 1,205 billion in 2017, up 7% year on year (EUR 1,126 billion).

Most of this increase came from the national component, where all headings of the income statement were up following the integration of Banco Popular in June.

The average return on all interest-earning assets was down 25 basis points to 4.65%. This change is largely a result of deposits held at central banks and credit institutions in the international component, where the return was down 15 basis points to 5.79% during the period. Meanwhile, the domestic component remained virtually unchanged at 1.90%.

Average balance sheet - liabilities and interest expense

LIABILITIES AND SHAREHOLDERS´ EQUITY	2017			2016		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in € million, except percentages)					
Deposits from central banks and credit institutions						
Domestic	93,873	261	0.28%	76,322	256	0.34%
International	88,395	2,000	2.26%	85,284	1,858	2.18%
	182,268	**2,261**	**1.24%**	**161,606**	**2,114**	**1.31%**
Customer deposits						
Domestic	219,194	1,140	0.52%	177,028	936	0.53%
International	521,275	9,934	1.91%	502,366	11,949	2.38%
	740,469	**11,074**	**1.50%**	**679,394**	**12,885**	**1.90%**
Marketable debt securities						
Domestic	74,029	1,489	2.01%	71,402	1,484	2.08%
International	142,691	5,162	3.62%	150,412	6,284	4.18%
	216,720	**6,651**	**3.07%**	**221,814**	**7,768**	**3.50%**
Other interest-bearing liabilities						
Domestic	6,102	100	1.64%	6,470	117	1.81%
International	2,057	98	4.76%	1,988	84	4.23%
	8,159	**198**	**2.43%**	**8,458**	**201**	**2.38%**
Hedging expenses						
Domestic		(27)			(166)	
International		(207)			(189)	
		(234)			**(355)**	
Other interest						
Domestic		399			286	
International		1,396			1,168	
		1,795			**1,454**	
Total interest-bearing liabilities						
Domestic	393,197	3,362	0.86%	331,220	2,913	0.88%
International	754,419	18,383	2.44%	740,052	21,154	2.86%
	1,147,616	**21,745**	**1.89%**	**1,071,272**	**24,067**	**2.25%**
Other liabilities	**155,072**			**166,026**		
Non-controlling interests	**12,356**			**11,622**		
Shareholders´ equity	**92,637**			**88,741**		
Liabilities from discontinued operations	—			—		
Average total liabilities and shareholders´ equity	**1,407,681**	**21,745**		**1,337,661**	**24,067**	

The average balance of interest-bearing liabilities was EUR 1,148 billion in 2017, up 7% year on year (EUR 1,071 billion). As with the interest-earning assets, the increase here was largely seen in the domestic component, which was heavily impacted by the integration of Banco Popular.

The average cost of interest-bearing liabilities fell by 36 basis points to 1.89%, As with the assets, the change was mainly seen in the international component, which saw a cost reduction of 42 basis points to reach 2.44%, in this case due to the lower average interest rate on customer deposits and marketable debt securities. Meanwhile, the domestic component remained virtually unchanged with an average rate of 0.86%.

The changes in income and expense shown in the table below are calculated and attributed mainly to the following:

- The change in volume, which is obtained by applying the previous period's interest rate to the difference between the average balances of the present and previous periods

- The change in interest rate, which is obtained by applying to the average balance for the previous year the difference between the rates of the present and previous periods

When distinguishing between interest income and interest expense, the following is of note:

- Interest income was up EUR 885 million in response to higher volumes (EUR +2,111 million). This growth was seen in the domestic component, since the international component reported a negative impact of interest rates.

Interest income	2017/2016 Increase (decrease) due to changes in		
	Volume	Rate	Net variation
	(in € million)		
Cash and deposits at central banks and loans and advances to credit institutions			
Domestic	34	(86)	(52)
International	281	(986)	(705)
	315	**(1,072)**	**(757)**
Loans and advances to customers			
Domestic	975	(114)	861
International	(102)	303	201
	873	**189**	**1,062**
Debt securities			
Domestic	140	115	255
International	417	(458)	(41)
	557	**(343)**	**214**
Hedging income			
Domestic	(54)	—	(54)
International	(28)	—	(28)
	(82)	**—**	**(82)**
Other interest			
Domestic	238	—	238
International	210	—	210
	448	**—**	**448**
Total interest-earning assets			
Domestic	1,333	(85)	1,248
International	778	(1,141)	(363)
	2,111	**(1,226)**	**885**

- Interest expense fell EUR 2,322 million due to the interest rate effect (EUR -3,302 million). The decline was also down to the international component due to the change in interest rates.

Interest expense	2017/2016 Increase (decrease due to changes in		
	Volume	Rate	Net variation
	(in € million)		
Deposits from central banks and credit institutions			
Domestic	53	(48)	5
International	69	73	142
	122	**25**	**147**
Customer deposits			
Domestic	220	(16)	204
International	436	(2,451)	(2,015)
	656	**(2,467)**	**(1,811)**
Marektable debt securities			
Domestic	54	(49)	5
International	(311)	(811)	(1,122)
	(257)	**(860)**	**(1,117)**
Other interest-bearing liabilities			
Domestic	(6)	(11)	(17)
International	3	11	14
	(3)	**—**	**(3)**
Hedging expenses			
Domestic	139	—	139
International	(18)	—	(18)
	121	**—**	**121**
Other interest			
Domestic	113	—	113
International	228	—	228
	341	**—**	**341**
Total interest-bearing liabilities			
Domestic	573	(124)	449
International	407	(3,178)	(2,771)
	980	**(3,302)**	**(2,322)**

The net result was an increase of EUR 3,207 million, of which EUR 1,131 million was down to increased business volume and EUR 2,076 million to changes in interest rates.

If we observe the change in net interest income by region, without factoring in exchange rates so as to provide a more accurate analysis of business performance, the largest gains occurred in emerging markets, notably Brazil (+17%), Mexico (+13%), Argentina (+58%) and Poland (+9%) in response to growing levels of business growth. Interest rates in these markets are also higher than in our developed markets, although the performance here varies by region (in Mexico the rate was up while in Brazil the rate fell significantly in the period). On the flip side, the only decreases were seen in Spain (without Banco Popular), due to interest rate pressure and lower business volume; in Portugal, where prevailing interest rates are similar to in Spain and where we also reported lower income on the ALCO portfolio; and in the United States due to the decline in the auto portfolio at Santander Consumer USA and the change in mix toward a lower risk profile. Stripping out Banco Popular, net interest income was up 7%.

Meanwhile, fee and commission income amounted to EUR 11,597 million, with double-digit growth on the back of increased activity and high levels of customer loyalty. It is also significant that this growth has been accelerating: climbing 14% in 2017 to comfortably outpace the growth reported in 2016 (+8%) and 2015 (+4%). By business, increases were noted in commercial banking (86% of total fees and commissions) and Global Corporate Banking. Stripping out Banco Popular, fees and commissions were up 11%.

By region, fees and commissions rose across the board, reflecting the rise in loyal customers in all units, the higher added value product offer and an enhanced customer experience.

Gains/(losses) on financial assets and liabilities, which accounted for just 3.5% of income, were down 1% in the period. Other income represents less than 2% of total revenues. This line item includes dividends (down EUR 29 million), the share in companies accounted for using the equity method (up EUR 260 million), and Other operating income/(expense) (down EUR 296 million), partly on account of the increased contributions paid to the Deposit Guarantee Fund, including those made by Banco Popular in 2017.

Operating costs totalled EUR 22,918 million, up 9%. Once adjusted for inflation and changes in the scope of consolidation, operating costs were virtually unchanged, despite the cost increase stemming from regulatory requirements and investments in the transformation process. The Santander Group remains one of the world's most efficient banks, with a cost-to-income ratio of 47%.

In terms of business units, the Group has continued its active management approach during the year, adapting the base to the reality of the business in each market. This has allowed the Bank to lower or keep costs stable in seven of its ten main business units, in real terms and stripping out changes in the consolidation scope. The two units that reported the largest cost increase were Mexico, due to the significant investment made in infrastructure and systems as part of the plan launched in late 2016, and Brazil, where costs have responded to fluctuating levels of business and investments in transformation.

The changes in cost and income just described resulted in a net improvement of 70 basis points in the cost-to-income ratio, which was 47.4% for the year (48.1% in 2016), one of the best figures to be found among our peers. Stripping out the impact of Banco Popular, which is currently contributing more than its normal share of expenses, the cost-to-income would have improved to 46.8%.

Loan-loss provisions came to EUR 9,111 million, down 4% on the previous year. Without Popular, they would have been down 5%. By unit and in local currency, we saw significant reductions in Continental Europe and in the United States and also across all of Latin America. However, loan-loss provisions in the United Kingdom were up due to the steady normalisation of provisioning and a one-off case at GCB. Even so, its cost of lending remained low at 8 basis points, although this figure was just 2 basis points in 2016.

The cost of lending has continued to improve, reflecting the selective growth strategy and a well-balanced risk management policy. It has fallen from 1.18% at year-end 2016 to 1.07% at year-end 2017. Stripping out Banco Popular, it would be 1.12%. This improvement in the year was reported across virtually all Group units, most notably Brazil, the United States, Chile, Portugal, SCF and Poland. Meanwhile, the cost of lending was up in Mexico and Argentina, as well as in the UK as just mentioned.

Other income and write-downs were a negative EUR 2,812 million, exceeding the negative EUR 1,959 million reported in 2016. This heading is used to show sundry provisions, as well as capital gains, losses and impairment of assets. It is higher this year round because we have strengthened the balance sheet and have a number of additional expenses, mainly in Brazil and the United Kingdom.

Underlying profit before tax was up 20% to EUR 13,550 million, reflecting strong levels of income, controlled costs and a solid performance in terms of allowances and the cost of lending. Stripping out Popular, it was up 17%. By region, eight reported increases in local currency while seven posted double-digit growth.

Taxes were up, mainly due to increased tax pressure at certain units, notably Brazil, Spain, Poland, Chile and Argentina. The tax rate for the Group as a whole has climbed from 30% to nearly 34%.

Profit attributable to non-controlling interests was up 14%. By unit, there were significant increases at Santander Consumer Finance due to the agreement reached with Banque PSA, Brazil and Chile. Meanwhile, tax was down at Santander Consumer USA partly because of the lower profit reported by the unit and the purchase of an equity interest.

Underlying attributable profit (before capital gains and write-downs) was up 14% to EUR 7,516 million. Stripping out Popular, it was up 10%.

As a result, the Group's underlying RoTE was 11.8% (+70 basis points in the year), underlying RoRWA was 1.48% in 2017 versus 1.36% in 2016 and underlying earnings per share was EUR 0.463, up 8% on 2016.

Meanwhile, profit attributable to the Group came to EUR 6,619 million in the year, up 7% on 2016. Stripping out Popular, it would also have been up 7%.

Earnings per share (EPS) gained 1% in the year to reach EUR 0.404. Total RoTE was 10.41% (10.38% in 2016), while total RoRWA stood at 1.35% (1.29% in 2016).

2.3 Balance sheet

Below is the condensed balance sheet at 31 December 2017, showing a comparison with the 2016 year-end figures.

Condensed consolidated balance-sheet

€ million

	2017	2016
Assets		
Cash, cash balances at central banks and other demand deposits	110,995	76,454
Financial assets held for trading	125,458	148,187
Debt securities	36,351	48,922
Equity instruments	21,353	14,497
Loans and advances to customers	8,815	9,504
Loans and advances to central banks and credit institutions	1,696	3,221
Derivatives	57,243	72,043
Financial assets designated at fair value	34,782	31,609
Loans and advances to customers	20,475	17,596
Loans and advances to central banks and credit institutions	9,889	10,069
Other (debt securities an equity instruments)	4,418	3,944
Available-for-sale financial assets	133,271	116,774
Debt securities	128,481	111,287
Equity instruments	4,790	5,487
Loans and receivables	903,013	840,004
Debt securities	17,543	13,237
Loans and advances to customers	819,625	763,370
Loans and advances to central banks and credit institutions	65,845	63,397
Held-to-maturity investments	13,491	14,468
Investments in subsidaries, joint ventures and associates	6,184	4,836
Tangible assets	22,974	23,286
Intangible assets	28,683	29,421
Goodwill	25,769	26,724
Other intangible assets	2,914	2,697
Other assets	65,454	54,086
Total assets	**1,444,305**	**1,339,125**
Liabilities and shareholders' equity		
Financial liabilities held for trading	107,624	108,765
Customer deposits	28,179	9,996
Debt securities issued	—	—
Deposits by central banks and credit institutions	574	1,395
Derivatives	57,892	74,369
Other	20,979	23,005
Financial liabilities designated at fair value	59,616	40,263
Customer deposits	28,945	23,345
Debt securities issued	3,056	2,791
Deposits by central banks and credit institutions	27,026	14,127
Other	589	—
Financial liabilities measured at amortized cost	1,126,069	1,044,240
Customer deposits	720,606	657,770
Debt securities issued	214,910	226,078
Deposits by central banks and credit institutions	162,714	133,876
Other	27,839	26,516
Liabilities under insurance contracts	1,117	652
Provisions	14,489	14,459
Other liabilities	28,557	28,047
Total liabilities	**1,337,472**	**1,236,426**
Shareholders' equity	116,265	105,977
Capital stock	8,068	7,291
Reserves	103,607	94,149
Attributable profit to the Group	6,619	6,204
Less: dividends	(2,029)	(1,667)
Accumulated other comprehensive income	(21,776)	(15,039)
Minority interests	12,344	11,761
Total equity	**106,833**	**102,699**
Total liabilities and equity	**1,444,305**	**1,339,125**

The exchange rate effect on the Group's various currencies and the change in the scope of consolidation had a significant impact on the yearly performance under this heading.

- The impact of final exchange rates on the balance sheet was greater than the impact of the average rates on the income statement. We therefore saw a negative impact of roughly five percentage points on the customers headings for the Group as a whole due to exchange rate fluctuations, with the impact varying by unit as follows: Poland (+6 percentage points); United Kingdom and Chile (-4 percentage points); Mexico (-8 percentage points); United States (-12 percentage points); Brazil (-14 percentage points) and Argentina (-38 percentage points).
- The period also included a positive impact of ten percentage points following the acquisition of Banco Popular in the second quarter.

Exchange rates period-end: 1 euro / currency parity

	2017	2016
US$	1.199	1.054
Pound sterling	0.887	0.856
Brazilian real	3.973	3.431
Mexican peso	23.661	21.772
Chilean peso	736.922	707.612
Argentine peso	22.637	16.705
Polish zloty	4.177	4.410

The Group's gross lending to customers amounted to EUR 872,849 million at 31 December 2017, up 7% on the EUR 814,863 million recorded at year-end 2016. If we strip out the effect of exchange rate variations and the integration of Banco Popular and eliminating also reverse repurchase agreements, lending was up 2%.

Customer loans
€ million

	2017	2016
Commercial bills	29,287	23,894
Secured loans	473,936	454,676
Other term loans	257,441	232,289
Finance leases	28,511	25,357
Receivable on demand	6,721	8,102
Credit cards receivable	21,809	21,363
Impaired assets	36,280	32,573
Gross customer loans (w/o repos)	**853,985**	**798,254**
Repos	18,864	16,609
Gross customer loans	**872,849**	**814,863**
Loan-loss allowances	23,934	24,393
Net customer loans	**848,915**	**790,470**

At the 2017 year end, of total lending to customers maturing in over one year, 57% was linked to floating interest rates, while the remaining 43% was linked to fixed rates. The geographic breakdown reveals the following:

- In Spain, 74% of loans are linked to floating rates, while 26% accrue interest at fixed rates.
- Internationally, 51% of loans are at floating rates, vs. 49% at fixed rates.

Credit facilities with maturities exceeding on year at year-end of 2017
€ million

	Doméstico		Internacional		TOTAL	
	Importe	Peso sobre el total (%)	Importe	Peso sobre el total (%)	Importe	Peso sobre el total (%)
Fixed	47,060	26%	229,871	49%	276,931	43%
Variable	133,557	74%	239,450	51%	373,007	57%
TOTAL	**180,617**	**100%**	**469,321**	**100%**	**649,938**	**100%**

Note 10.b to the accompanying consolidated financial statements provides further information on the distribution of loans and advances to customers by business line.

Comparing individual unit performance with figures for 2016, gross lending without repurchase agreements (without considering the impact of exchange rate fluctuations) was up at eight of the ten main units, as follows:

- The most significant increases were seen in Argentina (+44%, driven by consumer loans and lending to SMEs), Portugal (+8% thanks to the increase in the institutional segment) and Brazil (+7% on the back of lending to individuals).
- Growth of 6% at Santander Consumer Finance, mainly on account of the increased production in the auto segment and in credit cards, and growth of 5% in Mexico and Poland, driven by SMEs and corporates. Chile was up 3% in lending to individuals, high income segments and SMEs. Meanwhile the United Kingdom gained 1% in home mortgages and corporate loans, offset by the decline in non-core loans.
- Spain was down 2% in terms of institutional balances and GCB, since SMEs grew slightly in the year, while the United States reported a 4% decline, mainly due to the sale of a portfolio of Santander Consumer USA and the reduction in GCB at Santander Bank.
- At the real estate unit in Spain (and before the integration of Banco Popular) net lending fell 56% year on year in response to the ongoing strategy being pursued in recent years.

In relation to credit risk, the NPL ratio was 4.08% at year-end 2017, with a coverage ratio of 65% affected by the integration of Banco Popular. Stripping out this impact, the NPL ratio would be 3.38%, down 55 basis points on 2016, with a coverage ratio of 71% (74% in 2016).

Turning to liabilities, the total balance of customer funds under management, including deposits, mutual funds, pension funds and assets under management, came to EUR 985,703 million, up 13% year on year.

Total deposits without repurchase agreements and mutual funds gained 12% in 2016. At a constant exchange rate and stripping out the impact of integrating Banco Popular, this heading would have gained 8%.

By product and in accordance with the strategy of improving customer loyalty while reducing the cost of lending, demand deposits rose 9%, with growth reported in virtually all countries, while mutual funds climbed 14%, also with across-the-board improvements. Term deposits remained stable, albeit with an uneven performance by unit.

Meanwhile, eight of the Group's ten main regions reported growth, with only the United States reporting a decline (-9% due to the reduction in institutional balances), as follows:

- Growth across the Latin American units (Argentina: +53%; Brazil: +24% and Mexico: +6%), while in Europe Spain was up 12% and the United Kingdom gained 3%.
- Somewhat more muted growth at Santander Consumer Finance, Poland and Portugal (+2% at each). Since all units have focused on reducing costs ahead of growing business, the growth in demand accounts has been offset by the decline in term deposits.

- Chile was unchanged during the year.

Customer funds
€ million

	2017	2016
Demand deposits	525,072	467,261
Time deposits	199,650	181,089
Mutual funds	165,413	147,416
Customer deposits w/o repos + Mutual funds	**890,135**	**795,766**
Pension funds	16,166	11,298
Managed portfolios	26,393	23,793
Subtotal	**932,694**	**830,858**
Repos	53,009	42,761
Customer funds	**985,703**	**873,618**

The net loan-to-deposit ratio came to 109% at December 2017, compared to 114% at the 2016 year end. Information on the same figures provided in the section on liquidity risk management and financing of this report.

In addition to attracting customer deposits, the Group applies a strategy of maintaining a selective issuance policy in the international bond markets, endeavouring to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and the receptivity of each market. Information on the same figures provided in section 3 of this report (Liquidity and Capital).

Available-for-sale financial assets totalled EUR 133,271 million at 31 December 2017, up EUR 16,497 million year on year (+14%), mainly due to the increased position in Spanish sovereign debt following the integration of Banco Popular.

Available-for-sale financial assets
€ million

	2017	2016
Debt securities	128,481	111,287
Equity instruments	4,790	5,487
TOTAL	**133,271**	**116,774**

Information on the valuation adjustments generated by available-for-sale financial assets is provided in Note 29.d to the accompanying consolidated financial statements.

Meanwhile, held-to maturity investments at year-end 2017 amounted to EUR 13,491 million, down EUR 977 million on 2016.

Goodwill totalled EUR 25,769 million, EUR 955 million short of the EUR 26,724 million recognised at year-end 2016. The change here is largely down to the declines reported in the United States (exchange rate effect and impairment) and Brazil (exchange rate), which were partially offset by the increase resulting from the repurchase of Santander Asset Management.

Meanwhile, tangible assets came to EUR 22,975 million, down 1% on the figure at 31 December 2016 (EUR 23,286 million).

2.4 Business areas

The performance of the different business areas is detailed below. In this report, we have provided separate information in relation to the acquired business of Banco Popular, which, as mentioned previously, was integrated within the Santander Group on 7 June 2017.

The changes shown below at the business units relates to gross loans and advances to customers without repurchase agreements and to customer funds, meaning deposits without repurchase agreements and investment funds.

Continental Europe (excluding exchange rate effect)

Continental Europe includes all of the business activities carried out in the region.

Strategy

Against a backdrop of historically low interest rates, the Bank's strategy remains focused on improving customer loyalty, pushing up our market share, controlling costs and improving credit quality. Work is therefore ongoing to improve the customer experience and enhance the efficiency through the digital transformation, while simplifying processes and offering innovative products.

As a result of this strategy, customer loyalty has increased 18% for both individuals (+20%) and SMEs and corporates (+8%). By improving engagement we managed to increase fee and commission income, which was up 11% excluding acquisitions. Similarly, our digital strategy has led to a 11% gain in digital customers, with most Santander regions reporting a major increase.

The year was also extremely important when it comes to inorganic growth, with highlights here including the integration of Banco Popular, the acquisition of 50% of Santander Asset Management, and the agreement to acquire the retail and private banking businesses of Deutsche Bank in Poland, which is due to be completed in 2018 (once clearance to proceed has been secured). Following the acquisition of Banco Popular, Banco Santander has regained its leadership in Spain and Banco Santander Totta remains Portugal's largest private bank in terms of assets and lending from domestic business.

Business and results (figures excluding Banco Popular)

Lending was up 2% year on year, with all units except Spain (-2% due to institutional balances) reporting an increase. Funds were up 9%, with growth reported across all units as both deposits and investment funds saw gains.

Continental Europe posted attributable profit of EUR 2,868 million, up 18% on 2016. Stripping out the impact of the non-recurring results reported in 2017 and 2016, underlying attributable profit was EUR 2,953 million, revealing year-on-year growth of 13%.

This growth was largely driven by an increase in fee and commission income (+11%), in turn due to improved customer loyalty, pus a 26% reduction in loan-loss provisions; a trend seen across all the Group's main units and which shows the improvement in NPL ratios and the cost of lending. Meanwhile, net interest income was relatively unchanged in comparison with 2016 due to the prevailing climate of rock-bottom interest rates.

All units increased their underlying income, with double-digit growth reported in Spain, SCF, Portugal and, to a lesser extent, Poland, which had to contend with higher taxes and a number of regulatory impacts.

Spain

Strategy

Our commercial strategy is focused primarily on enhancing customer loyalty and experience through the digital transformation process.

When it comes to the individuals segment, loyal customers were up 54% thanks to the 1|2|3 strategy and our new payments methods strategy. As part of the 1|2|3 strategy we have expanded our range of products and services with the launch of the Smart account for 'millennial' customers and our Zero account, which is 100% digital and commission-free.

Turning to businesses, highlights included the growth seen in the SME segment, the improvement in customer quality and our decision to target short-term products offering added value.

We remain firmly committed to the Bank's digital transformation. Here, the launch of Digilosofía has allowed us to harness all our digital expertise, leading to major progress on the path to transforming the Bank. We successfully reached 3.2 million digital customers in the period, marking a 15% year-on-year increase and making Santander the market leader in mobile payments and a pioneer when it comes to international payment solutions based on distributed ledger technology.

Continuous improvements were made to key processes such as opening accounts, granting loans, insurance and international payments, and all our products can now be arranged digitally using remote channels.

We ended the year with 500 *SmartRed* branches: digitally integrated smart offices that are also simple and accessible.

Business and results (figures excluding Banco Popular)

Healthy commercial figures with lending activity performing well in the period, even though the overall balance was down 2%. New loans were up on 2016, with a positive showing across the main segments, especially individuals and SMEs.

This sound performance has led to an increase in retail and commercial banking lending. The increase in consumer loans and lending to SMEs and other products has allowed Santander to neutralise the decline in mortgage loans.

When it comes to funds, we maintain a robust financing structure that has been bolstered by the recent growth in customer funds (+12% year on year). Term deposits lost further ground to demand deposits, which were up 19% in the year. Meanwhile, mutual funds rose 18%.

Attributable profit came to EUR 1,180 million, up 46% on 2016, in which capital gains from VISA Europe and restructuring costs were reported. Stripping out these impacts, underlying profit gained 15% on the back of fee and commissions, cost savings and fewer provisioning needs, offsetting the pressure on interest income and the lower earnings on financial assets and liabilities.

Net interest income continues to be affected by low interest rates, asset repricings and competitive pressure when it comes to pricing. We saw a marked improvement in fee and commission income, which gained 16%, with income from payment methods and customer transactions outperforming, as well as the contribution made by wholesale banking. All in all, gross income saw moderate growth.

Costs were down 1% year on year after absorbing costs associated with the launch of Openbank and because of the impact that the integration of a company that manages PoS terminals has had on the scope of consolidation. the result of efficiency plans from previous years. The cost-to-income ratio came to 57%.

Provisions continue to normalise while the cost of lending continues to improve, falling to 0.33% in the period.
There was also a sustained reduction in the risks profile, with the NPL ratio shedding 70 basis points in the year to reach 4.72%.

Santander Consumer Finance (excluding impact of exchange rate variations)

Strategy

SCF is the European leader when it comes to consumer finance, with operations in 14 countries and over 130,000 associated points of sale (auto dealers and stores). In addition, SCF has entered into a significant number of financing agreements with car and motorcycle manufacturers and with retail distribution groups.

Key priorities in the year were the need to improve capital efficiency, ensure sound management the agreements with Banque PSA Finance (BPF) completed in 2016 (joint ventures in 11 countries), increase car financing and consumer lending by extending agreements with the main dealers and retailers and strengthening digital channels.

Business activity and earnings

In terms of business activity, Santander continued to sign new agreements with both retail distributors and manufacturers by assisting them with their commercial transformation and therefore increasing the value proposition offered to the end customer.

Lending rose 6% during the year, with new loans up 9% on 2016, greatly bolstered by the auto business. Growth was across the board at almost all units.

As for borrowing, customer deposits gained 2%, marking Santander apart from its peers. The Group also has considerable capacity to secure wholesale financing.

In relation to earnings, attributable profit stood at EUR 1,168 million in 2017, up 4% year-on-year. Stripping out the impact of the non-recurring earnings in 2017 (charge of EUR 85 million in the third quarter to cover integration costs, mainly in respect of the commercial networks in Germany) and in 2016 (in which the capital gains obtained from VISA Europe were booked), underlying profit gained 15% year on year.

This increase was largely down to two factors: the current climate of low interest rates, which is extremely positive for the consumer business (in terms of both income and provisions) and the low cost of lending.

The improvement in income came mainly on the back of net interest income (accounting for 80% of all income), which rose 5% year on year.

Costs also rose (+4%) in line with rising levels of business, while the cost-to-income ratio was around 44%, a slight improvement on 2016.

Provisions fell by 32%, accompanied by a strong improvement in the cost of lending (0.30% vs. 0.47% in 2016), which is now very low for the consumer financing business. This has been made possible thanks to the healthy performance of credit risk and the positive impacts of the portfolio sales completed in the year. The NPL ratio was down 18 basis points to reach 2.50%. Meanwhile, the coverage ratio stood at 101%.

By unit, attributable profit was especially strong in Poland (+35%), Spain (+16%) and Italy (+12%).

Poland (changes in local currency)

Strategy

In 2017, the Bank continued to pursue its objective of being the bank of first choice for customers.

The 2017-2019 strategy was updated accordingly in response to changes in the macroeconomic environment so as to take on board not only existing but also expected challenges that well could arise given the prevailing climate, such as the need to expand and develop the Group.

The chosen strategy is to champion a customer-centric culture, which will be underpinned by the cultural transformation process and the continuous improvement of the business model and the range of products and services.

The Bank's main actions in 2017 included the implementation of new CRM tools so that it can continue anticipating and responding to the needs and expectations of our customers. Special efforts were also made so as to ensure that products are simple and easy to understand for customers, with transparent terms and conditions and prices and with incentives and benefits to depend on how strong the customer's relationship is with the Bank.

On 14 December 2017, the Bank announced the acquisition of Core Deutsche Bank Polska & DB Securities S.A. The deal is expected to be completed in the fourth quarter of 2018 once all regulatory authorisations have been obtained. Core DB Polska will contribute with data of June 2017 a gross loans totalling 18,200 million zloty, customer deposits of 10,400 million zloty and assets under management of 6,900 million zloty. Please note that the balances acquired do not include mortgages denominated in foreign currency.

Business activity and earnings

Loans gained 5% year on year mainly on the back of the businesses and individuals segments.

Funds rose 2% during the year. Here we would highlight the increase in deposits from individuals and companies, while term deposits were down.

This performance allows the Bank to maintain its solid financing structure, with a loan-to-deposit ratio of 92%.

Attributable profit came to EUR 300 million in the year, down 3% on 2016 due to the capital gains on the sale of VISA Europe reported in 2016 and the tax increase stemming from the non-deductibility of the expense paid to the BFG (Polish deposit guarantee fund). Stripping out these impacts, underlying profit before tax gained 12%, with more recurring items outperforming.

Net interest income was up 9% as the volume of activity increased and fee and commission income also gained 8%. Growth in total income was slightly less at 5%, due to lower earnings on financial assets and liabilities resulting from the sale of ALCO portfolios.

Costs rose by 2%, mainly due to the increase in personnel costs, which were up 3%. Meanwhile, amortisation and depreciation was down 3%.

Provisions fell 8% in response to the significant improvement in credit quality. The NPL ratio fell to 4.57% (5.42% at December 2016), while the cost of lending stood at 0.62% (0.70% at December 2016).

Portugal

Strategy

Commercial activity remains heavily focused on latching on to the growth of the Portuguese economy. This has led to an increased market share among individuals and businesses, an increase in transactions and a year-on-year gain in the number of loyal customers and digital customers (+8% and +11%, respectively).

For the individuals segment, commercial activity continues to be underpinned by the World 1|2|3 programme, which has seen a sizeable increase in the number of accounts, credit cards and sales of protection insurance.

For businesses, the Bank remains focused on developing new digital platforms such as the new *Santander Totta Empresas* app.

In September, the Bank completed a one billion euro placement of 10-year mortgage-backed bonds, making it the first bank to launch a 10-year issue in Portugal since 2010.

Business and results (figures excluding Banco Popular)

Lending was up 8% on 2016 in response to growth in the institutions segment. A further highlight was the fact that new mortgages and loans to businesses exceeded the stock level.

Funds gained 2% on December, with investments funds and deposits both faring particularly well as part of a management approach that has led to a considerable reduction in finance costs.

Turning to earnings, attributable profit came to EUR 440 million, up 10% on 2016. This growth has found supported from the reduction in operating costs and provisions. In income, the strong performance of fees and commissions failed to offset the decline in net interest income and lower gains on financial assets and liabilities.

Net interest income was down 5% because the positive effect of the cost reduction on deposits failed to counter the reduction in income from lending activity and instruments, due to the prevailing climate of rock-bottom interest rates and the reduced weighting of public debt on the Bank's balance sheet.

Fees and commissions reported a 9% increase on 2016, showing an improvement in customer loyalty and number of transactions. Meanwhile, income from financial assets and liabilities was down 25% due to lower earnings on the sale of portfolios.

Costs were down 7% as a result of the cost saving plans rolled out in recent years. This reduction, coupled with rising levels of income, has generated a cost-to-income ratio of 48%, the best seen since 2016.

Loan-loss provisions were also down to close out the year with a minor release. This is down to the excellence performance of the NPL ratio, which improved notably in 2017 to end the year at 5.71%, well below the high of 10.46% seen in June 2016 following the integration of Banif.

Real estate activity - Spain (figures excluding Banco Popular)

The Group reports its non-core real estate business as a separate unit. This unit includes loans to real-estate developers, for which a specialised management model is applied, as well as the interest in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB), the assets of the former real estate fund and foreclosed assets.

In recent years, the Group's strategy has focused on reducing real estate assets, primarily loans and foreclosed assets.

Net lending at this unit stood at EUR 1,001 million, down 50% on December 2016. This accounts for just 0.1% of the Group's total loans and less than 1% of those held in Spain.

The real estate business in Spain closed the year with a non-performing loan ratio of 87% and a coverage ratio of 48%. Foreclosed asset coverage stands at 58%.

In earnings, the unit reported a loss of EUR 303 million in 2017, compared to EUR 326 million in the previous year, primarily due to lower write-down needs.

Including Banco Popular, and following the agreement to sell 51% of the real estate business of Banco Popular to Blackstone, net exposure to real estate loans and foreclosed assets at December 2017 came to EUR 5,665 million, with a coverage ratio of 52%.

Banco Popular

Strategy

As initially planned, significant progress has been made in making Banco Popular part of the Santander Group, thus delivering on our promise to the market and our shareholders.

- We have now initiated the process of integrating the bank, unlocking cost synergies and achieving optimum levels of efficiency.

- The business' real estate exposure has been reduced by agreeing to sell the portfolio of foreclosed real estates to Blackstone, along with non-performing loans from the sector and other assets tied up with real estate activity.

- In December we agreed to sell TotalBank, a retail and commercial bank based in Florida. The deal is expected to be completed in late 2018 and should have a positive impact on our CET1 ratio of five basis points.

- Meanwhile, a commercial initiative targeting former shareholders of Banco Popular was launched and successfully completed during the year, with 78% uptake of the offer to subscribe loyalty bonds.

Business activity and earnings

In terms of business activity, both demand and term customer deposits saw a sharp increase from early June onward, showing that market confidence in the bank is gradually improving. Meanwhile, the loan stock has stabilised in recent months following the increase in new loans seen in the fourth quarter thanks to Banco Popular's leading position in the SME segment. This trend, while undeniably positive, is still not enough to bring lending activity back to the levels reported prior to the acquisition.

Banco Popular has posted attributable profit of EUR -37 million since 7 June as a result of the acquisition costs, which amounted to EUR 300 million. If we strip out this extraunderlying impact, profit would have been a positive EUR 263 million.

Income amounted to EUR 1,309 million. Net interest income was subjected to interest rate pressure, with the Euribor at an all-time low. The fourth quarter of the year was also impacted by a reduction in ALCO portfolios and the contribution paid to the Deposit Guarantee Fund (EUR 63 million).

Costs amounted to EUR 873 million, while loan-loss provisions came to EUR 114 million in the consolidated period.

United Kingdom (changes in local currency)

Strategy

Our priority in the UK remains customer loyalty, operational and digital excellence and steady and sustained profit growth, while also aspiring to become for best bank for our employees and society in general.

- We remain firmly committed to our *World 1|2|3* strategy, which already has 5.4 million customers. Current accounts for the individuals segment have been steadily growing

- and we are continuing to develop our digital value proposition. The number of digital customers has been increasing at around 10% growth. These improvements have led to high levels of successful mortgage applications in 2017, along with an increase in new current accounts and credit cards arranged through digital channels.

- Loyal customers from the individuals segment continued to increase, albeit at a somewhat slower rate (+5%) in the period due to low interest rates on savings products, while engaged SMEs and corporates also saw 5% growth, partly on account of our international value proposition.

These healthy figures have been obtained in a still fiercely competitive banking sector in the UK, with a number of significant regulatory changes on the near horizon.

Business activity and earnings

Lending was up 1% in the year. The increase in home mortgages and loans to businesses in the UK was offset by a controlled reduction in commercial real estate loans.

Customer deposits grew 3% on the back of current accounts for individual customers, other retail products and company deposits, although part of this gain was nullified by the reduction in savings products.

In relation to earnings, attributable profit came to EUR 1,498 million in the period, down 3% on 2016 due to the increase in specific provisions for Global Corporate Banking and costs relating to the banking reform process. Without these impacts, the UK performed well, with high levels of profitability. Underlying RoTE was 10.3%.

Net interest income gained 6% year on year thanks to the improvement in the margin on borrowing activity following the changes made to the terms and conditions of the 1|2|3 account. Conversely, the margin was negatively affected by the pressure on spreads on new loans.

Fees and commissions gained 4% largely in response to the rise in commissions on retail banking transactions and on digital and internal payments in the commercial banking segment.

Costs were up 3% but remained under control despite inflationary pressures and costs of GBP 81 million resulting from the banking reform process. The increased investment in business growth and in improving digital channels was partially offset by the improvements made to operational efficiency.

Credit quality remains strong across all portfolios, underpinned by sound risk management and low interest rates. The NPL ratio was 1.33% at 31 December 2017, below the 1.41% reported at year-end 2016.

Latin America (excluding impact of exchange rate variations)

Strategy

Highlights for the year included the significant investments made in operating systems and digital infrastructure in a bid to streamline processes and increase the customer experience, customer loyalty and the number of transactions and digital customers. The specific actions undertaken here are described separately for each unit.
Loyal customers were up 16% in 2017 across all units. This growth was reported in both the individuals and corporate segments, which gained 16% and 15%, respectively. Meanwhile, the number of loyal customers rose by 32%.

Business activity and earnings

Loans gained 7%, with Brazil and Argentina outperforming. Mexico, on the other hand, has been pursuing a more selective growth strategy and in Chile the medium-high wealth segments and SMEs remain priorities and Santander Chile also started to recover growth in the mass market segments during the year.

Funds were up 16%, with double-digit growth across all the main units following the increase in both deposits and investment funds.

Attributable profit stood at EUR 4,284 million, with a YoY increase of 24%, driven by revenues and, in particular, net interest income, reflecting volumes growth and good management of spreads, amid a distinct interest rate climate. The Selic rate in Brazil was lowered significantly, while the rate in Mexico was on the rise. Growth of 17% in fee and commission income likewise had an impact, thanks to greater customer loyalty. Costs were up, albeit to a more moderate degree (+10%), improving efficiency by two percentage points to 39%.

Meanwhile, provisions were down 3%, which together with high volumes meant an improving cost of credit.

Profit was up considerably in six of the seven units, with Brazil, the largest contributor to Group profit, standing out with an uptick of 34%.

Brazil (changes in local currency)

Strategy

In 2017 Santander Brazil posted some of the strongest results in its history, with powerful commercial growth, rapid innovation and responsive services, as well as greater operational efficiency. This came alongside progress in strengthening the unit's internal culture: we now have a better structure to provide customers with the best possible experience, helping us to build sustainable and profitable growth.

Notable aspects during the year in this regard included the following:

- In cards, we continued to secure robust growth in credit card billing, driving up our market share. Furthermore, we strengthened our efforts in terms of associations and innovative solutions for customers.

- In the mortgage business, we announced a lowering of interest rates to offer more attractive levels, leading to growth in new mortgage lending to individuals that far outstripped market growth.

- We again led the field in consumer lending, expanding our market share. The *+Negocios* digital tool helped drive forward business expansion, securing growth in vehicle purchase simulations. We also launched a digital platform called *+Vezes*, aimed at the goods and services segment (CDC).

- In terms of liabilities, we launched *Santander One*, a digital financial advisory tool.

- In keeping with our digital strategy, we implemented a *Black Week* promotion, offering special terms on products to customers and non-customers alike. Combined with strong growth in e-commerce sales, this campaign saw us post record numbers in terms of new cards issued and personal credit.

All of which has driven sustained customer base growth, both in terms of loyal customers (+14%) and digital customers (+34%).

Business activity and earnings

Lending showed growth of 7% measured against December 2016. By segments, lending to consumers and SMEs stood out.

Meanwhile, customer funds showed double-digit growth (+24%), due to an increase in time deposits and mutual funds, partly driven by the substitution of financial instruments that carry higher finance costs.

In earnings, attributable profit stood at EUR 2,544 million, up 34% year-on-year. The comparison shows the following:

- Robust net interest income growth (+17%), chiefly due to business with customers. There were improvements both in credit income (due to rising volumes and spreads) and liabilities (as a result of the plan implemented).

- Fee and commission income was up 16% due to increased engagement and greater transactionality. Standout areas were credit cards, current accounts and insurance.

- Costs were up 7%, moving in line with the business dynamic and ongoing investments. Likewise, the cost-to-income ratio improved (-3.9 percentage points) to 35.6%.

- Provisions were down 6%, with a good performance from credit quality indicators: the cost of credit was down 53 basis points to 4.36%, non-performing loans improved 61 basis points to 5.29%, and coverage stood at 93%.

Mexico (changes in local currency)

Strategy

As part of the commercial transformation strategy, significant investments were made during the year in infrastructure and systems, aimed at improving the multi-channel approach, driving the digital strategy, strengthening the distribution model and launching new commercial initiatives.

We also made efforts to attract new customers and generate new payrolls, where we secured greater market share as well as retaining existing customers, driving down the churn rate and posting growth in demand deposits among individuals.

Commercial initiatives included *Santander Plus*, offering greater benefits to attract and engage a larger number of customers.

Several initiatives were launched to bolster the digital strategy, such as *Súper Wallet* (a new mobile app that connects customers with their cards), *SúperConnect* (a single service window in Mexico developed for Select customers that is 100% remote) and *SúperDigital* (allowing users to open an account from any device, with no need to go in person to a branch).

Meanwhile, we continue to consolidate our position in the SMEs market, capitalising on our standing to attract and engage individual customers and establish ourselves as their primary bank.

As a result, loyal customers were up 24% to 2.0 million, while digital customers increased 52% to 1.9 million.

Business activity and earnings

Lending grew 5% year-on-year, with standout expansion in the individuals segment, chiefly due to consumer lending and credit cards. Meanwhile, customer funds grew 6%, with expansion in both deposits (5% demand deposits and 10% term deposits) and in mutual funds (+5%).

As for results, attributable profit stood at EUR 710 million, up 16% measured against 2016.

Income rose 11% year-on-year, with a notable 13% increase in net interest income, underpinned by growth in lending and the ongoing expansion of deposits, along with higher interest rates in the system.

Costs were up 12% due to implementation of strategic initiatives aimed at positioning ourselves as the primary bank for customers, which included a three-year investment plan that was announced to the market. Overall, the cost-to-income ratio held practically stable at 40%.

As for credit quality, the non-performing loans ratio improved seven basis points to 2.69%, coverage stood at 98%, and the cost of credit held at close to 3%.

Chile (changes in local currency)

Strategy

During the year we remained focused on technological innovation, digital excellence, and the customer experience, all framed within the Group's SPF culture. Since 2012 the Bank has chiefly focused on the medium-high income individuals segment and SMEs, which in 2017 was coupled with resurgent growth in the general income individuals segment, which had declined in previous years.

The main actions taken in the year included: the launch of the new World Member Limited credit card, aimed at high-income customers; the roll-out of WorkCafé branches, co-working spaces underpinned by an advanced technology platform to create more productive and efficient branches; as well as the development of digital banking and the 2.0 app, with new features such as digital onboarding, allowing users to sign up as customers via the app or the digital banking platform in just a few minutes.

Towards the end of the year the *Santander Life* model for the general income segment was launched, supported by improving economic prospects for Chile and technological innovations to help drive down the risk and cost of opening new accounts.

These measures prompted a 3% increase in the number of loyal customers, as well as higher fees linked to transactionality. Meanwhile, the number of digital customers was up by 5%.

Business activity and earnings

Lending posted growth of 3% year-on-year, with the strongest uptick coming in the high-income individuals segment and SMEs. In terms of products, the fastest growth came in mortgages and consumer lending.

Customer funds held stable during the year, thanks to a focus on improving the cost and mix of liabilities. Demand deposits grew 4%, mutual funds were up 2%, while time deposits declined 4%.

Attributable profit stood at EUR 586 million for the year, up 12%.

Income rose 2%. With this, net interest income was stable due to low inflation during year, partly offset by lower financing costs. Fees were up 9% due to increased engagement in retail banking and growth in the cash management business, as well as consultancy in the business and GCB segment.

Costs were up 2%, chiefly due to increased depreciation and amortisation charges, generated by investments in branches and technology over the year. Meanwhile, personnel costs were up just 1% and administration costs held flat. Overall, efficiency held at around 41%.

Loan-loss provisions were down 12%, with a sustained improvement seen in the individuals portfolio. Credit quality indicators improved, with the cost of credit standing at 1.21% (1.43% in 2016), the non-performing loan ratio below 5%, and coverage at 58%.

Argentina (changes in local currency)

Strategy

The Bank continued its strategy focused on expanding business with customers, placing emphasis on engagement and profitability.

Citibank's retail network was acquired in Argentina on 31 March 2017, with the integration of the same completed within five months. Combined with organic growth, this positioned Santander Río as the leading private bank in Argentina by business share (credits + deposits).

Furthermore, the branch transformation plan continued, with new product launches, such as credit to finance vehicle purchases and UVA mortgage loans pegged to inflation.

In digital operations, the Santander Río app attracted new users, while further features were added, including the ability to make payments and transfers to recipients without having to be registered for online banking.

All of which has led to an increase in loyal customers of 20% and in digital customers of 30%.

Business activity and earnings

Looking at activity areas, both lending and deposits secured year-on-year growth of 44%, with an approximate impact of 14 and 20 percentage points respectively due to incorporation of Citibank's retail banking business. There was growth in consumer lending and UVA mortgage loans.

In earnings, attributable profit stood at EUR 359 million, up 14% measured against 2016.

The commercial strategy, together with higher volumes (partly due to the incorporation of Citibank) and efficient management of spreads, drove expansion of gross income by 44%, while net interest income grew 58% and fees by 43%.

Operating costs were up 49%, chiefly due to the incorporation of Citibank. Stripping out this effect, costs grew more slowly than income despite a revised collective salary agreement, the extension of the branch network and investments in transformation and technology. The cost-to-income ratio stood at 55.5%.

Loan-loss provisions increased in line with investment. Credit quality remains robust, with a non-performing ratio of 2.50%, coverage of 100% and cost of credit of 1.85%.

Uruguay (changes in local currency)

Strategy

The objective in 2017 was again to improve service quality and engagement among our customers via the launch of various products and services.
In the first quarter of the year the *Verano Select Experience,* was launched, establishing a new approach to relations with high-income customers. Furthermore, the *Buzonera inteligente,* was rolled out as part of the digitalisation process, with these terminals supporting deposits via online payments and capable of scanning cheques.

We also set up the country's first banking website to specialise in mortgages, while deploying a Virtual Assistant to provide front line service to customers in all digital channels.

Progress was made in our strategy of driving growth among digital customers, which now total 176,000 (+42% year-on-year), generating greater digital penetration.

Business activity and earnings

In terms of activities, lending was up 2%, driven by consumer lending and cards. Deposits were down 4% due to a decline in non-resident deposits and the strategy of enhancing the profitability of liabilities.

In terms of results, attributable profit in the year stood at EUR 103 million, 19% up on 2016, underpinned by revenue growth (+13%), which practically doubled that of costs (+7%).

The cost-to-income ratio continued its improving trend, dropping 2.9 pp from the previous year to stand at 48.5%.

Loan-loss provisions were up by 22%. The non-performing loan ratio stood at 2.84% and coverage at 130%, which are restrained levels and in line with a greater focus on retail banking.

Peru (changes in local currency)

Strategy

The Group's activity focuses on corporate banking and major companies in the country, as well as on providing service to the Group's global customers, and supporting the development of public infrastructure in the country.

A specialist business model is harnessed, with emphasis on close relations with customers and service quality, while simultaneously capitalising on operational synergies and business synergies with other Group units.

The vehicle finance unit continued to consolidate its operations over the course of the year. The company operates a specialised business model focused on service, helping customers to acquire new vehicles from a range of different brands, chiefly via dealers in the country.

Business activity and earnings

Lending was down 2% year-on-year due to the economic downturn and appreciation of the local currency, which affected the performance of balances held in dollars. On the other hand, deposits were up 12%, driven by the acquisition of new customers to drive diversification of sources of financing.

Attributable profit stood at EUR 40 million, up 7% against 2016. By items, revenue grew 4%, with a good performance from net interest income and gains on financial assets and liabilities, with costs rising 5% and a stable cost-to-income ratio at around 31%. Finally, there was a recovery in provisions due to a very low non-performing loan ratio (0.65%) and coverage at high levels.

Colombia (changes in local currency)

Strategy

The priorities for the Santander Group in Colombia are customers in the Global Corporate Banking segment, major companies and businesses, combining our local and global capabilities, and driving the construction of further services and products for these customers. Thus, Santander Group is focused on developing solutions in cash management, risk coverage, basic financing, project finance, M&A, deposits, accounts and reverse factoring, among others.

In 2017 the Bank launched a credit facility for vehicle financing with a specialised and integrated business model, providing services to brands, importers, distributors and end customers.

Business activity and earnings

Lending to customers stood at EUR 582 million, up 2% against 2016. Deposits, meanwhile, stood at EUR 255 million (+42%).

During 2017 we continued to expand the Group's capabilities, securing profits in the country, and achieving this amid a particularly challenging climate for the financial industry, as a result of insolvencies and declining domestic demand.

Attributable profit stood at EUR 6 million, compared to losses in previous years, chiefly due to gross income standing at EUR 26 million, up 36%, and a 97% reduction in loan-loss provisions.

United States (changes in local currency)

Strategy

2017 was an important year for Santander US from the regulatory point of view. SHUSA passed the Federal Reserve's stress tests in both the quantitative and qualitative aspects, with no objections raised against the capital plan. This will allow the country to focus on improving profitability, reducing costs and optimising the capital structure.

Banco Santander aims to improve the customer experience and its range of products and digital channels, leading us to narrow the service quality gap against competitors, and drive up the number of loyal customers by 8% in the year and digital customers by 5%. There is also a focus on improving business profitability. As a result of this initiative, financing costs declined and efficiency improved 4 percentage points during the year.

At Santander Consumer USA the strategy focuses on optimising the balance sheet asset mix, improving financing costs and securing maximum value from the agreement with Fiat Chrysler. To this end, Santander Consumer USA continues to prioritise its core segment, i.e. non-prime, while also expanding its market share in the prime segment. It is also working to secure a greater weighting for funding via deposits, in order to ensure more predictable results, shifting the balance towards a lower risk profile, but sustaining profitability adjusted for risk at similar to current levels.

Business activity and earnings

Looking at activities, lending was down 4% against 2016 due to the sale of a portfolio from Santander Consumer USA, and due to a decline in loan origination at Banco Santander, together with a reduction of GCB balances as part of price discipline aimed at improving profitability.

Meanwhile, customer funds were down 9% year-on-year due to lower balances in the government and GCB segments, driving up the weighting of core deposits within the funding structure.

Attributable profit in 2017 stood at EUR 332 million, down 7% measured against 2016. Stripping out one-off impacts in both years (in 2017 linked to hurricanes, the acquisition of a stake in Santander Consumer USA and tax reforms; and in 2016 the restatement of SCUSA accounts), underlying attributable profit posted an uptick of 5%, underpinned by a lower weighting for minority interests.

Income was down in the period, chiefly due to lower net interest income for Santander Consumer USA as a result of a business mix shift towards a lower risk profile, partially offset by easing provisions. Banco Santander, however, posted growth, supported by rising interest rates and lower financing costs, following balance optimisation efforts.

Costs were up as a result of investments in Santander Consumer USA and the holding, while costs for Banco Santander were virtually flat.

Finally, provisions were down 12% thanks to a shift in the portfolio mix and lower volumes for Santander Consumer USA.

Corporate Centre

The Corporate Centre reported a loss of EUR 2,326 million in 2017, compared to a loss of EUR 1,625 million in 2016.

Not factoring in one-off results either in 2017 (a net negative EUR 436 million divided on the one hand amongst write-downs on holdings, goodwill and other intangible assets, and on the other capital gains from the sale of Allfunds) or 2016 (negative EUR 186 million, mainly due to restructuring costs), the underlying attributable loss stood at EUR 1,889 million, compared to EUR 1,439 million in 2016.

The change was down to the cost increase generated from the centralised management of risks (chiefly exchange rate risks and interest rate risks); costs rising 6%, partly due to the launch of corporate projects; and other results combining with write-downs to post a negative figure to accounts of EUR 181 million, compared to EUR 75 million in 2016. These latter items reflect sundry provisions as well as gains, losses and impairment of financial assets. Furthermore, fewer taxes were recovered in 2016.

Retail & Commercial Banking

Santander maintains a clear and consistent commercial transformation strategy. The three main pillars of the transformation programme are as follows:

1. Improving customer loyalty and satisfaction.
2. Championing the digital transformation of channels, products and services.
3. Further driving customer satisfaction and the customer experience by striving for operational excellence, with new, more efficient and simpler multi-channel processes.

As part of these pillars, the following are worth noting:

1. In **customer loyalty**, the *1|2|3* strategy continues to gain momentum in the majority of regions, and as per year-end 2017 the number of loyal customers had increased 13% measured against the previous year.

   - Highlights include the 1|2|3 Smart account in Spain, aimed at millennials (available to 18 to 31-year olds), featuring tailored products and financing; the Zero account, a 100% digital and commission free account; Santander Plus in Mexico; and Mundo 1|2|3 in Portugal.

   - Meanwhile, Santander continues to launch innovative products tailored to its customers in each country. Examples include Select Me in Mexico, which seeks to support women in their everyday and professional lives; and the development of added value services and programmes aimed at driving growth for SMEs, such as the new ROF PyME business model, likewise in Mexico.

- We remain committed to supporting the long-term growth of SMEs. Our strategy in this segment is based on a global initiative, adapted to the local characteristics of each market. The outcome has been a higher rate of satisfaction among our customers, as well as independent recognition from specialist publications.

- We are securing robust growth in the cards segment, particularly in Brazil and Spain.

- Likewise, there has been a good response to the marketing of our airline loyalty programmes (American Airlines with *AAdvantage* in Brazil, *Santander Aeroméxico* in Mexico and *WorldMember Limited* in Chile).

2. Looking at the **digital strategy**, the number of digital customers grew 21% measured against 2016. The actions taken included:

- The launch of Openbank, Spain's first 100% digital bank, with one of the most complete, flexible and fastest platforms in the industry; *Superdigital* in Brazil, an independent payment platform aimed at young customers, extending the potential for banking the unbanked; *Súper Cuenta Digital* in Mexico, where our customers can open accounts via any Internet connected device, and the launch of Chile's first 100% digital onboarding system.
- In mobile payments, the launch of the *Súper Wallet* in Mexico, a mobile application that allows customers to centrally manage all of their cards, while in Spain we consolidated our standing as leader in mobile payments.

- Other digital initiatives included: in Spain the launch of *Digilosofía*; in Brazil the launch of *Consignado* 100% digital, with contracting via mobile devices, *Web Casas,* a digital platform for property loans, and *Santander Pass*, a bracelet featuring NFC technology for contactless payments; and in Poland, the *As I Want it Account* which allows customers to decide what they need and how to pay for their products and services.

3. In **operational excellence**, we are working on simpler, more efficient and multi-channel procedures. Standout aspects include:

- In Mexico, *Dinero Creciente* was relaunched, with simpler procedures and competitive rates.

- In Brazil, we expanded our commercial management team for SMEs, while also providing bundles of products with tailored terms and conditions.

- In Chile, the roll-out of *WorkCafé* branches continues; an innovative model for branches, featuring co-working areas, cafeterias and financial services.

- In the United Kingdom, new digital procedures were deployed to support online mortgage authorisation, as well as to allow customers to open current accounts and take out credit cards via digital channels.

- In the United States, the *Apple Pay* card was launched for retail customers, as well as *Treasury Link,* a cash management platform for commercial customers.

Meanwhile, *Santander InnoVentures* included in its portfolio three new financial technology companies. These were the British firms Pixoneye and Curve, and the North American firm Gridspace, thus expanding its focus on artificial intelligence as a technology that is set to transform banking over the coming years. There was also investment in the Mexican firm ePesos to promote financial inclusion.

In terms of results, attributable profit in 2017 stood at EUR 7,463 million, up 18% against 2016, excluding the interest rate effect.

The income statement was shaped by net interest income growth (+8%), a strong performance from of fees (+10%) across virtually all units, costs discipline and lower provisions.

Santander Global Corporate Banking (SGCB) (changes in constant currency)

The main actions taken over the year were as follows:

- Prioritising the efficient use of capital, via rigorous allocation of the same to the different businesses, and faster balance sheet rotation.
- Consolidation of the leading position in Latin America and Iberia in debt markets, capital markets, *project finance*, and financing via export credit agencies (ECAs). Robust growth in M&A operations across the majority of regions, particularly in the Asia-Latin America corridor.
- Development of two products in the Global Transaction Banking (GTB) business: Reverse factoring based on buy orders and the global Receivables Purchase Programme. Both solutions allow our customers to make optimal use of working capital.
- Greater integration with the retail and commercial banking networks, and strengthening the range of added value products for customers.
- Maintaining industry-leading cost-to-income levels, thanks to a business model focused on customers, which combines global and local capabilities in risk management, capital and liquidity.

The attributable profit generated in 2017 by Santander Global Corporate Banking stood at EUR 1,821 million, up 1%. These results were underpinned by the strength and diversification of customer revenues.

Revenues generated by the Corporate Finance and Global Transaction Banking activities were up, driven chiefly by fees and results from financial operations, following good performances from the United Kingdom, Continental Europe and Mexico. A vibrant market trend more than offset losses linked to the debit valuation adjustment (DVA), due to a declining cost of risk for Santander Group.

Meanwhile, costs grew 5% and provisions were stable.

2.5 Non-financial indicators

On 24 November 2017, the Spanish government passed Royal Decree Law 18/2017, which transposed into Spanish law the European Parliament and European Council Directive 2014/95/UE, dated 22 October 2014, amending Directive 2013/34/UE, regarding the disclosure of non-financial and diversity information.

The Directive applies to large public-interest entities with more than 500 employees on average during the year, and which can be classified as large companies for more than two consecutive years.

Non-financial reporting must include a brief description of the Group's business model, its policies and applicable results, the main risks associated with its activities, as well as information in terms of key non-financial results indicators with regard to aspects such as the environment, employees, human rights, combating corruption and bribery, and diversity.

Santander Group includes said information in this Directors' Report, which forms part of the audit report and annual financial statements for the year 2017 applicable to Banco Santander S.A. and all subsidiaries, listed in the cited document.

Additionally, in its Sustainability Report, which covers social and environmental policies, as well as its commitment and performance in terms of sustainability, Banco Santander provides detailed information on its actions pursuant to the matters described above. Said report was verified in 2017 by PricewaterhouseCoopers Auditores, S.L, an independent firm that likewise audited the Group's financial statements for said year.

When disclosing non-financial information (mainly via this report and the annual sustainability reports that the group has published since 2002, pursuant to the international Global Reporting Initiative- GRI-), Banco Santander conducts a materiality analysis to identify key aspects on which to report to its stakeholders in accordance with GRI standards (for further information on this methodology, see the 2017 Sustainability Report).

Specifically, the non-financial information provided in this report was drawn up with regard to the European Commission communication of 5 July 2017 on guidelines for non-financial reporting (methodology for reporting non-financial information 2017/C 215/01).

2.5.1 Business model and risk management

Santander Group's mission is to help drive the progress of people and businesses. To do this, it has in place a differential business model that aspires to cater to the needs of all types of customers: individuals with different levels of income, businesses of any size and across all sectors, private corporations and public institutions.

The business is underpinned by long-term personal relationships between the Bank and its customers. By constantly innovating, Santander is revolutionising its commercial model to secure a greater number of engaged and digital customers, which in turn drives the business towards greater profitability and sustainability.

Santander considers the due integration of ethical, social and environmental criteria within its financial activities to be paramount.

To this end, in accordance with best international practices on corporate social responsibility, Santander has a solid corporate governance structure in place, with the board established as the most senior decision-making body at the Group, with non-delegable responsibility for approving the Group's general policies and strategies, including those with regards to sustainability.

Sustainability policies have also been established (general policy, environmental and climate change management policy, human rights and volunteering policies), as well as other industry-specific policies (defence, energy, soft commodities - products such as palm oil, soy, timber and livestock), which establish the criteria that must be adhered to when engaging in financial activities associated with such industries. These policies are subject to annual review. In 2017, a new sector-wide policy was approved on mining and metallurgy.

The sustainability committee, chaired by the CEO and comprising the executive vice presidents of the Bank's main divisions, proposes policies and promotes the Group's key sustainability initiatives.

Santander's risk supervision, regulation and compliance committee supervises the corporate social responsibility policy, ensuring compliance therewith, and ensuring that it is geared towards creating value for the Bank.

Identifying non-financial risks associated with its activities is a priority for Banco Santander.

The Bank has established procedures to identify, analyse and evaluate all operations subject to Group policies, as well as to external commitments such as the Equator Principles, an initiative to which the Bank has been adhered since 2009.

In this regard, Santander recognises the rights of communities to enjoy a clean and healthy environment, and is committed to acting under the premise of minimising the environmental footprint of its operations, which means:

- Assuming, in line with the commitments accepted by the Bank under the Equator Principles, the obligation of analysing, identifying and correcting, during the risk analysis conducted with regards to financial activities, and in a manner consistent with the guidelines laid out by the International Finance Corporation, any negative social and environmental impacts, including those on local communities.

- As part of the analysis conducted in due diligence prior to entering into financing agreements, or agreements of any other nature within the context of the Equator Principles and social and environmental risk management policies, Santander undertakes to assess the policies and practices of its counterparties with regards to human rights.

- Developing specific policies that regulate the requirements for offering financing to those industries, activities or potential customers that may incur particular social, environmental or human rights risks.

Santander has a social, environmental and reputation working group in place, chaired by the Chief Compliance Officer, that assesses the risk associated with major transactions in sensitive sectors. This working group issues its corresponding recommendations to the relevant risk committees.

The Group is also featured on the foremost stock market indices that evaluate sustainable conduct at companies. Having been included on the Dow Jones Sustainability Index (DJSI) since 2000, in 2017 it stood as the highest ranked Spanish bank, the second placed European bank, and the ninth globally.

Since 2007 the Group has also been a signatory of the Carbon Disclosure Project (CDP), the international benchmark initiative for business reporting on climate change. It has filed the CDP Water Disclosure since 2012.

2.5.2 Environmental concerns

Seeking to deliver on the commitments established under the 2015 Paris agreement, Santander has set up a Climate Finance Task Force, a working group entrusted with establishing Santander's position and strategy in respect of climate change and identifying business risks and opportunities in the transition to a low-carbon economy.

Furthermore, Santander Group has adhered to a number of international commitments including some relating to the environment, such as the Equator Principles, the Soft Commodities Compact promoted by the Banking Environment Initiative and the declaration of the European Financial Service Round Table on climate change.

Over the course of 2017, the Bank continued development of a structured focus for its climate change strategy, seeking to secure the transversal involvement of business lines and other key internal functions, such as risk management, while continuing to provide standout value to customers and drive their involvement in safeguarding the environment.

The Bank's environmental actions focused on the following aspects:

a) Reduction of energy consumption and emissions

Since 2009, Santander has measured, calculated and controlled the environmental footprint of all Group installations.

The environmental footprint includes information on the electricity, fuel, water and paper used and the waste generated, as well as a breakdown of greenhouse gas emissions.

The 2016-2018 Three-Year Efficiency Plan, which aimed to cut electricity use and emissions by 9% and drive down paper use by 4%, was completed one year ahead of schedule.

In 2017 energy consumption fell 4.4%, while CO2 emissions and paper consumption were down 12.9% and 11.6%, respectively.

Green electricity accounts for 43% of the total electricity consumed by the Group. In the United Kingdom, Germany and Spain, this figure stands at 100%.

Santander still holds environmental certifications (ISO 14001 and LEED) for its corporate centres in Brazil, Chile, Spain, Mexico, Poland and the UK.

b) Integration of social and environmental risks in credit extension

The Group considers social and environmental aspects to represent key aspects for risk analysis and decision-making with regards to financing transactions, in accordance with its general and industry-specific sustainability policies, as commented above.

To this end, the Bank has established analysis and assessment procedures for those risks in all transactions subject to Group policies and to external commitments, such as the Equator Principles.

In order to adapt policy implementation to the requirements of each local unit, social, environmental and reputational risk working groups have been set up in the main regions within Santander's footprint. These groups, comprised of representatives from different areas of the Bank, are replicas of the corporate working group set up in 2015. These groups also help to share local knowledge, generating added value for the Bank.

c) Financing

Banco Santander, as part of its climate change strategy, develops and offers financial products and services that generate added environmental value, helping to drive the transition to a low carbon economy.

In this regard, the Bank is currently working on the following:

- Developing products and services that help to protect the environment, thus helping to drive adaptation to, and mitigation of, climate change.
- To identify business opportunities and preventing risk associated with climate change, via the Climate Finance Task Force.
- Applying the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) when establishing climate change strategy.

The main environmental products and services developed by the Bank are:

- Financing for renewable energy projects:
  - In 2017, Banco Santander helped finance new renewable energy facilities with approximately 3.300 MW total capacity versus the 4.000 MW reported in 2016.
- Energy efficiency financing facilities, in partnership with multilateral institutions:
  - In energy efficiency, Banco Santander channels the majority of its investments via multilateral institutions such as the European Investments Bank (EIB) or the European Bank for Reconstruction and Development (EBRD). These institutions are shifting their agendas to gradually bolster investments in this area, which represents a significant business opportunity for Banco Santander.
  - In 2017, further credit lines were arranged with the EIB and EBRD for a total amount of EUR **300** million for energy efficiency and renewable energy projects in Spain and Poland.

2.5.3 Social concerns

Banco Santander contributes towards economic growth and social advancement through initiatives and programmes that champion education, enterprise, job prospects and social well-being.

Banco Santander, through its Santander Universities programme, has forged long-term strategic alliances with universities from across the world, with upwards of 1,000 partnership agreements signed with academic institutions from 21 different countries.

Santander Universities champions various initiatives as a key driver of social progress and the growth of people and businesses alike. Santander X was launched in 2017 in a bid to become the biggest ecosystem for university enterprise and talent.

Santander receives 25,000 applications each year for the Santander Enterprise Awards and in 2017 the Bank awarded a total of 40,000 grants while contributing EUR 129 million to universities.

The Bank also invested EUR 55 million in community support initiatives through various local programmes. The Bank also encourages the involvement of its own employees in these initiatives as a means of promoting solidarity, motivation and a pride of belonging, while keeping them rooted in and engaged with their local community. Banco Santander develops and offers numerous products and services that respond to social needs and concerns, such as microcredits.

In 2017, Santander helped over two million people with their social projects.

2.5.4 Issues relating to human resources

At 31 December 2017, the Santander Group employed 202,251 professionals worldwide, with an average age of 38 years; 55% were women and 45% were men.

Santander aims to be one of the best banks to work for, capable of attracting and retaining the best talent globally, helping to accelerate the transformation and contribute to the progress of people and society.

The human resources strategy is focused on having the best team of professionals in place: a diverse, committed team, with a shared culture (based on corporate behaviours and a simple, personal and fair approach), ready to provide differential and high-quality service to customers.

To achieve this goal, Santander focuses its people management strategy on six broad strategic lines:

1. Talent management: identifying the finest professionals globally and helping them to secure personal and professional growth in a global environment. To this end, a new strategy is being developed, seeking to position the bank as an "employer of choice" for employees and external candidates, placing particular emphasis on digital talent.

2. Knowledge and development: providing training and ongoing development to optimise the skills and capabilities of employees in a digital and changing environment.

3. Compensation and benefits: establishing clear objectives and compensating not only results but also the manner in which they are achieved.

4. Employee experience: promoting commitment and motivation among teams, through initiatives that support listening, as well as more efficient and collaborative work methods in order to foster a work/life balance, recognition, and a healthy environment.

5. Systems: maximising the advantages of digitalisation in order to manage people in a simple, personal and fair approach.

6. Culture: ensuring that the Group shares the *Santander Way*, a common culture based on behaviours and our mission, vision and approach to doing things, to position Santander as a benchmark bank for employees, customers, shareholders and society at large.

Initiatives undertaken in 2017

Talent

- *MyContribution: a* new corporate model was launched for managing performance, to strengthen the Bank's culture as a further driver of transformation. *MyContribution* balances behavioural targets (40%) with functional and business targets (60%). This new model drives a change in mentality, focusing performance on professional development and sustainable improvement. The model is based on commitment, meritocracy and transparency. In order to implement the model, a communication and training initiative was provided for team supervisors, including *Discover MyContribution*, a training space for managers, featuring tools and materials to help them adopt the model.

- Succession planning for leaders: progress was made in succession planning for key positions at the Group, to ensure business continuity.
- Talent appraisal committees again met on a regular basis, with the support and input of senior management (country heads, members of management committees and corporate function heads). More than 2,500 executives were reviewed and an individual development plan was established for 49% of them.

- The ALPS (*Action Learning Programme Santander*) was launched, a learning programme aimed at managerial talent. ALPS combines development of leadership and problem-solving skills within a collaborative environment, and is sponsored by senior management.

- With respect to international mobility, the Bank further fostered employee development by harnessing a range of tools and programmes, such as:

  - Global Job Posting, the corporate platform that gives all the Group's professionals the opportunity to view and apply for vacancies in other countries, companies and divisions. Since its launch in 2014, over 2,700 jobs worldwide have been posted on the tool.

  - The 14th edition of Santander World was launched. This corporate development programme sees professionals work on three-month projects in other countries, thus fostering the exchange of best practices and enhancing their global vision. Since the start of the programme, 1,726 employees from 30 different countries have taken part in the initiative.

  - The first two modules of the *Talent in Motion* (TiM) training programme were run, seeking to fast-track the development of talented young people. This programme promotes mobility and offers participants the opportunity to gain international experience and to expand their strategic view of the Group, by assigning them to a host country and different functions than they are used to.

Employee experience:

- Global Engagement Survey: this survey provides insight into the team's commitment and engagement with the organisation, as well as identifying areas where we have improved and those that need further work to render them simpler, fairer and more personal. The key results from 2017 were as follows:

  - Participation: 84%

  - An engagement level of 77%, positioning us above high-performance businesses and the rest of the financial industry.

  - Progress in implementation of the SPF culture: 81% (+9 percentage points measured against 2016) of employees noticed conduct more in line with the SPF concept, and 92% (+1 percentage point against 2016) said they knew what needs to be done to build a greater SPF culture at the Bank.

- The 10th anniversary of the We Are Santander Week was held from 5 - 9 June 2017. This global initiative aims to convey Santander's culture to employees and to foster a sense of pride of belonging among the workforce. The 2017 edition featured a variety of activities organised in all countries, including *town hall* meetings, conferences and workshops focused on corporate behaviours.

- Santander fosters a culture of recognition within the Group via initiatives such as *Starme Up*. This global recognition network allows employees to mutually recognise colleagues that apply corporate behaviours in their day-to-day work. Through to December, a total of 111,300 employees from 31 different countries delivered 763,000 stars to their co-workers.

- Further efforts were made to deploy the Group's *BeHealthy* global health and well-being programme. This programme is evidence of Santander's commitment to the health of its employees, helping them to adopt healthy habits to ensure they keep fit, live better and achieve their maximum potential.
- The *BeHealthy* Week took place in February, featuring initiatives run in all countries based on the four cornerstones of the programme: *Know your numbers, Eat, Move, Be Balance.* Examples include the launch of WellmeApp in Argentina, the Health Risk Assessment, website in Mexico, the Bupa Sisu Health Stations in the United Kingdom and Medicover Days in Poland.

- The second BeHealthy challenge was also organised, harnessing our employees' steps to bridge the 66,000 km that separate the countries where Santander operates. The Bank donated one euro for every kilometre walked to an *Acción contra el Hambre* project to combat childhood anaemia in Peru.

- New ways of working: further efforts were made to create a new way of working at the Bank. New open-plan spaces are being set up at offices to promote collaboration and knowledge sharing. Employees are equipped with technology to keep them permanently in touch with teams in other countries. This initiative includes Flexiworking, seeking to eradicate the culture of presenteeism, and replacing it with a more flexible and efficient approach.

Knowledge and development

- A new global knowledge and development strategy has been designed, seeking to ensure continuous learning for all employees, under the slogan "Never stop learning". The strategy aims to foster new means of learning based on co-creation, collaboration, and cultivating our development.

- The Global Knowledge Campus was launched, a new training centre for sharing knowledge and good practices to help all Group employees drive a cultural change and improve our performance in each job position.

- The *Leading by example* programme was implemented, a training programme that helps leaders to understand their role in instilling the *Santander Way* and driving transformation.

- *Santander Business Insights* was held, a series of conferences that combined in-house and external insight to demonstrate to employees the importance of proper conduct each and every day.

Compensation

The principles guiding compensation at Santander Group are as follows:

- Compensation is aligned with the interests of the Group's shareholders and is focused on long-term value creation, while remaining in line with a rigorous risk management and with the Group's long-term values, interests and strategy.

- Fixed remuneration must represent a significant proportion of total compensation.

- Variable remuneration provides compensation for achieving set targets, based on each employee's position and responsibilities, while ensuring prudent risk management.

- Variable remuneration must promote good conduct and not provide incentives for the sale of a product or service if another product or service is more suitable for a customer's needs.

- Variable remuneration must also provide appropriate benefits to support employees.

- The general remuneration structure and package must be competitive, so as to attract and retain talented employees.

- Conflicts of interest must always be avoided with regards to decisions on remuneration, so that neither the Group nor any of its employees are influenced by secondary interests.

- There must be no discrimination in decisions regarding remuneration, except with respect to performance.

- The structure and amount of remuneration in each country should comply with all local regulations and laws.

Based on these principles, the Group has in place a comprehensive compensation system, which includes the following:

- Fixed remuneration, which recognises and compensates employees for their roles and levels of responsibility.

- Short- and long-term variable remuneration, which provides merit-based compensation for performance, the achievement of Group objectives, team objectives and individual objectives, while ensuring exacting risk management and alignment with long-term objectives.

- Benefits, including pension plans, that are coherent with local practices in the country where the employee is located.

Fixed remuneration is fundamentally determined by local market aspects. Compensation levels are determined based on local practices and closely adhere to the collective labour agreements prevailing in each region and at each company.

Corporate variable remuneration systems reward the achievement of the Group's strategic objectives. The corporate bonus schemes, to which more than 8,000 people in all regions are adhered, factor in aspects such as the achievement of strategic targets in terms of customer satisfaction and engagement, risk management, the liquidity base and risk-adjusted profitability. Schemes factor in both the quantitative aspects of achievements and qualitative aspects in terms of how they are achieved.

Furthermore, pursuant to European regulations on remuneration, the Group has identified Material Risk Takers, for which it has a policy of deferment of between 3 and 5 years and payment in shares (50% of variable remuneration). Furthermore, the variable remuneration for approximately 1,250 Material Risk Takers at year-end 2017 was subject to potential reduction (malus) and recovery (clawback) clauses.

Occupational health and safety

The Group's occupational health and safety policies are part of a wider sustainability strategy, established via a plan that is Simple, Personal (providing quality service to each employee, which benefits the health of the entire workforce) and Fair (with the ultimate aim of contributing to the health and well-being of our employees in particular and society more generally).

Santander's occupational health and safety plan, approved by senior management and made available to all employees via the corporate Intranet, is based on an excellence culture, with our management systems holding certifications such as ISO 9001:2015 and ISO 14001:2015.

During 2017 Banco Santander made further progress towards its objective of ensuring continued improvement in various aspects of health, well-being and occupational health and safety in all countries within its footprint:

- The Santander Heart Study (PESA), in coordination with the Spanish Centre for Cardiovascular Research, involving more than 4,000 employees from the Madrid region. The first findings of the study have been published in leading sector journals.
- The TANSNIP project, a sub-study as part of the Santander Heart Study, which aims to improve the lifestyle habits of 1,000 Group employees through personalised programmes, including motivational sessions guided by a team of psychologists, activity tracking tools and the voluntary installation of adjustable standing desks, in order to reduce sedentary behaviour during the work day.

	2017	2016
Headcount		
Number of employees	202.251	188.492
Average age personnel	38,0	37,7
Average years of service	10,3	9,3
Executives	11,9%	12,9%
Attraction		
CVs received	965.828	860.253
New hires in the Group	23.871	21.525
Rotation		
Annual rotation	13,4%	14,7%
Training		
Employees trained	95,9%	94,5%
Hours of training per eemployee	39,6	34,1
Total investment in training (€ million)	97,8	88,8
Management		
Employees promoted	9,8%	8,7%
Employees in international mobility	513	613
Executives in home country	89,6%	88,5%
Commitment		
Global commitment index	77%	78%
Remuneration		
Employees with variable remuneration	100%	100%
Diversity and equality		
% women	55%	55%
Health and occupational safety		
Absenteeism rate	3,2%	3,6%

2.5.5 Issues relating to human rights

In line with its corporate culture, Santander is committed to respecting and promoting human rights within its scope of operations, and to preventing or, if applicable, minimising any breach caused directly by its activities.

A specific policy is in place that encompasses Banco Santander's commitment to human rights, all pursuant to the highest international standards, particularly the United Nation's Guiding Principles of 2011.

The policy, approved by the board of directors, is applicable to the entire group and can be found at www.santander.com.

The Santander human rights policy is coherent with the Bank's General Code of Conduct and other corporate social responsibility policies.

2.5.6 Issues relating to eradicating corruption

Among Santander Group's strategic objectives is to have in place an advanced and efficient system to prevent money-laundering and the financing of terrorism, with this system being permanently aligned with the latest international standards and capable of addressing any new techniques harnessed by criminal organisations.

There is also a corporate framework establishing the principles for action in this regard, and establishing the minimum standards applicable to local units. These are entrusted with overseeing and coordinating procedures to prevent money-laundering and financing of terrorism, as well as investigating and processing reports of suspicious transactions, and likewise all supervisory reporting requirements.

The main business activity indicators for the initial scope of the Santander Group in 2017 were as follows:

- Subsidiaries reviewed: 167
- Cases investigated: 152,253
- Reports made to authorities: 41,204
- Employee training: 166,322

Following the acquisition of Banco Popular and until such time as all processes and other aspects have been fully integrated at the Group, the main indicators are as follows:

- Subsidiaries reviewed through internal audit reports: 16
- Cases investigated in Spain: 338
- Reported to SEPBLAC: 136 plus 39 responses to SEPBLAC (Prevention of money laundering and terrorist financing Committee in Spanish) requests for information
- Employee training: 8,799 employees in Spain

As a signatory of the ten principles of the United Nations Global Compact, Santander is committed to combating corruption in all forms, including extortion and bribery.

Furthermore, Santander Group has in place whistleblowing channels for employees, part of the General Code of Conduct, and for providers, designed to allow users to notify the Group's compliance and conduct officers of any inappropriate behaviour by Group employees in matters related to corruption and bribery, or any that contravene internal regulations.

In 2017 a total of 1,300 reports were filed, approximately one third of which ended in disciplinary proceedings. The whistleblowing channels were most frequently used to report issues relating to human resources matters, which accounted for around three quarters of all reports. The rest were made for a wide variety of reasons (such a fraudulent activity, conflicts of interest, miss-selling, and others).

2.5.7 Issues relating to diversity

As part of its commitment to supporting compliance with the Sustainable Development Goals (SDG), Banco Santander strives each and every day to promote attitudes that welcome diversity, as a means of expanding its human capital.

Banco Santander considers diversity to be an element that enhances its human capital, allowing it to establish an inclusive and diverse working environment that is conducive to generating the best possible solutions and offering greater added value.

Banco Santander's board of directors is an excellent example of diversity in all aspects. It features diversity in terms of gender (more than one third are women) and nationality (Spanish, British, United States and Mexican), while there are representatives from a wide range of sectors (financial, retail, technology, infrastructure and universities).
As part of employee talent management, Santander factors in all aspects of diversity, including gender, race, age, nationality, disability, culture, education, and professional and life experience.

In 2017 the Bank approved principles aimed at fostering diversity, which stand as a benchmark for all such initiatives implemented in the various countries where the Group has operations. These consider all of the aforementioned diversity factors and are applicable to all stages of talent management at the Bank (attraction, training, professional development, remuneration, etc.).

The main initiatives rolled out in 2017 were:

- United Kingdom. The Bank has developed a diversity and inclusion strategy based on four pillars: commitment to the main standards, employee awareness and training, identifying and developing the best talent while focusing on female talent, and positioning as an inclusive company.

- Brazil. Santander has developed a diversity portal that defines the Bank's commitment and provides general information both internally and externally. It has also developed specific action plans to champion gender diversity, racial diversity and functional diversity.

- Spain. Santander has been staging a mentoring programme, in which 400 employees have undergone mentoring processes aimed at developing female talent. Meanwhile, 48% of promotions carried out in 2017 and 50% of junior positions were awarded to women.

- Poland. Bank Zachodni WBK signed the Polish version of the EU Diversity Charter in 2017.

- In early 2018, Banco Santander adhered to the standards being promulgated by the United Nations to protect the LGTBI community at companies.

Meanwhile, Banco Santander has earned the highest score of the 104 companies that belong to the Bloomberg Gender Equality Index, which recognises good corporate management practices that promote equality and gender diversity on the workforce, among their customers and in society.

2.6 Income statement and balance sheet, Banco Santander, S.A.

Banco Santander, S.A. is the Head of a financial Group that operates in different countries through different businesses therefore its financial statements not only reflect its commercial activity in Spain, but also the activity derived from being the head of the Group. This last aspect makes it difficult to analyze its evolution, especially regarding the results more directly related to its holding nature.

As previously noted, for the correct interpretation of the individual financial statements of Banco Santander S.A., it is necessary to distinguish the results obtained by the commercial areas from those that derive from the holding activity as the parent company of Santander Group

Net interest income amounts € 2,257 million in 2017, 14.8% lower than in the previous year. It continues to be affected by low interest rates, asset repricing and price competitive pressure.

Income from equity instruments amounted to € 3,593 million in 2017. This amount includes the dividends received from subsidiaries of the Group whose distribution is determined by the Group's dividend policy.

Regarding net commission fees, they increased by 16.5% to € 1,972 million compared to 2016, mainly due to the payment services and customer transactions, as well as the contribution of wholesale banking.

The result from financial operations (including exchange differences) have a profit of 427 million euros, compared to 172 million euros in the previous year, mainly derived from higher revenues in 2017 due to interest rate and exchange rate hedging portfolio management.

General administrative expenses (staff expenses and other administrative expenses) were € 4,060 million, decreasing by 3.5%, due to the efficiency plans of previous years.

Impairment losses on financial assets (net) in 2017 were 524 million, 6.4% less than in the previous year. The endowments continue with the process of normalizing and the improvement of the cost of credit.

On the other hand, the impairment of investments in joint or associated businesses and non-financial assets was € 273 million (€ 484 million last year).

Profits on retirement of non-financial assets and holdings amounted to 572 million euros (345 million euros last year). This result is mainly explained by the capital reduction of Sterrebeeck, B.V. and Santander Holding International, S.A.

Finally, losses on non-current assets held-for-sale increase to € 95 million in 2017, which correspond mainly to real estate activity.

Thus, as explained above, margin net lines, dividends, income from financial operations (including exchange differences) and impairment of other assets include income, costs, losses or benefits arising from the Bank's holding activity and therefore, do not reflect the evolution of the operating activities integrated in the Bank. These lines have little economic significance outside the context of the consolidated Group.

Regarding the balance sheet, 31 December 2017, the Bank's total assets amounted to €492,415 million euros, increasing 6.7% over the previous year.

By financial statement line item, and amounts, the main variations that reflect the commercial activity of the Bank are summarized in:

Loans and receivables – Customers: at year end had EUR 174,814 million, decreasing 1.7% from the previous year. Solid commercial dynamics with good performance of the credit activity, despite the fact that the balance registered a decrease of 2%. Credit production increased over 2016, with a positive evolution in the main segments and especially in individuals and SMEs.

Financial liabilities at amortized cost - customers: at close of the year, amounted to 179,558 million euros, a decrease of 13.1% over the previous year. As a result of the merger of the bank with certain issuing companies in the year 2017, term deposits existing at December 31, 2016 amounting to 34 trillion euros were eliminated and debt securities for the same amount were created.

RESULT DISTRIBUTION PROPOSAL

Out of the net profit for the year 2017, EUR 2,997 million have been paid to shareholders and a further EUR 543 million have been earmarked under the scheme (Santander Dividend Election) approved by the Annual General Meeting of April 7, 2017, according to which the Bank has offered the option to receive an amount equivalent to the second interim dividend of 2017 in cash or new shares.

The remuneration per share of 2017 that the Board of Directors proposes to the General Shareholders' Meeting is 0.22 euros.

3. LIQUIDITY AND FUNDING RISK MANAGEMENT

3.1 Liquidity

First, we present the Group's liquidity management, the principles on which it is based and the framework in which it is included.

We then look at the funding strategy developed by the Group and its subsidiaries, with particular attention on the liquidity evolution in 2017. We examine changes in the liquidity management ratios and the business and market trends that gave rise to these over the past year.

The section ends with a qualitative description of the outlook for funding in the coming year for the Group and its main countries.

The information relating to wholesale funding, both short-term and medium- and long-term funding is expressed in nominal terms and using the end-period exchange rate, unless otherwise indicated.

3.1.1 Liquidity Management in Grupo Santander

Structural liquidity management aims to fund the Group's recurring activity optimising maturities and costs, while avoiding taking on undesired liquidity risks.

Santander's liquidity management is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term funding needs must be covered by medium- and long-term instruments.
- High contribution from customer deposits due to the retail nature of the balance sheet.
- Diversification of wholesale funding sources by instruments/investors, markets/currencies and maturities.
- Limited recourse to short-term wholesale funding.
- Availability of sufficient liquidity reserves, including standing facilities/discount windows at central banks to be used in adverse situations.
- Compliance with regulatory liquidity requirements both at Group and subsidiary level, as a new factor conditioning management.

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The effective application of these principles by all institutions comprising the Group required the development of a unique management framework built upon three essential pillars:

- A solid organisational and governance model that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by Local Asset and Liability Committees (ALCO) in coordination with the Global ALCO, which is the body empowered by Banco Santander's board in accordance with the corporate Asset and Liability Management (ALM) framework. This governance model has been reinforced as it has been included within the Santander Risk Appetite Framework. This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

- In-depth balance sheet analysis and measurement of liquidity risk, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement, both in normal and stressed conditions. The Group's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite defines maximum tolerance levels for key risk factors using internal and regulatory metrics in both normal and stressed market conditions, which establish the limits within which the subsidiaries can operate in order to achieve their strategic objectives.
- Management adapted in practice to the liquidity needs of each business. Every year, based on business needs, a liquidity plan is developed which ensures:
    - a solid balance sheet structure, with a diversified presence in the wholesale markets in terms of products and maturities, with moderate recourse to short-term products;
    - the use of liquidity buffers and limited encumbrance of assets;
    - compliance with both regulatory metrics and other metrics included in each entity's risk appetite statement.

Over the course of the year, all dimensions of the plan are monitored.

The Group continues developing the ILAAP (*Internal Liquidity Adequacy Assessment Process*), an internal self-assessment of liquidity adequacy which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as an input to the SREP (Supervisory Review and Evaluation Process). The ILAAP evaluates the liquidity position both in ordinary and stressed scenarios. In the Risk chapter of this report, there is a brief description of the considered scenarios.

As a result of the aforementioned process, a regulatory requirement is that once a year the Group must send the supervisor a document, signed by the Board of Directors, that concludes that the Group's funding and liquidity structure remains solid in all scenarios and that the internal processes are suitable to ensure sufficient liquidity. This conclusion is the result of analysis carried out by each of the subsidiaries, following the Group's autonomous liquidity management model.

The Group has a robust structure suited to the identification, management, monitoring and control of liquidity risks, established through common frameworks, conservative principles, clearly defined roles and responsibilities, a consistent committee structure, effective local lines of defence and a well-coordinated corporate supervision.

Additionally, frequent and detailed liquidity monitoring reports are generated for management, control and informational purposes. The most relevant information is periodically sent to senior management, the Executive Committee and the Board of Directors.

Over the last few years, the Group and each of its subsidiaries have developed a comprehensive special situations management framework which centralises the Bank's governance in these scenarios. Contingency funding plans are integrated within this governance model, detailing a series of actions which are feasible, pre-assessed, with an established execution timeline, categorised, prioritised and sufficient both in terms of volumes as well as timeframes to mitigate stress scenarios.

3.1.2 Funding strategy and liquidity evolution in 2017

3.1.2.1 Funding strategy and structure

Santander's funding activity over the last few years has focused on extending its management model to all Group subsidiaries, including new incorporations, and, in particular, adapting the strategies of the subsidiaries to the increasingly demanding requirements from both markets and regulators.

- Santander has developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in its main units, even during periods of market stress.
- Over the last few years, it has been necessary to adapt funding strategies to reflect commercial business trends, market conditions and new regulatory requirements.
- In 2017, Santander continued to improve in specific aspects based on a very comfortable liquidity position both at Group and subsidiary levels, with no significant changes in liquidity management or funding policies or practices. All of this enables us to face 2018 from a strong starting point, with no material growth restrictions.

In general terms, the funding strategies and liquidity management approaches implemented by Santander subsidiaries remain as follows:

- Maintain adequate and stable medium- and long-term wholesale funding levels.
- Ensure a sufficient volume of assets which can be discounted in central banks as part of the liquidity buffer.
- Strong liquidity generation from the commercial business through lower credit growth and increased emphasis on attracting customer deposits.

All these developments, built on the foundations of a solid liquidity management model, enable Santander to enjoy a very robust funding structure today. The basic features of this are:

- High share of customer deposits due to its retail focused balance sheet. Customer deposits are the Group's main source of funding, representing just over two-thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and 92% of net loans as of December 2017. Moreover, these deposits are a highly stable due to the fact that they mainly arise from retail client activity. This represents an increase with respect to the 2016 figure of 87%. The liquidity evolution explains the majority of this change.

Santander Group liquidity balance sheet

% at December 2017

Net lending	75%	Deposits	69%
Fixed assets and others	9%	Securitisations	4%
Financial assets	16%	Medium- and long-term funding	14%
		Equity and other liabilities	12%
		Short-term funding	2%
Assets	100%	Liabilities	100%

- Wholesale funding diversified in terms of issuers, markets and instruments, focusing on medium- and long-term markets with a limited reliance on short-term funding. Medium- and long-term wholesale funding accounts for 18% of the Group's net funding, compared with 20% at the end of 2016, and comfortably covers the lending not funde d by customer deposits (commercial gap).

This funding is well balanced by instruments (approximately 43% senior debt, 23% securitisations and structured products with guarantees, 23% covered bonds, and the rest preferred shares and subordinated debt) and also by markets so that those with the highest weight in issuances are those where the Bank's investor activity is the strongest.

The following charts show the distribution of the Group's customer loans and its medium and long-term wholesale funding, so that their similarity can be appreciated.

Net loans to customer. December 2017

€ million and %

Euro Zone	360,635	43%
United Kingdom	243,617	29%
Other Europe	22,220	3%
USA	71,963	9%
Brazil	70,454	8%
Other Latam	75,679	9%
Operating areas	844,568	100%

M/LT wholesale funding. December 2017

€ million and %

Euro Zone	90,401	45%
United Kingdom	53,466	27%
Other Europe	473	0%
USA	27,662	14%
Brazil	15,799	8%
Other Latam	11,523	6%
Operating areas	199,325	100%

With regards to the breakdown of net customer loans, compared to 2016 there has been a notable increase in the weight of the Euro Zone, largely due to the incorporation of Grupo Banco Popular into Grupo Santander, as its main area of operations was the Euro Zone. Likewise, there was a similar increase the Euro Zone's weight in medium- and long-term funding partly due to Popular and partly due to issuance activity throughout the year.

The bulk of the Bank's medium- and long-term funding is made up of debt issuances. The outstanding balance as of December 2017 was EUR 153,961 million in nominal terms, with a comfortable maturity profile and a weighted average maturity of 5.0 years, a favourable increase compared to the 4.3 years as of end 2016.

The following table shows total wholesale funding by instrument in the last three years, including the relevant profile of contractual maturities.

Medium and long term issuance. Grupo Santander

€ million

	Change in outstanding balance at nominal value		
	31.12.17	31.12.16	31.12.15
Preferred shares	10,365	8,515	8,491
Subordinadated	12,049	11,981	12,262
Senior debt	85,962	89,568	83,630
Covered bonds	45,585	39,513	45,010
Total	**153,961**	**149,578**	**149,393**

Medium and long term issuance. Grupo Santander

million									
	Distribution by contractual maturity, December 2017*								
	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	ore than 5 yea	Total
Preferred shares	-	-	-	-	-	-	-	10,365	10,365
Subordinadated	-	-	197	86	-	580	129	11,057	12,049
Senior debt	1,309	3,017	4,048	4,556	1,484	14,285	36,784	20,479	85,962
Covered bonds	3,100	-	2,133	250	-	5,001	18,693	16,408	45,585
Total	**4,409**	**3,017**	**6,377**	**4,891**	**1,484**	**19,866**	**55,606**	**58,310**	**153,961**

* In the case of issues with put option in favour of the holder, the first early redemption date of the put option is considered instead of the original contractual maturity date.

Note: there are no additional guarantees for any of the debt issued by the Group's subsidiaries.

It is worth noting that compared to 2016 the volume of issuances with a maturity date within the next year has decreased.

In addition to the debt issuances of the medium- and long-term wholesale funding, the Bank has securitisations placed in the market, collateralised funding and other specialist funding amounting to a total of EUR 45,364 million with a residual maturity of 1.7 years.

Wholesale funding stemming from short-term issuance programmes is a residual part of the Group's funding structure (accounting for around 2% of net liabilities), is related to treasury activities and is comfortably covered by liquid assets.

The outstanding balance as of end 2017 was EUR 20,999 million distributed as follows: various certificate of deposit and commercial paper programmes in the UK, 43%; European Commercial Paper, US Commercial Paper and domestic programmes issued by the parent bank, 17%; issuance programmes in other units, 40%.

On 9 November 2015, the Financial Stability Board (FSB) published its final principles and term sheet containing an international standard to enhance the loss absorbing capacity of global systemically important institutions (G-SIIs). The final standard consists of an elaboration of the principles on loss absorbing and recapitalisation capacity of G-SIIs in resolution and a term sheet setting out a proposal for the implementation of these proposals in the form of an internationally agreed standard on total loss absorbing capacity (TLAC) for G-SIIs. Once implemented in the relevant jurisdictions, these principles and terms will form a new minimum TLAC standard for G-SIIs.

Directive 2014/59/EU of 15 May 2014 on recovery and resolution of credit institutions and investment firms (BRRD) includes an additional loss absorption concept and a minimum eligible liabilities requirement known as MREL (Minimum Required Eligible Liabilities) which applies to all entities operating in Europe, not only those the G-SIIs. MREL and TLAC are discussed further in the Capital section of this report.

The medium-and long-term debt issuances that are considered to be MREL/TLAC eligible are preferred and subordinated debt. The ability of senior bonds to be MREL/TLAC eligible instruments depends on the insolvency legislation in the country of domicile of the issuer. For example, in Spain, recent legislation has created a new instrument category known as senior non-preferred, an instrument which Banco Santander has been a pioneering issuer in. In other countries, such as the UK or the United States, subordination is structural and is achieved by issuing ordinary senior debt via the entity's Holding company. Contractual subordination is also possible where a clause is included in the contract stating that the issuance is subordinate to certain liabilities.

3.1.2.2. Evolution of liquidity in 2017

The main aspects of liquidity in 2017 can be summarised as follows:

i Basic liquidity ratios remain at comfortable levels.

ii We are continuing to achieve regulatory ratios ahead of schedule.

iii Moderate use of encumbered assets in funding operations.

i. Basic liquidity ratios remain at comfortable levels

The table shows the evolution of the basic monitoring liquidity metrics at the Group level over the last few years:

Grupo Santander. Monitoring metrics

	31.12.17	31.12.16	31.12.15
Net loans / Total assets	75%	75%	75%
Net loans to Deposit ratio (LTD)	109%	114%	116%
Customer deposits and medium and long term funding / Net loans	115%	114%	114%
Short term wholesale funding / Net liabilities	2%	3%	2%
Strutural liquidity surplus (% / net liabilities)	15%	14%	14%

As at end-December 2017, Grupo Santander recorded:

- A stable credit to net assets ratio (total assets minus trading derivatives and inter-bank balances) of 75%, in line with recent years. This high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance sheet.
- Net loan-to-deposit ratio (LTD) of 109%, very comfortably within the target range (below 120%). This stability shows a balanced growth between assets and liabilities.
- The ratio of customer deposits plus medium- and long-term funding to lending was 115% at the end of 2017.
- Limited recourse to short-term wholesale funding. The ratio was around 2%, in line with previous years.
- Lastly, the Group's structural surplus (i.e. the excess of structural funding sources - deposits, medium- and long-term funding and capital - as a percentage of structural liquidity needs - fixed assets and loans-) rose in 2017, to an average of EUR 156,927 million, higher than at the end of the previous year.

As at 31 December 2017, the consolidated structural surplus stood at EUR 163,957 million. This consists of fixed-income assets (EUR 162,586 million), equities (EUR 22,958 million), partly offset by short-term wholesale funding (-EUR 20,999 million) and net interbank and central bank deposits (-EUR 587 million). In relative terms, the total volume was equivalent to 15% of the Group's net liabilities, in line with December 2016.

Having discussed the principal liquidity ratios at Group level, the following table sets out the ratios for for Santander's main units as at end 2017:

Main units and liquidity metrics

December 2017

	LTD ratio	Deposits + M/LT funding / Net loans
Spain	79%	160%
Popular	117%	100%
Portugal	100%	115%
Santander Consumer Finance	254%	66%
Poland	92%	111%
United Kingdom	106%	117%
Brazil	101%	122%
Mexico	87%	123%
Chile	143%	95%
Argentina	76%	134%
United States	141%	110%
Total Group	**109%**	**115%**

Generally speaking,there were two key drivers behind the evolution of the Group's liquidity and that of its subsidiaries in 2017 (excluding the forex effect):

1. Good performance in deposits in the main geographies where the Group operates, particularly in Spain and in the UK. This performance has helped to narrow the commercial gap, as deposit growth has more than outstripped the increase in lending.
2. Debt issuance momentum continued, especially in the European units, though more targeted in its execution due the lower balance sheet needs. In particular, issuances that are expected to be TLAC and MREL eligible have been prioritised.

In 2017, the Group as a whole has captured EUR 51,740 million of medium- and long-term funding (calculated using year-average exchange rates).

In terms of instruments, medium and long-term debt instruments (senior debt, covered bonds, subordinated debt and preferred shares) showed the greatest increase, up around 15% to EUR 37,775 million, mainly due to senior and preferred issuances. Securitisation and structured finance activity increased 6% compared to 2016, at EUR 13,965 million.

By geography**,** the largest issuers of medium- and long-term debt were Spain, the UK and Santander Consumer Finance. Santander Consumer Finance further increased its diversification this year in terms of funding sources and has accessed senior and *pfandbriefe* markets in Germany for the first time. Compared to 2016, Spain and Portugal increased the most; Spain due to the need to build MREL and TLAC eligible liability buffers, explaining the limited covered bond issuance in the year in favour of unsecured debt. In Portugal's case, as a consequence of funding needs deriving from the integration of Banco Popular Portugal into Santander Totta following Popular's resolution and subsequent sale to Santander.

The main issuers of securitisations were Santander Consumer Finance and the United States, via its consumer lending subsidiary Santander Consumer USA.

The breakdown by instrument and geographic region is as follows:

Breakdown of 2017 issues by instrument

€ million and %

Preferred shares	2,321	4%
Subordinadated	1,282	2%
Senir debt	28,992	56%
Covered bonds	5,181	10%
Securitisations and other	13,965	27%
TOTAL	51,740	100%

Breakdown of 2017 issues by region

€ million and %

United Kingdom	9,537	18%
Spain	14,336	28%
United States	12,171	24%
Santander Consumer Finance	9,026	17%
Brazil	3,029	6%
Other Europe	2,137	4%
Other Latam	1,505	3%
TOTAL	51,740	100%

The weight of covered bonds issued in the year remains in line with 2016 at 10% of total issuances. However, in contrast to last year when the main issuers were Santander and the UK, in 2017 the main issuers were Portugal and the UK.

Grupo Santander regularly holds different types of meetings with analysts, investors and shareholders in which we disclose our strategic funding plans for the coming years. Analysing the issuance activity over the course of the year in the main geographies and comparing it to the information presented at the beginning of 2017, we can conclude the following:

- Santander parent bank marketed around EUR 3 billion of hybrid securities, in line with forecasts; roughly EUR 10 billion of senior non-preferred, in the lower range of that disclosed to the market; and completed its funding plan with senior preferred and covered bond expectations of just over EUR 1 billion.
- Santander Consumer Finance issued senior preferred debt in line with the amounts disclosed to the markets.
- The UK issued over EUR 2 billion of senior debt via its holding company, in line with expectations, and less than EUR 1 billion of hybrid debt, below forecasted amounts due to lower funding needs. The UK completed its funding plan by directly issuing around EUR 4 billion of senior and covered bond securities.
- The United States issued around EUR 4 billion of senior debt via its holding company, somewhat above disclosed volumes.
- In the year, using year-average exchange rates, the Group as a whole issued EUR 19.825 billion of MREL/TLAC eligible securities, of which EUR 16.222 billion were senior non-preferred and eligible senior debt, EUR 2.321 billion were AT1, and EUR 1.282 billion were subordinated debt.

In summary, Grupo Santander retained its comfortable access to the different markets in which it operates, reinforced by new issuing units and products. In 2017, we issued debt and securitisations in 14 different currencies, with participation from 22 relevant issuers in 14 countries and with an average maturity of 5 years, slightly above the previous year.

ii. Compliance with regulatory ratios ahead of schedule

Under its liquidity management model, over the last few years Grupo Santander has been managing the implementation, monitoring and compliance with the new liquidity requirements established under international financial regulations ahead of schedule.

LCR (*Liquidity Coverage Ratio*)

The regulatory requirement for this ratio in 2017 was set at 80%. As of 1 January 2018 the requirement increased to 100%. As a result, the Group, both at a consolidated and subsidiary level, has increased its risk appetite from 100% in 2017 to 105% in 2018.

The Group's strong short-term liquidity starting position, combined with autonomous management in all major units, enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated and individual levels.

As at end 2017, the Group's LCR ratio stood at 133%, comfortably exceeding regulatory requirements. The following table provides detail of the LCR ratio by unit, which shows the considerable excess over requirements:

Liquidity Coverage Ratio

	31.12.17
Santander	130%
Popular	146%
Santander Consumer Finance	201%
Portugal	123%
Poland	141%
United Kingdom	120%
United States	118%
Brazil	126%
Chile	138%
Mexico	188%
Grupo Santander	133%

NSFR (*Net Stable Funding Ratio)*

The final definition of the net stable funding ratio approved by the Basel Committee in October 2014, has not yet come into effect. The Basel requirement still needs to be written into the CRR, which is expected to be published in the second half of 2018. The NSFR regulatory requirements will only become binding two years after its inclusion into European Law.

However, the Group has defined a management limit of 100% at the consolidated level and for almost all of its subsidiaries.

With regards to this ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs deriving from commercial activity funded by medium- and long-term instruments and limited recourse to short-term funds. Taken together, this enables Santander to maintain a balanced liquidity structure, reflected in NSFR ratios greater than 100%, both at Group and individual levels as at end December 2017.

In particular, the NSFR of the parent bank was 105%, the UK 121%, Brazil 109% and the United States 110%.

In short, the liquidity models and management of the Group and its main subsidiaries have enabled them to meet both regulatory metrics well ahead of schedule.

iii. Asset Encumbrance

Lastly, it is worth highlighting Grupo Santander's moderate use of assets as collateral in the structural funding sources of the balance sheet.

In line with the guidelines established by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance sheet assets pledged as collateral in operations to obtain liquidity as well as those off-balance sheet assets received and re-used for a similar purpose, in addition to other assets associated with liabilities other than for funding reasons.

See Note 54 for further information regarding these assets.

3.1.3 Funding outlook for 2018

Grupo Santander starts 2018 with a comfortable liquidity position and with good prospects for the coming year. However, some risks to stability remain namely those related to funding regulation uncertainties.

With manageable debt maturities over the next few quarters, supported by the low weight of short-term funding and an issuance dynamic expected to be in line with recent years, the Group will manage each geographic area in order to optimise liquidity usage and to maintain a robust balance sheet structure in the units and in the Group as a whole.

For the Group as a whole, reduced commercial needs are envisaged as, in most cases, the increase in lending is expected to largely be counter-balanced out by increases in customer deposits. The greatest liquidity requirements will stem from Spain, both Banco Santander and Banco Popular, Santander Consumer Finance and from the UK.

At Group level, Santander will continue with its long term plan to issue liabilities with loss-absorbing capacity, regardless of whether they are considered to be capital instruments or not. This plan seeks to enhance the Group's current regulatory ratios efficiently, and also takes into account future regulatory requirements. Specifically, the TLAC principles and term sheet require a minimum TLAC requirement to be determined individually for each G-SII at the greater of (a) 16% of risk weighted assets as of 1 January 2019 and 18% as of 1 January 2022, and (b) 6% of the Basel III Tier 1 leverage ratio exposure measure as of 1 January 2019, and 6.75% as of 1 January 2022. Although currently TLAC is only an international agreement awaiting to be transposed into binding regulations in the different jurisdictions (CRR in the case of European G-SIIs), the Group is already incorporating and covering potential requirements into its funding plans.

On the other hand, the MREL requirement was scheduled to come into force by January 2016. However, Commission Delegated Regulation (EU) No. 2016/1450 of 23 May 2016 (the "MREL RTS") gave discretion to resolution authorities to determine appropriate transitional periods to each institution. Under the current proposal of the European Commission to implement TLAC requirements into European regulation, institutions such as Banco Santander would continue to be subject to an institution-specific MREL requirement (i.e., a Pillar II add-on MREL Requirement), which may be higher than the requirement of the TLAC standard (which would be implemented as a Pillar I MREL requirement for G-SIIs). In this sense, we expect Grupo Santander's MREL requirement to be communicated to us by the Single Resolution Board ("SRB") during 2018/2019, based on the current regulation (BRRD). (See 1.6 under Capital Management and Adequacy Solvency Ratios).

Given this focus, Santander plans to issue between EUR 2 billion and EUR 3 billion of hybrid instruments in 2018, and between EUR 7 billion and EUR 10 billion of senior non-preferred; Santander Consumer Finance between EUR 4 billion and EUR 6 billion of senior debt and will continue to develop its *pfandbriefe* programme in Germany; UK expects to issue between EUR 6 billion and EUR 8 billion of senior debt, both via the Holding company and directly via the bank and will complete its funding programme with between EUR 2 billion and EUR 4 billion of covered bonds; and finally, the United States plans to issue between EUR 1 billion and EUR 2 billion during the year.

The Group's units, especially Santander Consumer Finance and the US via Santander Consumer USA, have budgeted for securitisations whose execution will depend on loan origination in line with the business plan.

Within this general picture, several of the Group's units took advantage of the positive market conditions at the beginning of 2018, issuing close to EUR 7 billion in January and the first few days of February.

3.2 Capital

Capital management and adequacy in Santander Group seek to guarantee the solvency of the entity and to maximise its profitability, while guaranteeing compliance with internal capital targets and regulatory requirements.

It is a fundamental strategic tool for decision-making at local and corporate level and enables a common operating framework, establishing a definition and standardisation of criteria, policies, functions, metrics and processes in relation to capital management.

The Group's capital function takes place on two levels:

- Regulatory capital: the regulatory management part of the analysis of the capital base, of the capital adequacy ratios under the criteria of current legislation and of the scenarios used in capital planning. The objective is for the capital structure to be as efficient as possible in terms of both cost and compliance with regulatory requirements. Active capital management includes capital allocation strategies and the efficient use in businesses, as well as securitisations, asset sales and issuance of equity instruments (preferred shares and subordinated debt) and equity hybrids.

- Economic capital: the purpose of the economic capital model is to guarantee that the Group has adequately assigned the capital at its disposal for all the risks to which it is exposed as a result of its activity and risk appetite, and aims to optimise the value creation of the Group and the business units of which it is comprised,

  The real economic measurement of the capital necessary for an activity, along with the return on it, guarantee the optimisation of value creation, through the selection of those activities which maximise the return on capital. This assignment is made under different economic scenarios, both forecast and those which are unlikely but plausible, and with the capital adequacy level determined by Santander Group.

Capital stress tests are a key tool for the dynamic evaluation of banks' risk exposure and capital adequacy.

This forward-looking assessment is based on both macroeconomic and idiosyncratic scenarios that are highly improbable but nevertheless plausible. To conduct the assessment, it is necessary to have robust planning models capable of transferring the effects defined in the projected scenarios to the various elements that impact on the Bank's capital adequacy.

The ultimate goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.

Since the 2008 economic crisis, the Santander Group has undergone six stress tests in which it has demonstrated its strength and capital adequacy in the face of increasingly extreme and severe macroeconomic scenarios. All the tests showed that, thanks mainly to the business model and geographic diversification existing in Santander Group, Banco Santander is capable of continuing to generate profits for its shareholders and complying with the strictest regulatory requirements.

These results show that Santander Group's business model, based on retail and commercial banking and geographic diversification, increases its strength to face up to the even the most severe international crisis scenarios.

In 2017, the EBA carried out the 2017 transparency exercise, through which information was published on risk-weighted assets, capital, capital adequacy and details of sovereign positions at December 2016 and June 2017, for 132 banks and 25 European countries. The objective of this exercise was to promote transparency and knowledge about European banks' capital and capital adequacy data, thereby enhancing market discipline and financial stability in the EU. It is important to point out that the results do not include the capital increase carried out by Santander Group in relation to the acquisition of Banco Popular Group, but that the RWAs of the acquired bank were computed. Taking into account the capital increase, the CET1 ratio would have stood at 10.72%.

Internally, the Santander Group has defined a capital planning and stress process, to serve not only as a response to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The purpose of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in highly unlikely, though plausible, economic scenarios. To this end, taking as a basis the Group's initial position (as defined by its financial statements, its capital base, its risk parameters and its regulatory ratios), estimates are made of the expected outcomes for the Group in various business environments (including severe recessions as well as expected macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The planned process provides a comprehensive view of the Group's capital for the time horizon analysed and in each of the scenarios defined. The analysis incorporates regulatory capital, economic capital and available capital metrics.

Since 2008, Santander Group has conducted annual internal stress tests as part of its internal capital adequacy assessment process (Pillar II). All of them similarly showed Santander Group's capacity to stand up to the most difficult tests, both globally as well as in the main regions in which it operates.

In regulatory terms, phase-in eligible own funds stood at EUR 90,706 million, equivalent to a total capital ratio of 14.99% and a Common Equity Tier 1 (CET1) phase-in ratio of 12.26%. The minimum ratios the European Central Bank has set for the Santander Group on a consolidated basis for 2018 are a total capital ratio of 12.155% and CET1 of 8.655% phased in.

The main changes in regulatory capital are as follows:

General details of the total RWAs that make up the denominator of the risk capital requirements, and a breakdown by geographic segment are given below:

Risk weighted assets

€ million

	RWA		Minimum capital requirements
	31.12.17	31.12.16	31.12.17
Credit risk (excluding CRR)	**485,578**	**471,882**	**38,846**
Of which standardised approach (SA)	280,082	271,519	22,407
Of which the foundation IRB (FIRB) approach	30,964	25,570	2,477
Of which the advanced IRB (AIRB) approach	158,777	153,605	12,702
Of which Equity IRB under the Simple riskweight or the IMA	15,755	21,187	1,260
CCR	**14,667**	**13,867**	**1,173**
Of which IRB approach	8,529	9,308	682
Of which standardised approach	3,586	3,851	287
Of which risk exposure amount for contributions to the default fund of a CCP	313	313	25
Of which CVA	2,240	395	179
Settlement risk	**1**	**1**	**0**
Securitisation exposures in banking book (after cap)	**3,678**	**2,234**	**294**
Of which IRB approach	708	1,224	57
Of which IRB supervisory formula approach (SFA)	1,774	112	142
Of which standardised approach	1,196	898	96
Market risk	**24,161**	**26,079**	**1,933**
Of which the standardised approach	9,702	11,864	776
Of which IMA	14,459	14,215	1,157
Operational risk	**61,217**	**61,084**	**4,897**
Of which Standardised Approach	61,217	61,084	4,897
Amounts below the thresholds for deduction (subject to 250% risk weight)*	**15,762**	**12,941**	**1,261**
Floor adjustment	**—**	**—**	**—**
Total	**605,064**	**588,088**	**48,405**

Capital requirements by geographical distribution

€ million

	Total	Spain	United Kingdom	Rest of Europe	Brazil	Rest of Latam	United States	Rest of the world
Credit risk	39,529	11,344	6,264	7,951	4,963	4,412	4,503	92
Of which internal rating-based (IRB) approach (*)	15,862	6,229	4,125	3,744	831	736	195	—
- Central governments and Central BANKS	57	55	—	—	—	2	—	—
- Institutions	739	394	143	90	—	112	—	—
- Corporates – SME	8,698	4,253	1,306	1,489	831	622	195	—
- Corporates - Specialised Lending	1,422	555	550	197	—	121	—	—
- Corporates – Other	5,748	2,931	545	842	831	403	195	—
Retail - Secured by real estate SME	101	42	0	59	—	—	—	—
Retail - Secured by real estate non-SME	3,765	802	2,331	632	—	—	—	—
Retail - Qualifying revolving	331	125	175	31	—	—	—	—
Retail - Other SME	385	153		232	—	—	—	—
Retail - Other non-SME	1,787	406	170	1,210	—	—	—	—
Other non-credit-obligation assets	—	—	—	—	—	—	—	—
Of which standardised approach (SA)	22,407	3,986	2,118	4,191	4,054	3,671	4,308	79
Central governments or central banks	358	3	0	—	144	193	18	—
Regional governments or local authorities	18	4	0	5	1	6	1	—
Public sector entities	32	0	—	5	—	15	12	—
Multilateral Development Banks	—	—	—	—	—	—	—	—
International Organisations	1	1	—	—	—	—	—	—
Institutions	482	98	25	48	78	70	162	1
Corporates	5,735	512	1,262	1,199	980	853	927	2
Retail	7,783	626	479	1,869	1,864	1,213	1,662	72
Secured by mortgages on immovable property	3,154	338	54	622	330	820	986	4
Exposures in default	842	297	32	116	155	165	77	1
Items associated with particular high risk	192	13	—	25	—	146	8	—
Covered bonds	36	—	33	3	—	—	—	—
Claims on institutions and corporates with a short-term credit assessment	0	0	—	—	—	—	—	—
Collective investments undertakings (CIU)	23	21	1	0	—	—	0	—
Equity exposures	45	27	—	17	—	0	—	—
Other items	3,705	2,046	232	280	502	190	454	0
Of wich Equity IRB	1,260	1,129	20	16	77	4	—	13
Under the PD/LGD method	211	115	11	12	67	4	—	2
Under internal model	499	465	10	4	10	0	—	11
Under simple method	121	121	—	—	—	—	—	—
Under the simple risk-weight approach	429	429	—	—	—	—	—	—
Counterparty credit risk	491	157	173	48	36	41	14	21
Of which standardised approach	287	37	117	45	32	21	14	21
Of which: Risk exposure amount for contributions to the default fund of a CCP	25	13	11	—	0	0	—	—
Of which: CVA	179	107	45	3	4	20	0	—
Settlement risk	0	0	—	—	—	—	—	—
Securitisation exposures in banking book (after cap)	294	129	68	47	—	8	42	0
Of which IRB ratings-based approach (RBA)	57	57	—	—	—	—	—	—
Of which IRB Supervisory Formula Approach (SFA)	142	68	36	38	—	—	—	—
Of which Standardised approach (SA)	96	4	32	9	—	8	42	0
Market risk	1,933	1,103	333	29	147	306	15	—
Of which standardised approach (SA)	776	540	40	28	147	6	15	—
Of which internal model approaches (IMA)	1,157	563	293	0	—	300	—	—
Operational risk	4,897	1,193	683	787	627	709	898	—
Of which Standardised Approach	4,897	1,193	683	787	627	709	898	—
Amounts below the thresholds for deduction and other non-deducted investments (subject to 250% risk weight)	1,261	543	11	120	362	177	45	3
Floor adjustment	—	—	—	—	—	—	—	—
Total	48,405	14,470	7,532	8,982	6,135	5,653	5,517	116

* Including counterparty credit risk

The following table shows the main changes in risk capital requirements:

Flow statement. Capital requirements for credit risk*

€ million

	Risk weighted assets	Capital requirements
Starting figure (31/12/2016)	**500,216**	**40,017**
Asset size	4,677	374
Asset quality		
Model updates	-7,407	-593
Methodology and policy		
Acquisitions and disposals	49,562	3,966
Foreign exchange movements	-29,915	-2,393
Other		
End figure (31/12/2017)	**517,133**	**41,371**

* Includes capital requirements of equity, securitisations and counterparty risk (excluding CVA and CCP)

In fully-loaded terms, the CET1 ratio rose from 10.55% at 31 December 2016 to 10.84% at 31 December 2017. The fully-loaded total capital ratio was 14.48%, up 61 basis points in the year.

Further information on capital, capital requirements and capital adequacy ratios, as well as the Group's management policies and criteria, can be found in note 1.e to the consolidated financial statements and also in the disclosure of prudential information that is published annually.

4. RISKS

The Group's business is exposed to the same risks as those faced by other financial institutions; risks that could have a material adverse impact on it if they occur.

The Group's geographical diversification means that it is sensitive to the economic conditions in continental Europe, the United Kingdom, the United States, Brazil and other Latin American countries.

The Group's ordinary business is also subject to other factors, such as strong competition, market volatility, the cyclical nature of certain businesses, market, liquidity and operational risk, losses due to litigation and regulatory proceedings, as well as other factors that may negatively affect the Group's earnings, its rating and/or funding costs, including risks not identified or envisaged in the Group's risk management methods, policies and procedures.

Risk management is one of the key functions enabling Santander to remain a solid, safe and sustainable bank, earning the trust of its employees, customers, shareholders and society as a whole.

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

- Advanced and comprehensive risk management, taking a forward-looking approach that ensures a medium-low risk profile, coherent with the appetite for risk defined by the board of Banco Santander, as well as the identification and assessment of all risks.
- Lines of defence that allow risk to be managed at origin, with control and supervision, as well as independent assessment.

- A model of autonomous subsidiaries with robust governance, based on a well-defined structure of committees, while ensuring the independence of the risk management and control functions.
- Due oversight of information and technological infrastructure to allow the identification, monitoring and management of all risks, and communication of the same to the appropriate levels.
- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks.
- All risks are managed by the units that generate them, using advanced models and tools.

These principles, along with a key set of interrelated tools and processes established in Group strategy planning (risk appetite, risk identification and assessment, scenario analysis, risk reporting framework, budgetary processes and so on), comprise an essential control framework for managing the risk profile.

The main risks that the Group faces and the policies and methodologies used to control, manage and mitigate the risks are described in the notes to the accompanying consolidated financial statements, mainly in note 54. The notes include information on credit risk, market risk, operational risk, country risk, compliance and reputational risk, foreclosures, restructuring and refinancing transactions and risk concentration.

The Bank's senior management considers that within the intrinsic risks of the banking business, in recent years the emerging risks have been those related to the macroeconomic environment, regulatory change and reputational and conduct risk. The treatment and mitigating actions for these risks are also described in note 54 to the accompanying consolidated financial statements.

5. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No significant events occurred from 1 January 2018 up to the date of preparation of these consolidated financial statements.

6. EXPECTED OUTLOOK

The report contains certain prospective information reflecting the plans, forecasts or estimates of the directors, based on assumptions that the latter consider reasonable. Users of this report should, however, take into account that such prospective information is not to be considered a guarantee of the future performance of the entity, inasmuch as said plans, forecasts or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not match the performance initially expected. These risks and uncertainties are described in the Risks section of this report and in note 54 of the financial statements.

We forecast world economy growth in 2018 of around 3.9%, slightly above the 3.7% of 2017 and well above the 3-3.5% range of the last few years.

This consolidation of the recovery seen in 2017 will slow down in both advanced and emerging economies.

Advanced economies will once again grow at around 2.3% thanks to a certain upturn in the US economy, which will offset, perhaps by some degree, euro area growth, which is expected to be slightly lower than in 2017. Financing conditions, the US fiscal stimulus package and the confidence of economic agents all suggest this.

Emerging economies will grow by 4.9% in 2018, just above the figure of 4.7% recorded in 2017. These projections are based on the improved credibility of economic policies, the recovery of commodity prices, good global financial conditions, the control of inflation and a slight slowdown in Chinese growth.

In Latin America, we expect the recovery which began in 2017 to be confirmed and growth to reach levels of around 2%, supported by a very broad base and with Brazil and Argentina now showing more consistent growth rates as their policies gain credibility. Mexico, affected by the uncertainty resulting from the NAFTA talks and a tightening of its monetary policy, is likely to see growth stall, but everything points to the rest of the region growing somewhat faster than in 2017.

There will continue to be a clear difference in monetary policies among advanced economies, between the United States, where the Fed seems likely to introduce gradual new rate rises at the same time as it reduces the size of its balance sheet; and the euro area where the ECB will keep interest rates at their current levels and continue to increase (though more slowly) its balance sheet. In the United Kingdom, the Bank of England is expected to increase the base rate slightly in the second half of the year.

Long-term rates are expected to gradually rise once the increase in growth is established and inflation rises moderately, although substantial increases are not expected, especially in Europe, given the direction of monetary policy. The slope of the rates curve will tend to become steeper.

Interest rate movements will also be uneven in emerging economies, although in general the downward trend seen in these countries in recent times will come to an end and we may even see it reversed. In Latin America in particular, perhaps with the exception of Mexico, where they have already risen, it is likely that interest rates will stay the same or even rise, apart from in Argentina.

In any case, the continued modest levels of inflation, due in part to causes of a structural nature, would suggest that any rate increases will tend to be moderate ones, given the current stage of the economic cycle.

The balance of short-term risks is somewhat skewed towards an increase, but with exceptions: on the positive side, increased consumer and business confidence and the favourable financial conditions –and perhaps an unexpected rise in productivity- could see forecasts being revised upwards; on the negative side, although the chances of a geopolitical or economic-political shock (in particular in the US and Europe) have reduced, but if it were to occur it would bring with it a downward revision, potentially far more pronounced. Especially at a time when market valuations are tight, risk aversion is at a minimum and volatility is surprisingly low.

The Group is facing this situation after a year in which it met all of its targets, reflecting an increase in the number of engaged and digital customers, in volumes in local currency, in profit and earnings per share, an improvement in the cost of lending and exceeding the capital target set at the start of the year.

The Group's ultimate objective is to become the best bank for individuals and companies, earning the long-lasting confidence and loyalty of employees, customers, shareholders, and society. The Group will continue with its commercial transformation in order to raise its return on capital employed.

Banco Santander's solid position in 10 key markets puts us in a privileged position to take advantage of the opportunities that the current economic environment offers us. In mature markets, our emphasis is on improving profitability, adapting the business models to increase customer satisfaction and market share. In emerging markets, we will try to use the beneficial market conditions to gain market share and to further improve our operational efficiency.

In 2017, we achieved the objectives we had set ourselves and we begin 2018 with the aim of achieving those announced in the latest Group Strategy Update.

To help us do this we have set the following management goals and priorities:

- Improve earnings quality against a backdrop of strong pressure on margins, especially in developed markets.
- Gain market share on a sustained basis, since our growth opportunities are in those markets where we already operate.
- Continue with the commercial and digital transformation plan without affecting the cost-to-income ratio. Offset the investment plan with the application of cost-saving measures.
- Improve the main risk metrics. Manage the main loan-loss provisions deriving from the increase in forecast volumes and the impact of the new accounting standard on recognition of provisions (IFRS 9).
- Manage TLAC issues and the higher financial costs for the excess of liquidity.

The management priorities of the main units for 2018 are described below:

Europe

Spain. GDP is expected to grow by about 2.7% in 2018, above the level forecast for the euro area as a whole, while inflation is expected to remain low (below 2%). Lending should gradually recover during the year.

In this context, the following priorities have been set:

- Secure our leadership in Spain with the acquisition of Popular, combining the best of both entities.
- Strengthen our competitive edge as a benchmark bank for SMEs, with high added-value products, while at the same time we maintain leadership of the wholesale banking and large companies segments.
- Increase customer loyalty, maintaining the 1|2|3 strategy as a lever to improve the customer relationship and customer satisfaction in the long term.
- Maintain sustainable returns with a model based on the advanced management of risk, capital planning and management.

Meanwhile, priorities for 2018 at Banco Popular are as follows:

- Make progress in the achievement of the objectives set at the time of acquisition.
- Optimise the structure of the entity, improving the cost-to-income ratio. Cost savings will be reflected progressively in the income statement, as the year progresses.
- Continue to analyse the best alternatives to the joint ventures and non-strategic businesses that remain on our balance sheet, in such a way that they fit into the Banco Santander business model.
- Increase customer loyalty and satisfaction, as part of the commercial transformation process that we are carrying out in all Group units.

The real estate segment in Spain will maintain its strategy of shedding assets, thereby reducing its exposure, primarily in lending.

Santander Consumer Finance. Leveraging its position in the European consumer market, this area seeks to make the most of its growth potential. Its priorities are centred on:

- Maintain our leadership position in the new auto financing market and grow used auto financing, generating added value for manufacturers.
- Manage brand agreements and the development of digital projects proactively.
- Accompany our partners in their transformation plans, both for the digitalisation of the vehicle purchase and financing process and in other strategic projects.
- Reorganise the German business under the same brand, with greater efficiency and better and more comprehensive customer service.
- Increase digitalisation through collaboration with fintechs and agreements signed with the main retailers.

Poland. We expect economic growth will remain strong in 2018, at around 4%, supported by strong export demand and domestic consumption.

The objectives for the year are:

- Convert Bank Zachodni WBK into a benchmark bank for customers.
- Grow faster than competitors, backed by digitalisation.
- Maintain our position as the country's most profitable bank.

- Carry out the operations needed to complete the acquisition of Core Deutsche Bank Polska on the planned date and to proceed with its merger.

Portugal . GDP will start to slow in 2018, to around 1.8%. The economy will continue to perform well as a result of higher investment and exports, and progress will also continue to made in private and public sector deleveraging.

Santander will focus on:

- Integrating Banco Popular and improving the cost-to-income ratio.
- To strength, our position as Portugal's major private bank with an additional increase in market share.
- Grow lending, supported by the business segment and in customer funds, mainly those which are off-balance sheet.
- Progress further with our digital transformation and the simplification of processes, increasing engagement.

United Kingdom. Economic activity will be slightly slower, with an increase of 1.4% in GDP forecast. The uncertainty related to the progress of the Brexit negotiations on the transition period and future trade relations between the UK and the EU will impact on growth, sterling and feed through into higher inflation. The Bank of England is expected to raise its base rate by a further 25 basis points, to 0.75%, at the end of the year in order to steer inflation towards its 2% target.

In light of this scenario, the Bank will continue to pursue excellence, prioritising its customers' needs. To this end, it has formulated the following strategic lines:

- Continue to focus on customer loyalty as a driver of growth.
- Develop our Investment Hub and Neo CRM platforms, and improve cross-border relations with customers through international trade agents.
- Prioritise operating and digital excellence in order to offer our customers the best possible experience.
- Increase profits in a predictable manner while maintaining our strong balance sheet.

America

Brazil. After the return to growth in 2017, overcoming one of the worst recessions of the last few decades, the Brazilian economy will consolidate its recovery in 2018 with forecast growth of above 3%.

Against this backdrop, Santander Brazil's priorities in 2018 are:

- Achieve excellence in services, to ensure Santander Brazil offers the best possible customer experience.
- Continue to consolidate the leadership position in product and digital services innovation.
- Maintain the profitable gains in market share, with appropriate offers for each customer profile.
- Continue to drive recurring growth, backed by the increase in commercial activity, greater operational efficiency and improvements in digital strategy.

Mexico. We expect economic growth to stabilise at around 2.1% in 2018 (2.1% in 2017), albeit with gradual quarterly improvements driven by exports and private consumption.

Within this context, Santander must continue to strengthen its business in order to consolidate its position. The key aspects of management in 2018 will be:

- Continue with our commercial transformation and innovation to make ourselves Mexico's number one bank for our customers.

- Implement the new distribution model based on micro-market strategy, new commercial model and new branch design.
- Continue to drive digitalisation, remote customer service models, customer experience and better information and analysis.
- Remain focused on capturing salary deposits and on strengthening the Santander Plus offer.
- Maintain our leadership in services to corporate customers, so as to continue the consolidation of the contribution of this segment to the Bank's income.

Chile. The Chilean economy is expected to recover in 2018, with forecast growth of around 3%.

The focus of the Bank's strategy will be to:

- Continue to improve the quality of customer service and customer experience.
- Carry on with the changeover of branches to the WorkCafé model.
- Drive our growth among mass income customers through Santander Life.
- Grow more in lending and saving than our peer group, aided by a more buoyant economy.
- Achieve high levels of efficiency and productivity through excellence in the execution of, and increase in, digitalisation.

Argentina. Argentina's economic recovery will be consolidated, with growth of 3.5% forecast, in an environment of lower inflation and a reduction in the fiscal deficit.

Management priorities at Banco Santander Río will focus on:

- Make the business acquired from Citibank profitable.
- Continue with the transformation plan toward a digital bank, with improved efficiency, customer loyalty and satisfaction.
- Grow in consumer lending, mortgages, credit lines and foreign trade, along in businesses with the public sector.
- Grow significantly in terms of customer funds, especially in investment funds and products.

United States. GDP is expected to grow for the ninth consecutive year, rising to 2.5% from 2.3% in 2017.

The focus of Santander's management in the country will be to:

- Continue making progress on regulatory issues at Santander US.
- Improve customer loyalty and experience, with a special focus on products and global connectivity.
- Carry on with the initiatives relating to cost-saving, central services integration and obtaining synergies in the entities, to improve efficiency and drive profitability.
- Continue optimising Santander Bank's balance sheet, whilst simultaneously increasing volumes and improving margins.
- Maintain leadership in SC USA in auto financing, ensuring a suitable risk-return profile in the non-prime sector and increasing the number of prime originations through Chrysler.

7. RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

The Santander Group has made innovation and technological development a strategic pillar in order to respond to new challenges stemming from the digital transformation, with a focus on operating excellence and customer experience.

Moreover, as a global systemic entity, Santander, along with its individual subsidiaries, is subject to increasing regulatory requirements that impact the systems model and the underlying technology. This makes it necessary for Santander to devote additional investments to ensure compliance and legal certainty.

Consequently, as in previous editions, the European Commission (the 2017 EU Industrial R&D Investment Scoreboard, with data from 2016) recognises the entity's technological effort, ranking the Santander Group as the leading Spanish company and the first global bank in the study according to own funds investment in R+D.

In 2017, technological investment in R+D+i stood at EUR 1,470 million (3% of gross income).

Technological Strategy

The Santander Group is starting from a sound, robust technological position, which is recognised as one of the best of banks with a global reach. The Group stands out for its global infrastructure with state-of-the-art data processing centres, the Partenon & Altair common core banking and the powerful shared-services centres model that allows for knowledge specialisation and allows the Bank to utilise efficiencies in all its locations.

The Group's technological strategy has continued to evolve to facilitate the Group's digital transformation, taking into account the technological trends in the market (Mobility, Cloud, Big Data, Cognitive, Social, and extended ecosystems).

The technology platform will assist the development of new business capabilities at the Group, thanks to the new technologies of:

- Application Lifecycle Management (ALM): tools for automating the management and roll out of software.
- Data & Cognitive: structured and unstructured big data handling from different sources (BigData & Analytics), and the introduction of artificial intelligence and cognitive capacities.
- Application Programming Interface (API) Management: new tools for developing, publishing and executing APIs (internal or for third parties).
- Methodologies, processes and tools: new ways of working that enable an agile and collaborative development.

Infrastructure

The Group has a small number of high quality, strategically located data processing centres (DPCs). Five pairs of world class or Tier IV DPCs (according to Uptime Institute standards) are located near the Group's largest business volumes: Boadilla del Monte and Cantabria, Spain; Campinas, Brazil; Carlton Park, United Kingdom; and Querétaro, Mexico.

This shared global infrastructure (interconnected through the Group's own communications system, GSNET) not only makes it possible to provide high levels of quality and efficiency for the business and for customer service but also ensures compliance with regulatory requirements and minimises operational risk.

In addition, cloud infrastructures are being more deeply developed, with the aim of automating the provision and management of infrastructure, and improving the productivity of the developer, making it possible to consume and roll out services quickly and automatically. The current focus of this is developing mobility solutions.

Cybersecurity

Santander considers cyber-security to be one of the Group's main priorities and a crucial component underpinning its vision of 'helping people and businesses to prosper' and 'offering excellent digital services to our customers'.

In 2017, the Santander Group continued to strengthen its cybersecurity practices and has established a new global framework for its management. The new framework has been approved by the Group's board of directors and establishes the main roles and responsibilities to manage cybersecurity globally and proactively. The following advances of the new cybersecurity framework particularly stand out:

- The appointment of a new Global Chief Information Security Officer, with extensive experience and international recognition, as the head of global cyber-security in the Group.
- The start up of a new cybersecurity organisation, implementing global defences and coordinated throughout all of the Group's subsidiaries.
- The launch of employee awareness activities, including regular "ethical phishing" campaigns to train Santander employees on how to identify cyber threats in a practical way and reinforce the idea that security is everybody's responsibility.
- The strengthening of preventive cybersecurity controls such as access control, and malware and vulnerability management.
- The reinforcement of the monitoring activity capacity in IT infrastructure in order to detect and react to possible intrusions.
- The undertaking of various cyber-crisis simulations for the purpose of implementing the response plans and increasing the preparation for crisis scenarios.
- The use of "ethical hacking" tests to continually assess and boost cyber defences.
- Monitoring maximum-level security through the Group's board of directors and the cyber-security committee, in which the Group's main executives participate.

Focal points of the digitalisation process

In addition to the new technology platform, the evolution of infrastructure and the cybersecurity initiatives referred to above, Santander Group has based its digital transformation on the following measures:

1. Improve the customer experience through the channels (with a focus on mobile banking and remote customer management) and the digitalisation of processes.
2. Improved data quality, handling and use (Big Data & Analytics, new CRM platforms and so on), along with the introduction of artificial intelligence and cognitive capacities.
3. Cultural change: new ways of working by using tools and collaborative methodologies and with a focus on innovation.

Specifically, the most noteworthy lines of progress, by geographical region, in 2017 were as follows:

1. Improving the customer experience in the channels:

- The Group has continued to promote the development of applications designed specifically for smartphones and tablets. The objective is for the Group's customers to have access, immediately and from anywhere, to the services offered by the Bank. In addition, important agreements have been entered into with mobile telephony providers to increase the use of mobile devices among both the customers and employees of the Group.

  The main projects in the area of mobile banking include:

  - Improving the offering of services and payments over mobile banking, allowing customers to make payments at stores, withdraw money at ATMs and make transfers between mobile numbers, among other functionalities. In Brazil, for instance, the Santander Way app has been developed and now enables Santander Brazil customers to pay their bills from their mobile phone using NFC technology, meaning contactless payment. The launch of Santander Wallet (super Wallet) was also extended into Mexico in 2017. The Samsung Pay mobile payment service has been added in Santander Spain, which has become the only entity that allows its customers to pay using both the Apple and the Android systems, which will enable it to lead the mobile payment market in Spain. Additionally, the functions of cashpoints continue evolving and improving the customer experience in their use. Among the latest innovations are the option of using a smart mobile phone or watch for ATM operations.

  - Also in 2017, the new mobile banking app for managing insurance policies has been introduced, both in Santander Río (the first in its country) and Brazil, which allows their customers to open, manage and track a home insurance claim via the app.

  - A number of the Group's mobile banking apps have been awarded prizes in their own regions. Santander Chile's app, for which it has launched new functions (including card administration, claim management and so on), was named as the most valued in the Chilean market in the GFK Adimark Customer Satisfaction Survey 2017. Bank Zachodni WBK's mobile app won the award for best mobile banking app in Poland from the experts of Bankier.pl.

  - Last but not least, new apps have been launched in the Santander Universities area, with Germany (Santander Training and Santander Enterprising) and Brazil (Academicxs) particularly standing out.

- The websites of the Group's different banks have also continued to improve. The most noteworthy progress in 2017 was the redesign of the website for individuals in Brazil, and the new tools added to the website in Mexico (including smart search, virtual assistant and assisted chat) which ensure a unique user experience based on simplicity and improved browsing. Also of note in 2017, was the recognition of the Corporate Centre Intranet as one of the world's ten best by Nielsen Norman Group, a benchmark company in analysis and consulting.
- The new *SmartRed* branch concept has continued its expansion, with 1,000 branches transformed in six countries, and offers the customer a differential experience through a more agile, simple and technologically intuitive service model. Specifically, 60 branches in the United Kingdom, 60 in Mexico, 100 in Brazil and 150 in Spain were transformed in 2017. The WorkCafé experiment in Chile has also been well received.

- Notable in the area of simplification and reduction of manual processes (process digitalisation), is the development of customer identification techniques and Know your customer (KYC), which are driving the implementation of the onboarding processes of the "digital First" paradigm in Mexico, Poland, Chile, Brazil, Spain and the United Kingdom. The latest biometric techniques allow the enrichment of these processes, and they are already being applied in Poland, Spain, Brazil and Chile.

In 2017 the following stand out in this regard:

- The new Openbank, as the first fully digital Spanish bank. Santander Group's online entity provides customers with a comprehensive portfolio of products and services through a totally redesigned mobile app and web page.

- The new digital account opening process for Santander UK branches, that allows advisers to significantly reduce processing time through, among other things, automatic data completion, the simplification of screens and going paperless.

- The onboarding process at Santander Chile, which is the first in the country to be "100% digital". Santander Chile has also developed a robust system that enables executives to visit their customers with a tablet that brings together all the information needed for a sales visit.

- Similarly, Santander Brazil has launched *Superdigital*, an upgrade of *ContaSuper*, which offers a product more focused on the financial market, more intuitive and which aims to simplify the use of money as we know it.

- The rest of the Group's banks continue to make improvements to their processes, for example in Poland, where *Kredit SME* has been launched; a process where an SME can arrange an instalment loan in just 5 "clicks" through the mobile and internet channel. This same bank has successfully introduced remote identification (video verification) for onboarding of new customers via digital channels, and it has made after-sale processes available to its customers through digital channels, for direct end-to-end execution by the customer, which removes the need for back office involvement.

- Remote customer administration is obtaining excellent results in Brazil and Spain, and it has been launched in two new countries this year: Mexico (*Santander Connect*) and Portugal (*Santander Proximo*). These models combine the quality of our advisers with the ease of using fully digital processes and communications that prepare the Bank for the future of customer management.

2. Improved data quality, handling and use (Big Data & Analytics, new CRM platforms and so on), along with the introduction of artificial intelligence and cognitive capacities, which improve knowledge of customers and the identification of their needs.

   - Chatbots were introduced in six Group countries and in the Corporate Centre in 2017, improving the customer experience and simplifying customer and employee management.

   - Various banks in the Group are undertaking the first projects applying artificial intelligence and which enable greater agility in decision making and better risk management. This has been the case in the United Kingdom (instant loans for SMEs) and Spain (cognitive assistants for insurance and back office), among others.

3. Cultural change: cultural change not only implies a transformation in the way of relating to customers and partners; it also requires innovation both in work tools and the processes to develop them.

   - The Group is promoting the adoption of Agile methodologies based on Design Thinking, Scrum and DevOps, which entail tight cooperation between business and technology, with multidisciplinary teams that seek new designs for customer experience.

     This innovative way of approaching projects has achieved many good results in the Group's various geographic regions, in particular in Spain, which was awarded the Agile Best DevOps Finance Project prize for developing agile methodologies from the areas of Technology and Operations and Business as part of the Strategic Insurance Plan.

- In addition, several applications targeting employees have been developed. These applications' functionalities include the ongoing-feedback app and the peer-recognition app, in order to reinforce the corporate behaviours that are the foundation of the Group's culture.

Lastly, Santander is positioning itself in the **Fintech ecosystem** (Financial Technology) as an innovative bank and a benchmark in the sector, which gives it an insider view to stay ahead of and participate in up-and-coming digital trends.

To develop this strategy, which goes beyond the digitalisation of daily operations, the Bank is working on more innovative aspects and has a "Corporate Venture Capital Fund" (Santander InnoVentures) which invests in and promotes strategic alliances with start-ups related to the financial industry.

Santander InnoVentures is Santander's Corporate Venture Capital Fund. Created in July 2014 with an initial award of USD 100 million, the fund was increased in 2016 by an additional USD 100 billion. Its objective is to position Santander as one of the main actors in the wave of transformation brought about by the FinTech ecosystem.

With Santander InnoVentures, the Group intends to take part in the digital revolution and ensure that all of its customers around the world can benefit from the most recent technologies in the financial sector.

The Fund invests, through non-controlling stakes, in the equity of these start-ups and, at the same time, helps them to make agreements (commercial and/or strategic) within the financial sector and gives them access to all the Group's experience and experts. Therefore, in addition to providing capital, Santander InnoVentures also provides scale and experience to the start-ups in which it invests, which helps them to grow and, at the same time, promoting the introduction of new technologies in the Group's business and those of its customers. At the start of 2018, Santander InnoVentures' portfolio included 18 companies covering such areas as, among others: payments, marketplace lending, e-advisory, customer risk and analysis, and artificial intelligence.

The Santander blockchain laboratory has grown, and now has 20 people exploring the potential use of the main blockchain technologies like Ethereum or Hyperledger, so as to drastically improve efficiency, security and the performance of the Bank's infrastructure; in particular in the areas of international payments, capital markets, regulation, compliance and audit. Santander has played a key role in the blockchain community in general, through the founding and launch of Enterprise Ethereum Alliance together with the world's major financial and non-financial institutions, and the launch of Alastria, the blockchain network in Spain.

8. ACQUISITION AND DISPOSAL OF TREASURY SHARES

Transactions involving the purchase and sale of treasury shares by the Company or by other companies controlled by it shall conform to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.

The Bank, by a resolution of the board of directors on 23 October 2014, approved the current treasury share policy taking into account the criteria recommended by the CNMV.

Treasury stock trading will be used to:

- Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.

- Take advantage, to the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance.

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

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

- They may not be carried out for the purpose of intervening in the free formation of prices.
- Trading may not take place if the unit responsible for executing the trade is in possession of insider or material information.
- Where applicable, the execution of buy-back programmes and the acquisition of shares will be permitted to cover obligations of the Bank or the Group.

At 31 December 2017, the Bank held 3,913,340 treasury shares, representing 0.024% of its share capital at that date (at 31 December 2016: 1,476,897 treasury shares, representing 0.010% of the Bank's share capital).

Transactions with treasury shares performed in the Group's interest by the consolidated companies in 2017 entailed the acquisition of 239,028,959 shares, at an average purchase price of EUR 5.48 each, for an effective amount of EUR 1,309.4 million.

The sale entailed the disposal of 236,592,516 shares at an average price of EUR 5.63 each, for an effective amount of EUR 1,331.6 million.

The after tax net impact generated by transactions in shares issued by the Bank in 2010 represented a gain of EUR 26 million, which was recognised by the Group in Shareholders' Equity – Reserves. The effect in terms of earnings-per-share was negligible.

Note 34 of the accompanying consolidated financial statements and sections A.8 and A.9 of the annual corporate governance report provide further information on the treasury share policy and the acquisition and disposal of treasury shares.

9. OTHER RELEVANT INFORMATION

9.1 Stock market information

Santander's shares trade on the continuous market of the Spanish stock exchanges and on the New York, London, Milan, Lisbon, Warsaw, São Paulo, Mexico City, and Buenos Aires stock exchanges.

At 31 December 2017, the shares of Banco Santander Río S.A.; Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brazil) S.A.; Bank Zachodni WBK S.A.; and Santander Consumer USA Holdings Inc. traded on official securities markets.

The total number of shareholders at year-end is 4,029,630, of whom 3,818,125 are European shareholders who control 77.94% of the share capital, 200,671 are American shareholders with 21.22% of the share capital, and 10,834 are shareholders from the rest of the world with 0.84% of the share capital.

At year-end 2017, Banco Santander was the largest bank in the euro area and the fourteenth largest in the world in market value, with a capitalisation of EUR 88,410 million.

Banco Santander is the most liquid institution on the EuroStoxx, having traded 20,222 million shares during the year, for an effective value of EUR 113,665 million and a liquidity ratio of 133%. Each day, an average of 79.3 million shares has been traded for an effective amount of EUR 446 million.

The markets performed well during 2017, within a context of optimism due to the good macroeconomic data and monetary policy expectations. Against this backdrop, Santander's share price closed 2017 at EUR 5.479, up 12.3% in the year (with data adjusted for the capital increase carried out in July 2017).

Total shareholder return in 2017, considering the change in the share price and remunerations received (with the reinvestment of dividends), was 16.6%; above the main European benchmark index, DJ Stoxx Banks, which had a return of 12.0%.

The Santander share

	2017	2016
Shareholders and shares		
Shareholders (number)	4,029,630	3,928,950
Shares (million)	16,136.2	14,582.3
Price (€)		
Closing price*	5.479	4.877
Change in the price	+12.3%	+8.8%
Maximum for the period*	6.246	4.966
Maximum date in th period	08-05-17	16-12-16
Minimum for the period*	4.838	3.098
Minimum date in th period	02-01-17	24-06-16
Average for the period*	5.562	3.985
End-of-period market capitalisation (million)	88,410.0	72,313.8
Trading		
Total volume of shares traded (million)	20,222	25,882
Average daily volume of shares traded (million)	79.3	100.7
Total cash traded (million of euros)	113,665	104,214
Average daily cash traded (million of euros)	445.7	405.5
Ratios		
PER (price / earnings per share)* (times)	13.56	12.18
Price / tangible book value* (times)	1.32	1.17
Tangible book value* (€)	4.15	4.15
Underlying RoTE	11.82	11.08

(*).- Data adjusted to capital increase of July 2017.

9.2 Dividend policy

As required in the Bank's by-laws, each year the shareholder remuneration policy is submitted for approval by the General Shareholders' Meeting. In keeping with this policy, the Bank normally compensates shareholders each quarter.

In relation to the financial year 2016, the Bank paid its shareholders (with a charge against earnings for the year) EUR 0.21 per share, in four instalments: three cash payments of EUR 0.055 per share, and one payment for EUR 0.045 per share, through the remuneration programme named Santander Scrip Dividend, which allows shareholders to elect to receive the amount equivalent to the dividend either in cash or in Santander shares. The average percentage of acceptance of the payment in shares was 89.11%.

In 2017, the board of directors intends for the compensation against earnings for the year to be EUR 0.22 per share, or 5% higher than in 2016. EUR 0.06 per share has already been paid in cash for the first and third dividends (August 2017 and February 2018, respectively), as well as EUR 0.04 per share through the Santander Scrip dividend programme (with an 84.61% acceptance rate of the payment in shares) for the second dividend (November 2017). The remaining EUR 0.06 per share is expected to be paid in April/May, in cash.

This remuneration represents an average return of 3.9% on the share price in 2017.

This will bring the total amount paid in cash in 2017 to EUR 2,997 million, compared with EUR 2,469 million the year before.

In coming years, dividends are expected to perform in line with the increase in results, bringing the cash pay-out to between 30% and 40% of recurring profit.

The shareholder remuneration system is detailed in note 4 of the accompanying consolidated financial statements.

9.3 Management of the credit rating

The Group's access to wholesale financing markets, as well as the cost of its issues, depends in part on the ratings given by rating agencies.

These agencies regularly review the Group's ratings. The rating of its debt depends on a series of factors that are endogenous to the institution (business model, strategy, capital, income generation capacity, liquidity and so on) and on other, exogenous factors related to the overall economic environment, the situation in the sector, and sovereign risk in the geographic areas where it operates.

In 2017, the agencies DBRS, Fitch, Moody's and Standard & Poor's confirmed their ratings of Santander. Meanwhile, agency Scope raised its rating for the Bank from A+ to AA-. In all cases the outlook was stable.

At year-end 2017, Banco Santander's rating with these five rating agencies was above the sovereign debt rating given to the country in which it is headquartered. These classifications, above the sovereign rating, are testimony to Banco Santander's business model and financial strength.

Rating agencies	Long Term	Short Term
DBRS	A	R-1 (low)
Fitch Ratings	A-	F2
Moody's	A	P-2
Standard & Poor´s	A-	A-2
Scope	AA-	S-1

9.4 Branch network

The Group has a network of 13,697 branches, making it the international bank with the largest commercial network. Most of these branches offer full-service banking, although the Group also has branches that offer specialised customer care for certain segments.

Some branches focus on the consumer financing business and belong to Santander Consumer Finance in Europe while others specialise in North and South American countries. In addition, the Group has branches that cater to SMEs and the corporate segment in different countries and that have been strengthened through the implementation in the last three years, in the Group's main geographic areas, of the Advance programme, along with specialised branches or specific spaces within full-service branches for the "Select" high income segment. The Group also has branches that specialise in private banking or in specific groups such as customers affiliated with universities.

In 2017, the number of branches increased by 1,462, due to the inclusion in the Group of those corresponding to Banco Popular. This, however, was partially offset by reductions in the Europe and United States units, mainly as a result of efficiency-improvement and digitalisation processes, including, in particular, those carried out in Spain, Portugal and Poland. These changes have been followed by the remodelling of branches and their specialisation to allow them to offer better customer service.

The Group is making progress with digitalisation, but without allowing the Bank to lose its essence. The branches will continue to be a relevant channel for customers, focusing on selling products of greater complexity and requiring more advice.

9.5 Customer service and defence

Customer Service Annual Report

In accordance with article 17 of order ECO / 734/2004 of March 11 of the Ministry of Economy on the departments and services of Customer Service and the Customer Ombudsman of Financial Institutions, the management report summarizes the Annual Report to be presented by the holder of the Service on the Board of Directors in March 2018.

Customer service and customer defense service

In compliance with Law 44/2002 on Measures for the Reform of the Financial System of the 734/2004 Order of the Ministry of Economy on Departments and Services of Customer Service and the Customer Ombudsman of Financial Institutions and in accordance with Article 37 Of the Regulations of the Customer Claims and Attention and Defense Service in the Santander Group, below is a summary of the activity developed by the said Service during 2017, in relation to the management of complaints and claims.

This complaint and customer service department manages the claims of twenty-one companies of the Group in Spain.

Global evolution of complaints and claims received by the Bank in 2017

In 2017, a total of 110,738 claims were accepted in the complaint and customer service department. Of these, 2,485 came through the Customer Ombudsman, 2,108 of the Bank of Spain, 89 of the National Securities Market Commission (CNMV) and 75 of the General Directorate of Insurance and Pension Funds (DGSFP).

Analysis of claims by affected products

The following is the classification of complaints received in 2017 according to the type of product:

Number of complaints	2017
Assets	69,321
Liabilities	13,457
Services	11,384
Insurances	798
Funds and Plans	554
Payment methods	12,631
Securities / Capital Markets / Treasury	2,154
Others	439
	110,738

Complaints and claims

As of December 31, 2017, 98% of the complaints and claims received had been resolved.

The average resolution time in 2017 was 40 calendar days.

68% of the complaints and claims resolved have required a processing time of more than 15 calendar days.

File resolution

In 32% of cases, the resolutions have been favorable to customers, which is 35% more than in 2016.

Entities

The following are the companies adhering to the Regulation of the Customer Service of Complaints, Care and Defense of the Santander Group and their corresponding number of complaints and claims received.

Entities	Admitted to processing	Non-admitted to processing
BANCO SANTANDER, S.A.	103,878	7,160
SANTANDER CONSUMER FINANCE, S.A.	3,268	210
OPEN BANK, S.A.	1,721	3
SANTANDER SEGUROS Y REASEGUROS CÍA. ASEGURADORA,SA	788	58
SANTANDER CONSUMER, E.F.C., S.A.	366	7
SANTANDER ASSET MANAGEMENT, S.A., S.G.I.I.C.	226	8
SANTANDER PENSIONES, S.A., E.G.F.P.	265	8
ALTAMIRA SANTANDER REAL ESTATE, S.A.	200	19
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C.	9	-
SANTANDER LEASE, S.A., E.F.C.	5	-
SANTANDER REAL ESTATE, S.A., S.G.I.I.C.	5	-
SANTANDER ENVÍOS, S.A.	3	-
SANTANDER CAPITAL DESARROLLO, S.G.E.I.C., S.A.U.	2	-
LURI 6, S.A.U.	1	-
TRANSOLVER FINANCE, E.F.C., S.A.	1	-
SANTANDER INVESTMENT BOLSA, S.V., S.A.	-	-
SANTANDER PRIVATE BANKING GESTIÓN, S.A., S.G.I.I.C	-	-
SANTANDER INVESTMENT, S.A.	-	-
SANTANDER BRASIL E.F.C., S.A.	-	-
SANTANDER SECURITIES SERVICES , S.A.	-	-
SANTANDER INTERMEDIACIÓN CORREIDURÍA DE SEGUROS, S.A.	-	-
TOTAL TREATED IN THE S.A.C	**110,738**	**7,473**

The network of branches and the different channels of relationship solve, in the first instance, the requests, disconformities or incidents that the clients communicate to the Bank, avoiding that they become complaints to other instances.

9.6 The average period of payment to suppliers

The average period of payment to suppliers during 2017 is 10 days, term which is below the legal maximum established in the applicable regulations.

ALTERNATIVE PERFORMANCE MEASURES

Information on alternative performance measures is given below, in compliance with the Guidelines on Alternative Performance Measures of the European Securities and Markets Authority (ESMA). This information has not been audited.

- In managing its business, the Group uses the following indicators to measure its profitability and efficiency, the quality of its loan portfolio and the tangible net asset value per share and the loan-to-deposit ratio, analysing the performance thereof over time and comparing this with the performance of its competitors.

  - The purpose of **profitability and cost-to-income** indicators is to measure the ratio of income to capital, tangible equity, assets and risk-weighted assets; while the cost-to-income ratio makes it possible to measure the general administrative expenses (personnel and others) and amortisation expenses needed to generate income.

  - **Credit risk** indicators make it possible to measure the quality of the credit portfolio and the percentage of the NPL portfolio covered by loan loss provisions.

  - The **capitalisation** indicator provides information on the tangible net asset value per share.

  - The Group also relies on **other indicators .** The loan-to-deposit (LTD) ratio enables the Bank to identify the relationship between loans and advances to customers (net of funds for insolvencies) and customer deposits and therefore to assess the extent to which the loans and advances granted to customers by the Group are financed with customer deposits. The Group also uses gross customer lending indicators excluding reverse repurchase agreements, as well as customer deposits excluding repurchase agreements. In order to analyse trends in loans and customer deposits in the traditional commercial banking business, repurchase agreements and reverse repurchase agreements are deducted, as they are primarily high-volatility products within the cash management business.

- <u>Impact of exchange rate fluctuations on changes in the income statement</u>

  The Group reports, for both the Group total and for the different business units, the real changes that occurred in the income statement and the changes without considering the impact of exchange rate fluctuations, with the understanding that this facilitates a better management analysis, given that changes in the businesses can therefore be identified without taking into account the impact of the conversion of each local currency to euros.

  These variations excluding the exchange rate impact are calculated through the conversion of these lines of the income statements of the various units that comprise the Group to our presentation currency, the euro, using for all the periods presented, the average exchange rate for 2017. The average exchange rates of the main currencies in which the Group operates are shown under section 2.2 of this report.

- Impact of exchange rate fluctuations on changes in the balance sheet

  The Group reports, for both the Group total and for the different business units, the real changes that occurred in the balance sheet and the changes without considering the impact of exchange rate fluctuations on loans and advances to customers (excluding reverse repurchase agreements) and in customer funds, which comprises customer deposits (excluding repurchase agreements) and investment funds. This is also done to facilitate the analysis, isolating the variation in these balance sheet items that is not due to conversion of each local currency to euros.

  These variations excluding the exchange rate impact are calculated through the conversion of the loans and advances to customers (excluding reverse repurchase agreements) and in customer funds, which comprises customer deposits (excluding repurchase agreements) of the various units that comprise the Group to our presentation currency, the euro, using for all the periods presented, the exchange rate on the last business day of 2017. The final exchange rates for the main currencies in which the Group operates are shown under section 2.3 of this report.

- Impact of certain items on the consolidated income statements

  In relation to earnings, the condensed consolidated income statements for 2017 and 2016 are shown in section 2.2 of this report. In these income statements, all items are included in each of the lines in which they were recognised due to their nature, including those which, in the opinion of the group, distort the comparison of business performance between the two periods.

  This same section also includes the condensed management income statements for 2017 and 2016, in which the amounts of these items, net of the corresponding taxes and minority interests, are presented net on a separate line that the Group refers to as "Net of capital gains and write-downs", and which appears immediately before the profit attributable to the Group. The Group considers that separation of these line items provides a clearer view of changes in income. The amounts are deducted from each of the income statement line items in which they were recognised due to their nature.

In addition, and by way of a summary, the following table shows a reconciliation of attributable profit isolating these results both in 2017 and 2016, and also the impact of Banco Popular, from the time of its acquisition on 7 June 2017.

Adjusted attributable profit to the Group. Twelve months ended on December 31

EUR million

	2017	2016	% change between periods
Unadjusted attributable profit to the Santander Group	6,619	6,204	+7%
(-) Net capital gains and provisions	(897)	(417)	+115%
Adjusted attributable profit to the Santander Group	7,516	6,621	+14%
(-) Adjusted attributable profit Banco Popular	263	—	—
Adjusted attributable profit to the Group w/o Banco Popular	7,253	6,621	+10%

Profitability and Efficiency

Ratio	Formula	Relevance of the metric
RoE (Return on equity)	Group's attributable profit / Average stockholders' equity* (excl. minority interests)	This ratio measures the return that shareholders obtain on the funds invested in the entity and as such measures the company's ability to pay shareholders.
RoTE (Return on tangible equity)	Group's attributable profit / Average stockholders' equity* (excl. minority interests) - intangibles assets (incl. goodwill)	This is a very common indicator, used to evaluate the profitability of the company as a percentage of a its tangible equity. It's measured as the return that shareholders receive as a percentage of the funds invested in the entity less intangible assets.
Underlying RoTE	Group's underlying attributable profit / Average stockholders' equity* (excl. minority interests) - intangibles assets (incl. goodwill)	This indicator measures the profitability of the tangible equity of a company arising from ordinary activities, i.e. excluding results from non-recurring operations.
RoA (Return on assets)	Consolidated profit / Average total assets	This metric, commonly used by analysts, measures the profitability of a company as a percentage of its total assets. It is an indicator that reflects the efficiency of the company's total funds in generating profit over a given period.
RoRWA (Return on risk weighted assets)	Consolidated profit / Average risk weighted assets	The return adjusted for risk is an derivative of the RoA metric. The difference is that RoRWA measures profit in relation to the bank's risk weighted assets.
Underlying RoRWA	Underlying consolidated profit / Average risk weighted assets	This relates the underlying profit (excluding non-recurring results) to the bank's risk weighted assets.
Efficiency	Operating expenses** / Gross income	One of the most commonly used indicators when comparing productivity of different financial entities. It measures the amount of funds used to generate the bank's operating income.

Credit Risk

Ratio	Formula	Relevance of the metric
NPL ratio (Non-performing loans)	Non-performing loans and advances to customers and guarantees and non-performing contingent liabilities / Total Risk***	The NPL ratio is an important variable regarding financial institutions' activity since it gives an indication of the level of risk the entities are exposed to. It calculates risks that are, in accounting terms, declared to be non-performing as a percentage of the total outstanding amount of customer credit and contingent liabilities.
Coverage ratio	Provisions to cover impairment losses on loans and advances to customers, guarantees and contingent liabilities / Non-performing loans and advances to customers, guarantees and non-performing contingent liabilities	The coverage ratio is a fundamental metric in the financial sector. It reflects the level of provisions as a percentage of the non-performing assets (credit risk). Therefore it is a good indicator of the entity's solvency against client defaults both present and future.
Cost of Credit	Allowances for loan loss provisions over the last 12 months / Average loans and advances to customers over the last 12 months	This ratio quantifies loan loss provisions arising from credit risk over a defined period of time for a given loan portfolio. As such, it acts as an indicator of credit quality.

Market Capitalisation

Ratio	Formula	Relevance of the metric
TNAV per share (Tangible net asset value per share)	Tangible book value**** / Number of shares excluding treasury stock	This is a very commonly used ratio used to measure the company's accounting value per share having deducted the intangible assets. It is useful in evaluating the amount each shareholder would receive if the company were to enter into liquidation and had to sell all the company's tangible assets.

Other indicators

Ratio	Formula	Relevance of the metric
LtD (Loan-to-deposit)	Net loans and advances to customers / Customer deposits	This is an indicator of the bank's liquidity. It measures the total (net) loans and advances to customers as a percentage of customer funds.
Loans and advances (excl. reverse repos)	Gross loans and advances to customers excluding reverse repos	In order to aid analysis of the commercial banking activity, reverse repos are excluded as they are highly volatile treasury products.
Deposits (excl. repos)	Customer deposits excluding repos	In order to aid analysis of the commercial banking activity, repos are excluded as they are highly volatile treasury products.

(*).- Stockholders' equity = Capital and Reserves + Accumulated other comprehensive income + Group Attributable profit + Dividends
(**).- Operating expenses: General administrative expenses + Depreciation and amortisation
(***).- Total risk = Total loans & advances and guarantees to customers (performing and non-performing) + non-performing contingent liabilities
(****).- Tangible book value = Shareholders' equity + Accumulated other comprehensive income - Goodwill attributable - Other intangible assets

Finally, the numerical data are included below for each of the indicators of the periods under consideration:

Profitability and efficiency	2017 with Popular	2016
RoE	**7.14%**	**6.99%**
Attributable profit to the Group	6,619	6,204
Average stockholders' equity (excluding minority interests)	92,638	88,744
RoTE	**10.41%**	**10.38%**
Attributable profit to the Group	6,619	6,204
Average stockholders' equity (excl. minority interests) - intangible assets	63,594	59,771
Underlying RoTE	**11.82%**	**11.08%**
Underlying attributable profit to the Group	7,516	6,621
Average stockholders' equity (excl. minority interests) - intangible assets	63,594	59,771
RoA	**0.58%**	**0.56%**
Consolidated profit	8,205	7,508
Average total assets	1,407,681	1,337,661
RoRWA	**1.35%**	**1.29%**
Consolidated profit	8,205	7,508
Average risk weighted assets	606,308	580,777
Underlying RoRWA	**1.48%**	**1.36%**
Underlying consolidated profit	8,963	7,893
Average risk weighted assets	606,308	580,777
Efficiency ratio (with amortisations)	**47.4%**	**48.1%**
Operating expenses	22,918	21,088
Gross income	48,392	43,853

Credit risk	2017		2016
	w/o Popular	with Popular	
NPL ratio	**3.38%**	**4.08%**	**3.93%**
Non-performing loans and advances to customers and guarantees and non-performing contingent liabilities (without country risk)	28,104	37,596	33,643
Total risk	832,655	920,968	855,510
Coverage ratio	**70.8%**	**65.2%**	**73.8%**
Provisions to cover impairment losses on loans and advances to customers, guarantees and contingent liabilities	19,906	24,529	24,835
Non-performing loans and advances to customers, guarantees and non-performing contingent liabilities	28,104	37,596	33,643
Cost of credit	**1.12%**	**1.07%**	**1.18%**
Allowances for loan loss provisions over the last 12 months	8,997	9,111	9,518
Average loans and advances to customers over the last 12 months	803,488	853,479	806,595

Market capitalisation	2017 with Popular	2016
TNAV (tangible book value) per share	**4.15**	**4.15**
Tangible book value	66,985	61,517
Number of shares w/o treasury stock (million)*	16,132	14,825

Others	2017		2016
	w/o Popular	with Popular	
Loan to deposit ratio	**109%**	**109%**	**114%**
Net loans and advances to customers	773,398	848,914	790,470
Customer deposits	712,770	777,730	691,111

(*).- In 2016, data adjusted to capital increase of July 2017.

Notes:

(1).- Averages included in the RoE, RoTE, RoA and RoRWA denominators are calculated using 13 months (December to December).

(2).- For periods less than one year, and if there are results which distort period-on-period business comparisons, the profit used to calculate RoE and RoTE is the annualised underlying attributable profit to which said distorting results are added without annualising.

(3).- For periods less than one year, and if there are results which distort period-on-period business comparisons, the profit used to calculate RoA and RoRWA is the annualised underlying consolidated profit, to which said distorting results are added without annualising.

(4).- The risk weighted assets included in the denominator of the RoRWA metric are calculated in line with the criteria laid out in the CRR (Capital Requirements Regulation).

ANNUAL CORPORATE GOVERNANCE REPORT

A OWNERSHIP STRUCTURE

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
6.11.2017	8,068,076,791	16,136,153,582	16,136,153,582

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

Yes ☐ **No** ☒

At 31 December 2017, the Bank's share capital is represented by 16,136,153,582 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

At 31 December 2017, the only shareholders appearing on the Bank's register of shareholders with a stake of over 3%[1] were State Street Bank and Trust Company (13.32%); The Bank of New York Mellon Corporation (8.83%); Chase Nominees Limited (7.41%); EC Nominees Limited (3.43%), Caceis Bank (3.13%); Clearstream Banking S.A. (3.10%) and BNP Paribas (3.03%).

Nevertheless, the Bank believes that those stakes are held in custody in the name of third parties and to the best of the Bank's knowledge none of those shareholders holds itself a stake of over 3% in the share capital or in the voting rights[2].

At 31 December 2017, no shareholders with an interest greater than 1% were resident in tax havens.

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

During 2017 the Bank carried out two capital increases:

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

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

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

[2] The website of the *Comisión Nacional del Mercado de Valores* (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 09 August 2017, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.940%, plus a further stake of 0.158% held through financial instruments. However, according to the Bank's shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date, or on 31 December 2017.

All shares carry the same dividend and voting rights.

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

* Share capital at year-end 2016.

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

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

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

% total voting rights held by the Board of Directors	**0.64%**

1. The "Direct shareholder" box does not apply, since at year-end 2017 there were no direct holders of shares with voting rights with a holding in excess of 3% of total voting rights, or in excess of 1% for residents of tax havens.

2. Syndicated shares.

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

Complete the following tables on share options held by directors.

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

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

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

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

The purpose of these cycles is to defer part of the beneficiaries' bonus over a period of three or five years, to be paid in cash or Santander shares as applicable in each case, whilst paying the other part of the variable remuneration bonus at the outset, likewise in cash or Santander shares. For more information, see note 5 of the Group's 2017 financial statements.

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

2013 bonus receivable in Santander shares	**Immediate payment**	**Deferred (*)**	**Total**	**% of total voting rights**
Ms Ana Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0,001%
Mr José Antonio Álvarez Álvarez	58,681	58,681	117,362	0,001%
Mr Rodrigo Echenique Gordillo	0	0	0	0,000%
Total	**124,922**	**158,043**	**282,965**	**0,002%**

(*) In 3 years: 2015, 2016 and 2017, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the third cycle. The immediate payment and the 2015 and 2016 deferral tranches were paid out on the expected dates.

The third cycle has delivered all shares at 31 December 2017 and therefore none of the above amounts represents a right to shares at that date.

2014 bonus receivable in Santander shares	**Immediate payment**	**Deferred (*)**	**Total**	**% of total voting rights**
Ms Ana Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	0,002%
Mr José Antonio Álvarez Álvarez	78,726	78,726	157,452	0,001%
Mr Rodrigo Echenique Gordillo	0	0	0	0,000%
Total	**200,355**	**261,170**	**461,525**	**0,003%**

(*) In 3 years: 2016, 2017 and 2018, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the fourth cycle. The immediate payment and the 2016 and 2017 deferral tranches were paid out on the expected dates.

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

2015 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	211,534	317,300	528,834	0,003%
Mr José Antonio Álvarez Álvarez	140,609	210,914	351,523	0,002%
Mr Rodrigo Echenique Gordillo	104,155	156,233	260,388	0,002%
Total	**456,298**	**684,447**	**1,140,745**	**0,007%**

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

Part of the shares related to the fifth cycle has already been delivered at 31 December 2017. Four fifths of the shares indicated in the Deferred column have yet to be delivered and therefore not all of the amounts indicated above represent a right to shares at that date. Subject to the conditions envisaged in the plan's regulations, a total of 3,777, 2,511 and 1,860 shares will also be delivered to Ms Ana Botín, Mr José Antonio Álvarez and Mr Rodrigo Echenique, respectively, in equal parts over the next four pending deferments, extended as a result of the capital increase implemented in July 2017.

2016 incentive receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	236,817	355,226	592,043	0,004%
Mr José Antonio Álvarez Álvarez	159,843	239,764	399,607	0,002%
Mr Rodrigo Echenique Gordillo	118,389	177,583	295,972	0,002%
Total	**515,049**	**772,573**	**1,287,622**	**0,008%**

(*) In 5 years: 2018, 2019, 2020, 2021 and 2022 subject to continued service and subject to the exceptions set out in the plan's terms and conditions, and to compliance with the conditions set out for the corresponding cycle. As per 31 December 2017, no tranche of the deferred amounts has been paid out (the immediate payment amount was paid at the start of 2017). Subject to the conditions envisaged in the plan's regulations, a total of 5,286, 3,568 and 2,643 shares will be delivered to Ms Ana Botín, Mr José Antonio Álvarez and Mr Rodrigo Echenique, respectively, in equal parts over the five pending deferments, extended as a result of the capital increase implemented in July 2017.

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

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

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

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

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

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

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

TSR[3] measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

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

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

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

RoRWA growth 2018 (% vs 2015)	RoRWA ratio
≥ 20%	1
≥ 10% but < 20%	0,5 – 1*
< 10%	0

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

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

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

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

Where:

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

2017 incentive receivable in Santander shares	**Immediate payment**	**Deferred (*)**	**Total**	**% of total voting rights**
Ms Ana Botín-Sanz de Sautuola y O’Shea	229,750	344,625	574,375	0,004%
Mr José Antonio Álvarez Álvarez	153,647	230,471	384,118	0,002%
Mr Rodrigo Echenique Gordillo	119,738	179,608	299,346	0,002%
Total	503,135	754,704	1,257,839	**0,008%**
(*) In 5 years: 2019, 2020, 2021, 2022 and 2023 subject to continued service and subject to the exceptions set out in the plan’s terms and conditions, and to compliance with the conditions set out for the corresponding cycle. As per 31 December 2017, no tranche of the deferred amounts has been paid out (the immediate payment amount was paid at the start of 2018).				

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

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

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

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

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

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

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

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

TSR[4] measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

The Benchmark Group initially comprises the following 17 financial institutions:

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

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

CET1 in 2019	CET1 coefficient
≥ 11.30%	1
≥ 11% but < 11.30%	0.5 – 1(*)
< 11%	0

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

To verify compliance with this goal, possible increases in CET1 derived from capital[5] increases will not be taken into account (except those set out by the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2019 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

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

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

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

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

Where:

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

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

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

In accordance with said policy, malus and clawback clauses with regards to 2017[6] incentives are triggered in scenarios of deficient financial performance of either the Bank as a whole or a division or specific area thereof, or of the exposure generated by staff, with at least the following factors being taken into account:

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

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

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

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

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

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

For variable remuneration generated in 2015 and previous years, upon each delivery of shares and cash the beneficiary will be paid a sum in cash equal to the dividends paid out for those shares and the interest accrued on the cash amount, in both instances from the start date until the date on which the shares and cash are paid in each case. In those cases in which the Santander Scrip Dividend programme applies, the price paid will be the price offered by the Bank for the free allotment rights corresponding to such shares.

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

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

a) Performance Shares Plan (LTI) 2014

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

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

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

b) Performance Shares Plan (LTI) 2015

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

2015 Performance Shares Plan	**Maximum number of shares(*)(**)**	**max % of total voting rights**
Ms Ana Botín-Sanz de Sautuola y O`Shea	187,080	0,001%
Mr José Antonio Álvarez Álvarez	126,279	0,001%
Mr Rodrigo Echenique Gordillo	93,540	0,000%
Total	**406,899**	**0,003%**

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

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

The agreed LTI amount for each beneficiary is deferred for three years and will be paid, if appropriate, at the start of 2019 based on compliance with the multi-year targets and the remaining conditions of the plan. More information is available in Note 47 of the Santander Group Financial Statements for 2015.

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

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, as far as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

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

A.5 Indicate commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, if any, except any that are insignificant and those deriving from ordinary commercial business:

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

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

Yes ☒ **No** ☐

In February 2006, a shareholder agreement was entered into, that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV") as a material fact. The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

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

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

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

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

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

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

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

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

The Bank filed respective material facts with the CNMV on 6 February and 29 May 2015 updating the holders and the distribution of shares included in the syndication, all within the framework of the inheritance process as a result of the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos.

Lastly, Banco Santander filed a material fact with the CNMV on 29 July 2015 updating the holders and the distribution of shares included in the syndication as a result of extinguishing the usufruct over the shares pertaining to one of the parties to the agreement along with the voting rights arising thereof, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

The aforementioned significant events, sent to CNMV with the entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 can be found on the Group's website (www.santander.com).

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.2751% of its share capital at year-end 2017). In addition, as established in clause one of the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2017, a further 34,675,537 shares (0.2149% of the Bank's share capital at said date) were also included in the syndicate.

Shares included in the syndication

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

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

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

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes ☒ **No** ☐

Described above.

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

There were no amendments or terminations in 2017 (see preceding description of the existing agreement).

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Spanish Securities Market Act (Ley del Mercado de Valores). If so, identify the same:

Yes ☐ **No** ☒

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

At year end:

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

(*) Through:

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

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

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

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

Pursuant to Article 40 of Royal Decree 1362/2007, the CNMV is notified of the percentage of voting rights held by the Bank when acquisitions of treasury shares are made that exceed 1% of the Company's voting rights, individually or in a series of transactions since the last communication.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury shares.

The capital authorised by the shareholders at the annual general meeting held on 07 April 2017, under item five on the agenda, amounted to 3,645,585,175 euros. The Bank's directors have until 07 April 2020 to carry out capital increases up to this limit. The shareholders gave the Board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Corporate Enterprises Act, although this power is limited to capital increases carried out under this authorisation up to 1,458,234,070 euros.

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

Still in force is the resolution passed at the shareholders' meeting on 27 March 2015 to authorise the Board to issue fixed-income securities convertible into and/or exchangeable for shares in the Bank for a combined maximum issue value (on one or more occasions) of 10,000 million euros, or equivalent value in another currency. The general meeting also authorised the directors to fully or partially disapply the pre-emptive subscription right, subject to the same limits as for the aforementioned authorised capital. The Bank's directors will be entitled to issue instruments under this power through to 27 March 2020.

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

Furthermore, the General Shareholders' Meeting held on 7 April 2017 resolved to delegate to the Board of Directors, pursuant to the provisions of article 297.1.a) of the Companies Act, the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital via newly issued shares agreed by the general meeting in the amount of EUR 500 million. If the Board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

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

Treasury share policy

At the meeting held on 23 October 2014, the Bank's Board of Directors approved the current treasury[7] share policy taking into account the criteria recommended by the CNMV for issuers of securities and financial intermediaries. The treasury share policy was defined in the following terms:

1. *Transactions involving the purchase and sale of treasury shares by the company or other companies controlled by it shall conform, in the first place, to the provisions established by current regulations and by the resolutions of the General Shareholders' Meeting in such respect.*

2. *Trading in treasury shares will be for the following ends, with observance of the indications herein, in accordance with the recommendations on discretionary trading of treasury shares published by the CNMV in July 2013:*

   a) To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to said market and minimising possible temporary imbalances between supply and demand.

   b) To take advantage, to the benefit of the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

3. *Treasury stock trading will be undertaken by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of the treasury stock department will be responsible for managing the treasury stock portfolio, which will be notified to the CNMV.*

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

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

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

4. *Treasury stock trading will be subject to the following general rules:*

   - *They may not entail a proposed intervention in the free formation of prices.*
   - *Trading may not take place if the unit entrusted with such transactions is in possession of insider or relevant information.*
   - *Where applicable, the execution of buy-back programmes and the acquisition of shares to cover obligations of the Bank or the Group shall be permitted.*

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

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

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

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

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

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

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

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

   a. *No buy or sell orders should be submitted during opening and closing auctions, except for exceptional and justified reasons, exercising due caution to avoid such orders having a decisive effect on the auction price. In such exceptional cases: (i) the accumulated volume of buy and sell orders submitted must not exceed 10% of the theoretical volume resulting from the auction at the time of submitting the orders; and (ii) no market or at-best orders should be submitted, except in exceptional and justified circumstances.*

   b. *No treasury stock transactions will be undertaken if the Bank has decided to delay the publication or release of significant information pursuant to article 82.4 of the Securities Market Act (Ley del Mercado de Valores), until such information is released. The compliance division will notify the department of investments and holdings should such a situation arise.*

   c. *No orders will be submitted during auction periods prior to the raising of suspension of trading in the Bank's shares, should this occur, until trades in the share have taken place. Orders that have not been executed when such a suspension is declared must be withdrawn.*

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

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

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

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

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

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

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

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

Treasury stock

The current authorisation for treasury share transactions in 2017 was the fifth resolution adopted by shareholders at a general meeting held on 28 March 2014, section II) of which states as follows:

"To expressly authorise the Bank and the subsidiaries belonging to the Group to acquire shares representing the Bank's share capital for any valuable consideration permitted by law, within the limits of the law and subject to all legal requirements, up to a maximum number of shares (including the shares they already hold) equal to 10% of the share capital existing at any given time or the maximum percentage permitted by law while this authorisation remains in force, such shares being fully paid at a minimum price per share equal to the par value thereof and a maximum price of up to 3% higher than the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) prior to the acquisition in question. This authorisation may only be exercised within five years of the date of the General Shareholders' Meeting. The authorisation includes the acquisition of any shares that must be delivered to the employees and directors of the Company either directly or as a result of the exercise of the options held by them".

A.9 bis. Estimated free float:

	%
Estimated free float	99.3358%*

*The entity's free float, after deducting the capital in the possession of the members of the Board of Directors at 31 December 2017 and that held by the company in treasury shares, and bearing in mind that there are no significant shareholdings, in accordance with CNMV Circular 5/2013 (12 June) as worded by Circular 7/2015 (22 December).

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

Yes ☐ **No** ☒

Description of restrictions
Restrictions on the free transfer of shares There are no restrictions on the free transfer of securities other than the legal restrictions indicated in this section. Acquisition of significant ownership interests is regulated by articles 16 to 23 of Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and in articles 23 to 28 of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014. European Union Regulation No 1024/2013 of the Council of 15 October 2013 confers specific tasks on the European Central Bank (ECB) concerning policies relating to the prudential supervision of credit institutions, including the assessment of the acquisition and disposal of significant holdings in credit institutions, based on the assessment criteria set out in applicable EU law and, as applicable, on Spanish laws transposing such rules. Furthermore, the acquisition of a significant stake in the Bank may require the authorisation of other domestic and foreign regulators with supervisory powers over the Bank's activities and its subsidiaries. Notwithstanding the foregoing, a shareholders' agreement notified to the Bank affecting the free transfer of certain shares is described in section A.6 of this report. ***- Restrictions on voting rights*** There are no legal or Bylaw restrictions (except for those resulting from the failure to comply with applicable regulations on the acquisition of significant holdings) on the exercise of voting rights. The first paragraph of Article 26.1 of the Bylaws states: "The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the General Shareholders' Meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend General Shareholders' Meetings." The Bylaws of Banco Santander do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. *General Shareholders' Meeting attendees are entitled to one vote for every share held, as stipulated in the first sentence of article 35.4 of the Bank's Bylaws*. Therefore, there are no restrictions on the takeover of the company by means of share purchases on the market.

A.11 Indicate whether the General Shareholders' Meeting has resulted in measures to neutralize a takeover bid under Law 6/2007.

Yes ☐ **No** ☒

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

Not applicable.

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

Yes ☒ **No** ☐

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

Banco Santander's shares trade on the continuous market of the Spanish Stock Exchanges and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges. The shares traded on all of these exchanges carry identical rights and obligations.

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

B GENERAL SHAREHOLDERS' MEETING

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

Yes ☐ **No** ☒

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

Description of differences
There are none

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

Articles 193, 194.1 and 194.2 of the LSC therefore apply.

It should also be borne in mind that sector regulations applicable to credit institutions complement some aspects of the LSC with regard to the quorum and majorities required to adopt resolutions (e.g. article 34 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, requires a two-thirds or three-quarters majority, depending on whether the quorum is higher than 50%, for the setting of ratios higher than 100% of the variable components of remuneration to fixed components).

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes ☐ **No** ☒

Describe how they differ from the rules established in the LSC.

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

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

Articles 159 and 201 of the LSC therefore apply.

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

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

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

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

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

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

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

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

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

General shareholders' meeting of 07 April 2017:

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

[1] Of the percentage specified (0.905%), 0.004% corresponds to the capital represented by remote attendance via Internet.
[2] The percentage of capital represented by proxies granted via Internet was 1.380%.
[3] Of the percentage specified (15.635%), 15.266% corresponds to postal votes and the rest to electronic votes.

General shareholders' meeting of 18 March 2016:

	Attendance data				
Date of General Meeting	**% attending in person**	**% by proxy**	**% remote voting**		**Total**
			Electronic means	**Other[3]**	
18/03/2016	0.86% [1]	43.46% [2]	0.27%	13.04%	57.63%

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

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

Yes ☐ **No** ☒

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

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

Since 2004, the Group's website (www.santander.com) has disclosed all information required under applicable law (currently, i) the Spanish Corporate Enterprises Act, ii) Order ECC/461/2013, of 20 March, which defines the content and structure of the annual corporate governance report, the annual remuneration report and other reporting instruments of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets, later amended by Order ECC/2575/2015, of 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and establishing the accounting obligations of banking foundations, iii) CNMV Circular 3/2015 of 23 June, on technical and legal specifications and information that must be contained on the websites of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets; and iv) Bank of Spain Circular 2/2016 of 2 February for credit institutions and regarding supervision and solvency, which completes the transposition of Directive 2013/36/EU and Regulation (EU) No. 575/2013 to Spanish law.

Information on corporate governance and other information regarding General Shareholders' Meetings can be found in the sections: i) *"Shareholder and Investor Information"* (under the title "*Corporate Governance*" and subsequently for information on General Shareholders' Meetings under "*General Shareholders' Meeting*") and ii) *"Corporate Governance and Remuneration Policy"*. Access to both sections is available through the links located on the home page at the Bank's corporate website (www.santander.com).

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

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

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

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

- The Bylaws
- The Rules and Regulations for the General Shareholders' Meeting
- The Rules and Regulations of the Board of Directors
- The composition of the Board of Directors and its committees.
- Professional biographies and other information on the directors
- The Annual Report
- The Annual Corporate Governance Report
- Reports from Board committees that formulated its annual activity report
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The Sustainability Report
- Policy on communication and contact with shareholders, institutional investors and proxy advisors.

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

Article 6 of the Rules and Regulations for the General Shareholders' Meeting specifies the information available on the Company's website from the publication of the call to a meeting until the General Meeting is held.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the bylaws:

Maximum number of directors	22
Minimum number of directors	14

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

C.1.2 Complete the following table with board members details:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Ms Ana Botín-Sanz de Sautuola y O'Shea	N/A	Executive	Chairman	04.02.1989	07.04.2017	Vote in general shareholders' meeting
Mr José Antonio Álvarez Álvarez	N/A	Executive	Chief Executive Officer	25.11.2014[1]	07.04.2017	Vote in general shareholders' meeting
Mr Bruce Carnegie-Brown	N/A	Non-executive independent	Vice chairman	25.11.2014[2]	18.03.2016	Vote in general shareholders' meeting
Mr Rodrigo Echenique Gordillo	N/A	Executive	Vice chairman	07.10.1988	07.04.2017	Vote in general shareholders' meeting
Mr Guillermo de la Dehesa Romero	N/A	Non-executive (neither independent or proprietary)	Vice chairman	24.06.2002	27.03.2015	Vote in general shareholders' meeting
Ms Homaira Akbari	N/A	Non-executive independent	Member	27.09.2016	07.04.2017	Vote in general shareholders' meeting
Mr Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent or proprietary)	Member	30.06.2015[3]	18.03.2016	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Non-executive (neither independent or proprietary	Member	25.07.2004	18.03.2016	Vote in general shareholders' meeting
Ms Sol Daurella Comadrán	N/A	Non-executive independent	Member	25.11.2014[4]	18.03.2016	Vote in general shareholders' meeting
Mr Carlos Fernández González	N/A	Non-executive independent	Member	25.11.2014[2]	27.03.2015	Vote in general shareholders' meeting
Ms Esther Giménez–Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	07.04.2017	Vote in general shareholders' meeting
Mr Ramiro Mato García-Ansorena[5]	N/A	Non-executive independent	Member	28.11.2017	28.11.2017	Appointment by co-option

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Ms Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	07.04.2017	Vote in general shareholders' meeting
Mr Juan Miguel Villar Mir	N/A	Non-executive independent	Member	07.05.2013	27.03.2015	Vote in general shareholders' meeting

1. Effective 13 January 2015.
2. Effective 12 February 2015.
3. Effective 21 September 2015.
4. Effective 18 February 2015.
5. Appointment will be submitted for ratification by the 2018 general shareholders' meeting.

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

Total number of directors	14

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

Indicate any board members who left during the period:

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

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

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Article 6.2.a) of the Rules and Regulations of the Board establishes that those who perform management functions within the company or the Group shall be considered executive directors, irrespective of their legal relationship therewith. For clarification purposes, the following directors shall be included in this category: the Group Executive Chairman, the Chief Executive Officer, and all other directors who perform management or decision-making duties in connection with any part of the business of the company or the Group other than the duties of supervision and collective decision-making falling upon the directors, either through the delegation of powers, stable proxy-granting, or a contractual, employment or services relationship.

When a director performs management functions and, at the same time, is or represents a significant shareholder or one that is represented on the board of directors, they shall be considered an executive director.

Therefore, at 31 December 2017 the following are executive directors of the bank:

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

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

PROPRIETARY NON-EXECUTIVE DIRECTOR

Article 6.2.b) of the Rules and Regulations of the Board establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than that legally considered as significant, or those who have been designated as such due to their status as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as those who represent any of such shareholders.

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment

Total number of proprietary directors	0
% of the board	0%

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

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

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

(i) *Have been employees or executive directors of companies within the Group, except after the passage of 3 or 5 years, respectively, since the end of such relationship.*

(ii) *Receive from the Company or from another Group company any amount or benefit other than as director remuneration, unless it is immaterial for the director.*

For purposes of the provisions of this subsection, neither dividends nor pension supplements that a director receives by reason of the director's prior professional or employment relationship shall be taken into account, provided that such supplements are unconditional and therefore, the company paying them may not discretionarily suspend, modify or revoke the accrual thereof without breaching its obligations.

(iii) *Are, or have been during the preceding 3 years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such period.*

(iv) *Are executive directors or senior officers of another company in which an executive director or senior officer of the Company is an external director.*

(v) *Maintain, or have maintained during the last year, a significant business relationship with the Company or with any Group company, whether in their own name or as a significant shareholder, director or senior officer of an entity that maintains or has maintained such relationship.*

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

(vi) *Are significant shareholders, executive directors or senior officers of an entity that receives, or has received during the preceding 3 years, donations from the Company or the Group.*

Those who are merely members of the board of a foundation that receives donations shall not be considered included in this item.

(vii) *Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of an executive director or senior officer of the Company.*

(viii) *Have not been proposed, whether for appointment or for renewal, by the appointments committee.*

(ix) *Have been directors for a continuous period that exceeds 12 years.*

(x) *Are, as regards a significant shareholder or shareholder represented on the board, in one of the circumstances set forth in items (i), (v), (vi) or (vii) of this subsection 2(c). In the event of a kinship relationship as set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the proprietary directors thereof in the affiliated company.*

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

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

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

Name or corporate name of director	***Profile***
Mr Bruce Carnegie-Brown	British nationality. Born in 1959 in Freetown, Sierra Leone. Joined the board in 2015. Master of Arts in English Language and Literature from the University of Oxford. Other positions of note: He is currently the non-executive chairman of Moneysupermarket.com Group Plc and Lloyd's of London. He was formerly the non-executive chair of AON UK Ltd (2012-2015), founder and managing partner of the quoted private equity division of 3i Group Plc., and president and chief executive officer of Marsh Europe. He was also lead independent director at Close Brothers Group Plc (2006-2014) and Catlin Group Ltd (2010-2014). He previously worked at JPMorgan Chase for eighteen years and at Bank of America for four years.
Ms Homaira Akbari	United States and French nationality. Born in 1961 in Tehran, Iran. Joined the board in 2016. Doctorate in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University. She is chief executive officer of AKnowledge Partners, LLC. Other positions of note: currently non-executive director of Gemalto NV, Landstar System, Inc. and Veolia Environment S.A. Ms Akbari has also been president and CEO of Sky Bitz, Inc., managing director of True Position Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC and she has held various posts at Microsoft Corporation and at Thales Group.
Ms Sol Daurella Comadrán	Spanish nationality. Born in 1966 in Barcelona, Spain. Joined the board in 2015. Degree in Business and MBA from ESADE. Executive chairman of Olive Partners, S.A. and holds several positions at companies belonging to the Cobega Group. She is also non-executive chairman of Coca Cola European Partners, Plc. Other positions of note: Previously, she has served on the board of the Círculo de Economía and also as an independent non-executive director at Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She has also been honorary consul general of Iceland in Barcelona since 1992.
Mr Carlos Fernández González	Mexican and Spanish nationality. Born in 1966 in Mexico City, Mexico. Joined the board in 2015. Industrial engineer. He has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas. He is the chairman of the board of directors of Finaccess, S.A.P.I. Other positions of note: Mr Fernández has also sat on the boards of Anheuser-Busch Companies, LLC and Televisa S.A. de C.V., among other companies. He is currently non-executive director of Inmobiliaria Colonial, S.A. and member of the supervisory board of AmRest Holdings, SE.

Name or corporate name of director	*Profile*
Ms Esther Giménez–Salinas i Colomer	Spanish nationality. Born in 1949 in Barcelona, Spain. Joined the board in 2012. PhD in Law and degree in Psychology. Professor Emeritus at Ramón Llull University, director of the Chair of Restorative Social Justice, director of Unibasq and Aqu (quality assurance agencies for the Basque and Catalan university systems) and of Gawa Capital Partners, S.L. Other positions of note: She has been chancellor of the Ramon Llull University, member of the standing committee of Conference of Chancellors of Spanish Universities (CRUE), member of the General Council of the Judiciary, member of the Scientific Committee on Criminal Policy of the Council of Europe, director general of the Centre of Legal Studies and Specialised Training of the Department of Justice of the Government of Catalonia (Generalitat de Catalunya) and member of the advisory board of Endesa-Catalunya.
Mr Ramiro Mato García-Ansorena	Spanish nationality. Born in 1952 in Madrid, Spain. Joined the board in 2017. Degree in Economics from the Complutense University of Madrid and the Management Development Programme of the Harvard Business School. Other positions of note: He has held several positions in Banque BNP Paribas, including chairman of the BNP Paribas Group in Spain. Previously, he held several significant positions in Argentaria. He has been a member of the Spanish Banking Association (AEB) and of Bolsas y Mercados Españoles, S.A. (BME) and member of the Board of Trustees of the Fundación Española de Banca para Estudios Financieros (FEBEF).
Ms Belén Romana García	Spanish nationality. Born in 1965 in Madrid, Spain. Joined the board in 2015. Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist. Non-executive director of Aviva Plcand of Aviva Italia Holding SpA, and member of the advisory board of the Rafael del Pino Foundation. Other positions of note: she was formerly executive vice president of Economic Policy and executive vice president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the Spanish National Securities Market Commission (CNMV). She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She was the executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).

Name or corporate name of director	*Profile*
Mr Juan Miguel Villar Mir	Spanish nationality. Born in 1931 in Madrid, Spain. Joined the board in 2013. Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation. He is the Chair of Villar Mir Group. Other positions of note: formerly Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He has also served as chairman of the OHL Group, Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, COTEC Foundation and of Colegio Nacional de Ingenieros de Caminos, Canales y Puertos. He is also currently professor of Business Organisation at Universidad Politécnica de Madrid, a member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumerary of the Royal Academy of Economics and Finance.

Total number of independent directors	8
% of the board	57.14%

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

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

If applicable, include a statement from the Board detailing the reasons why the said director may carry on their duties as an independent director.

When assessing the annual verification of the directors category mentioned in the previous section, the appointments committee first, followed by the Board, took into account all the flows of payments and collections between Santander Group and the companies in which the directors are or have previously been significant shareholders or directors and, in particular, the financing granted by the Santander Group to said companies. Following this, they concluded that, in every case, the existing flows did not lie within the scope of significant or important business relationships, in accordance with the definition included in article 529 duodecies.4.e) of the Spanish Companies Law for the classification of the directors as independent. They considered this, among other reasons: (i) since the business relationships do not generate a situation of economic dependence in the relevant companies in view of the substitutability of such financing for other sources of funding, either bank-base financing or other; (ii) since the business relationships of the companies with the Group are aligned with the market share of Santander Group within the relevant market and finally, (iii) because, even if neither the Spanish Companies Law nor any other Spanish Law provides specific materiality thresholds, they have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. the applicable standards that the NYSE and Nasdaq establish as independence references; the amount considered to be significant borrowing under the Canada's Bank Act for excluding independence.

At the meeting held on 13 February 2018, the Board approved the proposal presented by the appointments committee regarding the character of the members of the bank's Board, in accordance with which the independent directors may continue to be considered such due to complying with the requirements established by Article 529 duodecies. 4 e) of the Spanish Limited Liability Companies Law and article 6.2.c) of the rules and regulations of the board.

OTHER NON-EXECUTIVE DIRECTORS

Identify all other non-executive directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

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

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

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

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

C.1.4 Complete the following table on the number of female directors over the past four years and their category:

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

Figures at end of year.

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

Both the appointments committee and the board of directors are aware of the importance of promoting equal opportunities for men and women and the benefits of appointing women with the necessary abilities, dedication and skills for the job to the board of directors.

Pursuant to article 31.3 of Act 10/2014 (which covers the same content as the current article 529.quindecies.3.b) of the Spanish Limited Liability Companies Law), at the meeting held on 21 October 2014 the appointments and remuneration committee set the target representation of the less well-represented gender on the bank's board of directors at 25%, and the appointments committee, at its meeting held on 25 January 2016, agreed to increase this target to 30%.

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

The current composition of the board (36% female directors) exceeds the objective set by the bank in 2016 and the aforementioned European average.

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

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

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

C.1.6 Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

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

Article 18.4.a) of the Rules and Regulations of the Board establishes that the appointments committee, shall evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.

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

The aforementioned articles 42.4 of the bylaws and 6.1 of the Rules and Regulations of the Board require that director selection procedures encourage gender diversity and do not give rise to implicit measures that may give rise to any discrimination and, in particular, the facilitating of the selection of female directors.

At the meeting held on 24 January 2017 and at the proposal of the appointments committee, the board of directors approved the policy applicable to the selection and succession of directors at Banco Santander, S.A., preparing a single document as stipulated by the bylaws and the Rules and Regulations of the Board. This policy, which includes the diversity policy and objectives, requires that director selection processes encourage a diversity of genders, experience and knowledge and do not contain any implicit measures that may give rise to any discrimination and, in particular, they must facilitate the selection of female directors.

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

For further information on the measures taken by the appointments committee in the selection of women as members of the board, see sections C.1.5 and C.1.6 of this report.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of the reasons
Not applicable. Refer to sections C.1.5 and C.2.2 of this report for more information on the female presence on the board and its committees.

C.1.6.bis Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020.

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

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

In particular, bearing in mind the established target representation of 30% of the less well-represented gender, the bank has promoted the effective application of the principle of equal opportunities for men and women in relation to selecting directors for appointment to the board, avoiding any situation of inequality, and actively favouring the presence on the board of women with the necessary abilities, skills and dedication. However, this is done while respecting the principle of ability, which requires the director selection process to value the candidates' commercial and professional integrity, knowledge, experience and the capacity to exercise good governance of the company.

At a meeting held on 26 January 2016 the board raised the target representation level of women on the company's board to the aforementioned 30%, as is indicated in section C.1.5 above, although that percentage is currently 36%.

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

There are no shareholders with significant holdings. See section A.2 of this report.

C.1.8 Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital

Name or corporate name of shareholder	Reason

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes ☐ **No** ☒

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

Name of the director	Reason for resignation
Mr Matías Rodríguez Inciarte	Voluntary resignation for personal reasons
Ms Isabel Tocino Biscarolasaga	Voluntary resignation for personal reasons

The directors wrote to the directors and personally informed the board of the reasons for their resignation at the meeting held on 28 November 2017.

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

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

The Group Executive Chairman and Chief Executive Officer, without prejudice to the bylaws establishing the higher hierarchical status in the bank of the former and the responsibility for the day-to-day management of the bank's business areas of the latter, have been delegated the same powers, that is, all powers of the board of directors, except for those that cannot be delegated by law or the bank's bylaws and those which are reserved for the board of directors under article 3 of the Rules and Regulations of the Board. These functions are:

(a) The approval of the company's general policies and strategies and the supervision of their application, including, without limitation:

(i) Strategic or business plans, management goals and annual budget
(ii) Investment and financing policy
(iii) Capital and liquidity strategy
(iv) Tax strategy
(v) Dividend and treasury shares policy
(vi) Approval policy for new products, activities and services
(vii) Policy on corporate governance and internal governance of the company and its Group, including a definition of its organisational structure, which should lead to prudent and effective management of the company and its Group and the effective monitoring and management of all risks, in addition to ensuring that the internal control functions (risks, compliance and internal audit) are independent from the business lines and can perform their functions efficiently

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

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

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

(1) Dedicate sufficient time to risk-related issues. Specifically, it will play an active role in the management of all significant risks included in solvency regulations, ensuring that sufficient resources are allocated to manage these risks, and participate in the valuation of assets, the use of external credit ratings and the internal models relating to these risks; and

(2) Approval and periodic review of the risk culture and risk appetite framework of the company and the Group, including the corresponding acceptance, management, oversight and reduction strategies and policies for risk to which the entity is or may be exposed, including risks deriving from the macroeconomic scenario in which it operates, in relation to the phase of the economic cycle, ensuring that said culture, strategies and policies are aligned with the corporate and internal governance policy, strategic, capital and financial plans, and remuneration polices and that they have duly been communicated to and are known by employees.

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

(x) Remuneration policies for personnel of the company and its Group.

(xi) Corporate culture and values, including the strategy governing responsible business practices and sustainability;

(xii) Regulatory compliance policy, including the approval of codes of conduct and conflict of interest policies, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (corporate defence model). The board will also ensure that these policies and codes are communicated to and known by employees.

(b) Approval of information and communication policies for shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the company. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury shares.

(c) Approval of the financial information that the company must make public on a periodic basis due to its status as a listed company.

(d) Preparation of the financial statements and their submission to shareholders at the general shareholders' meeting.

(e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.

(f) Approval, at the proposal of the audit committee, of the proposed guidance and the annual working plan of internal audit, which must ensure that the internal audit function is primarily focused on the company's most significant risks, and, with the involvement of the audit committee and the risk supervision, regulation and compliance committee, overseeing the implementation of this annual plan.

(g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

(h) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the bylaws.

(i) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the company and its Group.

(j) Determination of its organisation and operation and, specifically, approval and amendment of these rules and regulations.

(k) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.

(l) Design and supervision of the director selection policy, including the diversity policy and targets, the suitability policy and succession plans for the directors (including those applicable to the Group Executive Chairman and to the Chief Executive Officer) and for the other members of senior management, pursuant to the provisions of article 29 of the Rules and Regulations.

(m) Selection, appointment by co-option and continued evaluation of directors.

(n) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including the heads of internal control and other key positions at the company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

(o) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.

(p) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

(q) Definition of the basic conditions of senior management contracts, as well as the approval of their remuneration and the essential elements of the remuneration for other executives or employees that, while not members of senior management, assume risks, carry out control duties (i.e. internal audit, risk management and compliance) or receive overall remuneration that places them in the same remuneration scale as senior executives and employees that assume risks, and whose professional activities have a significant impact on the Group's risk profile (all of them making up the "Identified Staff" together with senior management and the company's board of directors, which will be defined at any given moment in accordance with applicable regulations).

(r) Approval of related-party transactions in accordance with the provisions of article 40 of these Rules and Regulations of the Board, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 36 of the Rules and Regulations of the Board, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(t) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

(u) Any powers legally vested in the board of directors by shareholders acting at a general meeting, except expressly authorised by shareholders to sub/delegate these powers.

(v) And, any specifically established by the Rules and Regulations of the Board.

There is a clear separation of duties between those of the Group executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the Bank's corporate governance structure, including the following:

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.

- The lead independent director convenes and coordinates the non-executive directors and transmits their concerns (chairing the appointments, remuneration and the risk supervision, regulation and compliance committees). The lead director also oversees the periodic process of assessing the Group Executive Chairman and coordinates the succession plan with the appointments committee.

- The audit committee is chaired by an independent director considered as a financial expert, as this term is defined in model 20-F of the Securities and Exchanges Commission (SEC).

- The powers delegated to the Group Executive Chairman and the Chief Executive Officer exclude those that are exclusively reserved for the board itself and directly exercised in the performance of its general supervisory function.

- The Group Executive Chairman may not simultaneously hold the position of Chief Executive Officer of the bank.
- The corporate Risk, Compliance and Internal Audit functions, as independent units, report to a committee or a member of the board of directors and have direct access thereto.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

At year-end 2017, the directors who are managers or directors of other Group companies are:

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

(*) Non-executive

For the purpose of this table, the concept of Group defined by article 5 of the Securities Market Act is used.

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company:

Details of the positions held by the bank's directors at year-end 2017 are as follows.

Name or corporate name of director	Name of the listed company	Position
Ms Ana Botín-Sanz de Sautuola y O'Shea	The Coca-Cola Company	Non-Executive Director
Mr Bruce Carnegie-Brown	Moneysupermarket.com Group PLC	Non-Executive Chairman
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
Mr Guillermo de la Dehesa Romero	Amadeus IT Group, S.A.	Non-Executive Vice Chair
Ms Homaira Akbari	Veolia Environnement, S.A. Landstar System, Inc. Gemalto N.V.	Non-Executive Director Non-Executive Director Non-Executive Director
Ms Sol Daurella Comadrán	Coca-Cola European Partners plc.	Non-Executive Chair
Mr Carlos Fernández González	Inmobiliaria Colonial, S.A. AmRest Holdings SE	Non-Executive Director Member of the supervisory board
Ms Belén Romana García	Aviva plc.	Non-Executive Director

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

Yes ☒ **No** ☐

Explanation of rules
The maximum number of company boards to which the bank's directors may belong, as stipulated in article 30 of the Rules and Regulations of the Board, shall be governed by the provisions of article 26 of Act 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions. This precept is developed by articles 29 and subsequent of Royal Decree 84/2015 of 13 February and by Rules 30 and subsequent of Bank of Spain Circular 2/2016 of 2 February. In accordance with these rules, bank directors may not hold, at the same time, more than: (a) one executive position and two non-executive positions, or (b) four non-executive positions. For such purposes, executive and non-executive positions held within the same group will be counted as a single position, while positions held at non-profit organisations or organisations not pursuing commercial ends will not be included. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

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

Board remuneration (thousands of euros)*	31,130 **
Amount of accumulated pension rights of current directors (thousands of euros)	75,906
Amount of accumulated pension rights of former directors (thousands of euros)	81,803***

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

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Position(s)*	Name or corporate name
Communication, Corporate Marketing and Research	Ms Jennifer Scardino
Internal Audit (*Group Chief Audit Executive*)	Mr Juan Guitard Marín
Retail & Commercial Banking Mexico	Mr Ángel Rivera Congosto
Banca Comercial Santander UK	Mr Javier San Félix García
Risk	Mr Keiran Paul Foad
Communication, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
Costs	Mr Javier Maldonado Trinchant
Compliance (*Group Chief Compliance Officer*)	Ms. Mónica López-Monís Gallego
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Spain	Mr Rami Aboukhair Hurtado
Consumer Finance	Ms Magda Salarich Fernández de Valderrama

Position(s)*	Name or corporate name
Financial (*Group Chief Financial Officer*)	Mr José García Cantera
Digital	Ms Lindsay Tyler Argalas
Financial Accounting and Control (*Group Chief Accounting Officer*)	Mr José Francisco Doncel Razola
Wealth Management	Mr Víctor Matarranz Sanz de Madrid
Risk (*Group Chief Risk Officer*)	Mr José María Nus Badía
Office of the General Secretary and Human Resources	Mr Jaime Pérez-Renovales
Technology and Operations	Mr Andreu Plaza López
Santander Global Corporate Banking	Mr José María Linares Perou
Universities	Mr Matías Rodríguez Inciarte
Total remuneration received by senior management (thousands of euros)**	**59,568**

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

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

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Position

Not applicable.

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors with significant shareholders and/or their group companies:

Not applicable.

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

Yes ☒ **No** ☐

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

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

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

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

- Reiterate that the implementation of strategy should be delegated to the executive bodies and adjust the scope of the board of directors, providing greater details of the policies that require its approval, in addition to corporate culture and values.

- Disband the executive risk committee to reflect the current risk governance system.

- Provide for a new responsible banking, sustainability and culture committee to sharpen its focus on the new corporate culture and adopt the best practices.

- Disband the international committee given the existence and functions carried out by the international advisory board.

- Expressly stipulate that the audit, appointments, remuneration and risk supervision, regulation and compliance committees are authorised to contract advisors when needed for them to carry out their work.

- Include in the audit committee's functions the function of carrying out a final assessment of the external auditor's performance, in relation to the audit of the financial statements for the year, as well as the annual assessment of the internal audit function and the performance of the head of the function which will be communicated to the remuneration committee and to the board for the purposes of determining his variable remuneration. Additionally, strengthen the supervisory role of the committee in the process of preparing and submitting the financial information required of the company and the Group, including related non-financial information, and expressly regulate that the internal audit function, as an independent unit, apart from reporting to the committee, will also report to the board of directors.

- Strengthen the supervisory role of the risk supervision, regulation and compliance committee with respect to risk and compliance functions, as these will now report to the committee, while continuing to report periodically to the board and maintaining direct access thereto when deemed necessary. Allocate to the committee the responsibility of reporting the proposals made by the appointments committee in relation to the appointment of the heads of each of these corporate functions (Group Chief Risk Officer (CRO) and Group Chief Compliance Officer (CCO)), and performing annual assessments thereof, which will be submitted to the remuneration committee and the board in order to establish their variable remuneration. Allocate to the committee the responsibility of supervising the existing whistleblowing mechanism that allows Group employees to confidentially and anonymously report any breaches in regulatory or internal governance requirements.

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

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

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

- The criteria concerning the quantitative and qualitative composition of the Board of Directors and its committees.
- The process for reviewing the quantitative and qualitative composition of the Board and its committees.
- The process for identifying potential candidates.
- The selection and appointments process.

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

- Number of directors.

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

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

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

Article 42.1 of the bylaws stipulates that the General shareholders' meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors (at least 50% as stipulated by Article 6.1 of the Rules and Regulations of the Board).

- Power to appoint directors.

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

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

Article 26.1 of the Rules and Regulations of the Board states that: *""the directors shall be designated, re-elected or ratified by the shareholders at the general shareholders' meeting or by the board of directors, as applicable, pursuant to the provisions of the Spanish Limited Liability Companies Law, the bylaws, the director selection policy - including the diversity policy and targets and the suitability policy - and the succession plan approved by the board."*

In the event that directors vacate their office during the term for which they were appointed, the board of directors may provisionally designate another director, by co-option, until the shareholders, at the earliest subsequent general shareholders' meeting, either confirm or revoke this appointment.

- Appointment requisites and restrictions.

In accordance with article 26.4 of the Rules and Regulations of the Board, all persons designated as directors shall meet the requirements set forth by law and the bylaws, and shall formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and Regulations of the Board. In this respect, the provisions of Royal Decree 84/2015 of 13 February are applicable, implementing Act 10/2014 of 26 June, on the organisation, supervision and solvency of credit institutions, and Bank of Spain Circular 2/2016, of 2 February, for credit institutions and regarding supervision and solvency, which completes the transposition of Directive 2013/36/EU and Regulation (EU) Number 575/2013 to Spanish law, in relation to the honouring requirements that must be met by directors.

It is not necessary to be a shareholder in order to be appointed a director. The following persons may not hold directorships: minors who are not emancipated, legally disabled persons, persons considered incapacitated in accordance with the Bankruptcy Law during the period of incapacitation handed down by firm ruling or those convicted of crimes against liberty, property or the social and economic order, collective security or the administration of justice, or any other falsehood, as well as those whose positions would entail a bar on holding the directorship. Other persons ineligible for directorships are government employees who discharge functions relating to the business activities inherent to the companies in question, judges or magistrates, or other persons subject to legal conflict of interest.

Directors must be persons of renowned commercial and professional integrity, and must have the knowledge and experience needed to exercise these functions and be in a position to ensure the good governance of the entity. Nominees for the position of director will also be selected on the basis of their professional contribution to the board as a whole, and particular importance will be attached, where appropriate, to the size of their shareholdings in the bank's capital.

If a director is a body corporate, the natural person representative thereof is subject to compliance with the same requirements as established for natural person directors.

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

- Proportional system

Holders of shares representing an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members, or who pool shares to achieve such a proportion, will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

- Term of office

The term of office of a director, as regulated by article 55 of the bylaws, is three years, although directors can be re-elected. Directors who have been designated by co-option ratified in their position at the first general shareholders' meeting that is held following such designation, shall vacate office on the date on which their predecessor would have vacated office. Article 55 also provides for the annual renewal of one-third of the board.

- Withdrawal or removal of directors

The withdrawal or removal of directors is regulated by articles 56 of the bylaws and article 23 of the Rules and Regulations of the Board. Directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the general shareholders' meeting so resolves, or when they resign or place their office at the disposal of the board of directors.

Directors must place their office at the disposal of the board and tender the related notice of resignation if the board, after receiving the report of the appointments committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the bank's credit and reputation and, in particular, when they are subject to any incompatibility or prohibition provided for by law. Further, pursuant to Act 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions, if supervining event affecting a director's honour, knowledge or adequate experience or capacity to exercise good governance were to occur, the European Central Bank may (i) require the temporary suspension or definitive removal of the director by the bank (or he/she may be required to redress the deficiencies identified), or (ii) if such a measure is not implemented by the bank, the European Central Bank may enact this temporary suspension or definitive removal of the director.

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

Lastly, the Rules and Regulations of the Board specifically provide that proprietary non-executive directors must tender their resignations when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

- Procedure.

The proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to the shareholders at the general shareholders' meeting and the decisions adopted by the board itself in cases of co-option must be preceded by the corresponding report and proposal of the appointments committee.

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

Pursuant to article 30 of the Rules and Regulations of the Board those directors affected by proposals for appointment or re-election to or withdrawal from office shall abstain from attending and participating in the debate and voting of the board of directors or its committees that deal with such matters.

In addition to company procedures, the effective appointment of a new director is subject to verification of their suitability by the European Central Bank.

- Criteria applied by the board of directors and the appointments committee.

Considering the set of applicable regulations, the recommendations resulting from Spanish reports on corporate governance and the present situation of the bank and its Group, the appointments committee and the board of directors apply the following criteria to the processes for the appointment, ratification and re-election of directors and to the preparation of proposals for that purpose:

a. First, attention is given to limitations resulting from legal prohibitions and incompatibilities, and from positive requirements (experience, solvency, etc.) applicable to bank directors in Spain and the eurozone.

b. Having complied with these restrictions, a balanced composition of the board of directors is sought, taking into account the content of articles 41 and 42 of the bylaws and articles 6 and 7 of the Rules and Regulations of the Board:

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

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

   Article 26.2 of the Rules and Regulations of the Board establishes that it is the responsibility of the appointments committee to prepare a reasoned report and a proposal for such appointments, re-elections or ratifications of directors, regardless of their classification. In cases of re-election or ratification of directors, this committee proposal shall contain an assessment of the work and effective dedication to the position during the last period in which the proposed director occupied the post. In addition, all proposals from the appointments committee must be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons on record.

   In all cases, and in accordance with the Rules and Regulations of the Board (article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the number of independent directors represent at least half of all directors. This is currently the case, with non-executive directors representing 78.57% and independent directors 57.14% of the board at 31 December 2017.

   (iii) Special importance is also given to the experience of board members in different public and private professional arenas (in particular, considering the skills map that is updated at the time of each appointment) and in the various geographical areas in which the Group carries out its activities, such that the individual and collective abilities of the directors favours diversity of gender, experiences and expertise, and that the selection process is free from any implied bias entailing any kind of discrimination and which facilitates the selection of female directors.

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

c. Together with the aforementioned general criteria, an assessment of the director's work and effective dedication during their term in office is specifically taken into account in the proposals for re-election or ratification thereof.

C.1.20 Explain to what extent this annual evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

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

C.1.20.bis Describe the assessment process undertaken by the board of directors and the areas evaluated, with the aid of an external facilitator, with respect to the composition, duties and powers of its committees, the performance of the chairman of the board of directors and the company's chief executive and the performance and contribution of individual directors.

Article 24.7 of the Rules and Regulations of the Board stipulates that the operation of the board and its committees, the quality of its work, and the individual performance of its members, including the Chairman and the Chief Executive Officer, shall be evaluated once a year. This evaluation shall be carried out, at least every three years, with the assistance of an external independent consultant, whose independence shall be assessed by the appointments committee.

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

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

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

The assessment process focused on the following aspects:

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

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

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

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

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

C.1.21 Indicate the cases in which directors must resign.

Without prejudice to the provisions of Royal Decree 84/2015, of 13 February, which implemented Act 10/2014, of 26 June on the ordering, supervision and solvency of credit institutions, regarding the honourability requirements for directors and the consequences of the loss of such honourability, the bylaws (article 56.2) and the Rules and Regulations of the Board (article 28.2) establish that directors shall tender their resignation to the Board of Directors and formally resign from their position if the board, upon the prior report of the appointments committee, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the bank and, particularly, when they are prevented by any legal prohibition against or incompatibility from holding office.

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

C.1.23 Are qualified majorities, other than those prescribed by law, required for any type of decisions?:

Yes ☐ **No** ☒

If applicable, describe the differences.

Not applicable.

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

Yes ☐ **No** ☒

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

Yes ☒ **No** ☐

Matters where the chairman has the casting vote
According to article 47.5 of the bylaws and article 25.6 of the Rules and Regulations of the Board, the chairman has the casting vote to settle tied votes.

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

Yes ☐ **No** ☒

Age limit for the Group Executive Chairman ☐

Age limit for the Chief Executive Officer ☐ **Age limit for directors** ☐

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

Yes ☐ **No** ☒

Maximum number of years in office	There are none

Article 529.duodecies.4.i) of the LSC establishes that a director who continuously holds a post for over 12 years can no longer be considered independent.

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

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

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

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

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.

2. The directors must attend the meetings held in person. However, if they cannot attend they may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. The non-executive directors may only grant a proxy to another non-executive director."

Article 25.1 and 2) of the Rules and Regulations of the Board establishes that:

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.

2. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity. When directors cannot attend personally, they may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. Non-executive directors may only grant a proxy to another non-executive director. The proxy shall be granted with instructions."

In accordance with articles 17.10, 18.10, 19.9, 20.9, 21.6 and 22.5 of the Rules and Regulations of the Board, which concern the delegation of votes by the members of committees, the members of the executive committee, audit committee, appointments committee, remuneration committee, supervision of risk, regulation and compliance committee, responsible banking, sustainability and culture committee and the innovation and technology committee, may grant a proxy to another member, taking into account that non-executive directors may only grant such proxies to other non-executive directors. In the case of the audit committee, no member may hold more than two proxies, in addition to their own vote.

C.1.29 Indicate the number of board meetings held during the year, and how many times the board has met without the chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	15
Number of board meetings held without the chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and under the chairmanship of the lead director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the executive committee	47
Number of meetings of the audit committee	12
Number of meetings of the appointments committee	11
Number of meetings of the remuneration committee	11
Number of meetings of the risk supervision, regulation and compliance committee	12
Number of meetings of the innovation and technology committee	3

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings with all members present	13
% of attendance of the total votes cast during the year	98%

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

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

1. Withdrawal from position of director effective 28 November 2017.
2. Director since 28 November 2017.

On average, each of the directors has dedicated approximately 180 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 235 hours; members of the audit committee 120 hours; members of the appointments committee 44 hours; members of the remuneration committee 44 hours; members of the risk supervision, regulation and compliance committee 120 hours and members of the innovation and technology committee 12 hours.

In accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at meetings of board committees of which they are not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested such attendance from the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

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

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

Yes ☒ **No** ☐

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

Name	Position
Mr José Francisco Doncel Razola	Group Chief Accounting Officer

C.1.32 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated financial statements it prepares from being laid before the general shareholders' meeting with a qualified audit report.

The mechanisms adopted for such purpose (contemplated in article 62.3 of the bylaws and articles 17.1, 2, 3 and 4 b), c), d), e), f), g), h), and i) and 42.5 of the Rules and Regulations of the Board) can be summarised as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the bank and the Group, all in accordance with legal requirements and generally accepted accounting principles.

- Review by the audit committee of the financial statements prepared by the services of the bank and of the Group. The audit committee is a body specialised in this area and solely comprised of independent non-executive directors. This committee serves as the normal channel of communication between the board and the external auditor.

In reference to the financial statements and management report for 2017, which will be submitted at the 2018 annual general meeting, the audit committee, at its meeting held on 8 February 2018, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred at the meeting held on 13 February 2018 following certification by the Group Chief Accounting Officer.

In meetings held on 19 April, 19 July and 18 October 2017 and on 25 January 2018, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2017, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2017 interim financial information is prepared in accordance with the same principles and practices applied to the financial statements.

The audit committee has reported favourably on the condensed interim consolidated financial statements for the first half of 2017. These were prepared in accordance with prevailing international accounting principles and rules (specifically IAS 34 *Interim Financial Reporting*, as adopted by the European Union) and in accordance with article 12 of Royal Decree 1362/2007

Regular meetings were also held with the external auditor, both by the board of directors - to which the external auditor reported twice in 2017 - and by the audit committee - during the year, the external auditor attended all 12 meetings held by that committee, two of which addressed various aspects of its activity and were not attended by the bank's executives, providing sufficient time to detect any possible discrepancies with respect to the accounting criteria employed.

In the event of differences of opinion with the external auditor, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard.

No reservations or qualifications have been made to the individual financial statements of the bank or to the consolidated financial statements of the Group over the last three tax years.

C.1.33 Is the secretary of the board also a director?

Yes ☐ **No** ☒

The person acting as the general secretary and the secretary of the board does not need to be a director.

C.1.35 Indicate and explain, where applicable, the specific mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

a. External auditors

PricewaterhouseCoopers Auditores, S.L. (PwC) audited Santander Group's individual and consolidated financial statements in 2017.

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

Article 42 of the Rules and Regulations of the Board establishes that:

1. *All relations of the board of directors with the Company's external auditor shall be channelled through the audit committee.*

Notwithstanding the foregoing, the external auditor shall attend the meetings of the board of directors and the audit committee at least twice a year in order to submit its report on the annual accounts and regarding semi-annual financial information so that all the directors have access to as much information as possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group For such purposes, one of these meetings shall be held in order for the external auditor to report on the work carried out and on the changes in the Company's accounting situation and risks.

2. *The board of directors shall not hire as external auditor those audit firms at which the fees intended to be paid to them, for any and all services, exceed the limits set forth at any time by applicable law.*

3. *No services shall be contracted with the audit firm, other than audit services proper, that might risk the independence of such firm.*

4. *The board of directors shall make public in the annual report the overall amount of fees paid by the Company to the audit firm, including information regarding fees for professional services other than auditing.*

5. *The board of directors shall use its best efforts to prepare the accounts such that there is no room for reservations or qualifications by the external auditor. However, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall also endeavour to ensure that the external auditor likewise discloses its considerations in this regard."*

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

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

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

The "Audits" heading includes fees paid for:

- Auditing the individual and consolidated financial statements of Banco Santander, S.A. and, as the case may be, the Group companies.

- The integrated audit carried out for the purpose of filing the financial statements with the US Securities and Exchange Commission (SEC) using Form 20-F for those Group companies currently required to do so.

- The internal control audit (SOX) for those Group companies required to do so.

- The audit of the consolidated financial statements at 30 June, and the consolidated quarterly limited reviews of Banco Santander S.A. for the Brazilian regulator, dated 31 March, 30 June and 30 September, as well as the mandatory regulatory reports required from the auditor in the various places where Group Santander is established.

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

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

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

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

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

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

   As a reference, in accordance with the available information on the main companies whose shares are traded in Spanish organised markets, fees that, on average, were paid to their auditors in 2017 for non-audit and related services accounted for 9% of total fees.

3. Has verified the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by the audit firm in 2017. The Group's total fees paid account for less than 0.3% of PwC's total revenues.

4. Has reviewed the banking transactions performed with companies related to the external auditor, concluding that no transactions have been carried out that compromise the external auditor's independence.

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

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

b. Financial analysts

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

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

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

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

c. Investment banks and rating agencies

The bank complies with the "Guidelines for the release of privileged information to third parties" published by the National Securities Market Commission on 9 March 2009, which expressly indicates that financial institutions and rating agencies are recipients of that information. It also follows the "Recommendations regarding informational meetings with analysts, institutional investors and other stock market professionals" published by the National Securities Market Commission on 22 December 2005.

In particular, when the bank is advised in a transaction by a third party and, within the context of these services, this party receives privileged information, the bank includes the names of the people who have had access to such insider information on a list drawn up by the compliance department, and alerts these people and/or institutions to the fact that they are also subject to the same applicable legislation and must draw up their own list of insiders. These entities will also provide a description of the internal mechanisms they use to preserve their independence.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes **No** ☒

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

Yes ☐ **No** ☒

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

Yes ☒ **No** ☐

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

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

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

Yes ☐ **No** ☒

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

	Company	Group
Number of consecutive years	2	2

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

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

Yes ☒ **No** ☐

Procedures
Article 32 of the Rules and Regulations of the Board expressly recognises that directors are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board, through the general secretary, to hire external advisers (legal, accounting, financial, technological, recruitment or other specialists) at the bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject such requests with good reason. The Rules and Regulations of the Board expressly recognise the right of the audit (article 17.9), appointments (article 18.9), remuneration (article 19.8) and risk supervision, regulation and compliance (article 20.8) committees to be assisted in the performance of their duties by requesting the hiring of legal, accounting, financial and other advisers, through the general secretary. These services shall be paid for by the Company.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes ☒ **No** ☐

Procedures
Article 24.2 of the Rules and Regulations of the Board stipulates that the calendar of board meetings will be established annually, together with proposed informational agendas which, if modified, must be duly reported to each Director. The board shall also keep a formal list of matters reserved for discussion by it and shall formulate a plan for the distribution of such matters between the ordinary meetings contemplated in the estimated calendar approved by the board (article 24.6 of the Rules and Regulations of the Board). Article 24.2, paragraphs 2 and three, add that meetings must be called 15 days in advance by the Board Secretary and the relevant documentation for each meeting (draft agenda, presentations, minutes to prior meetings) generally must be sent to the directors four business days in advance of the board meeting via secure electronic means. The Board committees also approve an annual calendar of meetings and an annual work plan. Additionally, the relevant documentation for each meeting (draft agenda, presentations, minutes of prior meetings, other support documentation) generally must be provided to the members of the respective committees 3 days in advance of the meeting (articles 17.7, 18.7, 19.5, 20.6, 21.5 and 22.4 of the Rules and Regulations of the Board). The information provided to the directors prior to the meetings is specifically for the purpose of preparing for these meetings and is intended for such purpose. In the opinion of the board, this information is complete and is sent sufficiently in advance. In addition, article 31 of the Rules and Regulations of the Board expressly vests directors with the right to request and obtain information regarding any aspect of the bank and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of these companies. Directors also have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties (article 24.4 of the Rules and Regulations of the Board). Lastly, in accordance with articles 16.7 and 31.3 of the Rules and Regulations of the Board, any director may attend and participate but not vote at meetings of board committees of which he or she is not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested such attendance from the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes ☒ **No** ☐

Explain the rules
As part of the duty of loyalty of the directors, article 36 of the Rules and Regulations of the Board establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the bank, particularly any criminal charges. When those circumstances arise and, in particular, when there is any case of incompatibility or legal prohibition, the directors involved must tender their resignation and formally execute that resignation if the board, after having obtained a report from the appointments committee, deems it advisable, as is stipulated by article 56.2 of the bylaws and 28.2 of the Rules and Regulations of the Board.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish LSC:

Yes ☐ **No** ☒

Name of the director	Criminal proceedings	Remarks

Indicate whether the board of directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Not applicable.

Yes ☐ **No** ☒

Decision/action taken	Justified explanation

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

None.

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

Number of beneficiaries*	18
Senior Executive Vice Presidents	In 2013, all remaining golden parachutes were ended for senior executives still entitled to them.
Other employees	A number of employees have a right to compensation equivalent to one to two years of their basic salary in the event of their contracts being terminated by the bank in the first two years of their contract. In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the bank itself.

* Data at 31 December 2017.

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

	Board of directors	**General Shareholders' Meeting**
Body authorising clauses	**X**	

	YES	**NO**
Is the general shareholders' meeting informed of such clauses?	**X**	

C.2 Board committees

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

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

EXECUTIVE COMMITTEE

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Bruce Carnegie-Brown	Member	Independent non-executive director
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Mr Jaime Pérez-Renovales	Secretary	Non-director

% of executive directors	42.86%
% of proprietary directors	0%
% of independent directors	28.57%
% of other non-executive directors	28.57%

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

The executive committee is regulated by articles 51 of the bylaws and 16 of the Rules and Regulations of the Board.

Article 51 of the By-laws of the bank:

1. The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.

2. Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favorable vote of not less than two-thirds of the members of the board of directors.

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

4. The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him.

5. The executive committee shall report to the board of directors on the affairs discussed and the decisions made at its meetings and shall make available to the members of the board a copy of the minutes of such meetings.

Article 16 of the Rules and Regulations of the Board:

1. *The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.*

2. *The board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board.*

3. *Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.*

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

5. *The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him. As a general rule, the executive committee shall meet on a weekly basis, in accordance with the schedule of monthly meetings approved by the committee every year. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.*

6. *Meetings of the executive committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, although non-executive directors may only represent another non-executive director. The resolutions of the executive committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

7. *All members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.*

8. *The executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall provide a copy of the minutes of such meetings to the members of the board. The supporting documentation that has been provided to the executive committee shall also be made available to all directors*

   The permanent delegation of powers by the board of directors to the executive committee includes all of the board's powers, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the By-laws or which are reserved exclusively for the board in accordance with Article 3 of the Rules and Regulations of the Board of Directors:

   (a) *Approval of the general policies and strategies of the Company, and the supervision of their application, including, without limitation:*

      (i) *strategic or business plans, management objectives and annual budget;*
      (ii) *investment and financing policy;*
      (iii) *capital and liquidity strategy and policy;*

(iv) *tax strategy;*

(v) *dividend and treasury stock policy;*

(vi) *policy for approving new products, business activities and services;*

(vii) *policy on corporate governance and internal governance of the Company and its Group, including the definition of its organisational structure, which should favour the effective and prudent management of the Company and its Group and the effective supervision and management of all risks and ensure that the internal control functions (risk, compliance and internal audit) are independent of the business lines and can effectively perform their role;*

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

(viii) *policy on outsourcing of services or activities;*

(ix) *policy on control and management of risks, including tax risks;*

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

(1) *spend sufficient time considering risk related issues. In particular, it will actively participate in the management of all substantial risks laid down in solvency laws, it will ensure that appropriate resources are assigned for risk management, and it will be involved in asset valuation, the use of external credit ratings and the internal models regarding such risks; and*

(2) *approve and periodically review risk culture and the framework of risk appetite of the Company and its Group, including the corresponding strategies and policies on risk assumption, management, supervision and reduction of the risks that the entity is or could be exposed to, even those arising in the macroeconomic situation in which it operates in relation to the phase of the economic cycle, ensuring that said culture, strategies and policies are aligned with the corporate governance and internal governance systems, strategic, capital and financing plans and with remuneration policies and are communicated and known by the employees.*

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

(x) *remuneration policies for the personnel of the Company and its Group;*

(xi) *corporate culture and values, including strategy on responsible business and sustainability;*

(xii) *regulatory compliance policy, including the approval of codes of conduct, the conflict of interest policy, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model). The board shall also ensure that these policies and codes are duly communicated to and known by staff.*

(b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related-party transactions of particular importance and treasury stock.

(c) Approval of the financial information that the Company must make public on a periodic basis based on its status as a listed company.

(d) Preparation of the annual accounts and presentation to the general shareholders' meeting.

(e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.

(f) Upon a proposal from the audit committee, approval of the proposal of direction and the annual work programme for internal audit, ensuring that internal audit activities are primarily focused on the Company's significant risks, and supervision of the implementation of this annual programme, after the prior involvement of the audit committee and the risk supervision, regulation and compliance committee.

(g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

(h) Approval of investments or transactions of any kind that, due to their elevated amount or special features, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the Bylaws.

(i) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.

(j) Determination of its organisation and operation and, specifically, approval and amendment of these rules and regulations.

(k) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.

(l) Design and supervision of the director selection policy, which shall include the diversity policy and objectives and the suitability policy, and of the succession plan for the directors (including those applicable to the chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 29 of these rules and regulations.

(m) Selection, appointment on an interim basis (co-option) and continued evaluation of directors.

(n) Selection, appointment and, if applicable, removal of the other members of senior management and heads of the internal control functions and other key positions at the Company, as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

(o) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the Bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.

(p) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

(q) Definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and the key elements of the remuneration of those other officers or employees who, although not part of senior management, assume risks or are assigned to the Company's control functions (i.e., internal audit, risk or compliance) or receive a global remuneration that takes them on the same remuneration bracket as senior managers and risk takers and whose professional activities have a material impact on the Group's risk profile (all of whom comprise, together with senior management and the Company's board of directors, the "Identified Staff", which will be defined at any given time in accordance with applicable regulations).

(r) Approval of related-party transactions in accordance with the provisions of article 40 of these rules and regulations, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 36 of these rules and regulations, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(t) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

(u) Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.

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

The powers set out in points (a)(vii) second paragraph (only where related to transactions that do not need a report from the audit committee pursuant to article 17.4.(h) below), (c), (h), (i), (j) and (r) above may be exercised by the executive committee whenever advisable for reasons of urgency, with a subsequent report thereof to the board for ratification, at the first meeting thereafter held by it.

During 2017 the executive committee took action relating to various areas of the bank and the Group and dealt with matters relating to the following, among others:

- **Chairman information:** the chairman of the board of directors, who also chairs the executive committee, regularly reported on certain aspects relating to Group management and institutional issues.

- **Corporate transactions:** the committee analysed and, where applicable, approved corporate transactions carried out by the Group (investments and divestments, joint ventures, capital transactions, etc.).

- **Risks**: the committee was regularly informed about the risks facing the Group and, within the framework of the risk governance model, made decisions about transactions that must be approved by it due to their amount or relevance.

- **Subsidiaries:** the committee received reports on the performance of the various units and, in line with current internal procedures, it authorised transactions and appointments of directors of subsidiaries.

- **Capital and liquidity:** the committee received frequent information on the performance of capital ratios and of the measures being used to optimise them, in addition to reviewing regulatory plans.

- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators, in addition to projects in order to ensure compliance with its recommendations and regulatory changes.

- **Earnings:** the committee was also kept up to date on Group earnings, and their impact on investors and analysts.

- **Other matters**: the committee was kept continuously and fully informed of the performance of the various business areas of the Group, through the management reports or specific reports on determined subjects submitted thereto. It was also informed of various projects relating to the transformation and development of the Group's culture (Simple, Personal and Fair).

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

Yes ☐ **No** ☒

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

The executive committee is a basic instrument in the corporate governance at the Bank and its Group and, given the nature of the executive committee and its general delegated powers, driven by the objective of rationalise and seek efficiency when taking decisions, the board considers it sufficient to use the efficiency criteria set out in article 16.2. of the Rules and Regulations of the Board and include the executive directors on the committee without discounting the participation of external directors, and particularly, independents, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

Although the composition of the executive committee is not identical to that of the board, the bank considers that it complies with the spirit of recommendation 37 of the Good Governance Code of Listed Companies and does not consider it advisable to increase the number of the members of the executive committee solely to facilitate the composition of that committee being identical to the board in terms of the represented categories, since this would mitigate the agility and frequency of the decisions taken by the executive committee. The bank therefore considers the composition of the executive committee to be balanced and it consists of seven directors, three executive directors and four non-executive or external directors, of which two are independent and two are neither proprietary nor independent such that the number of executive directors is not higher than the number of external or non-executive directors. Further, the executive committee informs the board on a timely basis of its activities and the resolutions adopted in accordance with the authority delegated by the board, which is the essential core of the Bank's management and supervision.

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

Furthermore, pursuant to article 16.7 of the Rules and Regulations of the Board, *"all members of the board who are not members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman".* In this respect, as stated in section C.1.30 above, in 2017 non-executive members regularly took part in executive committee meetings. In particular, non-executive committee members attended an average of 10.9 meetings out of a total of 47 meetings in 2017.

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

AUDIT COMMITTEE

Name	Position	Type
Ms Belén Romana García	Chairman	Independent non-executive director
Ms Homaira Akbari	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Mr Jaime Pérez-Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	100%
% of other non-executive directors	0%

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

The committee is regulated by article 53 of the bylaws and article 17 of the Rules and Regulations of the Board.

Article 53 of the bylaws:

1. The audit committee shall consist of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The board of directors shall appoint the members of the audit committee taking into account their knowledge, skills and experience in the areas of accounting auditing or risk management, such that, as a whole, the audit committee has the appropriate technical knowledge regarding the Company's sector of activity.

3. The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected once after the passage of one year from the date on which his term of office expired.

4. The audit committee shall have at least the following powers and duties:

i) Have its chairman and/or secretary report to the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers and, in particular, regarding the result of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has performed in the process.

ii) Supervise the effectiveness of the Bank's internal control and internal audit, and discuss with the external auditor any significant weaknesses detected in the internal control system during the conduct of the audit, all without violating its independence. For such purposes, if applicable, the audit committee may submit recommendations or proposals to the board of directors and set the corresponding period for compliance therewith.

iii) Supervise the process of preparation and submission of regulated financial information and submit recommendations or proposals intended to safeguard its integrity to the board of directors.

iv) Propose to the board of directors the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process in accordance with applicable law, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.

v) Establish appropriate relations with the external auditor to receive information on those issues that might entail a threat to its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process, and, when applicable, the authorisation of services other than those which are prohibited, under the terms established in the law applicable to the activity of audit of accounts, as well as maintain such other communication as is provided for therein

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

vii) Issue, on an annual basis and prior to the issuance of the auditor's report, a report stating an opinion on whether the independence of the external auditor is compromised. Such report shall, in all cases, contain a reasoned evaluation regarding the provision of each and every one of the additional services mentioned in subsection (v) above, considered individually and as a whole, other than of legal audit and with relation to the rules on independence or to the law on the activity of audit of accounts.

viii) Previously report to the board of directors regarding all the matters established by law, the bylaws and in the rules and regulations of the board, and in particular regarding:

a) the financial information that the company must publish from time to time;

b) the creation or acquisition of interests in special-purpose entities or with registered office in countries or territories that are considered tax havens; and

c) related-party transactions.

The provisions in paragraphs (iv), (v) and (vi) are without prejudice to the law on auditing of accounts.

5. The audit committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit committee may also require that the external auditor attend such meetings. One of its meetings shall be devoted to preparing the information within the committee's scope of authority that the board is to approve and include in the annual public documents.

6. Meetings of the audit committee shall be validly held when at least one half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have a tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the audit committee shall be recorded in a minute book, and every one of such minutes shall be signed by the chairman and the secretary.

7. The rules and regulations of the board shall further develop the rules applicable to the audit committee established in this article

Article 17 of the Rules and Regulations of the Board:

1. The audit committee shall consist of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The board of directors shall appoint the members of the audit committee taking into account their knowledge, qualifications and experience in the areas of finance, accounting, auditing, internal control, information technology, business or risk management, such that, as a whole, the audit committee has the appropriate technical knowledge regarding the Company's sector of activity.

3. The audit committee shall in any case be presided over by an independent director who is a financial expert and is therefore knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.

4. The audit committee shall have the following functions and any others provided for by applicable law:

a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers and, specifically, regarding the results of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has played in such process.

b) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles, and report on the proposals for alterations to the accounting principles and standards suggested by management.

c) In connection with the Company's external auditor:

(i) *With respect to the appointment thereof, the audit committee shall have the following powers:*

(1) *Submit to the board of directors the proposals for selection, appointment, re-election and replacement of the external auditor, assuming responsibility for the selection procedure established by applicable law, as well as the terms of the contract therewith. The committee shall favour the Group's external auditor also assuming responsibility for auditing the companies making up the Group.*

(2) *Ensure that the Company gives public notice of the change of external auditor in the form of a material fact (hecho relevante), attaching to such notice a statement regarding the possible existence of disagreements with the outgoing external auditor and, if any have existed, regarding the content thereof, and in the event of resignation of the external auditor, examine the circumstances giving rise thereto.*

(ii) *With respect to the conduct of the audit, the audit committee shall:*

(1) *Establish appropriate relationships with the external auditor in order to receive information regarding matters that might entail a threat to its independence, for examination by the committee, as well as any other information related to the development of the auditing procedure and such other communications as are provided for in the laws on auditing of accounts and in audit regulations; serve as a channel of communication between the board and the external auditor, assessing the results of each audit and the response of the management team to its recommendations, and acting as a mediator in the event of disagreement between the board and the external auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the accounts ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications, pursuant to the provisions of article 42.5 below.*

(2) *Regularly gather information from the external auditor regarding the audit plan and the implementation thereof.*

(3) *Periodically evaluate the scope of the audit and the frequency with which the consolidated financial statements of the Group are subject to external audit.*

(4) *Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual accounts and the main contents of the auditor's report are set forth in a clear and accurate fashion.*

(5) *Ensure that the external auditor attends the meetings of the board of directors provided for in article 42.1 in fine of these rules and regulations.*

(6) *Ensure that the external auditor issues a report with respect to the internal control over financial reporting system.*

(7) *Verify that senior management and the board take into account the conclusions and recommendations of its reports.*

(8) *Perform a final evaluation of the actions of the auditor and how it has contributed to the integrity of the financial information, including, among other parameters, its knowledge of the business; the frequency and quality of its communications; the opinion that key persons in the Company's management have of them, especially in the internal audit area; the public results of the auditor's quality controls; and the transparency reports; and, if applicable, report to the board of directors on any significant aspects of said evaluation.*

(iii) *And with respect to the independence of the auditor and the provision of services other than audit work, the audit committee shall ensure that the Company and the external auditor comply with applicable regulations regarding the provision of such services, the limits on concentration of the external auditor's business and, in general, all other regulations governing the external auditor's independence, collecting for this purpose the information needed to assess the independence thereof from sources inside or outside of the Company and approving internal policies of the Company regarding personal situations and prohibiting the provision of certain services by the auditor, the approval of the provision of non-audit services, and regarding compliance with prohibitions after the audit work has been completed. For purposes of ensuring the independence of the external auditor, the audit committee shall take note of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure. And, specifically, it shall ensure that the remuneration of the external auditor for its work does not compromise the quality or independence thereof, shall establish an indicative limit on the fees to be received by the external auditor for non-audit services, and shall verify the percentage that the fees paid for any and all reasons represent out of the total income of the audit firm, as well as the seniority of the partner who leads the audit team in the provision of such services to the Company.*

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

In any event, the audit committee should annually receive from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly related to the Company, as well as detailed and itemised information on additional services of any kind provided by the aforementioned auditor or by persons or institutions related thereto and the fees received from such entities, pursuant to the regulations governing the auditing of accounts.

Likewise, prior to the issuance of the external auditor's report, the committee shall annually issue a report expressing an opinion on whether the independence of the external auditor is compromised. Such report shall in any event contain a reasoned evaluation of each and every one of the additional services mentioned in the preceding paragraph, taken both individually and as a whole, other than legal audit services, and in connection with the rules on independence or with the regulations governing the auditing of accounts.

d) Supervise the internal audit function and, specifically:

(i) *Propose the selection, appointment and withdrawal of the officer responsible for internal audit;*

(ii) *Ensure the independence and effectiveness of the internal audit function;*

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

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

(v) *Annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof; and*

(vi) *Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports.*

e) Supervise the financial reporting process and the internal control systems. In particular, the audit committee shall:

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

(ii) *supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and*

(iii) *discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.*

As a consequence of its activities, the audit committee may submit recommendations or proposals to the board of directors.

In any event, the performance of the functions established herein shall not affect the independence of the internal audit function.

f) Report to the board, in advance of its adoption of the corresponding decisions, regarding:

(i) *The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the provisions of article 41.2 of these rules and regulations.*

(ii) *The creation or acquisition of interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens.*

(iii) *The approval of related-party transactions provided for in article 40 below.*

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

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

(h) Establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.

(i) Receive information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions.

(j) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and, where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this shall be reported to the committee at the first meeting thereafter held by it. The audit committee shall transmit the information received to the board of directors.

(k) Evaluate its operation and the quality of its work at least once per year.

(l) And the other functions specifically provided for in these rules and regulations.

5. The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, shall periodically report to the board of directors and, in any event, at least on the occasion of each annual or interim financial reporting date, and shall also have direct access to the board when it deems it appropriate.

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

7. Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby. The committee may also request the attendance of the external auditor. One of its meetings shall be devoted to preparing the information within the committee's scope of authority that the board is to approve and include in the annual public documents.

8. In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.

9. Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, but none of them may represent more than two members in addition to himself. The resolutions of the audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

10. The audit committee, through its chairman, shall report on its activities to the board of directors. This reporting process shall be carried out at meetings of the board planned for this purpose. However, if the chairman of the committee deems it necessary based on the urgency and significance of the matters in question, the information shall be given to the board at the first meeting thereof to be held after the meeting of the committee.

Furthermore, the supporting documentation that has been provided to the audit committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.

In 2017, none of the members of the audit committee were executive directors.

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

On 26 June, the bank's board of directors, at the proposal of the appointments committee, agreed to appoint Ms Homaira Akbari as member of the audit committee, in place of Mr Juan Miguel Villar Mir, who stepped down as a member of the committee on this same date.

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

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

During 2017 the audit committee carried out the following activities: (i) review the periodic interim financial information and any other financial information made available to the market or to supervisory organisations during the year, (ii) report favourably on the Group's annual report, the annual corporate governance report, with respect to its areas of competence, the share registration document and the annual report in 20-F format, (iii) review and provide a favourable opinion of the annual financial statements and the management report of the bank and its Group for 2016, and the condensed interim consolidated financial statements for the first half of 2017, (iv) analyse the reports from the external auditor relating to the individual and consolidated financial statements for 2016, (v) report on the independence of the external auditor and review and approve the contracting of non-audit services, (vi) supervise the Group's internal audit area, reviewing and approving the internal audit plan for 2017 and evaluating the adequacy and effectiveness of the function when performing its mission, (vii) receiving the report on the internal control system for financial reporting (ICFR) at 31 December 2016, (viii) receive the activity logged in the whistleblowing channel and the Group's irregularities committees, (ix) review the presence of the Group in offshore territories as well as the information on this topic included in the annual accounts, issuing an specific report, and (x) examine the information relating to related-party transactions contained in the annual report.

Identify the director of the audit committee who has been appointed chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been chairman.

Name of director	Ms Belén Romana García
Number of years as chairman	1 year and 8 months

APPOINTMENTS COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Sol Daurella Comadrán	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Jaime Pérez-Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	60.00%
% of other non-executive directors	40.00%

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

The appointments committee is regulated by article 54 of the bylaws and article 17 of the Rules and Regulations of the Board.

Article 54 of the bylaws:

1. An appointments committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to appointment and withdrawal of directors on the terms established by law.

2. The appointments committee shall be composed of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive directors, with independent directors having majority representation.

3. The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.

4. The appointments committee must in all events be presided over by an independent director.

5. The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the appointments committee.

Article 18 of the Rules and Regulations of the Board:

1. The appointments committee shall be composed of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The members of the appointments committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.

3. The appointments committee shall in any case be presided over by an independent director.

4. The appointments committee shall have the following functions:

(a) Propose and review the director selection policy, which shall include the diversity policy and objectives and the suitability policy, and the succession plan approved by the board and the internal criteria and procedures to be followed in order to select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments committee shall:

(i) *Evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board of directors and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.*

(ii) *Receive, for subsequent consideration, any proposals of potential candidates to cover vacancies that the directors may submit.*

(iii) *Conduct a periodic review, at least once per year, of the structure, size, composition and activities of the board of directors, the operation of and compliance with the director selection policy and the succession plan, making recommendations to the board regarding possible changes.*

(iv) *Conduct a periodic review, at least once per year, of the fitness and properness of the different members of the board of directors and of the board as a whole and report to the board of directors accordingly.*

(v) *Establish, in line with the provisions of article 6.1 of these rules and regulations, a goal for representation of the less-represented gender on the board of directors and prepare guidelines as to how to increase the number of persons of that less-represented gender in order to reach such target. The target, the guidelines and the application thereof shall be published as provided by applicable law.*

(b) Apply and supervise the succession plan for the directors approved by the board of directors, working in coordination with the chairman of the board or, for purposes of the succession of the chairman, with the lead director. In particular, examine or organise the succession of the chairman and of the chief executive officer pursuant to article 29 of these rules and regulations.

(c) Prepare, by following standards of objectiveness and conformance to the corporate interest, taking into account the director selection policy and the succession plan and assessing the fitness and properness of the potential candidates and, in particular, the existence of possible conflicts of interest, independence of mind and time commitment, the reasoned proposals for appointment, re-election and ratification of directors provided for in section 2 of article 26 of these rules and regulations, any proposals for removal of directors, as well as proposals for appointment of the members of each of the committees of the board of directors. It shall also prepare the proposals for the appointment of positions on the board of directors and its committees, following the same aforementioned standards.

(d) Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of the confirmation or review thereof at the ordinary general shareholders' meeting and in the annual corporate governance report.

(e) Report on proposals for appointment or withdrawal of the secretary of the board and, if applicable, the vice secretary, prior to submission thereof to the board.

(f) Propose and review the policies and internal procedures for the selection and continuous evaluation of members of senior management and other employees responsible for internal control functions or who hold key positions for the day-to-day conduct of banking activities, as well as the succession plan for such executive officers, report on their appointment and withdrawal from office and their continuous evaluation in implementation of such procedures, and make any recommendations it deems appropriate.

(g) Ensure compliance by the directors with the duties prescribed in article 36 of these rules and regulations, prepare the reports provided for therein, and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of noncompliance with the abovementioned duties or with the code of conduct of the Group in the securities markets

(h) Examine the information provided by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.

(i) Evaluate its operation and the quality of its work at least once per year.

(j) Report on the process of self-evaluation of the board and of the members thereof and assess the independence of the external consultant hired pursuant to article 24.7 of these rules and regulations.

(k) Report on and supervise the application of the policy for planning the succession of the Group and any amendments thereto.

(l) The other functions specifically provided for in these rules and regulations and any others assigned to the committee by applicable law.

5. In the performance of its duties, the appointments committee shall take into account, to the extent possible and on a continuous basis, the need to ensure that decision-making at the board of directors is not monopolised by one person or a reduced number of persons in a manner such that the interests of the Company as a whole may be prejudiced as a result.

6. The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the appointments committee shall consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors. Finally, the committee may hire external firms to assist it in the candidate selection process and in its other functions.

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

8. Any one or more members of the management team or of the Company's personnel shall attend the meetings of the appointments committee, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby.

9. In order to be assisted in the performance of its duties, the committee may hire, through thesecretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.

10. Meetings of the appointments committee shall be validly held when more than one-half of its members are present in person or by proxy. The appointments committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the appointments committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

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

In 2017, none of the members of the appointments committee were executive directors and there were no changes in its composition.

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

During 2017 the appointments committee carried out the following activities: (i) propose the appointment of the director that was designated in 2017, directing the relevant selection process, (ii) propose the appointment of the new members of the Board committees, (iii) verify the character of each director, making the relevant proposal to the board, (iv) evaluate the suitability of the members of the board and the board as a whole, as well as the senior management (senior executive vice presidents and similar officers, including the heads of internal control and the persons holding key posts with respect to the daily development of the Group's banking business), (v) review the succession policy at Santander Group, and (vi) report the appointments of the members of senior management that took place in 2017. Further, in 2018 it reported on the results of the self-assessment by the board and its members carried out in the fourth quarter of 2017 with the support of an external firm, whose independence was verified by the committee.

REMUNERATION COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Sol Daurella Comadrán	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Jaime Pérez-Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	60.00%
% of other non-executive directors	40.00%

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

The remuneration committee is regulated by article 54 bis of the bylaws and article 19 of the Rules and Regulations of the Board.

Article 54 bis of the bylaws:

1. A remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to remuneration on the terms established by law.

2. The remuneration committee shall be composed of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive directors, with independent directors having majority representation.

3. The board of directors shall appoint the members of the remuneration committee taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.

4. The remuneration committee must in all events be presided over by an independent director.

5. The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the remuneration committee.

Article 19 of the Rules and Regulations of the Board

1. The remuneration committee shall be composed of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The members of the remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.

3. The remuneration committee shall in any case be presided over by an independent director.

4. The remuneration committee shall have the following functions:

(a) Prepare and propose the decisions relating to remuneration that the board of directors must adopt, including those that have an impact on the Company's risk and risk management. In particular, the remuneration committee shall propose:

(i) *The director remuneration policy, preparing the required reasoned report on such remuneration policy as provided by article 34 of these rules and regulations as well as the annual remuneration report provided for in article 35 below.*

(ii) *The individual remuneration of the directors in their capacity as such.*

(iii) *The individual remuneration of the directors for the performance of duties other than those in their capacity as such, and other terms of their contracts.*

(iv) *The remuneration policy applicable to members of senior management in compliance with the provisions of law.*

(v) *The basic terms of the contracts and the remuneration of the members of senior management.*

(vi) *The key elements of the remuneration of those other officers or employees who, while not members of senior management, are part of the Identified Staff.*

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

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

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

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

(f) Review a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and, jointly with the risk supervision, regulation and compliance committee, back-test the criteria used for determining the award and the ex ante risk adjustment based on the actual risk outcomes.

(g) Evaluate its operation and the quality of its work at least once per year.

(h) And such other functions as are specifically provided for in these rules and regulations or assigned thereto by applicable law.

In the performance of its duties, the remuneration committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest.

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

6. The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the remuneration committee shall consult with the chairman and with the chief executive officer on matters relating to the executive directors and senior officers.

7. Any one or more members of the management team or of the Company's personnel shall atend the meetings of the remuneration committee, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby.

8. In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.

9. Meetings of the remuneration committee shall be validly held when more than one-half of its members are present in person or by proxy. The remuneration committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the remuneration committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

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

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

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

During 2017 the remuneration committee carried out the following activities: (i) propose a director remuneration policy to the board, preparing the required report on that policy and the annual remuneration report, (ii) propose individual remuneration for executive directors to the Board, (iii) propose a remuneration policy for general directors and other members of senior management to the board and ensure that it is observed, and (iv) propose to the Board the essential elements of compensation for other directors that, while not pertaining to senior management, are assigned to the company's internal control tasks (internal audit, risk management and compliance) or which receive significant remuneration, particularly variable amounts, and whose activities may have a relevant impact on the assumption of risks by the Group.

RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Esther Giménez-Salinas i Colomer	Member	Independent non-executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Ms Belén Romana García	Member	Independent non-executive director
Mr Jaime Pérez-Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	66.66%
% of other non-executive directors	33.33%

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

The risk supervision, regulation and compliance committee is regulated by article 54.ter of the bylaws and article 20 of the Rules and Regulations of the Board.

Article 54 ter of the bylaws:

1. A risk supervision, regulation and compliance committee shall be established and entrusted with general powers to support and advise the board of directors in its risk control and oversight duties, in the definition of the risk policies of the Group, in relations with supervisory authorities and in compliance matters.

2. The risk supervision, regulation, and compliance committee shall consist of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.

3. The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors, taking into account the directors' knowledge, skills and experience and the tasks of the committee.

4. The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.

5. The rules and regulations of the board shall govern the composition, operation and powers of the risk supervision, regulation and compliance committee.

Article 20 of the Rules and Regulations of the Board.

1. The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of this committee.

3. The risk supervision, regulation and compliance committee shall in any case be presided over by an independent director. In identifying the candidates to said chairmanship the fact that they are not chairman of the board or of the appointments committee, the remuneration committee or the audit committee shall be particularly valued.

4. The risk supervision, regulation and compliance committee shall have the following functions and any others provided for by applicable law:

(a) *Support and advise the board in defining and assessing risk policies affecting the Group and in determining the current and future risk appetite and the strategy and culture in this area, including proposing appropriate changes in view of internal or external circumstances affecting the Group.*

The Group's risk policies shall include:

(i) *The identification of the various types of financial and non-financial risk (operational, technological, tax, legal, social, environmental, political, reputational, and compliance and behavioural, among others) that the Company faces, including, among financial or economic risks, contingent liabilities and others which are off-balance sheet;*

(ii) *The setting of the risk appetite and limits that the Company deems acceptable;*

(iii) *The measures planned to mitigate the impact of identified risks in the event that they materialise; and*

(iv) *The information and internal control systems that will be used to control and manage such risks, including tax risks.*

(b) *Assistance to the board in monitoring the implementation of the risk strategy, appetite and limits that have been set, and the alignment thereof with the strategic plans objectives, and corporate culture and values of the Group.*

(c) *Assistance to the board in approving the capital and liquidity strategy and supervision of the application thereof.*

(d) *Ensuring that the pricing policy for the assets, liabilities and services offered to customers is fully aligned with the Company's business model, risk appetite and risk strategy. If such is not the case, the committee shall submit to the board of directors a plan for the correction of such policy.*

(e) *Knowing and assessing the risks arising from the macroeconomic context and from the economic cycles within which the Company and its Group carry out their activities.*

(f) *Systematic review of exposure to principal customers, economic sectors of activity, geographic areas and risk types.*

(g) *Supervising the risk function, and particularly:*

(i) *Report on the appointments committee's proposals for the designation of the head of the risk function (chief risk officer or CRO);*

(ii) *Ensure the independence and effectiveness of the risk function;*

(iii) *Ensure that the risk function has the physical and human resources needed for the performance of its work;*

(iv) *Receive periodic information regarding the activities thereof, which shall include potential deficiencies detected and breaches of the established risk limits; and*

(v) *Annually evaluate the risk function and the performance of the head of the risk function (chief risk officer or CRO), which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof.*

(h) *Support and assistance to the board in the performance of stress tests by the Company, in particular by assessing the scenarios and assumptions to be used in such tests, evaluating the results thereof and analysing the measures proposed by the risk function as a consequence of such results.*

(i) *Knowing and assessing management tools, improvement initiatives, advancement of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.*

(j) *Cooperating in establishing rational remuneration policies and practices. For such purpose, the risk supervision, regulation and compliance committee shall examine, without prejudice to the duties of the remuneration committee, whether the incentive policy contemplated in the remuneration system takes risk, capital, liquidity and the likelihood and opportunity of earnings into consideration, and, jointly with the remuneration committee, back-test the criteria used for determining the award and the ex ante risk adjustment based on the actual risk outcomes.*

(k) *Supervising the compliance function, and particularly:*

(i) *Report on the appointments committee's proposals for the designation of the head of the compliance function (chief compliance officer or CCO);*

(ii) *Ensure the independence and effectiveness of the compliance function;*

(iii) *Ensure that the compliance function has the physical and human resources needed for the performance of its work;*

(iv) *Receive periodic information regarding the activities thereof;*

(v) *Regularly evaluate the operation of the Company's compliance programme, the governance rules and the compliance function, making the proposals required for the improvement thereof, and annually evaluate the performance of the head of the compliance function (chief compliance officer or CCO), which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof.*

It will also supervise the operation of and compliance with the criminal risk prevention model approved by the board in accordance with article 3.2 of these rules and regulations. For the performance of the latter function, the committee will have individual powers of initiative and control. That includes, without limitation, the faculty to obtain any information which it deems appropriate and to summon any director or employee of the Group, including, in particular, the head of the compliance function and the different committees that, where appropriate, exist in this area to evaluate their performance, as well as the faculty to initiate and direct the internal investigations that it deems necessary about the facts related to the possible non-performance of the criminal risk prevention model.

Moreover, the committee will evaluate periodically the operation of the prevention model and its effectiveness in the prevention or mitigation of the commission of crimes, using external advise when considered appropriate, and will propose to the board of directors any changes to the criminal risk prevention model and, in general, to the compliance program that it deems appropriate in view of that evaluation.

(vi) *Report on the approval of and changes to the compliance policy, the general code of conduct, the manuals and procedures for the prevention of money laundering and financing of terrorism and for other codes and industry regulations, which must be approved by the board of directors, ensuring the proper alignment thereof with the corporate culture, and supervise compliance therewith;*

(vii) *Establish and supervise a mechanism that allows the staff of the Group to confidentially and anonymously report actual or potential breaches of regulatory or internal governance requirements, with specific procedures for receiving reports and the tracking thereof, ensuring proper protection for the staff member.*

(viii) *Receive information and, if applicable, issue reports on disciplinary measures for members of senior management; and*

(ix) *Supervise the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities in charge of supervision and control.*

(l) *Supervise the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervise and evaluate relationship processes with stakeholders.*

(m) *Support and advise the board in relation to corporate governance and internal governance policy of the Company and its Group, as well as in relation to the periodic evaluation of the adequacy of the Company's corporate governance system, with the purpose of fulfilling its mission of promoting social interest and of taking into account, as appropriate, the legitimate interests of the stakeholders.*

(n) *Support and advise the board regarding relations with supervisors and regulators in the various countries where the Group operates.*

(o) *Track and evaluate rule-making proposals and regulatory changes that may be applicable and of any possible consequences for the Group.*

(p) *Report on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.*

(q) *Evaluate its operation and the quality of its work at least once per year.*

5. The risk and compliance functions shall report to the risk supervision, regulation and compliance committee and shall respond to requests for information that they receive therefrom in the performance of their duties, irrespective of the fact that, as independent units, they periodically report and have direct access to the board of directors as appropriate.

6. The risk supervision, regulation and compliance committee shall approve an annual calendar of meetings, which shall provide for at least four meetings and an annual work programme. In any case, the risk supervision, regulation and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

7. Any one or more members of the management team or of the Company's personnel shall attend the meetings of the risk supervision, regulation and compliance committee, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby.

8. In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.

9. Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than one-half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

10. In order to ensure effective communication and coordination, the risk supervision, regulation and compliance committee may periodically call joint meetings with other committees, in particular, with the remuneration committee and the audit committee, in order to ensure an effective exchange of information and the coverage of all risks.

11. The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, the supporting documentation that has been provided to the risk supervision, regulation and compliance committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.

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

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

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

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

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

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

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

RESPONSIBLE BANKING, SUSTAINABILITY AND CULTURE COMMITTEE

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

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

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

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

Article 21 of the Rules and Regulations of the Board

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

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

2. The members of the responsible banking, sustainability and culture committee shall be appointed by the board of directors taking into account their knowledge, qualifications and experience in the areas for which the committee is responsible.

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

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

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

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

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

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

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

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

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

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

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

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

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

INNOVATION AND TECHNOLOGY COMMITTEE

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Bruce Carnegie-Brown	Member	Independent non-executive director
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms Homaira Akbari	Member	Non-executive director Independent director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Esther Giménez-Salinas i Colomer	Member	Non-executive director Independent director
Ms Belén Romana García	Member	Non-executive director Independent director
Mr Jaime Pérez-Renovales	Secretary	Non-director

% of executive directors	33.33%
% of proprietary directors	0%
% of independent directors	44.44%
% of other non-executive directors	22.22%

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

The innovation and technology committee is regulated by article 22 of the Rules and Regulations of the Board.

Article 22 of the Rules and Regulations of the Board

1. The innovation and technology committee shall be composed of a minimum of three and a maximum of nine directors. The chairman of the board of directors shall also be the chairman of the innovation and technology committee.

The board of directors shall endeavour to ensure that the size and qualitative composition of the innovation and technology committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

2. The members of the innovation and technology committee shall be appointed by the board of directors taking into account their knowledge, qualifications and experience in the areas for which the committee is responsible.

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

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

(a) Review and report on plans and activities relating to technology:

(i) information systems and application programming;

(ii) investments in information technology equipment and technological transformation;

(iii) design of operating processes to improve productivity;

(iv) programmes for improvement of service quality and measurement procedures as well as those relating to means and costs; and

(v) significant projects in the area of technology.

(b) Review and report on plans and activities relating to innovation:

(i) testing and adoption of new business models, technologies, systems and platforms;

(ii) partnerships, commercial relationships and investments; and

(iii) significant projects in the area of innovation.

(c) Propose to the board the technology framework and the data management framework for the Company.

(d) Assist the board in the approval of the strategic technology plan.

(e) Assist the board with recommendations about the innovation agenda of the Group.

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

(g) Propose to the board the annual systems plan.

(h) Assist the board in evaluating the quality of the technological service.

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

(j) Assist the risk supervision, regulation and compliance committee in the supervision of technological and security risks and supervise the management of cybersecurity.

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

5. Meetings of the innovation and technology committee shall be validly held when more than one-half of its members are present in person or by proxy. The innovation and technology committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, although non-executive directors may only represent another non-executive director. The resolutions of the innovation and technology committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

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

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

During 2017 the innovation and technology committee carried out the following activities: (i) learned about the Group's plans and strategies with regard to technology and operations, with a focus on the cybersecurity Plan and Cloud strategy; and (ii) learned about the implementation status of the corporate technology model (IT) that was approved by the board at its meeting of 30 November 2016.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	FY 2017		FY 2016		FY 2015		FY 2014	
	Number	%	Number	%	Number	%	Number	%
Executive committee	1	14.29%	2	25.00%	2	25.00%	2	28.57%
Audit committee	2	50.0%	2	50.00%	1	25.00%	-	-
Appointments committee	1	20.0%	1	20.00%	1	20.00%	-	-
Remuneration committee	1	20.0%	2	40.00%	2	33.33%	1	25.00%
Risk supervision, regulation and compliance committee	2	33.3%	2	28.57%	1	14.29%	1	25.00%
Innovation and technology committee	4	44.4%	3	33.33%	2	25.00%	1	33.33%

Figures at end of year.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

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

When the General shareholders' meeting for 2018 is called the company's corporate website (www.santander.com) will publish the reports from the audit committee (including the reports on the independence of the auditor and on related-party transactions), the appointments committee, the remuneration committee (which will include the remuneration policy for the directors that will be submitted for the approval of shareholders at the meeting) and the risk supervision, regulation and compliance committee, and there will be a summary of the activities carried out by these committees in 2017.

In 2018 the bylaws and the Rules and Regulations of the Board governing its committees were partially amended. See sections C.1.18 and C.2.1 of this report.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedures for informing of the approval of related-party transactions
Related-party transactions are governed by Articles 17.4 (f)(iii), 36 and 40 of the Rules and Regulations of the Board of Directors. In accordance with Article 17.4 (f) (iii) the audit committee is responsible for informing the Board of the approval of the related-party transactions referred to by Article 40, prior to the Board adopting the relevant resolution. Article 36 establishes that the duty to avoid conflicts of interest requires directors to abstain from carrying out transactions with the company, except in the cases set out in Article 40 of the Rules and Regulations of the Board of Directors. Finally, Article 40 of the Rules and Regulations of the Board of Directors states: *1. The board shall examine the transactions that the Company or Group companies carry out with directors (upon the terms established by law and by article 36 of these rules and regulations), with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Company or of other Group companies, or with persons related thereto. The performance of such transactions shall require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval thereof falls within the purview of the shareholders acting at a general shareholders' meeting. Such transactions shall be evaluated in the light of the principle of equal treatment among all shareholders and the prevailing market conditions, and shall be disclosed in the annual corporate governance report and in the periodic public information, upon the terms set forth by applicable regulations.* *2. However, the authorisation provided for in the preceding subsection shall not be required for transactions that simultaneously meet the following three conditions:* *1.st They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.* *2.nd They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.*

3.rd The amount does not exceed 1% of the Company's annual income.

If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.

3. As an exception, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.

Also, the Bank has a finance policy for members of senior management which sets out the terms and conditions for loans, mortgages and consumer credit to executive directors and other members of senior management. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

In the same way, the Bank established in June 2016 a procedure to authorize credit operations and guarantees to executive directors and other members of senior management, pursuant to Act 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, and its implementing regulation.

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

Identical rules (approval bodies and procedures) apply to intragroup transactions as to transactions with customers, with processes in place to monitor that such transactions are under market terms and conditions and prices.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

As indicated above (see section A.2), the Bank is not aware of the existence of significant shareholders and, accordingly, there is no information regarding transactions therewith.

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

During 2017 and up to the date this report was published, to the best knowledge of the Bank, no member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders, has entered into any transactions with the Bank under unusual market conditions, pursuant to Order EHA/3050/2004, of 15 September, on the information that companies issuing securities admitted for trading on official secondary markets should provide in connection with related-party transactions in their interim reports.

The audit committee has verified that all transactions completed with related parties during the year were fully compliant with the Rules and Regulations of the Board and did not require approval from the governing bodies.

The audit committee report contains information regarding related-party transactions and is published on the Group's corporate website (www.santander.com), (see section C.2.1 of this report).

The direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2017 are shown below. The conditions of these transactions are equivalent to those carried out under market conditions or the related compensation in kind was attributed.

All of these transactions fall within the ordinary business of the Bank or the Group company with which they have been carried out and are set out in Note 5.f of the notes to the Group's consolidated financial statements for 2017.

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

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Pursuant to Spanish legislation, the transactions and the results obtained by the Company (Banco Santander, S.A.) at 31 December 2017 with Group entities resident in countries or territories that were considered tax havens at such date are detailed below. These results were eliminated in the consolidation process.

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

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

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

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

(a) Derivatives with a net positive market value of EUR 48 million in the Company, as follows:

- 105 Non Delivery Forwards.
- 128 Swaps.
- 56 Cross Currency Swaps.
- 11 Options.
- 19 Forex.

(b) Nominal deposits of EUR 1,861 million at 31.12.2017

(c) Nominal deposits of EUR 103 million at 31.12.2017

(d) Correspondent bank accounts with outstanding balance of EUR 16 million at 31.12.2017.

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

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

At the end of 2017 the Group recognizes transactions carried out with related parties as follows: with associates and jointly controlled companies asset, liability, results and other (off-balance sheet) positions remain open in the amount of EUR 6,048, 748, 1,020 and 3,881 million, respectively, with members of the Board of Directors, asset and liability and other (off-balance sheet) positions remain open in the amount of EUR 0.088, 19 and 7 million, respectively, with general directors, asset, liability and other (off-balance sheet) positions remain open in the amount of EUR 21, 14 and 3 million, respectively, and with other related parties asset, liability, results and other (off-balance sheet) positions remain open in the amount of EUR 300, 63, 14 and 597 million, respectively.

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

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

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

Directors

In accordance with Article 36 of the Rules and Regulations of the Board of Directors, directors must adopt the measures that are necessary to prevent situations in which their interests, whether their own or through another party, may enter into conflict with the Company's business interests and their duties. The duty to avoid conflicts of situation requires directors to fulfil certain obligations such as abstaining from using the Company's name or revealing their position as director to unduly influence private transactions.

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

If the conflict relates to a transaction, Article 40 of the Rules and Regulations of the Board of Directors stipulates that the director may not carry out the transaction without the approval of the Board, after having received a favourable report from the audit committee, except in the cases in which such approval is legally required from shareholders at a general meeting. Transactions will be evaluated from the point of view of equality of treatment and of market conditions, and will be included in the annual corporate governance report and in the periodic public information under the terms envisaged in applicable regulations.

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

1. They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.

2. They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.

3. The amount does not exceed 1% of the company's annual income.

If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.

The related-party transaction system also governs transactions that the Company or Group companies carry out with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the Board of Directors of the Company or of other Group companies, or with persons related thereto.

Senior Management

The Code of Conduct in Securities Markets, which may be found on the Group's corporate website (www.santander.com), governs this matter under Title I, chapter III, letter A (*Statement of personal situation*). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

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

13. Situations of possible conflict.

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

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

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

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

"Conflicts of interest shall be resolved by the person holding maximum responsibility for the area affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomsoever Compliance Management may decide. In the event of any doubt, Compliance Management should be consulted."

15.1 In the event of a conflict between the Group and a customer, the safeguarding of the latter's interests .

15.2 In the event of a conflict between Subjected Persons and the Group, the loyal obligation of the former.

15.3 In the event of a conflict between customers, the affected persons will be notified, and the services or operations where the conflict is present may only be implemented if the affected parties agree. The favouring of any affected party shall be avoided."

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

Yes ☐ **No** ☒

Identify the listed subsidiaries in Spain:

Listed subsidiaries
Not applicable

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

Yes ☐ **No** ☒

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

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

Mechanisms
Not applicable

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including for fiscal risks.

The scope of the risk management system in place at Santander Group follows the first option included in appendix I of CNMV Circular 5/2013, of 12 June (amended by CNMV Circular 7/2015, of 22 December):

"The risk management system works is integrated, continuous, consolidating such management for each activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level."

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

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

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

1) Risk appetite and limits structure

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

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

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

2) Scenario analysis

The Bank takes an advanced approach to risk management by analysing the potential impact of different scenarios in the environment in which it operates. These scenarios involve both macroeconomic variables and other variables affecting the management of our business.

Scenario analysis enables the Bank to assess the sensitivity of different scenarios and to verify the adjustment of risk appetite to the desired risk profile. This allows the Bank to test its robustness in the event of stress environments and scenarios, and to implement measures to ease the risk profile or mitigate the potential impact of such scenarios.

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

3) Risk identification and assessment (RIA)

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

This exercise enables the identification, assessment and evaluation of the Bank's main risks, the associated control environment and the possible factors that could pose a threat to the success of the Group's strategic plan.

4) *Reporting*

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

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

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

5) Recovery and resolution plans

As part of its risk management instruments, the Bank keeps constantly updated its recovery plan, the most significant aspect of which comprises the measures available in order to overcome a very severe crisis without external assistance.

The Group's senior management is fully involved in preparing and monitoring the content of these plans, through specific technical forums and monitoring at the institutional level to ensure that the content and structure of the documents is compliant with local and international crisis management regulations.

In terms of resolution plans, the competent authorities involved in the Crisis Management Group (CMG) have agreed on a common approach to the Group's resolution strategy. Given its legal and business structure, Santander applies a multiple point of entry (MPE) approach.

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

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

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

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

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

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

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

Risk governance bodies and their duties:

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

The following bodies comprise the senior level for risk governance:

Independent control bodies

Risk Supervision, Regulation and Compliance Committee:

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

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

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

- To support and advise the Board when defining and evaluating risk policies affecting the Group, and when determining its current and future risk appetite, as well as the strategy and culture in this regard.
- To help the Board in supervising implementation of the established risk strategy, appetite and limits, as well as alignment of the same with strategic plans, objectives and the corporate culture and values.
- To ensure that the pricing policy of the assets, liabilities and services offered to customers fully takes into consideration the business model, risk appetite and risk strategy of the Group.
- To understand and assess the risks derived from the macroeconomic climate and economic cycles.
- To systematically review the exposures of major clients, economic sectors, geographical areas and types of risk.
- To supervise the risks function, in particular, (i) report the designation proposals made by the Chief Risk Officer, (ii) ensure the independence and efficacy of the function, (iii) ensure that the function has the necessary material and human resources, (iv) receive regular information on its activities, including any potential deficiencies detected and non-compliance with the established risk limits, (v) annually assess the function and the performance of the same when carrying out its responsibilities.
- To ascertain and assess the management tools, improvement initiatives, project implementation and any other relevant activity linked to risk control, including the policy on internal risk models and the internal approval thereof.

- To supervise the compliance function, and in particular, (i) report the designation proposals made by the supervisor of the compliance function, (ii) ensure the independence and efficacy of the function, (iii) ensure that the compliance function has all the material and human resources required to perform its tasks, (iv) receive regular information on its activities, (v) regularly evaluate the functioning of the compliance programme, rules of governance, the compliance function, and the performance of the supervisor of the compliance function.
- To report the approval of and any changes to regulatory compliance policy, the general code of conduct, manuals and procedures to prevent money laundering and terrorist financing, as well as any other codes and regulations that apply to the industry.
- To supervise the implementation of actions and measures resulting from reports and inspections conducted by the administrative supervisory and control authorities.
- To support and advise the Board with regards to corporate good governance policy and internal governance of the Bank and the Group.
- To support and advise the Board in relation to supervisors and regulators in the various countries where the Group operates.
- To monitor and assess the regulatory proposals and new regulations that may be applicable, and evaluate their potential consequences for the Group.

Risk Control Committee (RCC):

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

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

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

Decision-making bodies

Executive Risk Committee (ERC):

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

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

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

Risk management relationship between parent and subsidiaries

As regards the alignment of subsidiaries with the parent

The risk management and control model shares certain basic principles in all Group business units, through the use of corporate frameworks. These emanate from the Group itself and are adhered to by subsidiaries, through their various boards of directors.

Beyond these basic principles, each unit adapts its risk management to the local environment, in accordance with corporate frameworks and reference documents provided by the Group, which allows the Group to have a recognisable risk management model.

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

With respect to the structure of committees

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

The boards of directors of subsidiaries have their own risk models (quantitative and qualitative), although these must follow the principles enshrined in the reference frameworks and models developed at the corporate level.

Given its ability to take an overall and aggregated view of all risks, the parent reserves the power to challenge and approve management policies and transactions at the various subsidiaries, insofar as these affect the Group's risk profile.

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

Note 54 (risk management) of Santander Group's 2017 consolidated financial statements details how the Group identifies, measures and manages the risks to which it is exposed in its ordinary activities.

In short, the Group's economic capital model enables it to quantify its risk profile, considering all the significant risks involved in its activities and the diversification effect inherent to a multi-national, multi-business group such as Santander Group.

The concept of diversification is essential for adequately understanding and measuring the risk profile of a group with global operations such as Santander. The fact that the Group undertakes a particular business activity in several countries through a structure of different legal entities, involving a variety of customer segments and products, subject to different interest rates, means that the Group is less vulnerable to adverse situations affecting particular markets, portfolios, customers or risks. Despite the significant scale of globalisation in the modern world, economic cycles are not all identical and have varying degrees of intensity in the different geographic areas. This gives groups with a global presence greater business stability and enhanced capacity to resist a crisis in a particular market or portfolio, which contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is less than that risk and capital would be if its parts were considered separately.

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

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

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

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

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

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

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

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

E.4 Identify whether the entity has a risk tolerance level, including fiscal risk.

As explained in section E.1, risk appetite is one of the cornerstones of Santander Group’s risk management and control.

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

• A predictable, low-medium general risk profile. This is based on a diversified business model focusing on retail banking, with a diversified international presence and significant market shares, and a wholesale business model that prioritises relationships with our customer base in the Group’s main markets.

• A stable, recurrent policy of generating income and shareholder returns based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities.

• A corporate structure based on subsidiaries that are autonomous in terms of capital and liquidity, minimising the use of non-operating or purely instrumental companies, and ensuring that no subsidiary has a risk profile that might jeopardise the Group's solvency.

• An independent risk function with intense involvement from senior management, ensuring a strong risk culture focused on protecting and delivering an adequate return on capital.

• A management model that ensures that all risks are viewed in a global interrelated approach, via a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, all geographical areas.

• A business model built around products for which the Group considers that it has sufficient expertise and management capabilities (systems, processes and resources).

• A model of conduct that seeks to safeguard the interests of customers, shareholders and other stakeholders, including the various tax authorities.

• Adequate and due availability of human resources, systems and tools to ensure the risk profile remains compatible with the established risk appetite, both globally and locally.

• A remuneration policy that contains the incentives necessary to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework, and that the incentives are consistent with the Group's long-term earnings performance.

Risk appetite limit, structure and factors

The risk appetite is expressed through limits based on quantitative metrics and qualitative indicators that measure the Bank's risk profile and exposure by risk type, portfolio, segment and business line, under both current and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions that Santander's senior management seeks to adopt or maintain when implementing its business model:

• The income statement volatility the Group is prepared to accept.
• The solvency position the Group wishes to maintain.
• The minimum liquidity the Group wishes to have available.
• The maximum risk concentrations the Group considers reasonable.
• Non-financial and transversal risks

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

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and includes a series of metrics and limits on said metrics (risk appetite limits or statements) that express in quantitative and qualitative terms the maximum risk exposure each Group company, and the Group as a whole, is prepared to assume.

Compliance with risk appetite limits is continuously monitored. The Group's specialist control functions report at least quarterly to the Board and to the Risk, Supervision, Regulation and Compliance Committee on how well the risk profile fits with the authorised risk appetite.

Any breaches of risk appetite limits are reported by the risk control function to the relevant governing bodies. Such presentations are accompanied by an analysis of the causes of the breach, an estimate of how long the situation will last, and proposals for corrective actions when the corresponding governing body deems fit.

This linking of risk appetite limits with the limits used in managing business units and portfolios is a key element in ensuring the effectiveness of risk appetite as a risk management tool.

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

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

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

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

• **Credit risk**: the risk of financial losses as a result of non-compliance or credit quality impairment on the part of a customer or third party, which Santander Group has financed, or with which it has assumed contractual obligations.

• **Market risk**: arising from possible changes in market factors affecting the value of positions in trading portfolios.

• **Liquidity risk**: the risk of Santander Group having insufficient liquid financial assets to comply with its obligations upon maturity, or only being able to do so at a high cost.

• **Structural risk**: arising from management of the various balance sheet entries, both with regards to the banking portfolio and insurance and pension activities.

• **Capital risk**: the risk that Santander Group has insufficient capital, in terms of quantity or quality, to comply with its internal business objectives, regulatory requirements, or market expectations.

• **Operational risk**: the risk of losses due to inadequacies or failures in processes, people and internal systems, or external events. This definition covers legal risk, which includes the possibility of being sanctioned, fined, or obliged to pay punitive damages as a result of actions taken by the supervisor or private agreements between parties.

• **Conduct risk**: arising from practices, processes or conduct that are inadequate or breach internal regulations, law or supervisory requirements.

• **Reputational risk**: risk of a negative economic impact, whether real or potential, due to damages to the perception of the Bank among employees, customers, shareholders/investors and society in general.

• **Model risk**: risk of losses associated with inaccurate forecasts, which may lead the Bank to make suboptimal decisions, or inadequate use of a model.

• **Strategic risk**: risk of losses or damages deriving from strategic decisions, or poor implementation of the same, that affect the long-term interests of our main stakeholders, or from an inability to adapt to a changing environment.

The most representative risk is credit risk. This is diversified amongst the main areas where the Group operates, as follows[8]: Continental Europe 41%; the UK 30%; Latin America 20% and the US 9%, with an adequate balance between mature and emerging markets.

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

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

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

[8] Not including Popular

Total funds for insolvencies stand at EUR 19,906 million, with a coverage ratio for the Group of 71%. It should be noted that this ratio is reduced by the weighting of mortgage portfolios (particularly in the UK and Spain), which require lower balance sheet provisions as they are backed by collateral.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Note 54 (Risk management) of Santander Group's 2017 consolidated financial statements provides detailed information on its plans for responding to the main risks to which the Group is exposed.

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

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

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

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

This section describes key aspects of the internal control and risk management systems in place at Santander Group with respect to the financial reporting process, specifically addressing the following aspects:

- **Control environment**
- **Risk assessment in financial reporting**
- **Control activities**
- **Information and communication**
- **Monitoring**

F.1 The entity's control environment

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

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The board of directors is ultimately responsible for the internal control and risk management systems. In this sense, in accordance with article 17.4.e) of the Rules and Regulations of the Board of Directors, this function is entrusted to the audit committee, which must:

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

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

(ii) Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and

(iii) Discuss with the external auditor any significant weaknesses in the internal control system uncovered in the course of the audit.

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

Article 41.2 of the Rules and Regulations of the Board of Directors establishes that the board will adopt any measures required to ensure that the quarterly, half-yearly, and any other financial information that is made available to the markets is prepared in accordance with the same principles, standards and professional practices used to prepare the annual financial statements and is as reliable as such financial statements. To this end, such information shall be reviewed by the audit committee before dissemination thereof.

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

The general code of conduct[9] sets out the main ethical principles and regulations on behaviour for all Group employees. Chapter VIII of Title IV of the code of conduct (section 34) sets out obligations relating to the appropriate design of ICFR with regard to the Group's accounting obligations. A number of internal control systems are in place to ensure that ICFR is implemented correctly. These are described in section 35 of the General Code of Conduct.

These sections are as follows.

34. Accounting obligations

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

   i) The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.

   ii) The information reflects all transactions, facts and other events in which the institution is an affected party.

   iii) Transactions, facts and other events are recorded and valued according to applicable regulations.

   iv) Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.

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

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

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

35. Internal controls

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

2. *On preparing financial information, the Group functions responsible for each activity, process and subprocess must certify that they have observed the controls established by the Group, and that the information supplied is correct.*

3. *The Audit Committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit.*

The Risk Committee (known at the Corporation as the Committee for Supervision of Risks, Regulation and Compliance) shall supervise risk management systems.

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

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

The Group, through the corporate organisation area and the organisation units for each country/entity or business (within the General Secretariat and Human Resources, organisation and costs division), defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation division is responsible for defining and documenting the Corporate Model for Managing Structures and Staff, which serves as the framework manual across the Group; it is similarly responsible for communicating this framework model to all Group entities.

The organisational function delegated to the countries/entities/businesses is designed to:

- Optimise and align the organisational structures to the strategy defined by the corresponding corporate divisions and the Group's strategic targets;
- Define the job map in the units under its remit as a core tool for organising how the structure works and facilitating the management of its human resources.

The business/support areas channel any initiatives relating to their organisational structures through the aforementioned organisation units. These units are tasked with analysing/reviewing and, where appropriate, inputting the opportune structural modifications into the corporate IT tools. In addition, the organisation units are responsible for identifying and defining the main functions attributed to each structural unit.

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

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

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

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

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of internal control over financial reporting.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has financial accounting and control units in each of its operating markets; these are headed up by a controller whose duties include the following:

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

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

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

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group's general code of conduct is approved by the Bank's board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters[10].

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

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

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

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

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

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

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

Article 17.4.(g) of the Rules and Regulations of the Board of Directors stipulates that the audit committee assumes, among others, the following responsibility *"Become apprised of and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also: (i) receive, deal with and keep a record of the claims received by the Bank on matters related to the process for generating financial information, auditing and internal controls and (ii) establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature"*.

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

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

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the management control and general audit division itself and are designed and overseen together with the corporate learning and career development unit which is, in turn, part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and onsite sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

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

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

F.2. Risk assessment in financial reporting

Report at least:

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

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

• Which of the company's governing bodies is responsible for overseeing the process.

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

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

ICM documentation is implemented at the main Group companies using standard and uniform methodology such that it ensures inclusion of the appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk Committee). Its scope is greater than the totality of risks directly related to the preparation of the Group's financial information.

The identification of potential risks that must be covered by the ICM is based on the knowledge and understanding that management have of the business and its operating processes, taking into account both criteria of relative importance and qualitative criteria associated with the type, complexity or the structure of the business itself.

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

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

- It is a corporate model involving the totality of the Group's relevant organisational structure by means of a direct structure of individually-assigned lines of responsibility.
- The management of the ICM documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the non-financial risk control department, which issues general criteria and guidelines to ensure uniformity and standardisation of the documentation of procedures, control validation tests, criteria for the classification of potential weaknesses and rule changes.

- It is a far-reaching model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.
- It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICM model.

All of the Group companies' ICM documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the financial accounting and control division and the office of the general secretary and human resources.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over or is exposed to its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

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

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

F.3. Control activities

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

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

As already noted elsewhere in this report, the board itself has delegated in its audit committee the duty to: *"supervise the process of preparing and presenting the required financial information relating to the Company and the Group, including related non-financial information, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards, ensuring that this information is always up to date on the Company's website"* (article 17.4.(e) (i) of the Rules and Regulations of the Board of Directors).

The process of creating, reviewing and authorizing the financial information and the description of the ICFR is documented in a corporate tool which integrates the control model into risk management, including a description of the activities, risks, tasks and the controls associated with all of the transactions that may have a material effect on the financial statements. This documentation covers recurrent banking transactions and one-off operations (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

The audit committee also has the duty to report to the board, in advance of the adoption by it of the corresponding decisions, regarding the financial information that the Group must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices used to prepare the financial statements and is as reliable as such statements (article 17.4.(f)(i) of the Rules and Regulations of the Board of Directors).

The most significant aspects of the accounting close process and the review of the material judgements, estimates, measurements and projections used are as follows:

- impairment losses on certain assets;
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;
- The useful life of the tangible and intangible assets;
- the measurement of goodwill arising on consolidation;
- The calculation of provisions and the consideration of contingent liabilities;
- the fair value of certain unquoted assets and liabilities.
- the recoverability of tax assets.
- The fair value of the identifiable assets acquired and the liabilities assumed in business combinations

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

The board of directors is responsible for approving the financial information that the Bank, as a listed company, is obliged to publish, in accordance with article 3.2 c) of its Rules and Regulations.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

To verify that the ICM is working properly and check the effectiveness of the defines functions, tasks and controls, the Group has in place an evaluation and certification process which starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions, the next step is to certify the tasks and functions related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the controller certify the effectiveness of the ICM.

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

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

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

- A list of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.
- The ICM design and operation tests performed by those responsible for its maintenance and/or independent experts.

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

The conclusions of these evaluation processes are presented to the audit committee by the non-financial risk control department, together with general controller and management control division and, if appropriate, the representatives of the divisions and/or work companies concerned, after having been presented to the risk control committee.

Lastly, on the basis of this report, the Group's general auditor and controller (CAO), chief financial officer (CFO) and its chief executive officer (CEO) certify the effectiveness of the ICM in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

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

The technology and operations division issues corporate IT policies.

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

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

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

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

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

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

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

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

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

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

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

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

With regard to suppliers belonging to the Group, a framework, along with policies and procedures, have been put in place to ensure coverage of the risks associated with such outsourcing.

The relevant processes include the following:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support services not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the main processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

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

The above policies and procedures comply, in every case, with the provisions included in the Bank of Spain Circular 2/2016, of 2 February, applicable to credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No 575/2013.

F.4. Information and communication

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

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The financial accounting and control division includes the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the operations that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.
- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

Accounting policies are set out in the Accounting Policy and Standards Manual together with the measurement standards applicable at Santander Group. New accounting matters and the most relevant interpretations of accounting standards in force prepared by the financial regulation and accounting process area are presented on a monthly basis. These documents are stored in the accounting regulation library (NIC-KEY), which is accessible to all Group units.

The financial accounting and control division has put in place procedures to ensure it has all the information it needs to update the audit plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control unit.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F.5 Monitoring

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

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

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

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. Internal audit reports to the audit committee and to the board of directors on a regular basis and, as an independent unit, it has direct access to the board when it deems it appropriate.

The internal audit evaluates:

- the efficacy and efficiency of the processes and systems cited above;
- compliance with applicable legislation and requirements of supervisory bodies;
- the reliability and integrity of financial and operating information; and
- the integrity of capital.

Internal audit is the third line of defence, independent of the others.

The scope of its work encompasses:

- all Group entities over which it exercises effective control;
- separate asset pools (for example, mutual funds) managed by the entities mentioned in the previous section.
- all entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder, and in outsourced activities pursuant to the agreements reached in each case.

Article 17.6 of the Rules and Regulations of the Board of Directors states that: *"The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, shall periodically report to the board of directors and, in any event, at least two times per year, and shall also have direct access to the board when it deems it appropriate"*.

As provided for in article 17.4.(d) of the Rules and Regulations of the Board of Directors, the audit committee supervises the Group's internal audit function and, specifically: (i) propose the selection, appointment and withdrawal of the officer responsible for internal audit; (ii) ensure the independence and effectiveness of the internal audit function; (iii) ensure that the internal audit function has the physical and human resources needed for the performance of its work and propose the budget for this service; (iv) receive periodic information regarding the activities thereof and review the annual activities report; (v) annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof and (vi) verify that senior management and the board take into account the conclusions and recommendations set forth in its reports

At year-end 2017, internal audit employed 1,165 people, all dedicated exclusively to this service. Of these, 247 were based in the Corporate Centre and 918 in local units situated in the principal geographic areas in which the Group is present, all of whom exclusively work in that location.

Every year, internal audit prepares an audit plan based on a self-assessment exercise on the risks faced by the Group. Internal audit is exclusively responsible for implementing this plan. The audits carried out may result in audit recommendations being made. These are prioritised by their relative importance, and then continuously monitored until fully implemented.

At its meeting on 18 January 2017, the audit committee considered and approved the audit plan for 2017, which was submitted to, and approved by, the Board at the meeting held on 24 January 2017.

In 2017, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

In 2017, the audit committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at 11 of the 12 meetings of the audit committee and two of the board meetings. The audit committee assessed whether the work of internal audit was sufficient and the results of its activity and monitored the recommendations made, particularly the most important. It also reviewed the effects of the results of this work on the financial information. Finally, the committee monitored the corrective actions implemented, giving priority to the most important of these.

At its meeting of 25 January 2018, the audit committee reviewed and approved the internal audit plan for 2018. At its meeting of 13 February 2018, the board was informed of internal audit activities in 2017 and it approved the audit plan for 2018.

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

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

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

Article 17.4.e) of the Rules and Regulations of the Board of Directors defines a duty of the audit committee as being to:

(e) Supervise the financial reporting system and the internal control systems. In particular, the audit committee shall: (…) (iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.

Moreover, article 17.4.e) of the Rules and Regulations of the Board of Directors establishes that the supervision duties of the audit committee with regard to the internal audit function include, and, in particular *"(iv) receive periodic information regarding the activities thereof and review the annual activities report; (v) annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof and (vi) verify that senior management and the board take into account the conclusions and recommendations set forth in its reports".*

As part of its supervision work, the audit committee assesses the results of the work of the internal audit division, and can take action as necessary to correct any effects identified on the financial information.

F.6. Other relevant information

F.7. External auditor report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The information relating to the internal control over financial reporting (ICFR) system (also known internally as Santander Group Internal Control Model) provided in this section of the annual corporate governance report is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR under revised scope[11] system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2017.

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

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

G DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the good governance code for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

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

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

Compliant ☒ **Explain** ☐

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

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

a) The activity they engage in and any business dealings between them, as well as between the subsidiary and other group companies;
b) The mechanisms in place to resolve possible conflicts of interest.

See section D.7

Compliant ☐ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☒

Does not apply as the Bank had no listed subsidiaries in Spain at 31 December 2017.

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with article 37.3 of the Rules and Regulations of the Board, the chair of the board of directors will report to the general shareholders' meeting on the most relevant corporate governance issues at the Company in the year to which the financial statements being submitted to shareholders refer.

At the General shareholders' meeting held on 7 April 2017, the chair of the board of directors verbally informed shareholders of the most relevant aspects of the Bank's corporate governance model and, in particular, those mentioned in this recommendation.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

See sections B.7 and C.1.35

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 37.1 of the Rules and Regulations of the Board states:

"The board of directors shall define and advance a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. The Company shall publicise this policy on its website.

Within the framework of this policy, the lead director shall maintain contact with investors and shareholders in order to gather their insights and thus form an opinion about their concerns, especially in connection with the Company's corporate governance.

In addition, the Company shall promote the holding of meetings attended by the lead director, other directors and/or such members of senior management as are deemed appropriate for the provision of information on the progress of the Company and its Group to shareholders residing in the most significant locations of Spain and other countries. In no event shall such meetings with shareholders and investors entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders and investors".

Article 38 of the Rules and Regulations of the Board states that *"within the framework of the policy referred to in article 31.1 above, the board of directors will also establish adequate mechanisms for regularly exchanging information with institutional investors holding an interest in the Company and with proxy advisers"*, and section 2 adds that *"In no case will the relations between the board of directors and those groups translate into the provision to them of any information that could give rise to a privileged or advantageous situation with respect to other shareholders."*

Likewise, article 20.4 (l) of the Rules and Regulations of the Board, entrusts in the risk supervision, regulation and compliance committee, the *"supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders."*

In accordance with the above system, the policy for communicating with shareholders, investors and proxy advisers establishes the rules and practices that the Company applies with respect to such communications, which are respectful of market abuse regulations and the dispensing of similar treatment to all shareholders. The policy is published on the Company's corporate website (www.santander.com).

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

In accordance with article 14 of the Rules and Regulations of the Board, the lead independent director is, in particular, authorised to maintain contacts with investors and shareholders and, in this respect, a corporate governance road show was held for stakeholders in 2017. Other actions with investors in 2017 included the Group Strategy Update and the International Banking Conference, which were held on 10 October and 8 November, respectively.

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

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant ☐ **Partially compliant** ☒ **Explain** ☐

In 2017, the board of directors did not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

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

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

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) **Report on auditor independence.**
b) **Reviews of the operation of the audit committee and the nomination and remuneration committee.**
c) **Audit committee report on third-party transactions.**
d) **Report on corporate social responsibility policy.**

See sections B.7 and C.2.1 and C.2.5

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Report on the auditor's independence

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

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

Reports on the operation of the audit, appointments and remuneration committees

The audit, appointments, remuneration, risk supervision, regulation and compliance committees each issue an annual report regarding their operations that is presented to the board of directors by the chairs of those committees in accordance with article 17, 18,19 and 20 of the Rules and Regulations of the Board, respectively. The reports are published on the Company's corporate website (www.santander.com) at the time of the announcement of the call notice for the next ordinary general shareholders' meeting.

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

Audit committee report on third-party transactions

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

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

Report on corporate social responsibility policy

At its meeting on 13 February 2018, the board of directors approved the Company's 2017 sustainability report, which was prepared in accordance with the "Sustainability Reporting Guidelines" issued by the Global Reporting Initiative, and includes general aspects of the Bank's corporate social responsibility policy. This report is published in the "Sustainability" section of the Company's corporate website (www.santander.com).

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

Compliant ☒ **Explain** ☐

The Company will provide a live broadcast of its 2018 ordinary general shareholders' meeting, as it did with the general shareholders' meeting held on 7 April 2017. The media will also have access to the meeting, to promote the broadest communication of its meetings and the resolutions adopted.

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

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

See sections C.1.31, C.1.32, C.1.38 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

There were no reservations or qualifications in the audit reports of either the individual or consolidated financial statements of the Bank for 2017.

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

Article 17.4. c), (ii) (1) of the Rules and Regulations of the Board also stipulates that the audit committee *"will ensure that the accounts that are finally prepared by the board are presented to the general meeting without reservations or qualifications (…)."*

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

See sections A.10, B.1, B.2, B.5 and B.7

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

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

The Bylaws and the Rules and Regulations for the General Shareholders' Meeting are published on the Company's corporate website (www.santander.com). This information facilitates the informed participation of shareholders at general meetings and is required, as necessary, from the call notice for the general shareholders' meeting, which is published on the company's website along with standard attendance, proxy-granting and distance voting cards, together with all other documentation relating to this meeting.

The aforementioned rules encourage the attendance of shareholders at the general meeting and the exercising of their rights, and provide equal treatment to shareholders as a result, among other, of the following:

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

"1. In addition to fulfilling legal or bylaw requirements, as from the time the call notice for the meeting is published and up until the general shareholders' meeting is held, the Company will continuously publish the following information on its website:

(…)

(vi) The forms relating to the attendance card and proxy and remote voting documents, unless they are sent directly by the Company to each shareholder. If it is not able to publish these items on the website due to technical reasons, the Company must indicate how to obtain the forms in paper format and they must be sent to any requesting shareholder. These forms will be updated if requests are made to include new points on the agenda or if alternative resolutions are proposed, in the terms established by law.

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

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

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

(iii) Information, if appropriate, on systems or procedures to facilitate following of the meeting, such as simultaneous interpretation, audiovisual broadcasts, information in other languages, etc."

b) article 8 of the Rules and Regulations for the General Shareholders' Meeting states that *"Without prejudice to the provisions of the Bylaws, the right to attend the general shareholders' meeting may be delegated to any individual or legal person."*

c) article 9.1 of the Rules and Regulations for the General Shareholders' Meeting states that *"Shareholders who, pursuant to the provisions of Law and the Bylaws, hold any number of shares registered in their name in the corresponding book-entry registries at least five days prior to the day on which the general shareholders' meeting is to be held, are entitled to attend".*

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

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.
b) Disclose the standard attendance card or proxy appointment or remote voting form, duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

In 2017 no entitled shareholder exercised the above-mentioned right in the terms established in applicable legislation, the Bylaws and the Rules and Regulations for the General Shareholders' Meeting.

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

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

- Proposed alternative resolutions: "(iv) *the full text of the proposed resolutions submitted by the board of directors regarding each and every one of the items on the agenda or, in relation to merely informative items, a report prepared by the competent bodies, containing a discussion of such items. If received, any proposed resolutions presented by shareholders will also be included (…)".*
- Proposed resolutions relating to a supplementary call: *"When there is a supplement to a call, the Company will announce it as soon as possible on its website, including the text of the proposals and the justification provided to the Company regarding that supplement, notwithstanding the publication of the supplement (…)".*

- Updating of the attendance card, delegation and remote voting: *"(vi) the forms for the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If it is not able to publish these items on the website due to technical reasons, the Company must indicate how to obtain the forms in paper format and they must be sent to any requesting shareholder. These forms will be updated if requests are made to include new points on the agenda or if there are proposed alternative resolutions, in the terms established by law.*

Article 6 bis of the Rules and Regulations for the General Shareholders' Meeting regulates the electronic shareholders' forum, and states that *"on the occasion of the call to the general shareholders' meeting, an Electronic Shareholders' Forum shall be enabled for use on the Company's website, to which both individual shareholders and any voluntary associations that they may create as provided for in law will have access, with all due assurances, in order to facilitate their communication prior to the holding of general shareholders' meetings. The following may be published in the Forum: proposals sought to be submitted as a supplement to the agenda announced in the call to meeting; requests for adherence to such proposals; initiatives aimed at reaching the percentage sufficient to exercise a minority right contemplated by law, and offers or solicitations of voluntary proxies. The board of directors may further develop the foregoing provisions by establishing the procedure, time periods and other terms and conditions applicable to the operation of the Electronic Shareholders' Forum".*

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

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

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant ☐ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☒

The company has no plans to pay for attendance at the general shareholders' meeting, and therefore it is not necessary to establish a general, long-term policy in this respect. Notwithstanding the above, and as has been a tradition for decades, the Company offers attendees of the general meeting a commemorative courtesy gift.

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

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

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

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Company's board of directors acts in accordance with the principles set out in this recommendation, and those principles are also established in article 40.1 of the Bylaws and article 5 of the Rules and Regulations of the Board. This latter point establishes that the board shall exercise its duties guided *"by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value",* and adds that *"the board of directors shall also ensure that the Company faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the principles of social responsibility to which it has voluntarily adhered".*

In accordance with article 3.2 (a)(xi) of the Rules and Regulations of the Board, the board is responsible for approving the corporate culture and values, including its social responsibility and sustainability practices, thereby guaranteeing oversight and monitoring by the board of the company's socially responsible behaviour. To this effect, in 2017 the board was supported by the risk supervision, regulation and compliance committee, which, as stipulated by article 17 ter.4 (m) of the Rules and Regulations of the Board before the modification agreed by the board at its meeting on 13 February 2018, is responsible for reviewing *"the company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the company, and monitoring the strategy and practices in this field, also evaluating the level of adherence thereto".*

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

In addition, articles 37, 38, 39, 41 and 42 of the Rules and Regulations of the Board govern the relationship between the board of directors and shareholders, institutional investors and proxy advisers, supervisors, markets and the external auditor, respectively.

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

See sections C.1.1 and C.1.2

Compliant ☒ **Explain** ☐

In 2006, the general shareholders' meeting agreed to modify the Bylaws, reducing the maximum number of directors from 30 to 22. The minimum was kept at 14, which is the number at the date of this report.

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

The board of directors considers its current size to be adequate in terms of the Group's size, complexity and geographical diversity. The board considers that its modus operandi, in full and via its committees - one delegated committee and the rest with supervisory, advisory, reporting and proposal-making duties - guarantees the effective and due participation of all its members, and an efficient and participatory board.

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

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

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

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

See sections C.1.5, C.1.6, C.1.6.bis and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The procedures and criteria for selecting directors are mainly established by articles 20, 41, 42, 55 and 56 of the Bylaws and articles 3, 6, 7, 18 and 26 of the Rules and Regulations of the Board.

Pursuant to articles 3.2 (l) and (m), and 6.1 and 18.4.(a) (i) of the Rules and Regulations of the Board, the board will ensure that the procedures for selecting its members ensure the individual and collective capacity of directors and favour a diversity of genders, experience and knowledge on the board and, in general, that they do not suffer from implicit biases that may imply any discrimination, from any point of view, including issues of age or disability. The appointments committee evaluates the balance of knowledge, skills, capacity, diversity and experience required and currently existing on the board, and prepares a matrix of competencies and a description of the functions and aptitudes required for each specific appointment.

In accordance with these internal regulations, in 2017 an analysis of the skills and the diversity of the members of the board was carried out, and this was considered in the selection of the director appointed in 2017. This is explained in the appointments committee's activity report for 2017, which is published on the Company's corporate website (www.santander.com).

Furthermore, and in accordance with the content of the aforementioned articles of the Bylaws and the Rules and Regulations of the Board, on 24 January 2017 the board of directors unified the selection and succession policy for directors at Banco Santander, S.A. into a single document, at the proposal of the appointments committee. It also established the quantitative and qualitative composition criteria for the board of directors and its committees. This included gender diversity criteria and the target for women to represent 30% of all board members, the process for reviewing that situation, and the identification of potential candidates for appointment as directors.

When the 2018 general shareholders' meeting is called, the board report and the proposal from the appointments committee supporting the proposals to ratify and re-elect the Bank directors will be published. These will be submitted to the general meeting for approval, after verification of compliance with the aforementioned director selection and succession policy, and evaluating the competence, experience and merits of the persons whose ratification or re-election is proposed to the shareholders at the meeting.

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

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections A.3 and C.1.3

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 42.1 of the Bylaws stipulate that efforts will be made to ensure that the board of directors is made up such that external directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors. In particular, article 6.1 of the Rules and Regulations of the Board states that *"the board of directors shall seek to ensure that the number of independent directors represents at least half of all directors".*

At year-end 2017, the board had a large majority of external directors. Of the 14 directors currently sitting on the board of directors, 3 are executive and 11 are external. The board of directors, following the proposal of the appointments committee, reviewed on 13 February 2018 the character of each director of the board: of the 11 external directors, 8 are independent and 3 are, in the opinion of the board, neither proprietary nor independent.

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

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections A.2, A.3 and C.1.3

Compliant ☒ **Explain** ☐

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

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

See section C.1.3

Compliant ☒ **Explain** ☐

At the close of 2017, of the 11 external directors, 8 were independent (72.72%), representing 57.14% of the total board members.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.
b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
d) Dates of their first appointment as a board member and subsequent re-elections.
e) Shares held in the company, and any options on the same.

See sections B.7 and C.1.3

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with article 61.1 of the Bylaws and article 41.4 of the Rules and Regulations of the Board, the Bank publishes and maintains an up-to-date version of the information on directors to which this recommendation refers on the Group's corporate website (www.santander.com). The information is set out in the "board of directors" section of the "Information for shareholders and investors" on the homepage of the Company's corporate website (www.santander.com).

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections A.2, A.3, C.1.3 and C.1.8

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

In accordance with article 6.3 and 18.4 (d) of the Rules and Regulations of the Board, the appointments committee verified the character of each director at its meeting on 12 February 2018 and its proposal was approved by the board at its meeting on 13 February.

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

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

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the number of the latter should be reduced accordingly.

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

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

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

In 2017 the circumstances described in this recommendation did not arise.

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

See sections C.1.2, C.1.9, C.1.19 and C.1.27

Compliant ☒ **Explain** ☐

The Bank's practice is to maintain directors in their position during the period for which they are appointed, except in the event of resignation or unless any of the due causes or other circumstances set forth in applicable legislation arise.

The term of the appointment and the resignation of directors are regulated by articles 55 and 56 of the Bylaws and articles 27 and 28 of the Rules and Regulations of the Board.

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

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

See section C.1.21, C.1.42 and C.1.43

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The rules covered by this recommendation are set out in article 56.2 of the Bylaws and articles 28.2 and 36 of the Rules and Regulations of the Board.

In 2017 the Company was not informed by any director of any circumstance, and to the best of its knowledge it has no awareness of any circumstance that, in the opinion of the board, would have justified removing a director from the Bank's board of directors.

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

In none of the cases indicated, the appointments committee and the board of directors have considered that there were circumstances that justified their removal as members of the board of directors.

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.
The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

In 2017, neither any of the directors nor the board secretary expressed any opposition to, or expressed any reservations regarding, any proposal because they considered it might damage the corporate interest. Neither were any resolutions adopted that, in the judgement of the directors or the board secretary, could harm the interests of shareholders lacking board representation, nor have any reservations about any proposals been expressed by any directors or the board secretary.

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

See section C.1.9

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

Article 28.4 of the Rules and Regulations of the Board establishes that, *"if directors withdraw from office as such due to resignation or for other reasons prior to the end of their term, they shall explain the reasons for this in a letter that shall be sent to the other members of the board, unless they report thereon at a meeting of the board and that report is recorded in the minutes. Disclosure thereof shall also be made in the annual corporate governance report".*

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

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively. The Rules and Regulations of the Board should lay down the maximum number of company boards on which directors can serve.

See sections C.1.13 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Pursuant to article 18.4 g) of the Rules and Regulations of the Board, at its meeting of 14 December 2017 the appointments committee examined the information submitted by the directors regarding the dedication required by their other professional obligations, to evaluate whether these might detract from the dedication needed for the directors to carry out their duties.

Based on this information, the appointments committee concluded that the other professional activities of the external directors do not detract from the dedication of their time and efforts needed to fulfil their duty of diligent management, as set down in article 36 of the Rules and Regulations of the Board.

Among the obligations and duties of the board, article 36 of the Rules and Regulations of the Board establishes the need to provide information on other professional duties and the maximum number of boards to which they may belong, pursuant to Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

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

See sections C.1.29 and C.1.41

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

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

Article 47 of the Bylaws and articles 24 and 25 of the Rules and Regulations of the Board regulate the operation and development of meetings of the board of directors. articles 24.1, 2 and 3 of those Regulations stipulate the following:

"1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman.

2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed for the board to effectively perform its duties, provided, however, that the board shall meet at least quarterly and shall hold a minimum of nine meetings per year. The calendar shall include the draft agenda proposed for such meetings, which may be subject to changes that shall be notified to each director. In addition, the board shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.

The meetings shall, in all events, be called by the secretary or, in the absence thereof, the vice secretary, in compliance with the instructions received from the chairman; notice of the call to meeting shall be sent 15 days in advance and in writing (which includes notice by fax or by electronic and data telecommunication means).

The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the directors 4 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible and may be made by telephone when necessary for reasons of speed and confidentiality. In such case, neither the time periods nor the formalities set forth in the preceding paragraphs with respect to the meetings contemplated in the annual calendar shall apply.

3. The agenda shall be approved by the board at the meeting itself. Any board member may propose the inclusion of any other item not included in the draft agenda proposed by the chair to the board."

Further, the lead independent director is authorised to call for a meeting of the board of directors or to add new items to the agenda of a meeting that has already been called (article 14.1 (i) of the Rules and Regulations of the Board.

The board of directors met 15 times in 2017.

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

See sections C.1.28, C.1.29 and C.1.30

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with article 47.2 of the Bylaws, the directors must attend board meetings in person. Articles 25.1 and 2 of the Rules and Regulations of the Board stipulate that directors must ensure that their absences are limited to unavoidable situations. If they cannot attend personally, they may grant a proxy to another director so that they may be represented for all purposes. A director may hold several proxies. Non-executive directors may only grant a proxy to another non-executive director. The proxy shall be granted with instructions.

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

The number of meetings held in 2017 by the board of directors and its committees, and individual (in-person) attendance of the directors at these meetings, as well as an estimate of the time dedicated to these meetings by the directors and their participation are described in sections C.1.29 and C.1.30 of this report.

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

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

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

See section C.1.40

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 32 of the Rules and Regulations of the Board expressly recognises that directors are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board, through the general secretary, to hire external advisers (legal, accounting, financial, technological, recruitment or other specialists) at the Bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject such requests with good reason.

The Rules and Regulations of the Board expressly recognise the right of the audit (article 17.9), appointments (article 18.9), remuneration (article 19.8) and risk supervision, regulation and compliance (article 20.8) committees to be assisted in the performance of their duties by requesting the hiring, at the Bank's cost, of legal, accounting, financial and other advisers, through the general secretary.
The directors are authorised to request information regarding any aspect of the Bank (article 31.1 of the Rules and Regulations of the Board) and to attend the meetings of committees of which they are not members in the cases established in the Bylaws (articles 16.7 and 31.3 of the Rules and Regulations of the Board).

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant ☒ **Explain** ☐ **Not applicable** ☐

The training and continuing education programme for directors and the orientation programme for new directors are governed by article 26.7 of the Rules and Regulations of the Board, which states that *"the board will establish an information programme for new directors that provides them with quick and sufficient knowledge of the Company and its Group, including its governance rules"* and that *"the board will also maintain a training and continuing education programme for directors"*.

Within the framework of the Bank's ongoing director training programme, which was launched in 2005 as a result of the board's self-assessment process, ten sessions were held in 2017 where relevant issues of the Group's business have been addressed in depth.

The director appointed in 2017 completed the induction and training programme for new directors at the Company.

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.
For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

See section C.1.41

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

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

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

The draft agenda for board meetings expressly specifies whether the matters on the agenda are for information, review, debate or approval by the board.

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Directors are informed of the following aspects at meetings of the board and the competent committees, among other things: (i) the distribution of the Company's share capital, movements in the shareholder structure, changes in the treasury share portfolio and communications received by the Bank regarding the acquisition of significant shareholdings in the Company; (ii) actions taken with respect to shareholders, investors and proxy advisors to inform them of the company's performance and other matters relating to performance, and to learn their viewpoints in order to develop an opinion regarding their concerns, such as the corporate governance road show held to coincide with the ordinary general shareholders' meeting, the International Banking Conference, Group Strategy Update, road shows and the presentations of results to investors and analysts; and (iii) activities by rating agencies, internal and external factors that affect the various ratings and the rating outlooks assigned to the Bank.

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

See sections C.1.10 and C.1.41

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The chair of the Bank's board of directors performs all of the duties set out in this recommendation and which are attributed to her by articles 43.2 of the Bylaws and article 8, paragraphs 2, 3 and 4, and 24 of the Rules and Regulations of the Board.

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

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

34. When a lead independent director has been appointed, the bylaws or regulations of the board of directors should grant him or her the following powers over and above those conferred by law: to chair the board of directors in the absence of the chairman or vice chairmen; to give voice to the concerns of non-executive directors; to maintain contact with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and to coordinate the chairman's succession plan.

See section C.1.10

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The Bank has a lead director who has been given all of the authority covered by this recommendation, in accordance with article 49 bis of the Bylaws and article 14 of the Rules and Regulations of the Board. Specifically, article 14 of the Rules and Regulations of the Board states that *"the board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to: (a) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called; (b) coordinate and organise meetings of non-executive directors and reflect their concerns; (c) direct the periodic assessment of the chairman of the board of directors and coordinate the plan for succession thereof; (d) maintain contact with investors and shareholders as provided by article 37 of these rules and regulations; and (e) replace the chairman in the event of absence thereof as provided by article 10 of these rules and regulations."*

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

See section C.1.33

Compliant ☒ **Explain** ☐

Articles 45.2.d) of the Bylaws and 12.2.d) of the Rules and Regulations of the Board grant the board secretary the duty of "*ensuring that the board of directors takes into account the good governance recommendations applicable to the Company when performing their duties and taking decision".*

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

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

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

a) The quality and efficiency of the board's operation.
b) The performance and membership of its committees.
c) The diversity of board membership and competencies.
d) The performance of the chairman of the board of directors and the company's chief executive.
e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

See sections C.1.19, C.1.20, C.1.20 bis, C.1.20 ter and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

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

Furthermore, articles 17.4.j), 18.4.i), 19.4.g) and 20.4.q) of the Rules and Regulations of the Board stipulate, respectively, that the audit committee, the appointments committee, the remuneration committee and the risk supervision, regulation and compliance committee will evaluate their operations and the quality of their work at least once per year. The appointments committee also reports on the self-assessment process for the board and board members, and assesses the independence of any external consultant hired for these purposes, pursuant to articles 18.4.j and 24.7 of the Rules and Regulations of the Board.

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

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

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

See section C.2.1

Compliant ☐ **Partially compliant** ☒ **Explain** ☐ **Not applicable** ☐

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

The executive committee is a basic instrument in the corporate governance at the Bank and its Group and, given the nature of the executive committee and its general delegated powers, driven by the objective of rationalising and seeking efficiency when taking decisions, the board considers it sufficient to use the efficiency criteria set out in article 16.2. of the Rules and Regulations of the Board and include the executive directors on the committee without discounting the participation of external directors, and particularly, independents, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

Although the composition of the executive committee is not identical to that of the board, the Bank considers that it complies with the spirit of the recommendation and does not consider it advisable to increase the number of the members of the executive committee solely to facilitate the composition of that committee being identical to the board in terms of the represented categories, since this would impair the agility and frequency of the decisions taken by the executive committee.

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

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

Furthermore, pursuant to article 16.7 of the Rules and Regulations of the Board, *"all members of the board who are not members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman".* In this regard, as indicated in section C.1.30, there was frequent participation by directors who are not members of the executive committee in its meetings during 2017. Specifically, directors not belonging to the executive committee attended an average of 10.9 meetings, of the 47 meetings held in 2017.

Finally, and in accordance with the Bylaws (articles 45.1 and 5) and the Rules and Regulations of the Board (articles 12.1 and 3) the secretary to the executive committee is the secretary to the board of directors.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

Article 51.5 of the Bylaws expressly stipulates that *"the executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings, and shall make a copy of the minutes of such meetings available to the members of the board".* Moreover, article 16.8 of the Rules and Regulations of the Board states that *"the executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board".*

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

See sections C.1.3 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Pursuant to articles 20.2.(i), 42.4 and 53.2 of the Bylaws and 6.1, 17.2, 18 and 26 of the Rules and Regulations of the Board, the members of the audit committee have been designated by the board of directors based on their knowledge, skills and experience regarding finance, accounting, audit, internal control, information technology, business and risk management, such that, as a group, they have the pertinent technical knowledge regarding the Company's sector of activity. The chair of the committee is considered to be a financial expert, as defined in the Securities Exchange Commission (SEC) Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Law, based on her training and expertise in accounting, auditing and risk management.

At present, all members of the audit committee are independent directors.

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

See sections C.2.1 and F.5.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Pursuant to article 17.6 of the Rules and Regulations of the Board ("Audit committee"), the internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives from the committee when performing its duties. As an independent unit, it reports regularly to the board of directors and, in any event, at least two times per year, and also has direct access to the board when it deems it appropriate. Articles 53.4.(ii) of the Bylaws and 17.4 (d) of the Rules and Regulations of board of directors give the audit committee the duty of supervising internal audit.

The functioning of the internal audit division is the responsibility of the audit committee, which supervises its work. Internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent advice with regard to the quality and efficacy of internal control systems and processes, management of current and emerging risks, and governance, thereby helping to safeguard the organisation's value, solvency and reputation. To do this, internal audit assesses the efficacy and efficiency of the processes and internal control systems, compliance with applicable legislation and requirements of supervisory bodies, the reliability and integrity of financial and operating information, and the integrity of capital.

The head of internal audit usually attends the meetings of the audit committee. The committee ratified that the internal audit function operated with total independence and objectivity in its activities in 2017.

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

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

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

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

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

See section C.1.36, C.2.1 and C.2.5

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The duties of the audit committee are mainly regulated by articles 53 of the Bylaws and 17 of the Rules and Regulations of the Board, and include all of those listed in this recommendation.

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

See section C.2.1

Compliant ☒ **Explain** ☐

This authority of the audit committee is set down in article 53.5 of the Bylaws, which states *"the audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with their cooperation and make available to it such information as they may have in their possession. The audit and compliance committee may also require the external auditor to attend such meetings"*. Likewise, article 17.8 of the Rules and Regulations of the Board states that *"any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor".*

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

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

This task is set out in article 17.4.(h) of the Rules and Regulations of the Board, under which the audit committee is responsible for *"receiving information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions".*

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
b) The setting of the risk level that the company deems acceptable.
c) Measures in place to mitigate the impact of risk events should they occur.
d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section E

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The scope of the risk management system in place at the Bank follows the first option set out in Appendix I of CNMV Circular 5/2013, of 12 June, as amended by CNMV Circular 7/2015, of 22 December, i.e. *"the risk management system works in an integrated, continuous and consolidated manner by activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level".*

The Bank's risk management and control model ensures that its risk profile remains within the defined risk appetite levels approved by the Bank's board, and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

The elements designed to provide adequate management and control of the Company's business risks include its: risk map; risk appetite and limit structures; scenario analysis; risk identification and assessment (RIA); risk and control self-assessment (RCSA), risk data aggregation and risk reporting framework (RDS-RRF); advanced risk management programme (ARM), advanced operational risk management programme (AORM), measurement models, reporting; enterprise risk management (ERM); internal control; risk culture; recovery & resolution plans and the Santander Cyber-Security programme.

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
b) Participate actively in the preparation of risk strategies and in key decisions about their management.
c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

See sections C.2.1 and E.2

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Company's risk division has been assigned the risk management and control tasks listed in this recommendation. There are currently two corporate non Board risk committees not specifically envisaged in the Bylaws nor the Rules and Regulations of the Board: the executive risk committee, tasked with overall risk management functions; and the risk control committee, which is charged with overall risk supervision and control.

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

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

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

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

See sections C.1.19 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Pursuant to articles 20.2 (i), 42.4, 54.3 and 54.bis.3 of the Bylaws and 6.1, 18.2 and 19.2 of the Rules and Regulations of the Board, the members of the appointments committee and the remuneration committee have been designated by the board of directors bearing in mind their knowledge, skills and experience, as well as the tasks assigned to the respective committees.

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

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

See section C.2.1

Compliant ☒ **Explain** ☐ **Not applicable** ☐

The Bank has an appointments committee that is responsible for proposing and reporting on appointments and removals in the terms established by law. This is mainly regulated by articles 54 of the Bylaws and article 18 of the Rules and Regulations of the Board. It also has a remuneration committee, which is responsible for proposing and reporting on compensation issues in the terms established by law. This is mainly regulated by article 54.bis of the Bylaws and article 19 of the Rules and Regulations of the Board.

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

See sections C.1.19 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The content of this recommendation is a well established practice at the Bank, and it is set out in articles 18.4. (a) (ii) and 18.6 of the Rules and Regulations of the Board, which state that the appointments committee will *"receive for consideration proposals from directors of potential candidates to cover vacancies"* and that it will *" consult the chairman and the chief executive officer, especially in regard to matters relating to executive directors",* respectively.

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

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.
b) Monitor compliance with the remuneration policy set by the company.
c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The remuneration committee carries out its duties independently. When performing those duties, the committee must take into account the long-term interests of shareholders, investors and other stakeholders in the company, as well as the public interest (article 19.4 of the Rules and Regulations of the Board). Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required at the invitation of the chairman of the committee may establish for attendance. The committee, through its chair, shall report to the board of directors on its activities and work (article 19.10 of the Rules and Regulations of the Board).

Article 19 of the Rules and Regulations of the Board assigns the duties referred to in this recommendation to the remuneration committee. That committee is also responsible for the following, among others: (i) proposing to the board the basic terms and conditions of the contracts and remuneration of the members of senior management (article 19.4.a) (v); (ii) assisting the board in ensuring compliance with the remuneration policy for the directors and other members of senior management established by the company (article 19.4 (b); (iii) periodically reviewing remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company, and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management (article 19.4.c); and (iv) ensuring the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate (article 19.4 (d).

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

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The content of this recommendation is also a well established practice at the Bank and is set down in article 19.6 of the Rules and Regulations of the Board, which states that *"the remuneration committee will consult the chair and CEO on matters concerning the executive directors and senior executives".* It further states that *"the chairman and any director may make suggestions to the remunerations committee with respect to matters that fall within the scope of its powers".*

52. The terms of reference of supervision and control committees should be set out in the regulations of the board of directors and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
b) They should be chaired by independent directors.
c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
d) They may engage external advice, when they feel it necessary for the discharge of their functions.
e) Meeting proceedings should be minuted and a copy made available to all board members.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The Company's board committees with supervisory and control authority are the audit, appointments, remuneration and the risk, regulation and compliance oversight committees. All of these are mandatory and the composition and operating rules set down in the Rules and Regulations of the Board are in line with applicable legislation and best corporate governance practices, including the recommendations of the code of good governance for listed companies.

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

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of other stakeholders.
d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
e) Monitor corporate social responsibility strategy and practices and assess compliance in this respect.
f) Monitor and evaluate the company's interaction with its stakeholders.
g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 20.4 of the Rules and Regulations of the Board assigns all the duties set out in this recommendation to the risk, regulation and compliance oversight committee.

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

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

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
b) The corporate strategy with regard to sustainability, the environment and social issues.
c) Concrete practices in matters relating to: shareholders, employees, clients, suppliers, social-welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.
d) The methods or systems for monitoring the results of the practices referred to above and identifying and managing related risks.
e) The mechanisms for supervising non-financial risk, ethics and business conduct.
f) Channels for stakeholder communication, participation and dialogue.
g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Bank has a well-defined governance structure in sustainability matters, both corporate and local, which facilitates the involvement of all of the Bank's business and support areas in the countries in which the Group operates.

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

The sustainability function reports to the board and thus to its executive committee, and also to the responsible banking, sustainability and culture committee. The Bank also has a sustainability committee chaired by the CEO and composed of senior managers and heads of various divisions. This committee proposes the Bank's sustainability strategy and general and industry policies and submits them for approval by the board of directors.

The corporate culture and values include the principles and commitments assumed by the Company on a voluntary basis with respect to its stakeholders and all aspects mentioned in the recommendation.

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

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

See section B.7

Compliant ☒ **Explain** ☐

The Bank publishes an annual sustainability report prepared in accordance with the Global Reporting Initiative's “Sustainability Report Guidelines, version G4”, describing activities relating to corporate social responsibility. It is published in the “Sustainability” section of the Company’s corporate website (www.santander.com).

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant ☒ **Explain** ☐

Articles 58.1 and 2 of the Bylaws and 33.1, 2 and 6 of the Rules and Regulations of the Board regulate the remuneration paid to the members of the board. This remuneration consists of a fixed annual amount determined by the general meeting, which the board may reduce in years when this is deemed necessary. There are two components to this remuneration: (a) an annual allocation; and (b) attendance fees.

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

Article 33.6 of the Rules and Regulations of the Board expressly stipulates that *“the board shall endeavour to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management. The board shall also endeavour to ensure that the remuneration of external directors is sufficient to compensate them for the dedication, qualifications and responsibility required for the performance of their duties.”*

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with the Bank's remuneration policy, only executive directors have the right to receive variable remuneration, which includes remuneration systems consisting of the delivery of shares or options on shares or tied to the value of the shares. These criteria may only be amended through a resolution of the general shareholders' meeting.

Section A.3 of this report describes the Bank's share-based compensation programmes in which executive directors participated at year-end 2017.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

liv. Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

lv. Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

lvi. Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one off, occasional or extraordinary events.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

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

Specifically, the remuneration policy applicable to directors for performing their executive duties contains the following limits and caveats, as approved by the shareholders at the general meeting held on 7 April 2017:

- Variable remuneration consists of a single incentive subject to the attainment of targets, for the purpose of increasing the alignment of remuneration with the long-term sustainability of the Company and the interests of shareholders.

- Variable remuneration is completely flexible and may be zero.

- Variable remuneration is established after the end of the year based on certain quantitative metrics and qualitative factors, some of which are not financial in nature, relating to risk management, capital performance, earnings, customer relations and the satisfaction of customers and of employees. At the proposal of the remuneration committee, the board applies its judgement using structured discretion to moderate the quantitative evaluations, considering any circumstances, whether positive or not, not included in the original assessment structures.

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

- In general, all of the quantitative metrics used to establish variable remuneration have minimum compliance thresholds, below which no right to receive variable remuneration arises. If the Group's net ordinary profit falls below a certain threshold the maximum variable remuneration would be limited to 50%; if there is a net loss, the bonus for executive directors would be zero. The measurement of achievement of multi-year targets on which the accrual of the deferred amounts is based also establishes minimum compliance thresholds, below which the right to receive the deferred variable remuneration is lost.

- Fixed remuneration represents a significant percentage of total remuneration, allowing for the desired level of independence when taking decisions that could affect variable remuneration. Variable remuneration will never exceed the limit of 200% of fixed remuneration.

- The variable remuneration for executive directors in 2017 is subject to reduction (malus) and recovery (clawback) clauses.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The company is a credit institution and is therefore subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 40% of executive directors' variable remuneration to be deferred for a period of no less than between three and five years.

At least 60% of the incentive for the Bank's executive directors for 2017 is deferred for a period of five years. The deferred amounts relating to the 2017 incentive are subject to the absence of the application of the malus or clawback clauses which, if applied, could represent the loss of all or part of the deferred amounts or amounts already paid as variable remuneration. In addition, the deferred amount corresponding to the last three years (of the referred period of five years) will be subject to the achievement of certain multi-year targets.

The referred malus and clawback clauses take into account the following:

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

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

In addition, all shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until at least one year after their delivery.

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

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

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

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

There were no reservations or qualifications with regard to the 2017 individual or consolidated financial statements of the Bank or its consolidated Group, respectively.

If any qualifications arise in the external auditor's report that reduce the Bank's earnings, the human resources committee - the internal body responsible for assessing the impact on targets associated with variable remuneration in the management of risks, as well as the quality and recurrence of results and the general compliance and control environment - will take into account this circumstance in establishing the remuneration of executive directors, and may propose appropriate adjustments in this respect to the remuneration committee.

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

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which require at least 50% of executive directors' variable remuneration be paid in the Bank's shares or similar instruments.

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

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The variable remuneration for executive directors in 2017 comprised a single incentive partially received in cash and partially in shares. Specifically, at least 50% of total variable remuneration for 2017 will be paid in shares.

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

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The remuneration policy applicable to executive directors contains clawback clauses that allow variable remuneration components to be reclaimed in the following cases, once the application of the malus clauses has been exhausted. The clawback clauses may be applied to any amount paid as variable remuneration in a year provided that the retention period of the final deferred amount relating to that variable remuneration has not yet elapsed.

In accordance with said policy, malus and clawback clauses with regards to 2017 incentives are triggered in scenarios of deficient financial performance of either the Bank as a whole or a division or specific area thereof, or of the exposure generated by staff, with at least the following factors being taken into account:

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

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

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration, and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

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

As set out in the annual director remuneration report, the contracts of the executive directors Ms. Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez Álvarez recognise their right to take early retirement in certain circumstances before reaching retirement age, in which case they will receive an annual allocation until retirement. There is no right to payment of any kind if the separation of the director takes place in certain circumstances or once they have reached retirement age. However, if this right accrues, the amount of the annual allocation will be lower than their total annual remuneration. This allocation is subject to the malus and clawback provisions in place for five years.

H OTHER INFORMATION OF INTEREST

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

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the code and date of adoption. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 July 2010.

Banco Santander does not file any annual corporate governance report other than as stipulated under the LSC, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June, amended by Circular 7/2015, of 22 December.

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

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

On 3 November 2015, at the plenary session of the abovementioned Large Companies Forum, the introduction of an appendix to the Code of Best Tax Practices was agreed to strengthen the cooperation between the Spanish tax agency and those companies that adhere to this instrument of good tax governance, through a series of actions promoting transparency and legal security in compliance with tax obligations.

Banco Santander has joined international sustainability initiatives such as, among others, the Principles of the United Nation's Global Compact (since 2002), the Equator Principles (since 2009), the Principles for Responsible Investment (since 2008), the Banking Environment Initiative (BEI) (since 2010), the World Business Council for Sustainable Development (since 2015), UNEP Finance Initiative (since 2008) and the CDP, formerly the Carbon Disclosure Project (since 2002).

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

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

Yes ☐ **No** ☒

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstention, non-attendance)	Explain the reasons

pwc

Banco Santander, S.A. and its subsidiaries (Santander Group)

Independent reasonable assurance report on the design and effectiveness of the internal control over financial reporting (ICFR)

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

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

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

We have carried out a reasonable assurance report of the design and effectiveness of the Internal Control over Financial Reporting (hereinafter, ICFR) and the description that is included in the attached Report that forms part of the corresponding section of the Annual Corporate Governance Report of the Directors Report accompanying the consolidated financial statements of Banco Santander, S.A., (hereinafter, the Parent Company) and its subsidiaries (hereinafter, the Group or Santander Group) as at December 31, 2017, excluding the ICFR of, and the description relating to, Banco Popular Español, S.A. and those entities which were subsidiaries as of June 7, 2017 (hereinafter, the Popular Entities). Based on the assignment received from the Parent's Company Directors the scope of our report excludes the ICFR of the Popular Entities given they were acquired by the Santander Group in a purchase business combination during 2017.

This system is based on the criteria and policies defined by the Group in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework" report.

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

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

Director's responsibility

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

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Our Responsibility

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

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

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

Our Independence and Quality Control

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

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

Opinion

In our opinion, Santander Group, excluding the Popular Entities maintained as at December 31, 2017, in all material respects, an effective system of Internal Control relating to the Financial Reporting included in the consolidated financial statements of the Group as at December 31, 2017, which is based on the criteria and the policies defined by the Group´s management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control - Integrated Framework" report.

In addition, the attached description of the ICFR Report as at December 31, 2017, related to the Santander Group, excluding the Popular Entities, has been prepared, in all material respects, in accordance with the requirements established by article 540 of the Consolidated Text of the Capital Companies Act and with the Circular 5/2013 of June 12, 2013 of the CNMV, as amended by CNMV Circular No. 7/2015 dated December 22, 2015 for the purposes of the description of the ICFR in the Annual Reports of Corporate Governance.

This work does not constitute an audit of accounts nor is it subject to the regulations governing the activity of the audit in force in Spain, so we do not express any audit opinion in the terms provided in the aforementioned regulations. However, we have audited, in accordance with the regulations governing the audit activity in force in Spain, the consolidated financial statements of Santander Group prepared by the Parent Company's Directors in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions of the financial reporting standards applicable to the Group, and our report dated February 16, 2018 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 16, 2018