2015

Auditors' report and annual consolidated accounts

Santander

Auditors' report and annual consolidated accounts 2015

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Auditors' report

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banco Santander, S.A. ("the Bank") and Subsidiaries composing, together with the Bank, Santander Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Bank's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Santander Group in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 1.b to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Bank's directors of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Our work was performed in accordance with the requirements established in Standard ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

A reasonable assurance engagement includes understanding the system of ICFR contained in the consolidated financial statements, evaluating the risk of there being material errors therein, performing tests and evaluations of the design and operating effectiveness of the system, and performing such other procedures as we consider appropriate. We consider that our examination provides a reasonable basis for our opinion.

Independence

Our work was performed in accordance with the independence standards required by the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behaviour.

In accordance with International Standard on Quality Control 1 (ISQC1), Deloitte maintains a global system of quality control which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

Conclusion

In our opinion, at 31 December 2015, the Group maintained, in all material respects, an effective system of internal control over the financial reporting contained in its consolidated financial statements, based on the rules and policies defined by Group management in accordance with the guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework (2013)". Also, the disclosures contained in the information relating to the system of ICFR which is included in Section F of the Group's Annual Corporate Governance Report for the year ended 31 December 2015 comply, in all material respects, with the requirements established by the Spanish Limited Liability Companies Law, by Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March, and by Spanish National Securities Market Commission (CNMV) Circular 5/2013, of 12 June 2013.

This examination does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law approved by Legislative Royal Decree 1/2011, of 1 July, and, therefore, we do not express an audit opinion in the terms provided for in the aforementioned legislation. However, we have audited, in accordance with the audit regulations in force in Spain, the consolidated financial statements of Banco Santander, S.A. and Subsidiaries prepared by the Bank's directors in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group, and our report dated 12 February 2016 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.

Ignacio Gutiérrez

12 February 2016

Annual consolidated accounts

Santander Group

Consolidated balance sheets as at 31 december 2015, 2014 and 2013

Millions of euros

Assets	Note	2015	2014*	2013*
Cash and balances with central banks		81,329	69,428	77,103
Financial assets held for trading:		147,287	148,888	115,289
Loans and advances to credit institutions	6	*2,293*	*1,815*	*5,503*
Loans and advances to customers	10	*6,081*	*2,921*	*5,079*
Debt instruments	7	*43,964*	*54,374*	*40,841*
Equity instruments	8	*18,225*	*12,920*	*4,967*
Trading derivatives	9	*76,724*	*76,858*	*58,899*
Other financial assets at fair value through profit or loss:		45,043	42,673	31,381
Loans and advances to credit institutions	6	*26,403*	*28,592*	*13,444*
Loans and advances to customers	10	*14,293*	*8,971*	*13,196*
Debt instruments	7	*3,717*	*4,231*	*3,875*
Equity instruments	8	*630*	*879*	*866*
Available-for-sale financial assets:		122,036	115,250	83,799
Debt instruments	7	*117,187*	*110,249*	*79,844*
Equity instruments	8	*4,849*	*5,001*	*3,955*
Loans and receivables:		831,637	781,635	714,484
Loans and advances to credit institutions	6	*50,256*	*51,306*	*56,017*
Loans and advances to customers	10	*770,474*	*722,819*	*650,581*
Debt instruments	7	*10,907*	*7,510*	*7,886*
Held-to-maturity investments	7	4,355	-	-
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	36	1,379	1,782	1,627
Hedging derivatives	11	7,727	7,346	8,301
Non-current assets held for sale	12	5,646	5,376	4,892
Investments:	13	3,251	3,471	5,536
Associates	13	*1,659*	*1,775*	*1,829*
Jointly controlled entities	13	*1,592*	*1,696*	*3,707*
Insurance contracts linked to pensions	14	299	345	342
Reinsurance assets	15	331	340	356
Tangible assets:		25,320	23,256	13,654
Property, plant and equipment-		*19,335*	*16,889*	*9,974*
For own use	16	*7,949*	*8,324*	*7,787*
Leased out under an operating lease	16	*11,386*	*8,565*	*2,187*
Investment property	*16*	*5,985*	*6,367*	*3,680*
Intangible assets:		29,430	30,401	26,241
Goodwill	17	*26,960*	*27,548*	*23,281*
Other intangible assets	18	*2,470*	*2,853*	*2,960*
Tax assets:		27,814	27,956	26,944
Current		*5,769*	*5,792*	*5,751*
Deferred	27	*22,045*	*22,164*	*21,193*
Other assets	19	7,376	8,149	5,814
Inventories		*1,013*	*1,099*	*80*
Other		*6,363*	*7,050*	*5,734*
TOTAL ASSETS		**1,340,260**	**1,266,296**	**1,115,763**

* Presented for comparison purposes only. See Note 1.d.
The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated balance sheet as at 31 December 2015.

Consolidated balance sheets as at 31 december 2015, 2014 and 2013

Millions of euros

Liabilities and equity	Note	2015	2014*	2013*
Financial liabilities held for trading:		105,218	109,792	94,673
Deposits from central banks	20	*2,178*	*2,041*	*3,866*
Deposits from credit institutions	20	*77*	*5,531*	*7,468*
Customer deposits	21	*9,187*	*5,544*	*8,500*
Marketable debt securities	22	-	-	*1*
Trading derivatives	9	*76,414*	*79,048*	*58,887*
Short positions	9	*17,362*	*17,628*	*15,951*
Other financial liabilities		-	-	-
Other financial liabilities at fair value through profit or loss:		54,768	62,317	42,311
Deposits from central banks	20	*16,486*	*6,321*	*2,097*
Deposits from credit institutions	20	*8,551*	*19,039*	*9,644*
Customer deposits	21	*26,357*	*33,127*	*26,484*
Marketable debt securities	22	*3,373*	*3,830*	*4,086*
Subordinated liabilities		-	-	-
Other financial liabilities	24	*1*	-	-
Financial liabilities at amortised cost:		1,039,343	961,052	863,114
Deposits from central banks	20	*38,872*	*17,290*	*9,788*
Deposits from credit institutions	20	*109,207*	*105,147*	*76,534*
Customer deposits	21	*647,578*	*608,956*	*572,853*
Marketable debt securities	22	*201,656*	*193,059*	*171,390*
Subordinated liabilities	23	*21,153*	*17,132*	*16,139*
Other financial liabilities	24	*20,877*	*19,468*	*16,410*
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	36	174	31	87
Hedging derivatives	11	8,937	7,255	5,283
Liabilities associated with non-current assets held for sale		-	21	1
Liabilities under insurance contracts	15	627	713	1,430
Provisions:		14,494	15,376	14,589
Provision for pensions and similar obligations	25	*8,272*	*9,412*	*9,126*
Provisions for taxes and other legal contingencies	25	*2,577*	*2,916*	*2,727*
Provisions for contingent liabilities and commitments	25	*618*	*654*	*693*
Other provisions	25	*3,027*	*2,394*	*2,043*
Tax liabilities:		7,725	9,379	6,079
Current		*2,160*	*4,852*	*4,254*
Deferred	27	*5,565*	*4,527*	*1,825*
Other liabilities	26	10,221	10,646	8,554
Total liabilities		**1,241,507**	**1,176,582**	**1,036,121**
Equity				
Shareholders' equity:	30	102,402	91,663	84,480
Share capital	31	*7,217*	*6,292*	*5,667*
Registered		*7,217*	*6,292*	*5,667*
Less: uncalled capital		-	-	-
Share premium	32	*45,001*	*38,611*	*36,804*
Reserves	33	*45,760*	*41,160*	*38,056*
Accumulated reserves (losses)	33	*45,469*	*40,973*	*37,793*
Reserves (losses) of entities accounted for using the Equity method	33	*291*	*187*	*263*
Other equity instruments	34	*214*	*265*	*193*
Equity component of compound financial instruments	34	-	-	-
Other	34	*214*	*265*	*193*
Less: treasury shares	34	*(210)*	*(10)*	*(9)*
Profit for the year attributable to the parent		*5,966*	*5,816*	*4,175*
Less: dividends and remuneration	4	*(1,546)*	*(471)*	*(406)*
Valuation adjustments		(14,362)	(10,858)	(14,152)
Available-for-sale financial assets	29	*844*	*1,560*	*35*
Cash flow hedges	36	*171*	*204*	*(233)*
Hedges of net investments in foreign operations	29	*(3,597)*	*(3,570)*	*(1,874)*
Exchange differences	29	*(8,383)*	*(5,385)*	*(8,768)*
Non-current assets held for sale		-	-	-
Entities accounted for using the equity method	29	*(232)*	*(85)*	*(446)*
Other valuation adjustments	29	*(3,165)*	*(3,582)*	*(2,866)*
Non-controlling interests	28	10,713	8,909	9,314
Valuation adjustments		*(1,227)*	*(655)*	*(1,541)*
Other		*11,940*	*9,564*	*10,855*
Total equity		**98,753**	**89,714**	**79,642**
Total liabilities and equity		**1,340,260**	**1,266,296**	**1,115,763**
Memorandum items:				
Contingent liabilities	35	40,115	44,078	41,049
Contingent commitments	35	221,457	208,040	172,797

* Presented for comparison purposes only. See Note 1.d.
The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated balance sheet as at 31 December 2015.

Consolidated income statements for the years ended 31 december 2015, 2014 and 2013

Millions of euros

		(Debit) Credit		
	Notes	2015	2014*	2013*
Interest and similar income	38	57,198	54,656	51,447
Interest expense and similar charges	39	(24,386)	(25,109)	(25,512)
Net interest income		**32,812**	**29,547**	**25,935**
Income from equity instruments	40	455	435	378
Share of results of entities accounted for using the equity method	13 & 41	375	243	500
Fee and commission income	42	13,042	12,515	12,473
Fee and commission expense	43	(3,009)	(2,819)	(2,712)
Gains/losses on financial assets and liabilities (net)	44	(770)	3,974	3,234
Held for trading		*(2,312)*	*2,377*	*1,733*
Other financial instruments at fair value through profit or loss		*325*	*239*	*(6)*
Financial instruments not measured at fair value through profit or loss		*1,265*	*1,427*	*1,622*
Other		*(48)*	*(69)*	*(115)*
Exchange differences (net)	45	3,156	(1,124)	160
Other operating income		3,067	5,214	5,903
Income from insurance and reinsurance contracts issued	46	*1,096*	*3,532*	*4,724*
Sales and income from the provision of non-financial services	46	*711*	*343*	*322*
Other	46	*1,260*	*1,339*	*857*
Other operating expenses		(3,233)	(5,373)	(6,205)
Expenses of insurance and reinsurance contracts	46	*(998)*	*(3,395)*	*(4,607)*
Changes in inventories	46	*(590)*	*(255)*	*(229)*
Other	46	*(1,645)*	*(1,723)*	*(1,369)*
Gross income		**45,895**	**42,612**	**39,666**
Administrative expenses		(19,302)	(17,899)	(17,452)
Staff costs	47	*(11,107)*	*(10,242)*	*(10,069)*
Other general administrative expenses	48	*(8,195)*	*(7,657)*	*(7,383)*
Depreciation and amortisation charge	16 & 18	(2,418)	(2,287)	(2,391)
Provisions (net)	25	(3,106)	(3,009)	(2,445)
Impairment losses on financial assets (net)		(10,652)	(10,710)	(11,227)
Loans and receivables	10	*(10,194)*	*(10,521)*	*(10,986)*
Other financial instruments not measured at fair value through profit or loss	7 & 29	*(458)*	*(189)*	*(241)*
Profit from operations		**10,417**	**8,707**	**6,151**
Impairment losses on other assets (net)		(1,092)	(938)	(503)
Goodwill and other intangible assets	17 & 18	*(701)*	*(701)*	*(41)*
Other assets		*(391)*	*(237)*	*(462)*
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	49	112	3,136	2,152
Gains from bargain purchases arising in business combinations	3	283	17	-
Gains/(losses) on non-current assets held for sale not classified as discontinued operations	50	(173)	(243)	(422)
Profit before tax		**9,547**	**10,679**	**7,378**
Income tax	27	(2,213)	(3,718)	(2,034)
Profit for the year from continuing operations		**7,334**	**6,961**	**5,344**
Loss from discontinued operations (net)	37	-	(26)	(15)
Consolidated profit for the year		**7,334**	**6,935**	**5,329**
Profit attributable to the parent		*5,966*	*5,816*	*4,175*
Profit attributable to non-controlling interests	28	*1,368*	*1,119*	*1,154*
Earnings per share				
From continuing and discontinued operations				
Basic earnings per share (euros)	4	*0.40*	*0.48*	*0.39*
Diluted earnings per share (euros)	4	*0.40*	*0.48*	*0.38*
From continuing operations				
Basic earnings per share (euros)	4	*0.40*	*0.48*	*0.39*
Diluted earnings per share (euros)	4	*0.40*	*0.48*	*0.38*

* Presented for comparison purposes only. See Note 1.d.
The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated income statement for the year ended 31 December 2015.

Consolidated statements of recognised income and expense for the years ended 31 december 2015, 2014 and 2013

Millions of euros

	2015	2014*	2013*
CONSOLIDATED PROFIT FOR THE YEAR	**7,334**	**6,935**	**5,329**
OTHER RECOGNISED INCOME AND EXPENSE	**(4,076)**	**4,180**	**(5,913)**
Items that will not be reclassified to profit or loss	**445**	**(703)**	**188**
Actuarial gains/(losses) on defined benefit pension plans	695	(1,009)	502
Non-current assets held for sale	-	-	-
Income tax relating to items that will not be reclassified to profit or loss	(250)	306	(314)
Items that may be reclassified to profit or loss	**(4,521)**	**4,883**	**(6,101)**
Available-for-sale financial assets:	(1,216)	2,324	(99)
Revaluation gains/(losses)	*(555)*	*3,604*	*1,150*
Amounts transferred to income statement	*(661)*	*(1,280)*	*(1,250)*
Other reclassifications	-	-	*1*
Cash flow hedges:	(91)	589	47
Revaluation gains/(losses)	*(105)*	*934*	*463*
Amounts transferred to income statement	*14*	*(345)*	*(416)*
Amounts transferred to initial carrying amount of hedged items	-	-	-
Other reclassifications	-	-	-
Hedges of net investments in foreign operations:	(27)	(1,730)	1,117
Revaluation gains/(losses)	*(27)*	*(1,730)*	*1,074*
Amounts transferred to income statement	-	-	*38*
Other reclassifications	-	-	*5*
Exchange differences:	(3,518)	4,189	(7,028)
Revaluation gains/(losses)	*(3,518)*	*4,184*	*(7,020)*
Amounts transferred to income statement	-	*5*	*(37)*
Other reclassifications	-	-	*29*
Non-current assets held for sale:	-	-	-
Revaluation gains/(losses)	-	-	-
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Entities accounted for using the equity method:	(147)	361	(294)
Revaluation gains/(losses)	*(156)*	*266*	*(283)*
Amounts transferred to income statement	*9*	*95*	*23*
Other reclassifications	-	-	*(34)*
Other recognised income and expense	-	-	-
Income tax relating to items that may be reclassified to profit or loss	478	(850)	156
TOTAL RECOGNISED INCOME AND EXPENSE	**3,258**	**11,115**	**(584)**
Attributable to the parent	*2,462*	*9,110*	*(504)*
Attributable to non-controlling interests	*796*	*2,005*	*(80)*

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

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2015.

Consolidated statements of changes in total equity for the years ended 31 december 2015, 2014 and 2013

Millions of euros

	Equity attributable to the Parent				
	Shareholders' equity				
			Reserves		
	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments
Ending balance at 31/12/12*[1]	**5,161**	**37,412**	**36,898**	**255**	**250**
Adjustments due to changes in accounting policies	-	-	(53)	-	-
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**5,161**	**37,412**	**36,845**	**255**	**250**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**
Other changes in equity	**506**	**(608)**	**948**	**8**	**(57)**
Capital increases	506	(506)	(7)	-	-
Capital reductions	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	103
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	-	-	(412)	-	-
Transactions involving own equity instruments (net)	-	-	(28)	-	-
Transfers between equity items	-	(102)	1,836	8	(109)
Increases (decreases) due to business combinations	-	-	-	-	-
Equity-instrument-based payments	-	-	-	-	(41)
Other increases/(decreases) in equity	-	-	(441)	-	(10)
Ending balance at 31/12/13*[2]	**5,667**	**36,804**	**37,793**	**263**	**193**
Ending balance at 31/12/13*[1]	**5,667**	**36,804**	**37,858**	**263**	**193**
Adjustments due to changes in accounting policies	-	-	(65)	-	-
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**5,667**	**36,804**	**37,793**	**263**	**193**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**
Other changes in equity	**625**	**1,807**	**3,180**	**(76)**	**72**
Capital increases	625	1,932	(30)	-	-
Capital reductions	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	78
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	-	-	(438)	-	-
Transactions involving own equity instruments (net)	-	-	40	-	-
Transfers between equity items	-	(125)	4,033	(76)	(63)
Increases (decreases) due to business combinations	-	-	-	-	-
Equity-instrument-based payments	-	-	-	-	(51)
Other increases/(decreases) in equity	**-**	**-**	**(425)**	**-**	**108**
Ending balance at 31/12/14*	**6,292**	**38,611**	**40,973**	**187**	**265**
Adjustments due to changes in accounting policies	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**6,292**	**38,611**	**40,973**	**187**	**265**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**
Other changes in equity	**925**	**6,390**	**4,496**	**104**	**(51)**
Capital increases	925	6,575	(65)	-	-
Capital reductions	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	101
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	-	-	(673)	-	-
Transactions involving own equity instruments (net)	-	-	16	-	-
Transfers between equity items	-	(185)	5,426	104	-
Increases (decreases) due to business combinations	-	-	-	-	-
Equity-instrument-based payments	-	-	-	-	(188)
Other increases/(decreases) in equity	-	-	(208)	-	36
Ending balance at 31/12/15	**7,217**	**45,001**	**45,469**	**291**	**214**

* Presented for comparison purposes only. See Note 1.d.
The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2015.
1. Balances presented in accordance with the applicable accounting standards in force in those years. See Note 1.d.
2. Balances modified in agreement with that required by accounting standards for their presentation in line with applicable new accounting standards which came into force during the 2014 financial year. See Note 1.d.

Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests	Total equity
(287)	2,205	(650)	81,244	(6,590)	74,654	9,672	84,326
-	78	-	25	(2,882)	(2,857)	(257)	(3,114)
-	-	-	-	-	-	-	-
(287)	2,283	(650)	81,269	(9,472)	71,797	9,415	81,212
-	4,175	-	4,175	(4,680)	(504)	(80)	(584)
278	(2,283)	244	(964)	-	(964)	(21)	(985)
-	-	-	(7)	-	(7)	(2)	(9)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	103	-	103	-	103
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(406)	(818)	-	(818)	(747)	(1,565)
278	-	-	250	-	250	-	250
-	(2,283)	650	-	-	-	-	-
-	-	-	-	-	-	169	169
-	-	-	(41)	-	(41)	-	(41)
-	-	-	(451)	-	(451)	559	108
(9)	4,175	(406)	84,480	(14,152)	70,328	9,314	79,642
(9)	4,370	(406)	84,740	(14,152)	70,588	9,314	79,902
-	(195)	-	(260)	-	(260)	-	(260)
-	-	-	-	-	-	-	-
(9)	4,175	(406)	84,480	(14,152)	70,328	9,314	79,642
-	5,816	-	5,816	3,294	9,110	2,005	11,115
(1)	(4,175)	(65)	1,367	-	1,367	(2,410)	(1,043)
-	-	-	2,527	-	2,527	(524)	2,003
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	78	-	78	-	78
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(471)	(909)	-	(909)	(380)	(1,289)
(1)	-	-	39	-	39	-	39
-	(4,175)	406	-	-	-	-	-
-	-	-	-	-	-	1,465	1,465
-	-	-	(51)	-	(51)	-	(51)
-	-	-	(317)	-	(317)	(2,971)	(3,288)
(10)	5,816	(471)	91,663	(10,858)	80,805	8,909	89,714
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(10)	5,816	(471)	91,663	(10,858)	80,805	8,909	89,714
-	5,966	-	5,966	(3,504)	2,462	796	3,258
(200)	(5,816)	(1,075)	4,773	-	4,773	1,008	5,781
-	-	-	7,435	-	7,435	300	7,735
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	101	-	101	890	991
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(1,546)	(2,219)	-	(2,219)	(461)	(2,680)
(200)	-	-	(184)	-	(184)	-	(184)
-	(5,816)	471	-	-	-	-	-
-	-	-	-	-	-	761	761
-	-	-	(188)	-	(188)	107	(81)
-	-	-	(172)	-	(172)	(589)	(761)
(210)	5,966	(1,546)	102,402	(14,362)	88,040	10,713	98,753

Consolidated statements of cash flows for the years ended 31 december 2015, 2014 and 2013

Millions of euros

	2015	2014*	2013*
A. Cash flows from operating activities:	**12,857**	**(3,939)**	**(34,852)**
Consolidated profit for the year	**7,334**	**6,935**	**5,329**
Adjustments made to obtain the cash flows from operating activities-	**20,614**	**18,772**	**17,894**
Depreciation and amortisation charge	2,418	2,287	2,391
Other adjustments	18,196	16,485	15,503
Net increase/decrease in operating assets-	**62,408**	**88,438**	**(13,533)**
Financial assets held for trading	1,013	12,931	(8,440)
Other financial assets at fair value through profit or loss	2,376	11,012	3,426
Available-for-sale financial assets	15,688	27,968	(4,149)
Loans and receivables	46,554	35,644	(2,767)
Other operating assets	(3,223)	883	(1,603)
Net increase/decrease in operating liabilities-	**49,522**	**60,144**	**(68,031)**
Financial liabilities held for trading	(2,655)	(4,667)	4,320
Other financial liabilities at fair value through profit or loss	(8,011)	19,786	(2,781)
Financial liabilities at amortised cost	58,568	46,747	(63,939)
Other operating liabilities	1,620	(1,722)	(5,631)
Income tax recovered/paid	**(2,205)**	**(1,352)**	**(3,577)**
B. Cash flows from investing activities:	**(6,218)**	**(6,005)**	**677**
Payments-	**10,671**	**9,246**	**3,322**
Tangible assets	7,664	6,695	1,877
Intangible assets	1,572	1,218	1,264
Investments	82	18	181
Subsidiaries and other business units	1,353	1,315	-
Non-current assets held for sale and associated liabilities	-	-	-
Held-to-maturity investments	-	-	-
Other payments related to investing activities	-	-	-
Proceeds-	**4,453**	**3,241**	**3,999**
Tangible assets	2,386	986	500
Intangible assets	2	-	39
Investments	422	324	295
Subsidiaries and other business units	565	1,004	1,578
Non-current assets held for sale and associated liabilities	940	927	1,587
Held-to-maturity investments	138	-	-
Other proceeds related to investing activities	-	-	-
C. Cash flows from financing activities:	**8,960**	**(62)**	**(1,676)**
Payments-	**7,248**	**8,094**	**8,528**
Dividends	1,498	909	818
Subordinated liabilities	2,239	3,743	1,915
Redemption of own equity instruments	-	-	-
Acquisition of own equity instruments	3,225	3,442	5,592
Other payments related to financing activities	286	-	203
Proceeds-	**16,208**	**8,032**	**6,852**
Subordinated liabilities	4,787	4,351	1,027
Issuance of own equity instruments	7,500	-	-
Disposal of own equity instruments	3,048	3,498	5,560
Other proceeds related to financing activities	873	183	265
D. Effect of foreign exchange rate changes	**(3,698)**	**2,331**	**(5,534)**
E. Net increase/(decrease) in cash and cash equivalents	**11,901**	**(7,675)**	**(41,385)**
F. Cash and cash equivalents at beginning of year	**69,428**	**77,103**	**118,488**
G. Cash and cash equivalents at end of year	**81,329**	**69,428**	**77,103**
Components of cash and cash equivalents at end of year:			
Cash	7,436	7,491	6,697
Cash equivalents at central banks	73,893	61,937	70,406
Other financial assets	-	-	-
Less: bank overdrafts refundable on demand	-	-	-
Total cash and cash equivalents at end of year	**81,329**	**69,428**	**77,103**

* Presented for comparison purposes only. See Notes 1.d and 37.
The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of cash flows for the year ended 31 December 2015.

Banco Santander, S.A. and Companies composing Santander Group
Notes to the consolidated financial statements for the year ended 31 December 2015

1. Introduction, basis of presentation of the consolidated financial statements and other information

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on 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 carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group" or "Santander Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Group's consolidated financial statements for 2013 were approved by the shareholders at the Bank's annual general meeting on 28 March 2014. The Group's consolidated financial statements for 2014 were approved by the shareholders at the Bank's annual general meeting on 27 March 2015. The 2015 consolidated financial statements of the Group and the 2015 financial statements of the Bank and of substantially all the Group companies have not yet been 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 any changes.

b) Basis of presentation of the consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in conformity with the International Financial Reporting Standards ("IFRSs") previously adopted by the European Union ("EU-IFRSs").

In order to adapt the accounting system of Spanish credit institutions to the new standards, the Bank of Spain issued Circular 4/2004, of 22 December, on Public and Confidential Financial Reporting Rules and Formats.

The Group's consolidated financial statements for 2015 were formally prepared by the Bank's directors (at the board meeting on 12 February 2016) in accordance with International Financial Reporting Standards as adopted by the European Union and with Bank of Spain Circular 4/2004 and Spanish corporate and commercial law applicable to the Group, using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 to these consolidated financial statements and, accordingly, they present fairly the Group's equity and financial position at 31 December 2015 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in its consolidated equity and the consolidated cash flows in 2015. These consolidated financial statements were prepared from the accounting records kept by the Bank and by the other Group entities, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases applied by the Group.

The notes to the consolidated financial statements contain supplementary information to that presented in the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these financial statements.

Adoption of new standards and interpretations issued

The following standards came into force and were adopted by the European Union in 2015:

- Improvements to IFRSs, 2011-2013 cycle (obligatory for reporting periods beginning on or after 1 July 2014) - these improvements introduce minor amendments to IFRS 3, IFRS 13 and IAS 40.

The application of the aforementioned accounting standards did not have any material effects on the Group's consolidated financial statements.

Also, at the date of preparation of these consolidated financial statements, the following amendments with an effective date subsequent to 31 December 2015 were in force:

- Disclosure Initiative (Amendments to IAS 1) (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - the main objective of these amendments is to improve financial statement presentation and disclosures. To this end, the amendments introduce certain qualifications relating to materiality, aggregation and disaggregation of items and the structure of the notes.

- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments clarify that when an item of property, plant and equipment or an intangible asset is accounted for using the revaluation model, the total gross carrying amount of the asset is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset, so that the accumulated depreciation or amortisation is equal to the difference between the gross carrying amount and the carrying amount of the asset after revaluation (after taking into account any impairment losses).

- Amendments to IASs 16 and 41 - Bearer Plants (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - under these amendments, plants of this nature are now within the scope of IAS 16 and must be accounted for in the same way as property, plant and equipment rather than at their fair value.

- Amendments to IAS 27 - Equity Method in Separate Financial Statements (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments permit the use of the equity method as an option in the separate financial statements of an entity for accounting for investments in subsidiaries, joint ventures and associates.

- Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments specify how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

- Improvements to IFRSs, 2012-2014 cycle (obligatory for reporting periods beginning on or after 1 January 2016, early application permitted) - these improvements introduce minor amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

In addition, the Group decided to apply early the following standards (the application of which is obligatory under IASB-IFRSs for annual reporting periods beginning on or after 1 July 2014) under IFRSs adopted by the European Union, as permitted by the corresponding standard:

- Amendments to IAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions - these amendments allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met, without having to perform calculations to attribute the reduction to each year of service.

- Improvements to IFRSs, 2010-2012 cycle - these improvements introduce minor amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24 and IAS 38.

The application of the aforementioned accounting standards did not have any material effects on the Group's consolidated financial statements.

Lastly, at the date of preparation of these consolidated financial statements, the following standards which effectively come into force after 31 December 2015 had not yet been adopted by the European Union:

- IFRS 9, Financial Instruments: Classification and Measurement, Hedge Accounting and Impairment (obligatory for reporting periods beginning on or after 1 January 2018). The conceptual change is important in all sections. The financial asset classification and measurement model changes, with the business model being the focal point. The approach of the hedge accounting model attempts to rely more on economic risk management and require fewer rules. Lastly, the impairment model evolves from an incurred loss approach to an expected loss approach.

- IFRS 15, Revenue from Contracts with Customers (obligatory for annual reporting periods beginning on or after 1 January 2018) - the new standard on the recognition of revenue from contracts with customers. It supersedes the following standards and interpretations currently in force: IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services. Under IFRS 15, an entity recognises revenue in accordance with the core principle of the standard by applying the following five steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations identified in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

- IFRS 16 Leases (obligatory for annual reporting periods beginning on or after 1 January 2019) - this new standard on leases supersedes IAS 17. IFRS 16 introduces a single lessee accounting model; a lessee is required to recognise, with limited exceptions, a right-of-use asset and a lease liability. By contrast, in the case of lessor accounting, a dual model will continue to be used, similar to that currently established in IAS 17.

- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (without a defined mandatory effective date) - these amendments establish that a gain or loss must be recognised for the full amount when the transaction involves assets that constitute a business (whether the business is housed in a subsidiary or not). When the transaction involves assets that do not constitute a business, a partial gain or loss is recognised, even if these assets are housed in a subsidiary.

The Group is currently analysing the possible effects of these new standards and interpretations.

All accounting policies and measurement bases with a material effect on the consolidated financial statements for 2015 were applied in their preparation.

c) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the consolidated financial statements estimates were occasionally made by the senior management of the Bank and of the consolidated entities 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, 16, 17 and 18);

- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 25);

- The useful life of the tangible and intangible assets (see Notes 16 and 18);

- The measurement of goodwill arising on consolidation (see Note 17);

- The calculation of provisions and the consideration of contingent liabilities (see Note 25);

- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 20, 21 and 22); and

- The recoverability of deferred tax assets (see Note 27).

Although these estimates were made on the basis of the best information available at 2015 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 change in estimates in the related consolidated income statement.

d) Information relating to 2014 and 2013

The information relating to 2014 and 2013 contained in these notes to the consolidated financial statements is presented with the information relating to 2015 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2014 and 2013.

As required by the applicable accounting standards, the balances relating to the segment reporting disclosed in Note 52 for the years ended 31 December 2014 and 2013 were adjusted with respect to those shown in the consolidated financial statements for 2014, as a result of the amendments to the management and presentation criteria mentioned in that note.

In 2014 the Group recognised the effects of the accounting changes introduced by the application of IFRIC 21, Levies, which amended the accounting for the contributions made by Santander UK to the Financial Services Compensation Scheme, as well as for those made by the Spanish financial institutions in the Group to the Deposit Guarantee Fund. The consolidated statements of changes in total equity for 2014 and 2013 include the impact on equity at the beginning of each of those years arising from the retrospective application of the aforementioned interpretation, which gave rise to a reduction in equity of EUR 260 million at 1 January 2014 (1 January 2013: EUR 63 million).

Also, in 2013 the Group applied the accounting changes introduced by the amendment to IAS 19, Employee Benefits, which, inter alia, eliminated the possibility of deferring recognition of a portion of actuarial gains and losses. The consolidated statement of changes in total equity for 2013 includes the impact on equity at the beginning of that year arising from the retrospective application of the aforementioned amendment, which gave rise to a reduction in equity of EUR 3,051 million at 1 January 2013.

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 -return on risk-weighted assets (RORWA), return on risk-adjusted capital (RORAC) 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 crises 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 and Basel II, 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 26 June 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).

Directive 2013/36 (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. Regulation 575/2013 is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

Regulation 575/2013 (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. 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.

At 31 December 2015, the Group met the minimum capital requirements established by current legislation.

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%.

Accordingly, the Group continued in 2015 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.

To date 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. In 2015 approval was obtained for the auto loan portfolios of the consumer finance unit in the Nordic countries, and the foundation IRB approach was maintained for the corporate and retail portfolios in France which joined the Group following the agreement reached with Banque PSA Finance (see Note 3.b xiii).

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

Also, the Group has regulatory approval for its corporate methodology, enabling it to calculate, for the market risk of the trading book, the incremental default and migration risk charge (IRC – Incremental Risk Charge) and stressed value at risk (VaR).

In 2015 the Group stepped up the pace of its transition towards an advanced operational risk management (AORM) approach. The objective of the AORM programme is, on the one hand, to bolster the current operational risk management framework and, on the other, to achieve best market practices and to leverage the monitoring of an integrated consolidated operational risk profile in order to proactively direct the business strategy and tactical decision-making. The AORM programme will enable the Group to have capital estimation models in place in the main geographical areas, both for economic capital and stress testing purposes and with a view to their potential application for regulatory capital purposes. 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 3 February 2016, the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil) S.A.

f) Environmental impact

In view of the business activities carried on by the Group entities, the Group 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) Events after the reporting period

No significant events occurred from 1 January 2016 to the date on which these consolidated financial statements were authorised for issue:

2. Accounting policies

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

a) Foreign currency transactions

i. Functional currency

The Group'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.

ii. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency (currency of the main economic environment in which the entity operates), and

- Translation to euros of the balances held in the functional currencies of entities whose functional currency is not the euro.

Translation of foreign currency to the functional currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in EMU countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.

- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

- Income and expenses are translated at the average exchange rates for the year for all the transactions performed during the year. When applying this criterion, the Group considers whether there have been significant changes in the exchange rates in the year which, in view of their materiality with respect to the consolidated financial statements taken as a whole, would make it necessary to use the exchange rates at the transaction date rather than the aforementioned average exchange rates.

- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

Translation of functional currencies to euros

The balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for the year.

- Equity items, at the historical exchange rates.

iii. Recognition of exchange differences

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 consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under Valuation adjustments - Exchange differences.

The exchange differences arising on the translation to euros of the financial statements denominated in functional currencies other than the euro are recognised in equity under Valuation adjustments - Exchange differences in the consolidated balance sheet, whereas those arising on the translation to euros of the financial statements of entities accounted for using the equity method are recognised in equity under Valuation adjustments - Entities accounted for using the equity method, until the related item is derecognised, at which time they are recognised in profit or loss.

iv. Entities located in hyperinflationary economies

In 2009 the Group sold substantially all its businesses in Venezuela and at 31 December 2013 its net assets in that country amounted to only EUR 1 million. At 31 December 2015 and 2014, the Group did not have any net assets in Venezuela.

In view of the foregoing, at 31 December 2015, 2014 and 2013 none of the functional currencies of the consolidated entities and associates located abroad related to hyperinflationary economies as defined by International Financial Reporting Standards as adopted by the European Union. Accordingly, at the end of the last three reporting periods it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

v. Exposure to foreign currency risk

The Group hedges a portion of its long-term foreign currency positions using foreign exchange derivative financial instruments (see Note 36). Also, the Group manages foreign currency risk dynamically by hedging its short-term position (with a potential impact on profit or loss) in order to limit the impact of currency depreciations while optimising the finance cost of the hedges.

The following tables show the sensitivity of consolidated profit and consolidated equity to the changes in the foreign currency positions resulting from all the Group's foreign currency items caused by 1% variations in the various foreign currencies in which the Group has material balances.

The estimated effect on the consolidated equity attributable to the Group and on consolidated profit of a 1% appreciation of the euro against the corresponding currency is as follows:

Millions of euros

	Effect on consolidated equity			Effect on consolidated profit		
Currency	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
US dollar	(167.2)	(114.6)	(74.2)	(8.7)	(14.9)	(9.0)
Chilean peso	(23.7)	(23.3)	(16.2)	(5.0)	(6.2)	(6.7)
Pound sterling	(194.2)	(195.0)	(173.1)	(13.0)	(12.6)	(7.9)
Mexican peso	(19.7)	(18.1)	(9.7)	(5.9)	(6.7)	(7.8)
Brazilian real	(93.1)	(138.9)	(73.8)	(13.6)	(3.5)	(3.9)
Polish zloty	(32.8)	(34.1)	(32.5)	(3.9)	(3.8)	(3.8)

Similarly, the estimated effect on the Group's consolidated equity and on consolidated profit of a 1% depreciation of the euro against the corresponding currency is as follows:

Millions of euros

	Effect on consolidated equity			Effect on consolidated profit		
Currency	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
US dollar	170.5	117.0	75.7	8.8	15.2	9.2
Chilean peso	24.1	23.8	16.5	5.1	6.4	6.9
Pound sterling	198.2	198.9	176.6	13.2	12.8	8.0
Mexican peso	20.1	18.5	9.9	6.0	6.8	8.0
Brazilian real	94.9	141.8	75.4	13.8	3.6	4.0
Polish zloty	33.4	34.8	33.1	4.0	3.9	3.8

The foregoing data were obtained as follows:

a. Effect on consolidated equity: in accordance with the accounting policy detailed in Note 2.a.iii, the exchange differences arising on the translation to euros of the financial statements in the functional currencies of the Group entities whose functional currency is not the euro are recognised in consolidated equity. The possible effect that a change in the exchange rates of the related currency would have on the Group's consolidated equity was therefore determined by applying the aforementioned change to the net value of each unit's assets and liabilities -including, where appropriate, the related goodwill- and by taking into consideration the offsetting effect of the hedges of net investments in foreign operations.

b. Effect on consolidated profit: the effect was determined by applying the fluctuations in the average exchange rates used for the year, as indicated in Note 2.a.ii, to translate to euros the income and expenses of the consolidated entities whose functional currency is not the euro, taking into consideration, where appropriate, the offsetting effect of the various hedging transactions in place.

The estimates used to obtain the foregoing data were performed considering the effects of the exchange rate fluctuations in isolation from the effect of the performance of other variables whose changes would affect equity and profit or loss, such as variations in the interest rates of the reference currencies or other market factors. Accordingly, all variables other than the exchange rate fluctuations were kept constant with respect to their positions at 31 December 2015, 2014 and 2013.

b) Basis of consolidation

i. Subsidiaries
Subsidiaries are defined as entities over which the Bank has the capacity to exercise control; the Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and effects of the transactions between consolidated companies are eliminated on consolidation.

On acquisition of control of a subsidiary, its assets, liabilities and contingent liabilities are recognised at their acquisition-date fair values. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 17). Negative differences are recognised in profit or loss on the date of acquisition.

Additionally, the share of third parties of the Group's equity is presented under Non-controlling interests in the consolidated balance sheet (see Note 28). Their share of the profit for the year is presented under Profit attributable to non-controlling interests in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

At 31 December 2015, the Group controlled the following companies in which it held an ownership interest of less than 50% of the share capital: (i) Luri 1, S.A., (ii) Luri 2, S.A., (iii) Luri Land, S.A and (iv) Super Pagamentos e Administração de Meios Eletrônicos, S.A. The percentage ownership interests in the aforementioned companies were 26%, 30%, 28.20% and 44.62%, respectively (see Appendix I). Although the Group holds less than half the voting power, it manages and, as a result, exercises control over these entities. The company object of the first three 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.

The impact of the consolidation of these companies on the Group's consolidated financial statements is immaterial.

The Appendices contain significant information on the subsidiaries.

ii. Interests in joint ventures (jointly controlled entities)
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 parties have interests in entities so that decisions about the relevant activities require the unanimous consent of all the parties sharing control.

In the consolidated financial statements, investments in jointly controlled entities are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with a jointly controlled entity are eliminated to the extent of the Group's interest therein.

At 31 December 2015, the Group exercised joint control of Luri 3, S.A., despite holding 10% of its share capital. This decision is based on the Group's presence on the company's board of directors, in which the agreement of all members is required for decision-making.

The Appendices contain significant information on the jointly controlled entities.

iii. Associates
Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. It is presumed that the Bank exercises significant influence if it holds 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate.

There are certain investments in entities which, although the Group owns 20% or more of their voting power, are not considered to be associates because the Group is not in a position to exercise significant influence over them. These investments are not significant for the Group and are recognised under Available-for-sale financial assets.

The Appendices contain significant information on the associates.

iv. Structured entities
When the Group incorporates entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes (also called structured entities since the voting or similar power is not a key factor in deciding who controls the entity), the Group determines, using internal criteria and procedures and taking into consideration the applicable legislation,

whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, for those entities to which this policy applies (mainly investment funds and pension funds), the Group analyses the following factors:

- Percentage of ownership held by the Group; 20% is established as the threshold above which a more in-depth analysis is performed.
- Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.
- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.
- Existence of currently exercisable removal rights (possibility of removing the manager from his position) since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.
- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance as to indicate that the manager is acting as the principal Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to an exposure that would lead the Group to a different conclusion.

These structured entities also include the securitisation special purpose vehicles, which are consolidated in the case of the SPVs over which, based on the aforementioned analysis, it is considered that the Group continues to exercise control.

The balances associated with unconsolidated structured entities are not material with respect to the Group's consolidated financial statements.

v. Business combinations
A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations whereby the Group obtains control over an entity are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, which is normally the consideration transferred, defined as the acquisition-date fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity instruments issued, if any, by the acquirer. In cases where the amount of the consideration to be transferred has not been definitively established at the acquisition date, but rather depends on future events, any contingent consideration is recognised as part of the consideration transferred and measured at its acquisition-date fair value; also, acquisition-related costs do not for these purposes form part of the cost of the business combination.
- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet; the Group also estimates the amount of any non-controlling interests and the fair value of the previously held equity interest in the acquiree.
- Any positive difference between the aforementioned items is recognised as discussed in Note 2.m. Any negative difference is recognised under Gains from bargain purchases arising in business combinations in the consolidated income statement.

Goodwill is only measured and recognised once, when control of a business is obtained.

vi. Changes in the levels of ownership interests in subsidiaries
Acquisitions and disposals not giving rise to a change in control are recognised as equity transactions, and no gain or loss is recognised in the income statement and the initially recognised goodwill is not remeasured. The difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

Similarly, when control over a subsidiary is lost, the assets, liabilities and non-controlling interests and any other items recognised in valuation adjustments of that company are derecognised from the consolidated balance sheet, and the fair value of the consideration received and of any remaining equity interest is recognised. The difference between these amounts is recognised in profit or loss.

vii. Acquisitions and disposals
Note 3 provides information on the most significant acquisitions and disposals in 2015, 2014 and 2013.

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 Group 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 Group 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.

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

- Investments in associates and jointly controlled entities (see Note 13).
- Rights and obligations under employee benefit plans (see Note 25).
- Rights and obligations under insurance contracts (see Note 15).
- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 34).

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 balances with central banks, 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.
- Other financial assets 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 Group's key management personnel. Financial assets may only be included in this category on the date they are acquired or originated.
- Available-for-sale financial assets: this category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or Financial assets at fair value through profit or loss, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as Financial assets held for trading or as Other financial assets 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 Group's business.

  The consolidated entities generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortised cost (which includes any reductions required to reflect the estimated losses on their recovery).
- Held-to-maturity investments: this category includes debt instruments with fixed maturity and with fixed or determinable payments, for which the Group 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 consolidated balance sheet:

- Cash and balances with central banks: cash balances and balances receivable on demand relating to deposits with the Bank of Spain and other central banks.
- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, 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:

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

- Loans and advances to 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, jointly controlled entities or associates. Investment fund units are included in this item.

- Trading derivatives: includes the fair value in favour of the Group 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 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 in favour of the Group 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).

- Other financial liabilities at fair value through profit or loss: financial liabilities are included in this category when more relevant information is obtained, 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 Group'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 consolidated balance sheet:

- Deposits: includes all repayable balances received in cash by the Group, other than those instrumented as marketable securities and those having the substance of subordinated liabilities. 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:

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

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

  - Customer deposits: 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. This item includes the component considered to be a financial liability of issued securities that are compound financial instruments.

- Trading derivatives: includes the fair value, with a negative balance for the Group, 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.

- Subordinated liabilities: amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt. This category also includes the financial instruments issued by the Group which, although capital for legal purposes, do not meet the requirements for classification as equity, such as certain preference shares issued.

- 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 Group'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, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner 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 2015, 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 (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 Held-to-maturity investments 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.

Equity instruments whose fair value cannot be determined 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 Group's maximum exposure to credit risk at each reporting date. Also, the Group 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 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 2015, 2014 and 2013, 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

	2015			2014			2013		
	Published price quotations in active markets	Internal models	Total	Published price quotations in active markets	Internal models	Total	Published price quotations in active markets	Internal models	Total
Financial assets held for trading	65,849	81,438	147,287	67,319	81,569	148,888	46,472	68,817	115,289
Other financial assets at fair value through profit or loss	3,244	41,799	45,043	3,670	39,003	42,673	3,687	27,694	31,381
Available-for-sale financial assets[1]	92,284	27,962	120,246	90,149	23,455	113,604	62,343	20,415	82,758
Hedging derivatives (assets)	271	7,456	7,727	26	7,320	7,346	221	8,080	8,301
Financial liabilities held for trading	17,058	88,160	105,218	17,409	92,383	109,792	14,643	80,030	94,673
Other financial liabilities at fair value through profit or loss	-	54,768	54,768	-	62,317	62,317	-	42,311	42,311
Hedging derivatives (liabilities)	400	8,537	8,937	226	7,029	7,255	187	5,096	5,283
Liabilities under insurance contracts	-	627	627	-	713	713	-	1,430	1,430

1. In addition to the financial instruments measured at fair value shown in the foregoing table, at 31 December 2015, 2014 and 2013, the Group held equity instruments classified as available-for-sale financial assets and carried at cost amounting to EUR 1,790 million, EUR 1,646 million and EUR 1,041 million, respectively (see Note 51.c).

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.

General measurement bases

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 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 surfaces 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 CDSs) or the joint probability of default of more than one issuer for FTDs, NTDs and CDOs.

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 CDOs, the correlation of joint default of several issuers is implied from the market. For FTDs, NTDs and bespoke CDOs, 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 CDSs, 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 and DVA recognised at 31 December 2015 amounted to EUR 851 million and EUR 531 million, respectively.

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, 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 31 December 2015, 2014 and 2013:

Millions of euros

	Fair values calculated using internal models at 31/12/15			
	Level 2	**Level 3**	**Valuation techniques**	**Main assumptions**
ASSETS:	**156,174**	**2,481**		
Financial assets held for trading	**80,488**	**950**		
Loans and advances to credit institutions	2,293	-	Present Value Method	Yield curves, FX market prices
Loans and advances to customers[a]	6,081	-	Present Value Method	Yield curves, FX market prices
Debt and equity instruments	650	43	Present Value Method	Yield curves, HPI, FX market prices
Trading derivatives	71,464	907		
Swaps	*52,904*	*54*	Present Value Method, Gaussian Copula[b]	Yield curves, FX market prices, *Basis*, Liquidity
Exchange rate options	*1,005*	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*8,276*	*619*	Black's Model, Heath-Jarrow-Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity, Correlation
Interest rate futures	*84*	-	Present Value Method	Yield curves, FX market prices
Index and securities options	*1,585*	*120*	Black-Scholes Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*7,610*	*114*	Present Value Method, Monte Carlo simulation and other	Yield curves, Volatility surfaces, FX market prices, Other
Hedging derivatives	**7,438**	**18**		
Swaps	*6,437*	*18*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces
Interest rate options	*19*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*982*	-	N/A	N/A
Other financial assets at fair value through profit or loss	**41,285**	**514**		
Loans and advances to credit institutions	26,403	-	Present Value Method	FX market prices, Yield curves
Loans and advances to customers[c]	14,213	81	Present Value Method	FX market prices, Yield curves, HPI
Debt and equity instruments	669	433	Present Value Method	FX market prices, Yield curves
Available-for-sale financial assets	**26,963**	**999**		
Debt and equity instruments	26,963	999	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**151,768**	**324**		
Financial liabilities held for trading	**87,858**	**302**		
Deposits from central banks	2,178	-	Present Value Method	FX market prices, Yield curves
Deposits from credit institutions	76	-	Present Value Method	FX market prices, Yield curves
Customer deposits	9,187	-	Present Value Method	FX market prices, Yield curves

Millions of euros	Fair values calculated using internal models at 31/12/15			
	Level 2	**Level 3**	**Valuation techniques**	**Main assumptions**
Debt and equity instruments	-	-	Present Value Method	Yield curves, HPI, FX market prices
Trading derivatives	74,893	302		
Swaps	*55,055*	*1*	Present Value Method, Gaussian Copula[b]	FX market prices, Yield curves, Basis, Liquidity, HPI
Exchange rate options	*901*	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces, Liquidity
Interest rate options	*9,240*	*194*	Black's Model, Heath-Jarrow-Morton Model	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Index and securities options	*2,000*	*107*	Black-Scholes Model	FX & EQ market prices, Yield curves, Volatility surfaces, Dividends, Correlation, Liquidity, HPI
Interest rate and equity futures	*101*	-	Present Value Method	FX & EQ market prices, Yield curves
Other	*7,596*	-	Present Value Method, Monte Carlo simulation and other	FX market prices, Yield curves, Volatility surfaces, Other
Short positions	1,524	-	Present Value Method	FX & EQ market prices, Yield curves
Hedging derivatives	**8,526**	**11**		
Swaps	*7,971*	*11*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves
Interest rate options	*12*	-	Black's Model	FX market prices, Yield curves
Other	*543*	-	N/A	N/A
Other financial liabilities at fair value through profit or loss	54,757	11	Present Value Method	FX market prices, Yield curves
Liabilities under insurance contracts	627	-	See Note 15	

Millions of euros	Fair values calculated using internal models				
	31/12/14		**31/12/13**		
	Level 2	**Level 3**	**Level 2**	**Level 3**	**Valuation techniques**
ASSETS:	**148,760**	**2,587**	**123,499**	**1,507**	
Financial assets held for trading	**80,378**	**1,191**	**68,535**	**282**	
Loans and advances to credit institutions	1,815	-	5,502	-	Present Value Method
Loans and advances to customers[a]	2,921	-	5,079	-	Present Value Method
Debt and equity instruments	1,768	85	1,585	50	Present Value Method
Trading derivatives	73,874	1,106	56,369	232	
Swaps	*55,794*	*116*	*40,380*	*56*	Present Value Method, Gaussian Copula[b]
Exchange rate options	*1,000*	-	*849*	*16*	Black-Scholes Model
Interest rate options	*8,385*	*768*	*7,375*	-	Black's Model, Heath-Jarrow-Morton Model
Interest rate futures	*132*	-	*16*	-	Present Value Method

Millions of euros	Fair values calculated using internal models				
	31/12/14		31/12/13		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
Index and securities options	2,420	111	2,953	56	Black-Scholes Model
Other	6,143	111	4,796	104	Present Value Method, Monte Carlo simulation and other
Hedging derivatives	**7,320**	**-**	**8,080**	-	
Swaps	*7,058*	-	*6,920*	-	Present Value Method
Exchange rate options	*40*	-	*400*	-	Black-Scholes Model
Interest rate options	*28*	-	*24*	-	Black-Scholes Model
Other	*194*	-	*736*	-	N/A
Other financial assets at fair value through profit or loss	**38,323**	**680**	**27,184**	**510**	
Loans and advances to credit institutions	28,592	-	13,444	-	Present Value Method
Loans and advances to customers[c]	8,892	78	13,135	61	Present Value Method
Debt and equity instruments	839	602	605	449	Present Value Method
Available-for-sale financial assets	**22,739**	**716**	**19,700**	**715**	
Debt and equity instruments	22,739	716	19,700	715	Present Value Method
LIABILITIES:	**161,890**	**552**	**128,762**	**105**	
Financial liabilities held for trading	**91,847**	**536**	**79,970**	**60**	
Deposits from central banks	2,041	-	3,866	-	Present Value Method
Deposits from credit institutions	5,531	-	7,468	-	Present Value Method
Customer deposits	5,544	-	8,500	-	Present Value Method
Debt and equity instruments	-	-	1	-	Present Value Method
Trading derivatives	76,644	536	57,260	60	
Swaps	*56,586*	*49*	*41,156*	*2*	Present Value Method, Gaussian Copula[b]
Exchange rate options	*1,033*	-	*660*	-	Black-Scholes Model
Interest rate options	*9,816*	*294*	*8,457*	-	Black's Model, Heath-Jarrow-Morton Model
Index and securities options	*3,499*	*193*	*4,252*	-	Black-Scholes Model
Interest rate and equity futures	*165*	-	*88*	-	Present Value Method
Other	*5,545*	-	*2,647*	*58*	Present Value Method, Monte Carlo simulation and other
Short positions	2,087	-	2,875	-	
Hedging derivatives	**7,029**	**-**	**5,096**	-	Present Value Method
Swaps	6,901	-	4,961	-	Present Value Method
Exchange rate options	2	-	1	-	Black-Scholes Model
Interest rate options	14	-	13	-	Black's Model
Other	112	-	121	-	N/A
Other financial liabilities at fair value through profit or loss	**62,301**	**16**	**42,266**	45	Present Value Method
Liabilities under insurance contracts	**713**	**-**	**1,430**	-	See Note 15

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 46 million at 31 December 2015 (31 December 2014 and 2013: positive net fair value of EUR 83 million and EUR 56 million, respectively). 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.

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.

- Trading 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 trading derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

In 2014 the Group reclassified to Level 3 the interest-rate derivatives with periodic call options and the options on baskets of listed shares. The reason for the reclassification was the greater significance in the fair value of the aforementioned financial instruments of the illiquidity in the inputs used (the mean reversion of interest rates and the correlations between the underlyings, respectively). These products relate almost exclusively to derivatives transactions performed as a service for the Group's customers.

In 2015 the Group did not make any significant reclassifications of financial instruments to Level 3.

The measurements obtained using the internal models might have been different had other methods or assumptions 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 loss recognised in profit or loss in 2015 arising from models whose significant inputs are unobservable market data amounted EUR 28 million (2014 and 2013: gains of EUR 302 million and EUR 46 million, respectively).

The table below shows the effect, at 31 December 2015, 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:

					Impacts (in millions of euros)	
Portfolio / Instrument (Level 3)	**Valuation technique**	**Main unobservable inputs**	**Range**	**Weighted average**	**Unfavourable scenario**	**Favourable scenario**
Financial assets held for trading						
Debt instruments Trading derivatives	Partial differential equations	Long-term volatility	27% - 41%	35.25%	(0.1)	0.1
	Present Value Method	Curves on TAB indices*	a	a	(2.1)	2.1
	Present Value Method	Prepayment curves	a	a	(0.7)	0.7
	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.65%	(39.4)	34.9
	Present Value Method, Modified Black-Scholes Model	*HPI spot rate*	N/A	688.3**	(11.4)	11.4
	Standard Gaussian Copula Model	*Probability of default*	0%-5%	2.09%	(3.2)	2.3
	Advanced local and stochastic volatility models	Correlation between share prices	59%-79%	69%	(5.7)	5.7
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01***	-	37.3

Portfolio / Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (in millions of euros) Unfavourable scenario	Favourable scenario
Hedging derivatives (assets)	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	3.0%	(0.03)	-
Other financial assets at fair value through profit or loss						
Loans and advances to customers	*Probability-weighted set (per forecast mortality rates) of European HPI options, using the Black-Scholes model*	HPI forward growth rate	0%-5%	2.8%	(8.0)	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%	2.7%	(51.6)	45.8
	Probability-weighted set (per forecast mortality rates) of HPI forwards, using the present value model	HPI spot rate	n/a	688.3**	(26)	26.0
Available-for-sale financial assets						
Debt and equity instruments	Present Value Method and other	Default and prepayment rates, cost of capital, long-term earnings growth rate	a	a	(0.8)	0.8
Financial liabilities held for trading						
Trading derivatives	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.1%	(19.8)	14.2
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	n/a	659.2**	(19.2)	21.0
	Present Value Method, Modified Black-Scholes Model	Curves on TAB indices*	a	a	-	-
	Advanced local and stochastic volatility models	Correlation between share prices	59%-79%	69%	b	b
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01***	b	b
Hedging derivatives (liabilities)	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	3.0%	(0.03)	-
Other financial liabilities at fair value through profit or loss	-	-			b	b

* TAB indices: (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 Group is also exposed, to a lesser extent, to this type of derivative in currencies other than the euro and, therefore, both the average and the range of the unobservable inputs are different. The impact in an unfavourable scenario would be losses of EUR 6.5 million.

a. 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.

b. The Group calculates the potential effect on the valuation of each of these instruments on a joint basis, irrespective of whether their individual value is positive (asset) or negative (liability), and discloses the joint effect associated with the corresponding instruments classified on the asset side of the consolidated balance sheet.

Lastly, the changes in the financial instruments classified as Level 3 in 2015, 2014 and 2013 were as follows:

Millions of euros

	2014	Changes									2015
	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Level reclassi-fications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**1,191**	**-**	**(272)**	**-**	**-**	**31**	**(7)**	**-**	**(2)**	**9**	**950**
Debt and equity instruments	85	-	(38)	-	-	(11)	8	-	(2)	1	43
Trading derivatives	1,106	-	(234)	-	-	42	(15)	-	-	8	907
Swaps	*116*	-	*(63)*	-	-	*17*	*(15)*	-	-	*(1)*	*54*
Interest rate options	*768*	-	*(119)*	-	-	*(28)*	-	-	-	*(2)*	*619*
Index and securities options	*111*	-	*(45)*	-	-	*51*	-	-	-	*3*	*120*
Other	*111*	-	*(7)*	-	-	*2*	-	-	-	*8*	*114*
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**17**	**-**	**18**
Swaps	-	-	-	-	-	*1*	-	-	*17*	-	*18*
Other financial assets at fair value through profit or loss	**680**	**7**	**(47)**	**-**	**-**	**(64)**	**-**	**-**	**-**	**(62)**	**514**
Loans and advances to customers	78	-	(5)	-	-	2	-	-	-	6	81
Debt and equity instruments	602	7	(42)	-	-	(66)	-	-	-	(68)	433
Available-for-sale financial assets	**716**	**18**	**(75)**	**-**	**(72)**	**-**	**-**	**271**	**139**	**2**	**999**
Total assets	**2,587**	**25**	**(394)**	**-**	**(72)**	**(32)**	**(7)**	**271**	**154**	**(51)**	**2,481**
Financial liabilities held for trading	**536**	**4**	**(230)**	**-**	**-**	**(15)**	**-**	**-**	**-**	**7**	**302**
Trading derivatives	536	4	(230)	-	-	(15)	-	-	-	7	302
Swaps	*49*	-	*(47)*	-	-	*(1)*	-	-	-	-	*1*
Interest rate options	*294*	-	*(71)*	-	-	*(30)*	-	-	-	*1*	*194*
Index and securities options	*193*	*4*	*(112)*	-	-	*(16)*	-	-	-	*6*	*107*
Hedging derivatives	**-**	**-**	**(16)**	**-**	**-**	**8**	**-**	**-**	**5**	**14**	**11**
Swaps	-	-	*(16)*	-	-	*8*	-	-	*5*	*14*	*11*
Other financial liabilities at fair value through profit or loss	**16**	**-**	**(9)**	**-**	**-**	**(4)**	**-**	**-**	**-**	**8**	**11**
Total liabilities	**552**	**4**	**(255)**	**-**	**-**	**(11)**	**-**	**-**	**5**	**29**	**324**

Millions of euros

	2013	Changes									2014
	Fair value calculated using internal models (Level 3)	Purchases	Ventas	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Recalificaciones de niveles	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**282**	**182**	**(14)**	**-**	**-**	**174**	**(7)**	**-**	**575**	**(1)**	**1,191**
Debt and equity instruments	50	4	(1)	-	-	-	-	-	32	-	85
Trading derivatives	232	178	(13)	-	-	174	(7)	-	543	(1)	1,106
Swaps	*56*	-	*(2)*	-	-	*(7)*	*(7)*	-	*52*	*24*	*116*
Exchange rate options	*16*	-	-	-	-	-	-	-	-	*(16)*	-
Interest rate options	-	*162*	*(5)*	-	-	*257*	-	-	*359*	*(5)*	*768*
Index and securities options	*56*	*16*	-	-	-	*(100)*	-	-	*132*	*7*	*111*
Other	**104**	**-**	**(6)**	**-**	**-**	**24**	**-**	**-**	**-**	**(11)**	**111**
Other financial assets at fair value through profit or loss	**510**	**37**	**(5)**	**-**	**-**	**61**	**-**	**-**	**90**	**(13)**	**680**
Loans and advances to customers	61	-	(5)	-	-	18	-	-	-	4	78
Debt and equity instruments	449	37	-	-	-	43	-	-	90	(17)	602
Available-for-sale financial assets	**715**	**35**	**(55)**	**-**	**(36)**	**-**	**-**	**(35)**	**78**	**14**	**716**
Total assets	**1,507**	**254**	**(74)**	**-**	**(36)**	**235**	**(7)**	**(35)**	**743**	**-**	**2,587**
Financial liabilities held for trading	**60**	**48**	**(6)**	**-**	**-**	**(71)**	**(2)**	**-**	**503**	**4**	**536**
Trading derivatives	60	48	(6)	-	-	(71)	(2)	-	503	4	536
Swaps	2	-	-	-	-	2	(2)	-	47	-	49
Interest rate options	-	*41*	-	-	-	*56*	-	-	*197*	-	*294*
Index and securities options	-	*7*	*(6)*	-	-	*(128)*	-	-	*259*	*61*	*193*
Other	*58*	-	-	-	-	*(1)*	-	-	-	*(57)*	-
Other financial liabilities at fair value through profit or loss	**45**	**-**	**(26)**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(2)**	**16**
Total liabilities	**105**	**48**	**(32)**	**-**	**-**	**(72)**	**(2)**	**-**	**503**	**2**	**552**

Millions of euros

	2012	Changes								2013
	Fair value calculated using internal models (Level 3)	Purchases	Ventas	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**395**	**131**	**(164)**	**-**	**(44)**	**(4)**	**2**	**-**	**(34)**	**282**
Debt and equity instruments	-	46	-	-	-	8	-	-	(4)	50
Trading derivatives	395	85	(164)	-	(44)	(12)	2	-	(30)	232
Swaps	*109*	-	*(62)*	-	-	*19*	-	-	*(10)*	*56*
Exchange rate options	*46*	-	*(1)*	-	-	*(8)*	*(3)*	-	*(18)*	*16*
Index and securities options	-	*85*	-	-	*(39)*	-	-	-	*10*	*56*
Other	*240*	-	*(101)*	-	*(5)*	*(23)*	*5*	-	*(12)*	*104*
Other financial assets at fair value through profit or loss	**469**	**111**	**(32)**	**-**	**(17)**	**18**	**9**	**-**	**(48)**	**510**
Loans and advances to customers	74	-	-	-	(11)	(8)	6	-	-	61
Debt and equity instruments	395	111	(32)	-	(6)	26	3	-	(48)	449
Available-for-sale financial assets	**424**	**277**	**(48)**	**-**	**-**	**(1)**	**(2)**	**73**	**(8)**	**715**
Total assets	**1,288**	**519**	**(244)**	**-**	**(61)**	**13**	**9**	**73**	**(89)**	**1,507**
Financial liabilities held for trading	**99**	**-**	**(18)**	**-**	**(14)**	**(11)**	**13**	**-**	**(9)**	**60**
Customer deposits	7	-	-	-	-	-	-	-	(7)	-
Trading derivatives	92	-	(18)	-	(14)	(11)	13	-	(2)	60
Swaps	*8*	-	*(6)*	-	-	*(1)*	-	-	*1*	*2*
Exchange rate options	*6*	-	*(6)*	-	-	-	-	-	-	-
Other	*78*	-	*(6)*	-	*(14)*	*(10)*	*13*	-	*(3)*	*58*
Other financial liabilities at fair value through profit or loss	**106**	**-**	**(42)**	**-**	**-**	**(14)**	**(12)**	**-**	**7**	**45**
Total liabilities	**205**	**-**	**(60)**	**-**	**(14)**	**(25)**	**1**	**-**	**(2)**	**105**

iv. Recognition of fair value changes

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

Adjustments due to changes in fair value arising from:

- Available-for-sale financial assets are recognised temporarily under Valuation adjustments - Available-for-sale financial assets, unless they relate to exchange differences, in which case they are recognised in equity under Valuation adjustments - Exchange differences (net), or to exchange differences arising on monetary financial assets, in which case they are recognised in Exchange differences (net) in the consolidated income statement.

- Items charged or credited to Valuation adjustments - Available-for-sale financial assets and Valuation adjustments - Exchange differences (net) 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 consolidated income statement.

- Unrealised gains on available-for-sale financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in equity under Valuation adjustments - Non-current assets held for sale.

v. Hedging transactions
The consolidated entities use 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 Group entities' own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (trading 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 Group 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 consolidated 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 consolidated 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 consolidated 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 equity under Valuation adjustments - Cash flow hedges until the forecast transactions occur, when it is recognised in the consolidated 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 equity under Valuation adjustments - 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).

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 Valuation adjustments (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 Other financial assets/liabilities 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 Other financial liabilities 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.

Accordingly, financial assets are only derecognised when the rights to the cash flows they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired with the intention either to cancel them or to resell them.

f) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the Group entities currently have a legally enforceable right to set off the recognised amounts and intend 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 consolidated balance sheets as at 31 December 2015, 2014 and 2013:

Millions of euros

	31 December 2015		
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**
Derivatives	127,017	(42,566)	84,451
Reverse repurchase agreements	59,158	(2,066)	57,092
Total	**186,175**	**(44,632)**	**141,543**

Millions of euros

	31 December 2014		
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**
Derivatives	128,076	(43,872)	84,204
Reverse repurchase agreements	57,882	(7,064)	50,818
Total	**185,958**	**(50,936)**	**135,022**

Millions of euros

	31 December 2013		
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**
Derivatives	86,813	(19,613)	67,200
Reverse repurchase agreements	59,990	(12,463)	47,527
Total	**146,803**	**(32,076)**	**114,727**

Millions of euros

	31 December 2015		
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**
Derivatives	127,917	(42,566)	85,351
Repurchase agreements	97,169	(2,066)	95,103
Total	**225,086**	**(44,632)**	**180,454**

Millions of euros

	31 December 2014		
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**
Derivatives	130,175	(43,872)	86,303
Repurchase agreements	113,075	(7,064)	106,011
Total	**243,250**	**(50,936)**	**192,314**

Millions of euros

	31 December 2013		
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**
Derivatives	83,783	(19,613)	64,170
Repurchase agreements	103,621	(12,463)	91,158
Total	**187,404**	**(32,076)**	**155,328**

Also, the Group has offset other items amounting to EUR 2,036 million (31 December 2014 and 2013: EUR 2,084 million and EUR 2,267 million, respectively).

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

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 carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

When an asset is considered to be impaired, the interest accrual is suspended and any amounts received are used to recognise the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

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: there is certainty that the customer can make payment in accordance with the new schedule; the customer provides effective guarantees or collateral; the customer pays the current interest receivable; and the customer complies with the established cure period (see Note 54).

The following constitute effective guarantees or collateral: collateral in the form of cash deposits; quoted equity instruments and debt securities issued by creditworthy issuers; mortgages on completed housing, offices and multi-purpose premises and on rural property, net of any prior charges; and personal guarantees (bank guarantees, inclusion of new obligors, etc.) which entail the direct and joint liability of the new guarantors to the customer, these being persons or entities whose solvency is sufficiently demonstrated so as to ensure the full repayment of the transaction on the agreed terms.

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

The Group 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 (the maximum period established by the Bank of Spain).

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 consolidated entities may initiate to seek collection until their 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

For the purpose of determining impairment losses, the Group monitors its debtors as described below:

- Individually for significant debt instruments and for instruments which, although not material, are not susceptible to being classified in a group of financial assets with similar credit risk characteristics -customers classified by the Group as "individualised". This category includes wholesale banking enterprises, financial institutions and certain retail banking enterprises.

- Collectively, in all other cases -customers classified by the Group as "standardised"-, by grouping together instruments having similar credit risk characteristics indicative of the debtors' ability to pay all principal and interest amounts in accordance with the contractual terms. The credit risk characteristics considered for the purpose of grouping the assets are, inter alia, instrument type, debtor's industry and geographical location, type of guarantee or collateral, age of past-due amounts and any other relevant factor for the estimation of future cash flows. This category includes exposures to individuals, individual traders and retail banking enterprises not classified as individualised customers.

As regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or

- When country risk materialises: country risk is considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

The Group 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 and commitments, and in the identification of their impairment and the calculation of the amounts required to cover the related credit risk.

With respect to the coverage of loss arising from credit risk, the Group must meet the Bank of Spain requirements, which establish that, until the Spanish regulatory authority has verified and approved the internal models for the calculation of the allowance for losses arising from credit risk (to date it has only approved the internal models to be used to calculate regulatory capital), entities must calculate their credit risk coverage as follows:

a. Specific allowance for impaired assets:

The allowance for debt instruments not measured at fair value through profit or loss that are classified as non-performing is generally recognised in accordance with the criteria set forth below:

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.

b. Allowance for inherent losses:

Based on its experience and on the information available to it on the Spanish banking industry, the Bank of Spain has established various categories of debt instruments and contingent liabilities, classified as standard risk, which are recognised at Spanish entities or relate to transactions performed on behalf of residents in Spain which are recognised in the accounting records of foreign subsidiaries, and has applied a range of required allowances to each category.

c. Country risk allowance:

Country risk is considered to be the risk associated with counterparties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk and risks arising from international financial activity). Based on the countries' economic performance, political situation, regulatory and institutional framework, and payment capacity and record, the Group classifies all the transactions performed with third parties into six different groups, from group 1 (transactions with ultimate obligors resident in European Economic Area countries, Switzerland, the United States, Canada, Japan, Australia and New Zealand) to group 6 (transactions the recovery of which is considered remote due to circumstances attributable to the country), assigning to each group the loan loss allowance percentages resulting from the aforementioned analyses. However, due to the size of the Group and to the proactive management of its country risk exposure, the allowances recognised for country risk are not material with respect to the allowances recognised for loan losses.

However, the coverage of the Group's losses arising from credit risk must also meet the regulatory requirements of IFRSs and, therefore, the Group checks the allowances calculated as described above against those obtained from internal models for the calculation of the coverage of losses arising from credit risk, in order to confirm that there are no material differences.

The Group's internal models determine the impairment losses on debt instruments not measured at fair value through profit or loss and on contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, impairment losses on loans are losses incurred at the reporting date, calculated using statistical methods.

The amount of an impairment loss incurred on these debt 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 risk 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).

- 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 to all of the above, the calculation of the incurred loss takes into account the adjustment to the cycle of the aforementioned factors (PD and LGD) and historical experience and other specific information that reflects current conditions.

At 31 December 2015, the estimated incurred losses due to credit risk calculated by the Group's internal models did not differ materially from the allowances calculated on the basis of the Bank of Spain's requirements.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments is the positive difference between their acquisition cost (net of any principal repayment or amortisation in the case of debt instruments) and their fair value, less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognised in equity under Valuation adjustments - Available-for-sale financial assets and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurs (or in equity under Valuation adjustments - Available-for-sale financial assets in the case of equity instruments).

iv. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

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 Balances 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 held for sale and Liabilities associated with non-current assets 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 carrying amount of these items —which can be of a financial nature or otherwise— will foreseeably be recovered 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 Group obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

The Group 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 Group works in Spain 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 2015 are as follows: Eurovaloraciones, S.A., Ibertasa, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Tasaciones Hipotecarias Renta, S.A., Krata, S.A. and Compañía Hispania de Tasaciones y Valoraciones, 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 the appraisal company is not a party related to the Group and that its billings to the Group in the last twelve months do not exceed 15% of the appraisal company's 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 held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

Subsequent to initial recognition, the Group measures its non-current assets at the lower of their fair value less costs to sell and their carrying amount. The Group measures foreclosed property assets located in Spain by taking into consideration the appraisal value on the date of foreclosure and the length of time each asset has been recognised in the balance sheet. Property assets under construction are measured taking into account the current situation of the property, not the final value. In addition, in order to check at the end of each reporting period that the measurement made using the aforementioned criteria does not differ from fair value, the Group requests an independent expert to perform an appraisal.

At 31 December 2015, the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 990 million; however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

The valuation of the non-current assets held for sale portfolio performed by the independent expert conforms to the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) and the International Valuation Standards published by the International Valuation Standards Council (IVSC), as required by International Financial Reporting Standards in relation to the estimation of the fair value of tangible assets and the value in use of financial assets.

The internationally recognised RICS methodology is considered to be appropriate for valuations of this kind, since it reflects the current market situation and, implicitly, a potential investor's internal rate of return (IRR) requirements.

The value of the portfolio is calculated as the sum of the values of the individual items composing it, irrespective of any total or batch grouping performed for the purpose of correcting the individual values.

The non-current assets held for sale portfolio is valued by applying mainly the models indicated below using the latest available appraisals, corrected on the basis of a series of macroeconomic and property market variables, as follows:

- Market Value Model based on Average Market Value Evolution Series (M-Ser) - This methodology is used in the revaluation of housing units, parking lots, offices, commercial premises and multi-purpose industrial buildings. The current market value of the properties is estimated based on a projection of the latest available appraisal, using a revaluation rate calculated on the basis of the historical series of average market values (sales prices only), and drawing a distinction by asset location and type. The valuations performed using this approach are considered as Level 2 valuations.

- Market Value Model based on Average Market Value Evolution Series for Rural Properties (M-INE) - This methodology is used in the revaluation of rural properties. A method is used which, by applying statistical procedures to the agricultural land price database published by the Spanish National Statistics Institute (INE), estimates the possible current market value of rural properties. The agricultural land price database published by the INE is prepared from data furnished by the Spanish Ministry for Agriculture, Food and Environmental Affairs. The valuations performed using this approach are considered as Level 2 valuations.

- Market Value Model based on Statistical Evolution of Land Values (M-Ter) - This methodology is used in the revaluation of non-rural land. The current market value is estimated based on a projection of the latest available appraisal, using a revaluation rate calculated by means of statistical series of the evolution of the average value of land per built square metre at various stages of urban development, and drawing a distinction by asset location and type. The valuations performed using this approach are considered as Level 3 valuations, since they use unobservable inputs, such as the statistical series of the evolution of the average value of land per built square metre at various stages of urban development.

At 31 December 2015, 36.7% of the non-current assets held for sale related to non-rural land.

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/(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 involve the transfer of a certain quantifiable risk in exchange for a periodic or one-off premium. The effects on the Group's cash flows will arise from a deviation in the payments forecast and/or an insufficiency in the premium set.

The Group controls its insurance risk as follows:

- By applying a strict methodology in the launch of products and in the assignment of value thereto.
- By using deterministic and stochastic actuarial models for measuring commitments.
- By using reinsurance as a risk mitigation technique as part of the credit quality guidelines in line with the Group's general risk policy.
- By establishing an operating framework for credit risks.
- By actively managing asset and liability matching.
- By applying security measures in processes.

Reinsurance assets includes the amounts that the consolidated entities are entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded by the consolidated 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 Group 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 consolidated income statement and the assets are written down.

Liabilities under insurance contracts includes the technical provisions recorded by the consolidated entities to cover claims arising from insurance contracts in force at year-end.

Insurers' results relating to their insurance business are recognised, according to their nature, under the related consolidated income statement items.

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit to the income statement the amounts of the premiums written and charge to income the cost of the claims incurred on final settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

At least at each reporting date the Group assesses whether the insurance contract liabilities recognised in the consolidated balance sheet are adequate. For this purpose, it calculates the difference between the following amounts:

- Current estimates of future cash flows under the insurance contracts of the consolidated entities. These estimates include all contractual cash flows and any related cash flows, such as claims handling costs; and
- The carrying amount recognised in the consolidated balance sheet of its insurance contract liabilities (see Note 15), less any related deferred acquisition costs or related intangible assets, such as the amount paid to acquire, in the event of purchase by the entity, the economic rights held by a broker deriving from policies in the entity's portfolio.

If the calculation results in a positive amount, this deficiency is charged to the consolidated income statement. When unrealised gains or losses on assets of the Group's insurance companies affect the measurement of liabilities under insurance contracts and/or the related deferred acquisition costs and/or the related intangible assets, these gains or losses are recognised directly in equity. The corresponding adjustment in the liabilities under insurance contracts (or in the deferred acquisition costs or in intangible assets) is also recognised in equity.

The most significant items forming part of the technical provisions (see Note 15) are detailed below:

- Non-life insurance provisions:

  i) Provision for unearned premiums: relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.

  ii) Provisions for unexpired risks: this supplements the provision for unearned premiums to the extent that the amount of the latter is not sufficient to reflect all the assessed risks and expenses to be covered by the insurance companies in the policy period not elapsed at the reporting date.

- Life insurance provisions: represent the value of the net obligations acquired vis-à-vis life insurance policyholders. These provisions include:

  i) Provision for unearned premiums and unexpired risks: this relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.

  ii) Mathematical provisions: these relate to the value of the insurance companies' obligations, net of the policyholders' obligations. These provisions are calculated on a policy-by-policy basis using an individual capitalisation system, taking as a basis for the calculation the premium accrued in the year, and in accordance with the technical bases of each type of insurance updated, where appropriate, by the local mortality tables.

- Provision for claims outstanding: this reflects the total obligations outstanding arising from claims incurred prior to the reporting date. This provision is calculated as the difference between the total estimated or certain cost of the claims not yet reported, settled or paid and all the amounts already paid in relation to such claims.

- Provision for bonuses and rebates: this provision includes the amount of the bonuses accruing to policyholders, insureds or beneficiaries and that of any premiums to be returned to policyholders or insureds, to the extent that such amounts have not been assigned at the reporting date. These amounts are calculated on the basis of the conditions of the related individual policies.

- Technical provisions for life insurance policies where the investment risk is borne by the policyholders: these provisions are calculated on the basis of the indices established as a reference to determine the economic value of the policyholders' rights.

k) Tangible assets

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities 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 consolidated entities 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 recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Average annual rate
Buildings for own use	2.0%
Furniture	7.7%
Fixtures	7.0%
Office and IT equipment	25.0%
Leasehold improvements	7.0%

The consolidated entities assess 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 consolidated entities recognise 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 recognised 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 consolidated 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 recognised 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 Group 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.

At 31 December 2015, 73.21% of the Group's investment properties were leased out.

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 Group 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 consolidated entities act as the lessors 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 consolidated balance sheet.

When the consolidated entities act as the lessees, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise 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 consolidated 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 consolidated entities act as the lessors, they present the acquisition cost of the leased assets under Tangible assets (see Note 16). 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 consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in their consolidated income statements.

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.

In accordance with IAS 17, in determining whether a sale and leaseback transaction results in an operating lease, the Group should analyse, inter alia, whether at the inception of the lease there are purchase options whose terms and conditions make it reasonably certain that they will be exercised, and to whom the gains or losses from the fluctuations in the fair value of the residual value of the related asset will accrue.

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 consolidated entities. Only assets whose cost can be estimated reliably and from which the consolidated entities consider 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.

i. Goodwill

Any excess of the cost of the investments in the consolidated entities and entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.

- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised.

At the end of each reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment losses on other assets (net) - Goodwill and other intangible assets in the consolidated income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

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

Other intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period or whenever there is any indication of impairment the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets.

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

In both cases the consolidated entities recognise any impairment loss on the carrying amount of these assets with a charge to Impairment losses on other assets (net) in the consolidated 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 Group'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 consolidated balance sheet includes the amount of assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of 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 for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the consolidated 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.

- Other: this item includes 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 consolidated 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 financial statements of the consolidated entities, 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 consolidated entities, 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 consolidated entities. They include the present obligations of the consolidated entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them.

- 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 events beyond the control of the Group. Contingent assets are not recognised in the consolidated balance sheet or in the consolidated 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 Group's consolidated 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 consolidated 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 25):

- 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.

- Provisions for contingent liabilities and commitments: includes the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group 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 and Other provisions: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the consolidated entities. Other provisions includes, inter alia, any provisions for restructuring costs and environmental measures.

p) Court proceedings and/or claims in process

At the end of 2015 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations (see Note 25).

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 deducted directly from 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 Group 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 Group to recognise its 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 consolidated entities' right to receive them arises.

However, the recognition of accrued interest in the consolidated 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 consolidated 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, this interest is recognised as a reversal of the related impairment losses. Interest whose recognition in the consolidated 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 consolidated 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 consolidated 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 Group initially recognises the financial guarantees provided on the liability side of the consolidated 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 Group 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 consolidated 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 in the consolidated balance sheet (see Note 25). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions (net) in the consolidated 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 consolidated balance sheet are reclassified to the appropriate provision.

u) Assets under management and investment and pension funds managed by the Group

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in Fee and commission income in the consolidated income statement.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Group entities to these funds (asset management and custody services) are recognised under Fee and commission income in the consolidated income statement.

Note 2.b.iv describes the internal criteria and procedures used to determine whether control exists over the structured entities, which include, inter alia, investment funds and pension funds.

v) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Spanish banks included in the Group and certain other Spanish and foreign consolidated entities have 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 Group's post-employment obligations to its employees are deemed to be defined contribution plans when the Group makes pre-determined contributions (recognised under Staff costs in the consolidated 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 25).

Defined contribution plans
The contributions made in this connection in each year are recognised under Staff costs in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet.

Defined benefit plans
The Group recognises under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated 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 consolidated entities, but by a legally separate third party that is not a party related to the Group.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the consolidated entities 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 Group.

If the Group 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 Group 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 consolidated balance sheet.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the consolidated income statement and includes the following items:

  - 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 (net).

  - Any gain or loss arising from plan settlements is recognised under Provisions (net).

- 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 consolidated income statement.

- The remeasurement of the net defined benefit liability (asset) is recognised in equity under Valuation adjustments 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).

w) 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 (net) in the consolidated income statement (see Note 25).

x) 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.

y) Income tax

The expense for Spanish income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the 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 consolidated 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.

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 the consolidated entities will have 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 the consolidated entities will have 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.

z) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheet and the average interest rates at the end of the reporting periods is provided in Note 51.

aa) Consolidated statements of cash flows

The following terms are used in the consolidated 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 Group classifies as cash and cash equivalents the balances recognised under Cash and balances with central banks 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.

It should be noted that there are no material differences between the cash flows relating to interest received and interest paid and the interest received and interest paid recognised in the consolidated income statement. Accordingly, these items are not disclosed separately in the consolidated statements of cash flows.

ab) Consolidated statements of recognised income and expense

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

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised in equity under Valuation adjustments that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in equity 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 the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e. Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to non-controlling interests.

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.

ac) 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 consolidated 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 consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated 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 consolidated equity.

3. Santander Group

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

The growth of the Group in the last decade 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 international level, the various banks and other subsidiaries, jointly controlled entities 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 Group in the last three years:

i. Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

On 28 February 2012, the Group announced that Banco Santander, S.A. and KBC Bank NV (KBC) had entered into an investment agreement to merge their two subsidiaries in Poland, Bank Zachodni WBK S.A. and Kredyt Bank S.A., respectively, following which the Group would control approximately 76.5% of the entity resulting from the merger and KBC 16.4%, with the remaining 7.1% being owned by non-controlling interests. Also, the Group undertook to place a portion of its ownership interest among investors and to acquire up to 5% of the entity resulting from the merger in order to help KBC to reduce its holding in the merged entity to below 10%. KBC's objective is to dispose of its entire investment in order to maximise its value.

It was agreed to carry out the transaction through a capital increase at Bank Zachodni WBK S.A., whose new shares would be offered to KBC and the other shareholders of Kredyt Bank S.A. in exchange for their shares in Kredyt Bank S.A. The related exchange ratio was established at 6.96 shares of Bank Zachodni WBK S.A. for every 100 shares of Kredyt Bank S.A.

In the first few days of 2013, following obtainment of the related authorisation from the Polish financial regulator (KNF), the aforementioned transaction was carried out. As a result, the Group controlled approximately 75.2% of the post-merger entity and KBC controlled approximately 16.2%, with the remaining 8.6% being owned by non-controlling interests. This transaction gave rise to an increase of EUR 1,037 million in Non-controlling interests – EUR 169 million as a result of the acquisition of control of Kredyt Bank S.A. and EUR 868 million as a result of the reduction in the percentage of ownership of Bank Zachodni WBK S.A.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date, the cost of the investment and the goodwill is as follows:

Millions of euros	
Cash and balances with central banks	351
Loans and receivables - Loans and advances to customers*	6,767
Available-for-sale assets	2,547
Other assets**	692
Total assets	**10,357**
Deposits from credit institutions	1,414
Customer deposits	7,620
Other liabilities	642
Total liabilities	**9,676**
Net asset value	681
Non-controlling interests	(169)
Cost of investment	838
Goodwill at January 2013* **	**326**

* EUR 122 million of additional impairment losses were considered in estimating the fair value of the loans and receivables.

** The estimate identified intangible assets amounting to EUR 51 million.

*** Belongs to the Bank Zachodni WBK S.A. cash-generating unit (see Note 17).

On 22 March 2013, Banco Santander, S.A. and KBC completed the placement of all the shares owned by KBC and 5.2% of the share capital of Bank Zachodni WBK S.A. held by the Group in the market for EUR 285 million, which gave rise to an increase of EUR 292 million in Non-controlling interests.

Following these transactions, the Group held 70% of the share capital of Bank Zachodni WBK S.A. and the remaining 30% was held by non-controlling interests.

ii. Merger by absorption of Banesto and Banco Banif

On 17 December 2012, Banco Santander, S.A. announced that it had resolved to approve the plan for the merger by absorption of Banco Español de Crédito, S.A. (Banesto) and Banco Banif, S.A. (Sole-Shareholder Company) as part of the restructuring of the Spanish financial sector.

On 9 January 2013, the boards of directors of Banco Santander, S.A. and Banesto approved the common draft terms of merger. Also, on 28 January 2013, the boards of directors of Banco Santander, S.A. and Banco Banif, S.A. (Sole-Shareholder Company) approved the related common draft terms of merger. The draft terms of merger were approved by the shareholders of Banco Santander, S.A. and Banesto at the annual general meetings held on 22 and 21 March, respectively.

On 29 April 2013, pursuant to the common draft terms of merger and the resolutions of the annual general meetings of the two companies, Banco Santander, S.A. announced the regime and procedure for the exchange of shares of Banesto for shares of Banco Santander, S.A.

Banco Santander, S.A. exchanged the Banesto shares for treasury shares at a ratio of 0.633 shares of Banco Santander, S.A., of EUR 0.5 par value each, for each share of Banesto, of EUR 0.79 par value each, without any additional cash payment. As a result of this exchange, Non-controlling interests fell by EUR 455 million.

On 3 May 2013, the public deed of the merger by absorption of Banesto, which was extinguished, was registered at the Cantabria Mercantile Registry. Also, on 30 April the public deed of the merger by absorption of Banco Banif S.A. (Sole-Shareholder Company) was executed, and this entity was extinguished. The public deed was registered at the Cantabria Mercantile Registry on 7 May 2013.

iii. Insurance business in Spain

On 20 December 2012, the Group announced that it had reached an agreement with Aegon to strengthen the bancassurance business in Spain. The agreement does not affect savings, health and vehicle insurance, which continue to be managed by Santander.

In June 2013, having obtained the relevant authorisations from the Directorate-General of Insurance and Pension Funds and from the European competition authorities, Aegon acquired a 51% ownership interest in the two insurance companies created by the Group for these purposes, one for life insurance and the other for general insurance (currently Aegon Santander Vida Seguros y Reaseguros, S.A. and Aegon Santander Generales Seguros y Reaseguros, S.A.), for which it paid EUR 220 million, thereby gaining joint control together with the Group over the aforementioned companies. The agreement also includes payments to Aegon that are deferred over two years and amounts receivable by the Group that are deferred over five years, based on the business plan.

The aforementioned agreement included the execution of a 25-year distribution agreement for the sale of insurance products through the commercial networks in Spain, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of EUR 385 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2013 (EUR 270 million net of tax), of which EUR 186 million related to the fair value recognition of the 49% ownership interest retained by the Group.

iv. Agreement with Elavon Financial Services Limited

On 19 October 2012, Banco Santander, S.A. announced that it had entered into an agreement with Elavon Financial Services Limited to jointly develop the payment services business in Spain through point-of-sale credit and debit card terminals at merchants.

This transaction involved the creation of a joint venture, 51% owned by Elavon and 49% owned by Santander, to which Santander Group transferred its aforementioned payment services business in Spain (excluding the former Banesto).

The transaction was completed in the first half of 2013 and generated a gain of EUR 122 million (EUR 85 million net of tax).

v. Agreement with Warburg Pincus and General Atlantic

On 30 May 2013, the Group announced that it had entered into an agreement with subsidiaries of Warburg Pincus and General Atlantic to foster the global development of its asset management unit, Santander Asset Management (SAM). According to the terms and conditions of the agreement, Warburg Pincus and General Atlantic would together own 50% of the holding company which would comprise the Group's eleven management companies, mainly in Europe and Latin America, while the other 50% would be held by the Group.

The purpose of the alliance was to enable SAM to improve its ability to compete with the large independent international management companies, and the businesses to be strengthened included asset management in the global institutional market, with the additional advantage of having knowledge and experience in the markets in which the Group is present. The agreement also envisaged the distribution of products managed by SAM in the countries in which the Group has a commercial network for a period of ten years, renewable for five additional two-year periods, for which the Group would receive commissions at market rates, thus benefiting from broadening the range of products and services to offer its customers. SAM would also distribute its products and services internationally, outside the Group's commercial network.

Since the aforementioned management companies belonged to different Group companies, prior to the completion of the transaction a corporate restructuring took place whereby each of the management companies was sold by its shareholders, for its fair value, to SAM Investment Holdings Limited (SAM), a holding company created by the Group. The aggregate value of the management companies was approximately EUR 1,700 million.

Subsequently, in December 2013, once the required authorisations had been obtained from the various regulators, the agreement was executed through the acquisition of a 50% ownership interest in SAM's share capital by Sherbrooke Acquisition Corp SPC (an investee of Warburg Pincus and General Atlantic) for EUR 449 million. At that date, SAM had financing from third parties amounting to EUR 845 million. The agreement included deferred contingent amounts payable and receivable for the Group based on the achievement of the business plan targets over the coming five years.

Also, the Group entered into a shareholders agreement with the aforementioned shareholders regulating, inter alia, the taking of strategic, financial, operational and other significant decisions regarding the ordinary management of SAM on a joint basis. Certain restrictions on the transferability of the shares were also agreed, and a commitment was made by the two parties to retain the shares for at least 18 months. Lastly, Sherbrooke Acquisition Corp SPC will be entitled to sell to the Group its ownership interest in the share capital of SAM at market value on the fifth and seventh anniversaries of the transaction, unless a public offering of SAM shares has taken place prior to those dates.

Following these transactions, at the end of 2013, 2014 and 2015 the Group held a 50% ownership interest in SAM and controlled this company jointly with the aforementioned shareholders (see Note 13).

As a result of the above-mentioned transaction, the Group recognised a gain of EUR 1,372 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2013 (see Note 49), of which EUR 671 million related to the fair value of the 50% ownership interest retained by the Group.

vi. Sale of Altamira Asset Management

On 21 November 2013, the Group announced that it had reached a preliminary agreement with Apollo European Principal Finance Fund II, a fund managed by subsidiaries of Apollo Global Management, LLC, for the sale of the platform for managing the loan recovery activities of Banco Santander, S.A. in Spain and for managing and marketing the properties relating to this activity (Altamira Asset Management, S.L.).

On 3 January 2014, the Group announced that it had sold 85% of the share capital of Altamira Asset Management, S.L. to Altamira Asset Management Holdings, S.L., an investee of Apollo European Principal Finance Fund II, for EUR 664 million, giving rise to a net gain of EUR 385 million, which was recognised at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014.

Following this transaction, the Group retained the aforementioned property assets and loan portfolio on its balance sheet, while management of these assets is carried out from the platform owned by Apollo.

vii. Santander Consumer USA

In January 2014 the public offering of shares of Santander Consumer USA Inc. (SCUSA) was completed and the company was admitted to trading on the New York Stock Exchange. The placement represented 21.6% of SCUSA's share capital, of which 4.23% related to the holding sold by the Group. Following this sale, the Group held 60.74% of the share capital of SCUSA. Both Sponsor Auto Finance Holdings Series LP (Sponsor Holdings) -an investee of funds controlled by Warburg Pincus LLC, Kohlberg Kravis Roberts & Co. L.P. and Centerbridge Partners L.P.- and DDFS LLC (DDFS) - a company controlled by Thomas G. Dundon, the Chief Executive Officer of SCUSA- also reduced their holdings.

Following the placement, since the ownership interests of the aforementioned shareholders were reduced to below certain percentages established in the shareholders agreement previously entered into with the Group by the shareholders, the agreement was terminated, pursuant to the terms and conditions established therein. This entailed the termination of the agreements which, inter alia, had granted Sponsor Holdings and DDFS representation on the board of directors of SCUSA and had established a voting system under which the strategic, financial and operating decisions, and other significant decisions associated with the ordinary management of SCUSA, were subject to joint approval by the Group and the aforementioned shareholders. Therefore, SCUSA ceased to be controlled jointly by all the above and is now controlled by the Group on the basis of the percentage held in its share capital ("change of control").

Prior to this change of control the Group accounted for its ownership interest in SCUSA using the equity method. Following the obtainment of control, the Group now recognises its investment in SCUSA using the full consolidation method and, at the date of obtainment of control, it included each of SCUSA's assets and liabilities in its consolidated balance sheet at their fair value.

The Group did not make any disbursement in relation to this change of control and, therefore, goodwill was determined by reference to the fair value of SCUSA implicit in the public offering. The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

Millions of euros	
Cash and balances with central banks	1,185
Financial assets held for trading	22
Loans and receivables - Loans and advances to customers*	16,113
Tangible assets	1,636
Intangible assets**	503
Other assets	1,172
Total assets	**20,631**
Deposits from credit institutions	6,191
Marketable debt securities and other financial liabilities***	11,256
Provisions	11
Other liabilities	935
Total liabilities	**18,393**
Net asset value	2,238
Non-controlling interests	(879)
Fair value of employee share option plans	(94)
Fair value of previously held investment	3,747
Goodwill	**2,482**

* The estimate of fair value included gains of EUR 18 million.

** The valuation work identified the following intangible assets additional to those already existing:

- Relationships with dealer networks amounting to EUR 429 million with an average amortisation period of approximately 17 years.
- Trademarks amounting to EUR 37 million.

*** In the estimate of fair value, the value of marketable debt securities increased by EUR 117 million.

In order to determine the fair value of loans and receivables, the loans and receivables were segregated into portfolios of loans with similar features and for each portfolio the present value of the cash flows expected to be received was calculated on the basis of the estimated future losses and prepayment rates.

The goodwill is attributable to the capability and experience of SCUSA's employees and management team.

As a result of the aforementioned transaction, the Group recognised a gain net of tax of EUR 730 million at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014 (see Notes 27 and 49), of which EUR 688 million related to the recognition at fair value of the ownership interest held by the Group.

Had the business combination taken place on 1 January 2014, the results contributed to the Group by SCUSA would not have varied significantly from those recognised in the consolidated income statement for 2014.

Also, on 3 July 2015, the Group announced that it had reached an agreement to purchase the 9.68% ownership interest held by DDFS LLC in SCUSA for USD 928 million. Following this transaction, which is subject to the obtainment of the relevant regulatory authorisations, the Group will have an ownership interest of approximately 68.62% in SCUSA.

viii. Agreement with El Corte Inglés

On 7 October 2013, the Group announced that it had entered into a strategic agreement through its subsidiary Santander Consumer Finance, S.A. with El Corte Inglés, S.A. in the area of consumer finance, which included the acquisition of 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A., with El Corte Inglés, S.A. retaining the remaining 49%. On 27 February 2014, following the obtainment of the relevant regulatory and competition authorisations, the acquisition was completed. Santander Consumer Finance, S.A. paid EUR 140 million for 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

Millions of euros	
Loans and advances to credit institutions	29
Loans and receivables - Loans and advances to customers	1,291
Intangible assets	2
Other assets	22
Total assets	**1,344**
Deposits from credit institutions	173
Customer deposits	81
Marketable debt securities	585
Provisions	3
Other liabilities	290
Total liabilities	**1,132**
Net asset value	212
Non-controlling interests	(104)
Consideration paid	140
Goodwill	**32**

In 2014 Financiera El Corte Inglés E.F.C., S.A. contributed EUR 26 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed would not have varied significantly.

ix. Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H., S.A.

On 7 April 2014, Banco Santander (Brasil), S.A. announced that it had reached an agreement to purchase through an investee all the shares of Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H., S.A. ("Getnet"). The transaction was completed on 31 July 2014 and the price was set at BRL 1,156 million (approximately EUR 383 million), giving rise to goodwill of EUR 229 million, which was included in the Banco Santander (Brasil) cash-generating unit (see Note 17).

Among the agreements reached, the Group granted a put option to the non-controlling shareholders of Getnet Adquirência e Serviços para Meios de Pagamento, S.A. on all the shares held by them (11.5% of the share capital of this company). The Group recognised the corresponding liability amounting to EUR 308 million with a charge to equity.

In 2014 Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H., S.A. contributed EUR 11 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed to the Group in 2014 would have been approximately EUR 21 million.

x. Banco Santander (Brasil) S.A.

In January and March 2012 the Group transferred shares representing 4.41% and 0.77% of Banco Santander (Brasil), S.A. to two leading international financial institutions that undertook to deliver these shares to the holders of the bonds convertible into shares of Banco Santander (Brasil), S.A. issued by Banco Santander, S.A. in October 2010 upon the maturity of the bonds. This transaction did not give rise to any change in the Group's equity.

The delivery of the aforementioned shares took place on 7 November 2013.

Acquisition of non-controlling interests in Banco Santander (Brasil) S.A.

On 28 April 2014, the Bank's board of directors approved a bid for the acquisition of all the shares of Banco Santander (Brasil), S.A. not then owned by the Group, which represented approximately 25% of the share capital of Banco Santander (Brasil), S.A., offering in consideration Bank shares in the form of Brazilian Depositary Receipts (BDRs) or American Depositary Receipts (ADRs). As part of the bid, the Bank requested that its shares be listed on the São Paulo Stock Exchange in the form of BDRs.

The offer was voluntary, in that the non-controlling shareholders of Banco Santander (Brasil), S.A. were not obliged to participate, and it was not conditional upon a minimum acceptance level. The consideration offered, following the adjustment made as a result of the application of the Santander Dividendo Elección scrip dividend scheme in October 2014, consisted of 0.7152 new Banco Santander shares for each unit or ADR of Banco Santander (Brasil), S.A. and 0.3576 new Banco Santander shares for each ordinary or preference share of Banco Santander (Brasil), S.A.

The bid was accepted by holders of 13.65% of the share capital of Banco Santander (Brasil), S.A. Accordingly, the Group's ownership interest in Banco Santander (Brasil), S.A. rose to 88.30% of its share capital. To cater for the exchange, the Bank, executing the agreement adopted by the extraordinary general meeting held on 15 September 2014, issued 370,937,066 shares, representing approximately 3.09% of the Bank's share capital at the issue date. The aforementioned transaction gave rise to an increase of EUR 185 million in Share capital, EUR 2,372 million in Share premium and EUR 15 million in Reserves, and a reduction of EUR 2,572 million in Non-controlling interests.

The shares of Banco Santander (Brasil), S.A. continue to be listed on the São Paulo and New York stock exchanges.

xi. Agreement with CNP

On 10 July 2014, the Bank announced that it had reached an agreement for the French insurance company CNP to acquire a 51% stake in the three insurance companies based in Ireland (Santander Insurance Life Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited) that distribute life and non-life products through the Santander Consumer Finance network.

In December 2014, after the regulatory authorisations had been obtained, CNP paid EUR 297 million to acquire 51% of the share capital of the three aforementioned insurance companies and, therefore, control thereof. The agreement also included deferred payments to CNP in 2017 and 2020, and deferred amounts receivable by the Group in 2017, 2020 and 2023, based on the business plan.

The aforementioned agreement included the execution of a 20-year retail agreement, renewable for five-year periods, for the sale of life and non-life insurance products through the Santander Consumer Finance network, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of EUR 413 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale (see Note 49), of which EUR 207 million related to the fair value recognition of the 49% ownership interest retained by the Group.

xii. Agreement with GE Capital

On 23 June 2014, the Group announced that Santander Consumer Finance, S.A., the Group's consumer finance unit, had reached an agreement with GE Money Nordic Holding AB to acquire GE Capital's business in Sweden, Denmark and Norway for approximately EUR 693 million (SEK 6,408 million). On 6 November 2014, following the obtainment of the relevant authorisations, the acquisition was completed.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

Millions of euros	
Cash and balances with central banks	28
Loans and advances to credit institutions	179
Loans and receivables - Loans and advances to customers*	2,099
Intangible assets	22
Other assets	62
Total assets	**2,390**
Deposits from credit institutions	1,159
Customer deposits	769
Subordinated liabilities	81
Other liabilities	79
Total liabilities	**2,088**
Net asset value	302
Consideration paid	693
Goodwill	**391**

* In estimating their fair value, the value of the loans was reduced by EUR 75 million.

In 2014 this business contributed EUR 8 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed to the Group in 2014 would have been approximately EUR 94 million.

xiii. Agreement with Banque PSA Finance

The Group, through its subsidiary Santander Consumer Finance, S.A., and Banque PSA Finance, the vehicle financing unit of the PSA Peugeot Citroën Group, entered into an agreement in 2014 for the operation of the vehicle financing business in twelve European countries. Pursuant to the terms of the agreement, the Group will finance this business, under certain circumstances and conditions, from the date on which the transaction is completed. In addition, in certain countries, the Group will purchase a portion of the current lending portfolio of Banque PSA Finance. A cooperation agreement for the insurance business in all these countries is also included.

In January 2015 the related regulatory authorisations to commence activities in France and the United Kingdom were obtained and, accordingly, on 2 February 2015 the Group acquired 50% of Société Financière de Banque - SOFIB and PSA Finance UK Limited for EUR 462 million and EUR 148 million, respectively.

In addition, under the framework agreement, PSA Insurance Europe Limited and PSA Life Insurance Europe Limited (both insurance companies with registered office in Malta) were incorporated on 1 May, in which the Group contributed 50% of the share capital, amounting to EUR 23 million. On 3 August the Group acquired a full ownership interest in PSA Gestão - Comércio E Aluguer de Veiculos, S.A. (a company with registered office in Portugal) and the loan portfolio of the Portuguese branch of Banque PSA Finance for EUR 10 million and EUR 25 million, respectively. On 1 October PSA Financial Services Spain, E.F.C., S.A. (a company with registered office in Spain) was incorporated, in which the Group contributed EUR 181 million (50% of the share capital).

In 2015 these businesses contributed EUR 121 million to the Group's profit. Had the business combination taken place on 1 January 2015, the profit contributed to the Group in 2015 would have been approximately EUR 159 million.

xiv. Carfinco Financial Group

On 16 September 2014, the Bank announced that it had reached an agreement to purchase the listed Canadian company Carfinco Financial Group Inc. ("Carfinco"), a company specialising in vehicle financing.

In order to acquire Carfinco, Santander Holding Canada Inc. was incorporated, a company 96.4% owned by Banco Santander, S.A. and 3.6% owned by certain members of the former management group. On 6 March 2015, all of Carfinco was acquired through the aforementioned holding company for EUR 209 million, giving rise to goodwill of EUR 162 million.

In 2015 this business contributed EUR 6 million to the Group's profit. Had the business combination taken place on 1 January 2015, the profit contributed to the Group in 2015 would have been approximately EUR 7 million.

xv. Metrovacesa

On 19 December 2012, the creditor entities that had participated in a debt restructuring agreement for the Sanahuja Group, under which they received shares of Metrovacesa, S.A. as dation in payment for that group's debt, announced that they had reached an agreement to promote the delisting of the shares of Metrovacesa, S.A. and they voted in favour of this at the general meeting held for this purpose on 29 January 2013. Following the approval of the delisting and the public takeover offer at the Metrovacesa, S.A. general meeting, the entities made a delisting public takeover offer of EUR 2.28 per share to the Metrovacesa, S.A. shareholders that had not entered into the agreement. The Group participated in the delisting public takeover offer by acquiring an additional 1.953% of Metrovacesa, S.A. for EUR 44 million.

Following this transaction, at 31 December 2013, the Group held an ownership interest of 36.82% in the share capital of Metrovacesa, S.A.

On 23 December 2014, the Group acquired 19.07% of Metrovacesa, S.A. from Bankia, S.A. for EUR 98.9 million, as a result of which its stake increased to 55.89%, thus obtaining control over this company.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

Millions of euros	
Loans and receivables	256
Tangible assets*	3,522
Deferred tax assets	364
Other assets**	1,181
Total assets	**5,323**
Deposits from credit institutions	3,359
Deferred tax liabilities	382
Other liabilities	226
Total liabilities	**3,967**
Net asset value	1,356
Non-controlling interests	(598)
Consideration paid plus fair value of the previously held investment	598
Gain on the acquisition	*160*
Effect of the fair value recognition of the previously held investment on profit or loss	*(143)*
Net effect recognised in profit or loss	*17*

* Relating mainly to leased assets recognised at fair value by the acquiree and recognised under Tangible assets - Investment property.

** Including mainly Inventories. The estimate of fair value includes gains of EUR 268 million.

The fair value of the investment held was calculated using the fair value of the net assets and liabilities at the acquisition-date fair value.

The measurement at fair value of the investment held prior to the acquisition of control had an adverse effect of EUR 143 million on profit or loss in 2014. Consequently, the aforementioned transaction gave rise to the recognition of a gain of EUR 17 million in the consolidated income statement for 2014.

The results contributed by Metrovacesa, S.A. until 23 December 2014, the date of the business combination, are broken down in Note 41.

Lastly, on 15 September 2015, the Group acquired 13.8% of Metrovacesa, S.A. from Banco Sabadell, S.A. for EUR 253 million, raising its ownership interest to 72.51%, this transaction gave rise to an increase of EUR 18 million in reserves.

xvi. Banco Internacional do Funchal (Banif)

On 21 December 2015, the Group announced that the Bank of Portugal, as the ruling authority, decided to award Banco Santander Totta, S.A., the Portuguese subsidiary of Banco Santander, S.A., the commercial business of BANIF- Banco Internacional do Funchal, S.A. and, accordingly, the businesses and branches of this entity became part of the Group.

The transaction was performed through the transfer of a substantial portion (commercial banking business) of the assets and liabilities of BANIF- Banco Internacional do Funchal, S.A. for which the Group paid EUR 150 million.

The detail of the provisional fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

Millions of euros	
Cash and balances with central banks	2,510
Loans and advances to credit institutions	424
Debt instruments	1,824
Loans and advances to customers	5,320
Other assets	218
Total assets	**10,296**
Deposits from central banks	2,110
Deposits from credit institutions	1,052
Customer deposits	4,430
Marketable debt securities	1,697
Other liabilities	574
Total liabilities	**9,863**
Net asset value	433
Consideration paid	150
Gain on the acquisition	**283**

Since the acquisition took place by the end of December 2015, these businesses did not contribute materially to the Group's profit.

xvii. Custody business

On 19 June 2014, the Group announced that it had reached an agreement with FINESP Holdings II B.V., a subsidiary of Warburg Pincus, to sell a 50% stake in Santander's custody business in Spain, Mexico and Brazil. The remaining 50% will be retained by the Group. At 31 December 2015, the sale remained subject to the obtainment of the relevant regulatory authorisations.

xviii. Agreement with UniCredit, Warburg Pincus and General Atlantic

On 23 April 2015, the Group announced that, together with its partners Warburg Pincus and General Atlantic, it had entered into a heads of terms and exclusivity agreement with UniCredit, subject to the signing of the final agreement, to merge Santander Asset Management and Pioneer Investments.

The agreement provides for the creation of a new company comprising the local asset managers of Santander Asset Management and Pioneer Investments. The Group will have a 33.3% direct stake in the new company, UniCredit another 33.3%, and Warburg Pincus and General Atlantic will share a 33.3% stake. Pioneer Investments' operations in the United States will not be included in the new company but rather will be owned by UniCredit (50%) and Warburg Pincus and General Atlantic (50%).

On 11 November 2015, the final framework agreement was signed by UniCredit, Santander, Warburg Pincus and General Atlantic for the integration of these businesses in accordance with the aforementioned structure. At present the transactions is scheduled to be completed in 2016 once the preconditions established in the framework agreement have been met and the relevant regulatory authorisations have been obtained.

c) Off-shore entities

At the reporting date, under current Spanish legislation, the Group had ten subsidiaries resident in off-shore territories, although these territories are not considered to be tax havens as defined by the OECD and the European Commission. Three of these subsidiaries are currently in liquidation and, over the next few years, four more subsidiaries are expected to be liquidated (one issuer and three companies which have reduced activity or are inactive).

Following these planned disposals, the Group would have three substantially inactive off-shore subsidiaries in Jersey and the Isle of Man:

- Abbey National International Limited (Jersey), which is substantially inactive following the transfer in 2015 of most of its business to the Jersey branch of Santander UK plc.

- Whitewick Limited (Jersey), an inactive company.

- ALIL Services Limited (Isle of Man), currently providing substantially reduced services.

The individual results of the three subsidiaries listed above, calculated in accordance with local accounting principles, are shown in the Appendices to these notes to the consolidated financial statements together with other data thereon.

These three subsidiaries contributed a profit of approximately EUR 11 million to the Group's consolidated profit in 2015.

Also, the Group has five branches: three in the Cayman Islands, one in the Isle of Man and one in Jersey. These branches report to, and consolidate their balance sheets and income statements with, their respective foreign parents.

The aforementioned jurisdictions had 118 employees in total at December 2015.

In 2015 Spain signed information exchange agreements with Jersey, Guernsey and the Isle of Man, which are expected to enter into force in 2016. An agreement is also expected to be signed in the future with the Cayman Islands. All these territories will cease to be tax havens under Spanish law when the aforementioned agreements come into force and, consequently, the Group would no longer have any entities in off-shore territories. In addition, these jurisdictions have successfully passed the evaluations conducted by the Global Forum on Transparency and Exchange of Information for Tax Purposes, and are not considered to be tax havens by the OECD. Furthermore, they are not considered to be off-shore centres by the European Commission.

Also, 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, certain financial investments located in tax havens including Olivant Limited in Guernsey.

The Group also has five subsidiaries domiciled in off-shore territories that are not considered to be off-shore entities since they are resident for tax purposes in, and operate exclusively from, the UK (two of these subsidiaries are expected to be liquidated in 2016).

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational and legal risk arising at these entities. Also, the Group has continued to implement its policy to reduce the number of off-shore units. The financial statements of the Group's off-shore units are audited by member firms of Deloitte.

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 2015 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	2,159
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	109
	2,268
Of which:	
*Approved at 31 December 2015**	*1,546*
Final dividend	*722*
To voluntary reserves	9
Net profit for the year	**2,277**

* Recognised under Shareholders' equity - Dividends and remuneration.

In addition to the EUR 2,268 million indicated above, EUR 607 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 27 March 2015, whereby the Bank offered shareholders the possibility to opt to receive an amount equivalent to the second interim dividend out of 2015 profit in cash or new shares.

The board of directors will propose to the shareholders at the annual general meeting that remuneration of EUR 0.20 per share be paid for 2015.

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 23) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	31/12/15	31/12/14	31/12/13
Profit attributable to the Group (millions of euros)	5,966	5,816	4,175
Remuneration of contingently convertible preference shares (millions of euros)	(276)	(131)	-
	5,690	5,685	4,175
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	-	(26)	(15)
Profit from continuing operations (net of non-controlling interests) (millions of euros)	5,690	5,711	4,190
Weighted average number of shares outstanding	14,113,617,450	11,858,689,721	10,836,110,583
Adjusted number of shares	14,113,617,450	11,858,689,721	10,836,110,583
Diluted earnings per share (euros)	**0.40**	**0.48**	**0.39**
Diluted earnings per share from discontinued operations (euros)	**0.00**	**(0.00)**	**(0.00)**
Diluted earnings per share from continuing operations (euros)	**0.40**	**0.48**	**0.39**

ii. 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 23) 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:

	31/12/15	31/12/14	31/12/13
Profit attributable to the Group (millions of euros)	5,966	5,816	4,175
Remuneration of contingently convertible preference shares (millions of euros)	(276)	(131)	-
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-	-
	5,690	5,685	4,175
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	-	*(26)*	*(15)*
Profit from continuing operations (net of non-controlling interests) (millions of euros)	*5,690*	*5,711*	*4,190*
Weighted average number of shares outstanding	14,113,617,450	11,858,689,721	10,836,110,583
Dilutive effect of options/rights on shares	26,779,882	29,829,103	51,722,251
Adjusted number of shares	14,140,397,332	11,888,518,824	10,887,832,834
Diluted earnings per share (euros)	**0.40**	**0.48**	**0.38**
Diluted earnings per share from discontinued operations (euros)	**0.00**	**(0.00)**	**(0.00)**
Diluted earnings per share from continuing operations (euros)	**0.40**	**0.48**	**0.38**

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

The following sections of this Note contain 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 2015 and 2014. These disclosures include the information relating to all the members of the board of directors or senior managers who formed part of these governing bodies in 2015 even if retired at some time during the year.

Following is a summary of the remuneration paid to the Bank's executive directors and senior managers who formed part of these governing bodies at the end of 2015 and 2014:

Thousands of euros

	2015	2014	
Current executive directors	24,692	22,364	
Current senior managers	56,076	81,785	
	80,768	**104,419**	**-22.7%**

a) Remuneration of directors

i. Bylaw-stipulated emoluments

The annual general meeting held on 22 March 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 for 2015 by the annual general meeting, as for 2014, 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 2015 amounted to EUR 5.2 million.

Annual emolument

The amounts received individually by the directors in 2015 and 2014 based on the positions held by them on the board and their membership of the board committees were as follows:

Euros

	2015	2014
Members of the board of directors	84,954	84,954
Members of the executive committee	170,383	170,383
Members of the audit committee	39,551	39,551
Members of the appointments committee	23,730	23,730
Members of the remuneration committee	23,730	23,730
Members of the risk, regulation and compliance oversight committee	39,551	20,697
Chairman of the appointments committee	50,000	-
Chairman of the remuneration committee	50,000	-
Chairman of the risk, regulation and compliance oversight committee	50,000	26,164
Coordinating director	111,017	-
Non-executive deputy chairmen	28,477	28,477

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- have remained unchanged since 2008.

Meeting attendance fees

Euros

Meeting attendance fees	2008-2015
Board of directors	
Resident directors	2,540
Non-resident directors	2,057
Executive risk committee, audit committee and risk, regulation and compliance oversight committee	
Resident directors	1,650
Non-resident directors	1,335
Other committees (except the executive committee)	
Resident directors	1,270
Non-resident directors	1,028

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the general meeting, salaries are composed of fixed annual remuneration and variable remuneration comprising, in turn, the so-called deferred conditional variable remuneration plan (bonus) and a Long-term incentive (Performance Share Plan or "ILP") (see Note 47).

The deferred conditional variable remuneration plan (bonus), the fifth cycle of which was approved in 2015, has a payment schedule similar to that of previous cycles (see Note 47). Accordingly, 40% of the bonus is determined at year-end on the basis of the achievement of the targets set, and is paid immediately, while the remaining 60% is deferred over five years (2014: three years), for it to be paid, as the case may be, in five portions (2014: three portions) on the achievement of the conditions stipulated for the payment of each portion. Both the immediate (short-term) and deferred (long-term, conditional) payments are settled 50% in cash and 50% in Santander shares.

The ILP for the executive directors was set in 2015 by the board, at the proposal of the remuneration committee, at a maximum benchmark value of 20% of the bonus (2014: 15%). Based on the maximum benchmark value, at the proposal of the remuneration committee and in view of the Group's earnings per share and return on tangible equity (RoTE) for 2015 with respect to the budgets, the board of directors determined for each executive director the "Agreed ILP Amount" in euros, which in turn determines, for each executive director, the maximum number of shares that the executive director may, as the case may be, receive; this number was calculated taking into account the market price of the Santander share in the 15 trading sessions prior to 26 January 2016, which was EUR 3.971 per share. The accrual and the amount of this variable remuneration are linked to the achievement of the multiannual targets described in Note 47, and it will be deferred over three years and paid, as the case may be, in early 2019.

iii. Detail by director

The detail, by Bank director, of the short-term (immediate payment) remuneration for 2015 and 2014 is provided below:

Thousands of euros

	2015														2014
	Bylaw-stipulated emoluments														
	Annual emolument						Attendance fees		Short-term salaries of executive directors						
										Variable - immediate payment					
Directors	Board	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk, regulation and compliance oversight committee	Board	Other fees	Fixed	In cash	In shares	Total	Other remuneration[a]	Total	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea Chief executive officer of Santander UK	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,010
Chair	85	170	-	-	-	-	53	-	2,500	840	840	4,180	396	4,884	1,453
Mr. José Antonio Álvarez Álvarez[1]	85	170	-	-	-	-	48	38	2,000	558	558	3,116	1,468	4,925	-
Mr. Rodrigo Echenique Gordillo[2]	85	170	-	-	-	-	51	88	1,500	414	414	2,328	26	2,748	526
Mr. Matías Rodríguez Inciarte	85	170	-	-	-	-	53	132	1,710	573	573	2,856	169	3,465	3,484
Mr. Guillermo de la Dehesa Romero	113	170	-	24	24	40	53	49	-	-	-	-	-	473	436
Mr. Bruce Carnegie-Brown[3]	374	170	-	24	24	40	35	33	-	-	-	-	-	700	-
Mr. Ignacio Benjumea Cabeza de Vaca[4]	24	47	-	7	7	10	10	32	-	-	-	-	242	379	-
Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea[5]	85	-	-	-	-	-	35	-	-	-	-	-	-	120	110
Ms. Sol Daurella Comadrán[6]	85	-	-	24	24	-	38	11	-	-	-	-	-	183	-
Mr. Carlos Fernández González[7]	85	-	40	24	-	40	31	34	-	-	-	-	-	254	-
Ms. Esther Giménez-Salinas i Colomer	85	-	-	-	-	-	48	-	-	-	-	-	-	133	121
Mr. Ángel Jado Becerro de Bengoa	85	-	40	24	24	40	53	161	-	-	-	-	-	427	152
Ms. Belén Romana García[8]	2	-	1	-	-	-	2		-	-	-	-	-	5	-
Ms. Isabel Tocino Biscarolasaga	85	170	40	-	24	40	53	178	-	-	-	-	-	590	485
Mr. Juan Miguel Villar Mir	85	-	40	-	-	40	48	33	-	-	-	-	-	246	105
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos[9]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,129
Mr. Fernando de Asúa Álvarez[10]	43	20	5	3	3	5	10	27	-	-	-	-	-	116	645
Ms. Sheila Bair[11]	64	-	-	-	-	30	31	12	-	-	-	-	-	137	129
Mr. Vittorio Corbo Lioi[12]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56
Mr. Javier Marín Romano[13]	3	6	-	-	-	-	-	-	165	-	-	165	47	221	3,934
Mr. Abel Matutes Juan[14]	11	-	5	3	-	-	8	5	-	-	-	-	-	32	183
Mr. Juan Rodríguez Inciarte[15]	42	-	-	-	-	-	38	61	600	220	220	1,040	153	1,334	2,484
Total 2015	**1,612**	**1,266**	**169**	**131**	**128**	**282**	**701**	**894**	**8,475**	**2,605**	**2,605**	**13,685**	**2,501**	**21,372**	**-**
Of which: Current directors	*1,448*	*1,240*	*159*	*125*	*125*	*247*	*614*	*789*	*7,710*	*2,385*	*2,385*	*12,480*	*2,301*	*19,532*	
Total 2014	**1,347**	**1,310**	**131**	**57**	**57**	**18**	**484**	**873**	**8,065**	**2,564**	**2,564**	**13,193**	**884**	**-**	**18,354**

1. Appointed chief executive officer effective from 13 January 2015. Remuneration as executive vice president in 2014 is included in Note 5.g.
2. Executive director since 16 January 2015.
3. Appointed director effective from 12 February 2015.
4. Appointed director effective from 21 September 2015. Remuneration as executive vice president received prior to this date is included in Note 5.g.
5. All the amounts received were repaid to the Fundación Marcelino Botín.
6. Appointed director effective from 18 February 2015.
7. Appointed director effective from 12 February 2015.
8. Appointed director effective from 22 December 2015.
9. Ceased to be a member of the board due to his death on 9 September 2014.
10. Ceased to be a director on 12 February 2015.
11. Ceased to be a member of the board on 1 October 2015.
12. Ceased to be a member of the board on 24 July 2014.
13. Ceased to be a member of the board and chief executive officer on 12 January 2015.
14. Ceased to be a member of the board on 18 February 2015.
15. Ceased to be a member of the board on 30 June 2015. Salary remuneration between this date and removal from office as executive vice president (1 January 2016) is included in Note 5.g.

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 deferred (i.e. long-term) salaries, which will only be received if the conditions of continued service, non-applicability of "malus" clauses and, in the case of the ILP, 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 of the ILP) in the terms described in Note 47.

Thousands of euros

	2015				2014
	Long-term salaries				
	Variable - Deferred payment[1]				
	In cash	In shares	ILP[2]	Total	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea Consejera delegada de Santander UK	-	-	-	-	1,468
Chair	1,260	1,260	512	3,032	930
Mr. José Antonio Álvarez Álvarez	838	838	346	2,022	-
Mr. Rodrigo Echenique Gordillo	620	620	256	1,496	-
Mr. Matías Rodríguez Inciarte	860	860	400	2,120	1,890
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-
Mr. Javier Marín Romano	-	-	-	-	2,527
Mr. Juan Rodríguez Inciarte[3]	330	330	141	801	1,454
Total 2015	**3,908**	**3,908**	**1,655**	**9,471**	**-**
Total 2014	**3,846**	**3,846**	**577**	**-**	**8,269**

1. The maximum amount receivable in a total of five years: 2017, 2018, 2019, 2020 and 2021 subject to continued service, with the exceptions provided for, and the non-applicability of "malus" clauses.
2. The estimated fair value at the plan grant date, taking into account various possible scenarios regarding the performance of the various plan variables in the measurement periods (see Note 47).
3. Ceased to be a member of the board on 30 June 2015 and executive vice president on 1 January 2016. Long-term salary remuneration between this date and removal from office as executive vice president (1 January 2016) is included in Note 5.g.

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 of which were met in the corresponding years, and on the maximum number of shares receivable in future years in connection with the aforementioned 2015 and 2014 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 18 March 2002, accrues to the Group. In 2015 and 2014 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 2015 and 2014.

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 in the Bank's employ 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].

The terms of the employee welfare system regulate the impact of the deferral of the computable variable remuneration on the benefit payments covered by the system upon retirement and, as the case may be, the withholding tax on shares arising from such remuneration.

1. As provided for in the contracts of the executive directors and members of senior management prior to their modification, Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos and 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. Emilio Botín-Sanz de Sautuola y García de los Ríos and 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 16 January 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 31 December 2015 and 2014:

Thousands of euros

	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea[1]	41,291	40,134
Mr. José Antonio Álvarez Álvarez[2]	14,167	-
Mr. Rodrigo Echenique Gordillo	14,623	14,946[3]
Mr. Matías Rodríguez Inciarte	47,745	47,255
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-[4]
Mr. Javier Marín Romano[5]	-	4,523
Mr. Juan Rodríguez Inciarte	-[6]	13,730
	117,826	**120,588**

1. Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.
2. Member of the board and chief executive officer of the Bank effective from 13 January 2015.
3. Executive director since 16 January 2015. The amount at 31 December 2014, which reflects the amount to which he was entitled as a director of the Bank, is included for comparison purposes.
4. Following his death on 9 September 2014, a death benefit of the amount of the accumulated rights (EUR 26,498 thousand) was payable to the beneficiaries designated in the policy arranged under the welfare system.
5. Ceased to be a director on 12 January 2015 and took voluntary pre-retirement, as provided for in his contract; he opted to receive the annual pre-retirement emoluments to which he was entitled (EUR 800 thousand gross) in a single payment (EUR 10,861 thousand gross). As stipulated in his contract, the Bank will make annual contributions to the welfare system, amounting to 55% of this director's annual emolument during the pre-retirement period, and Mr. Marín will be entitled to receive, at the time of his retirement, the retirement benefit recognised in the welfare system, equal to the amount of the balance accumulated in the system corresponding to him at that time. The balance accrued at 31 December 2015 amounted to EUR 4,869 thousand and the Bank had recognised a provision of EUR 6,336 thousand in relation to future contributions. As regards the deferred variable remuneration corresponding to Mr. Marín in relation to years prior to his pre-retirement, the scheme described in the relevant sections of this report shall apply, and Mr. Marín will receive this remuneration, if appropriate, on the dates envisaged in the corresponding plans, subject to the stipulated conditions for its accrual being met.
6. Ceased to be a director on 30 June 2015 and executive vice president on 1 January 2016, and retained his pension rights, amounting to EUR 14,188 thousand at 31 December 2015.

The Group also has pension obligations to other directors amounting to EUR 2.4 million (31 December 2014: EUR 3 million). The payments made in 2015 to the members of the board entitled to post-employment benefits amounted to EUR 1.2 million (2014: EUR 1.2 million).

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 2015 and 2014 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

Thousands of euros

	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	2,302	2,140
Mr. José Antonio Álvarez Álvarez	2,677	-
Mr. Rodrigo Echenique Gordillo	-	-
Mr. Matías Rodríguez Inciarte	-	-
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr. Javier Marín Roman	484	2,126
Mr. Juan Rodríguez Inciarte	849	718
	6,312	**4,984**

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 sum

Thousands of euros

	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	7,500	7,500
Mr. José Antonio Álvarez Álvarez	6,000	-
Mr. Rodrigo Echenique Gordillo	1,385	-
Mr. Matías Rodríguez Inciarte	5,131	5,131
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr. Javier Marín Romano	2,400	2,400
Mr. Juan Rodríguez Inciarte	3,600	2,961
	26,016	**17,992**

Additionally, at 31 December 2014, other directors had life insurance policies the cost of which was borne by the Group, the related insured sum being EUR 1.4 million; at 31 December 2015, there were no obligations in this connection.

e) Deferred variable remuneration systems

Following is information on the maximum number of shares to which the executive directors are entitled at the beginning and end of 2014 and 2015 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2015 and prior years, as well as on the deliveries, whether shares or cash, made to them in 2014 and 2015 where the conditions for the receipt thereof had been met (see Note 47):

i) Deferred conditional delivery share plan

The 2010 variable remuneration of the executive directors and certain Group executives or employees was approved at the time by the board of directors through the instrumentation of the first cycle of the deferred conditional delivery share plan, whereby a portion of the aforementioned variable remuneration or bonus was deferred over a period of three years for it to be paid, where appropriate, in Santander shares.

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 share-based deferred remuneration is conditional upon none of the following circumstances existing, in the opinion of the board of directors, during 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 economic capital and the qualitative assessment of risk.

The share-based bonus was deferred over three years and would be paid, where appropriate, in three instalments starting in the first year. The shares relating to the third third were delivered in February 2014, once the conditions for the receipt thereof were met, and the plan was therefore settled:

Number of shares delivered in 2014 (3rd third)

	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea[1]	19,240
Mr. Matías Rodríguez Inciarte	45,063
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	31,448
Mr. Javier Marín Romano	12,583
Mr. Juan Rodríguez Inciarte	20,462

1. Shares of Banesto, as authorised by the shareholders of that entity at the annual general meeting of 23 February 2011. Following the merger of Banesto with the Bank, 19,240 shares of the Bank were delivered in 2014, equal to the 30,395 shares of Banesto authorised by the annual general meeting.

ii) Deferred conditional variable remuneration plan

Since 2011, 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 authorised 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, they will be paid 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.

The table below shows the number of Santander shares assigned to each executive director and not yet delivered at 1 January 2014, 31 December 2014 and 31 December 2015, and the gross shares delivered to them in 2014 and 2015, 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 the third relating to each plan had accrued. The shares resulted from each of the plans which instrumented the variable remuneration of 2011, 2012, 2013, 2014 and 2015, as shown in the following table:

Share-based variable remuneration

	Maximum number of shares to be delivered at 1 January 2014	Shares delivered in 2014 (immediate payment 2013 variable remuneration)	Shares delivered in 2014 (deferred payment 2012 variable remuneration)	Shares delivered in 2014 (deferred payment 2011 variable remuneration)	Variable remuneration 2014 (maximum number of shares to be delivered)	**Maximum number of shares to be delivered at 31 December 2014**	Shares delivered in 2015 (immediate payment 2014 variable remuneration)	Shares delivered in 2015 (deferred payment 2013 variable remuneration)	Shares delivered in 2015 (deferred payment 2012 variable remuneration)	Shares delivered in 2015 (deferred payment 2011 variable remuneration)	Variable remuneration 2015 (maximum number of shares to be delivered)[1]	**Maximum number of shares to be delivered at 31 December 2015[4]**
2011 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	94,001	-	-	(47,001)	-	47,000	-	-	-	(47,000)	-	-
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	32,038[3]	-	-	-	(32,038)	-	-
Mr. Matías Rodríguez Inciarte	125,756	-	-	(62,878)	-	62,878	-	-	-	(62,878)	-	-
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	99,551	-	-	(49,776)	-	49,775[2]	-	-	-	(49,775)	-	-
Mr. Javier Marín Romano	51,921	-	-	(25,961)	-	25,960	-	-	-	(25,960)	-	-
Mr. Juan Rodríguez Inciarte	73,380	-	-	(36,690)	-	36,690	-	-	-	(36,690)	-	-
	444,609	-	-	(222,306)	-	**254,341**	-	-	-	(254,341)	-	-
2012 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	104,874	-	(34,958)	-	-	69,916	-	-	(34,958)	-	-	34,958
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	48,093[3]	-	-	(24,047)	-	-	24,046
Mr. Matías Rodríguez Inciarte	124,589	-	(41,530)	-	-	83,059	-	-	(41,530)	-	-	41,529
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	65,927	-	(21,976)	-	-	43,951[2]	-	-	(21,976)	-	-	21,975[2]
Mr. Javier Marín Romano	58,454	-	(19,485)	-	-	38,969	-	-	(19,485)	-	-	19,484
Mr. Juan Rodríguez Inciarte	72,699	-	(24,233)	-	-	48,466	-	-	(24,233)	-	-	24,233
	426,543	-	(142,182)	-	-	**332,454**	-	-	(166,229)	-	-	**166,225**
2013 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	165,603	(66,241)	-	-	-	99,362	-	(33,121)	-	-	-	66,241
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	58,681[3]	-	(19,560)	-	-	-	39,121
Mr. Matías Rodríguez Inciarte	172,731	(69,092)	-	-	-	103,639	-	(34,546)	-	-	-	69,093
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	105,718	(42,287)	-	-	-	63,431[2]	-	(21,144)	-	-	-	42,287[2]
Mr. Javier Marín Romano	187,125	(74,850)	-	-	-	112,275	-	(37,425)	-	-	-	74,850
Mr. Juan Rodríguez Inciarte	110,747	(44,299)	-	-	-	66,448	-	(22,149)	-	-	-	44,299
	741,924	(296,769)	-	-	-	**503,836**	-	(167,945)	-	-	-	**335,891**
2014 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	304,073	304,073	(121,629)	-	-	-	-	182,444
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	157,452[3]	(78,726)	-	-	-	-	78,726
Mr. Matías Rodríguez Inciarte	-	-	-	-	231,814	231,814	(92,726)	-	-	-	-	139,088
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-	-	-	-	-	-	-	-
Mr. Javier Marín Romano	-	-	-	-	320,563	320,563	(128,225)	-	-	-	-	192,338
Mr. Juan Rodríguez Inciarte	-	-	-	-	179,680	179,680	(71,872)	-	-	-	-	107,808
	-	-	-	-	1,036,130	**1,193,582**	(493,178)	-	-	-	-	**700,404**
2015 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	-	-	-	-	-	-	528,834	528,834
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	-	-	-	-	-	351,523	351,523
Mr. Rodrigo Echenique Gordillo	-	-	-	-	-	-	-	-	-	-	260,388	260,388
Mr. Matías Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	-	361,118	361,118
Mr. Juan Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	-	138,505	138,505[5]
											1,640,368	**1,640,368**

1. 40% of the shares indicated, for each director, relates to short-term (immediate payment) variable remuneration. The remaining 60% is deferred and will be delivered, where appropriate, in fifths over the following five years.
2. The amounts corresponding to his participation in these plans accrue to his heirs in accordance with the plan regulations.
3. Maximum number of shares corresponding to his participation in the related plans when he was an executive vice president.
4. Also, Mr. Ignacio Benjumea Cabeza de Vaca is entitled to a maximum of 582,237 shares corresponding to his participation in the related plans when he was an executive vice president.
5. Ceased to be a member of the board on 30 June 2015. The shares relating to his variable remuneration between this date and removal from office as executive vice president (1 January 2016) are included in Note 5.g.

Also, the table below shows the cash delivered in 2015 and 2014, 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 the third relating to each plan had accrued:

Thousands of euros

	2015		2014	
	Cash paid (immediate payment 2014 variable remuneration)	Cash paid (third of deferred payment 2013, 2012 and 2011 variable remuneration)	Cash paid (immediate payment 2013 variable remuneration)	Cash paid (third of deferred payment 2012 and 2011 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	801	829	466	513
Mr. José Antonio Álvarez Álvarez[1]	487	468	-	-
Mr. Rodrigo Echenique Gordillo	-	-	-	-
Mr. Matías Rodríguez Inciarte	574	855	462	624
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-[2]	282	423
Mr. Javier Marín Romano	793	522	500	272
Mr. Juan Rodríguez Inciarte	445	512	296	364
	3,100	**3,186**	**2,005**	**2,197**

1. Appointed chief executive officer effective from 13 January 2015.
2. The amounts corresponding to his participation in these plans were paid to his heirs in accordance with the plan regulations.

iii) Performance share 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 and 2014, as a result of their participation in the ILP (see Note 47).

Maximum number of shares

	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	184,337	62,395
Mr. José Antonio Álvarez Álvarez	124,427	48,982[1]
Mr. Rodrigo Echenique Gordillo	92,168	-
Mr. Matías Rodríguez Inciarte	143,782	75,655
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr. Javier Marín Romano	-	65,470
Mr. Juan Rodríguez Inciarte	50,693[2]	53,346
Total	**595,407**	**305,848**

1. Relates to the maximum number of shares assigned to him as executive vice president.
2. Ceased to be a member of the board on 30 June 2015. The shares relating to his variable remuneration between this date and removal from office as executive vice president (1 January 2016) are included in Note 5.g.

The accrual of the ILP and its amount are conditional on the performance of certain metrics of Banco Santander over a multiannual period (2015 to 2017 for the 2015 ILP, and 2014 to 2017 for the 2014 ILP). Accordingly, the amount to be received, as the case may be, by each executive director in relation to the 2015 ILP (the Accrued ILP Amount) will be determinable after the end of 2017. In the case of the 2014 ILP, the annual amount which, as the case may be, accrues to each executive director will be determined after the end of 2015, 2016 and 2017 by applying to one third of the Agreed ILP Amount the percentage resulting from the corresponding metrics (see Note 47). If the metrics are not achieved, the amount to be received could be zero.

The shares to be delivered in 2019 (in respect of the 2015 ILP) or on each ILP payment date (for the 2014 ILP) 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.

iv) 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 1 January 2014 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 2015 and 2014 to former board members, upon achievement of the conditions for the receipt thereof (see Note 47):

Maximum number of shares to be delivered

	31/12/15	31/12/14
Deferred conditional variable remuneration plan (2011)	-	189,181
Deferred conditional variable remuneration plan (2012)	54,607	109,212

Number of shares delivered

	2015	2014
Deferred conditional delivery plan (2010)	-	155,810
Deferred conditional variable remuneration plan (2011)	189,181	189,181
Deferred conditional variable remuneration plan (2012)	54,605	54,605

In addition, EUR 1,424 thousand relating to the deferred portion payable in cash on the aforementioned plans were paid each in 2015 and 2014.

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

	2015			2014		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	46	-	46	-	-	-
Mr. José Antonio Álvarez Álvarez	11	-	11	-	-	-
Mr. Matías Rodríguez Inciarte	13	-	13	8	-	8
Mr. Rodrigo Echenique Gordillo	24	-	24	317	-	317
Mr. Javier Botín-Sanz de Sautuola y O'Shea	6	-	6	18	-	18
Mr. Ángel Jado Becerro de Bengoa	2	-	2	1	-	1
Ms. Isabel Tocino Biscarolasaga	-	-	-	7	-	7
Mr. Javier Marín Romano[1]	-	-	-	723	-	723
Mr. Juan Rodríguez Inciarte[2]	-	-	-	4,182	-	4,182
	102	**-**	**102**	**5,255**	**-**	**5,255**

1. Ceased to be a member of the board and executive vice president on 12 January 2015.
2. Ceased to be a member of the board on 30 June 2015 and executive vice president on 1 January 2016. Positions held at the Group are included in Note 53.

g) Senior managers

In 2015 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 31 December 2015 and 2014, excluding the remuneration of the executive directors, which is detailed above:

Thousands of euros

	Short-term salaries					
			Variable remuneration (bonus) - Immediate payment			
	Number of persons	Fixed	In cash	In shares[2]	Other remuneration[1]	Total
2015	21	17,838	6,865	6,865	5,016	36,584
2014	25	24,772	9,259	9,259	12,729[3]	56,019

1. Includes other remuneration items such as life insurance premiums totalling EUR 1,309 thousand (2014: EUR 1,290 thousand).
2. The amount of the immediate payment in shares for 2015 relates to 1,726,893 Santander shares (2014: 1,514,738 Santander shares and 148,631 Banco Santander (Brasil) S.A. shares).
3. Includes USD 6.9 million were paid in relation to the extraordinary taxation in the United States due to the transformation of the pension plans of Banco Santander, S.A.

Also, the detail of the deferred (i.e. long-term) salaries of the members of senior management at 31 December 2015 and 2014 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 47).

Thousands of euros

		Long-term salaries			
		Variable remuneration - Deferred payment[1]			
	Number of persons	In cash	In shares	ILP[2]	Total
2015	21	7,880	7,880	3,732	19,492
2014	25	11,751	11,751	2,264	25,766

1. Relates to the fifth and fourth cycles of the deferred conditional variable remuneration plan, whereby payment of a portion of the variable remuneration for 2015 and 2014 will be deferred over five or three years and three years, respectively, for it to be paid, where appropriate, in five or three equal portions, 50% in cash and 50% in Santander shares, provided that the conditions for entitlement to the remuneration are met.
2. Relates to the estimated fair value of the ILP. The accrual and amount of the ILP are subject, inter alia, to achievement of the multiannual targets envisaged in the plan. Any ILP payments will be received in full in shares and deferred in 2019 —in the case of the second cycle approved in 2015, or in thirds in the case of the first cycle approved in 2014—.

Also, executive vice presidents who retired in 2015 and, therefore, were not members of senior management at year-end, received in 2015 salaries and other remuneration relating to their retirement amounting to EUR 17,803 thousand (EUR 3,349 thousand for those who retired in 2014), and remained entitled to long-term salary remuneration of EUR 7,123 thousand (EUR 1,342 thousand for those who retired in 2014).

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 31 December 2015 and 2014 relating to the deferred portion under the various plans then in force (see Note 47):

Maximum number of shares to be delivered

	31/12/15	31/12/14
Deferred conditional variable remuneration plan (2011)	-	637,995
Deferred conditional variable remuneration plan (2012)	447,214	1,014,196
Deferred conditional variable remuneration plan (2013)[1]	852,898	1,412,164
Deferred conditional variable remuneration plan (2014)[2]	1,802,779	1,857,841
Deferred conditional variable remuneration plan (2015)[3]	2,480,849	-
ILP (2014)	1,025,853	1,008,398
ILP (2015)	1,798,395	-

1. Also, they were entitled to a maximum of 111,962 Banco Santander (Brasil) S.A. shares at 31 December 2015.
2. In addition, at 31 December 2015 and 2014 they were entitled to a maximum of 222,946 Banco Santander (Brasil) S.A. shares (the maximum number of shares corresponding to the deferred portion of the 2014 bonus).
3. Also, they were entitled to a maximum of 252,503 Banco Santander (Brasil) S.A. shares at 31 December 2015.

In 2015 and 2014, 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

	2015	2014
Deferred conditional delivery plan (2010)	-	365,487
Deferred conditional variable remuneration plan (2011)	550,064	637,996
Deferred conditional variable remuneration plan (2012)	447,212	507,098
Deferred conditional variable remuneration plan (2013)	426,449	-

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, the senior executives who have not exercised the option described in Note 5.c are entitled to an annual emolument until the date of retirement.

The senior executives' beginning balance under the new employee welfare system amounted to EUR 287 million. This balance reflects the market value, at the date of conversion of the former pension obligations into the new employee welfare system, of the assets in which the provisions for the respective accrued obligations had been invested. The balance at 31 December 2015 amounted to EUR 250 million (31 December 2014: EUR 296 million).

The contracts of the senior executives who had not exercised the option referred to in Note 5.c) prior to the conversion of the defined-benefit pension obligations into the current welfare system include a supplementary welfare regime for the contingencies of death (surviving spouse and child benefits) and permanent disability of serving executives.

In 2015 the number of executive vice presidents was reduced: two of them requested payment of the pensions to which they were entitled in a lump sum amounting to EUR 53.2 million, and an additional three took voluntary pre-retirement and opted to receive the annual pre-retirement emoluments to which they were entitled in a single payment amounting to EUR 21.5 million.

Additionally, the total sum insured under life and accident insurance policies relating to this group of employees amounted to EUR 76.8 million at 31 December 2015 (31 December 2014: EUR 154 million).

Lastly, the net charge to profit or loss amounted to EUR 21 million in 2015 (2014: EUR 20 million).

h) Post-employment benefits to former directors and former executive vice presidents

The post-employment benefits and settlements paid in 2015 to former directors of the Bank, other than those detailed in Note 5.c and below[4], amounted to EUR 8.5 million (2014: EUR 8.9 million). Also, the post-employment benefits and settlements paid in 2015 to former executive vice presidents amounted to EUR 10.2 million (2014: EUR 37.2 million).

4. In January 2013, upon his retirement, Mr. Francisco Luzón López requested payment of the pensions to which he was entitled in a lump sum (EUR 65.4 million gross). For such purpose, his pension rights were settled, in accordance with the applicable contractual and legal terms, through: i) the payment in cash of EUR 21.1 million relating to the net amount of the pension calculated taking into account the fixed remuneration and the bylaw-stipulated emoluments, and EUR 7.1 million relating to the net amount of the pension calculated taking into account the accrued variable remuneration at the retirement date, ii) the investment by Mr. Luzón of those EUR 7.1 million in Santander shares (1,144,110 shares), which shall be deposited on a restricted basis until 23 January 2017, and iii) the investment by the Bank of the gross remaining amount of the pension (EUR 6.6 million), calculated taking into account the unaccrued variable remuneration, in Santander shares (1,061,602 shares), which remained pending delivery to Mr. Luzón (subject to the same restriction period mentioned above and net of tax) depending on whether or not the variable remuneration giving rise to them finally accrued to him. Of these 1,061,602 shares, on the accrual of the variable remuneration giving rise to them, 800,296 shares were delivered to Mr. Luzón in January 2014 (January 2015: 261,306 shares), and they have been deposited on a restricted basis until 23 January 2017.

In 2015 a period provision of EUR 250 thousand 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 424 thousand was also recognised in relation to former executive vice presidents (2014: a period provision of EUR 250 thousand was recognised and EUR 3,272 thousand were released, respectively).

In addition, Provisions - Provision for pensions and similar obligations in the consolidated balance sheet as at 31 December 2015 included EUR 89 million in respect of the post-employment benefit obligations to former directors of the Bank (31 December 2014: EUR 91 million) and EUR 121 million corresponding to former executive vice presidents (2014: EUR 114 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 20% in the event of voluntary retirement before the age of 60.

If Ms. Ana Botín-Sanz de Sautuola y O'Shea takes pre-retirement, she has the right to opt to receive the annual emoluments in the form of an annuity or a lump sum -i.e. in a single payment- in full but not in part.

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.

If Mr. José Antonio Álvarez Álvarez takes pre-retirement, he has the right to opt to receive the annual emoluments in the form of an annuity or a lump sum -i.e. in a single payment- in full but not in part.

For his part, Mr. Matías Rodríguez Inciarte may take retirement at any time and, therefore, claim from the insurer the benefits corresponding to him under the externalised employee welfare system described in Note 5.c above, with no obligation whatsoever being incumbent upon the Bank in such circumstance.

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.

However, should Mr. Rodrigo Echenique Gordillo's contract be terminated prior to 1 January 2018, unless it is terminated voluntarily or due to his death, permanent disability, or serious breach of his duties, he shall be entitled to receive compensation of twice his fixed salary.

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 whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Director	Corporate name	Number of shares	Functions
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	6,050,000	-
	SAM Investment Holdings Limited	-	Director[1]
	Santander UK Group Holdings Limited	-	Director[1]
	Santander UK plc	-	Director[1]
Mr. José Antonio Álvarez Álvarez	Banco Santander (Brasil) S.A.	-	Director[1]
	SAM Investment Holdings Limited	-	Director[1]
Mr. Rodrigo Echenique Gordillo	Wells Fargo & Co.	2,250	-
	Bank of America Corporation	6,000	-
	Grupo Financiero Santander México, S.A.B. de C.V.	-	Director[1]
	Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	-	Director[1]
	Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	-	Director[1]
	Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	-	Director[1]
	Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	-	Director[1]
	Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	-	Director[1]
Mr. Matías Rodríguez Inciarte	Financiera de Ponferrada, S.A., SICAV	-	Director[1]
	Unión de Crédito Inmobiliario, S.A., EFC	-	Chairman[1]
	Financiera El Corte Inglés, E.F.C., S.A.	-	Director[1]
Mr. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.)	19,546	-
	Banco Popular Español, S.A.	2,789	-
Mr. Bruce Carnegie-Brown	Santander UK Group Holdings Limited	-	Director[1]
	Santander UK plc	-	Director[1]
	Moneysupermarket.com Group plc	-	Director[1]
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	7,929,853	-
Ms. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	-	Director[1]
Mr. Ángel Jado Becerro de Bengoa	Bankinter, S.A.[2]	1,774,000	-
Ms. Isabel Tocino Biscarolasaga	Banco Bilbao Vizcaya Argentaria, S.A.	9,585	-
Mr. Abel Matutes Juan[4]	Banco Bilbao Vizcaya Argentaria, S.A.*	716,136	-
	Citibank	109,062	-
Mr. Juan Rodríguez Inciarte[5]	Banco Bilbao Vizcaya Argentaria, S.A.[3]	1,184	-
	Wells Fargo & Co.	107	-
	Santander UK plc	-	Director[1]
	Santander Consumer Finance, S.A.	-	Director[1]

* Ownership interests held by related persons.

1. Non-executive.
2. Of the shares indicated, 274,000 are held by related persons.
3. Held jointly with a related person.
4. Ceased to be a director on 18 February 2015.
5. Ceased to be a member of the board on 30 June 2015.

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 in 2015 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 175 occasions in 2015. The breakdown of these 175 cases is as follows: 56 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; 92 related to matters connected with remuneration or the extension of loans or credits; 20 related to the debate of proposed financing or other lending transactions involving companies related to directors; and on 7 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 credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Classification:			
Financial assets held for trading	2,293	1,815	5,503
Other financial assets at fair value through profit or loss	26,403	28,592	13,444
Loans and receivables	50,256	51,306	56,017
	78,952	**81,713**	**74,964**
Type:			
Reciprocal accounts	2,947	1,571	1,858
Time deposits	7,142	8,177	16,284
Reverse repurchase agreements	37,744	39,807	29,702
Other accounts	31,119	32,158	27,120
	78,952	**81,713**	**74,964**
Currency:			
Euro	46,397	49,099	33,699
Pound sterling	5,192	4,348	4,964
US dollar	18,413	15,964	14,915
Other currencies	8,969	12,381	21,423
Impairment losses (Note 10)	(19)	(79)	(37)
Of which: due to country risk	*(12)*	*(13)*	*(11)*
	78,952	**81,713**	**74,964**

The loans and advances to credit institutions classified under Financial assets held for trading consist mainly of securities of foreign institutions acquired under reverse repurchase agreements, whereas those classified under Other financial assets at fair value through profit or loss consist of assets of Spanish and foreign institutions acquired under reverse repurchase agreements.

The loans and advances to credit institutions classified under Loans and receivables are mainly time deposits and guarantees given in cash to credit institutions.

The impairment losses on financial assets recognised in Loans and receivables are disclosed in Note 10.

Note 51 contains a detail of the residual maturity periods of Loans and receivables and of the related average interest rates.

7. Debt instruments

a) Detail

The detail, by classification, type and currency, of Debt instruments in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Classification:			
Financial assets held for trading	43,964	54,374	40,841
Other financial assets at fair value through profit or loss	3,717	4,231	3,875
Available-for-sale financial assets	117,187	110,249	79,844
Loans and receivables	10,907	7,510	7,886
Held-to-maturity investments	4,355	-	-
Type	**180,130**	**176,364**	**132,446**
Spanish government debt securities	45,787	39,182	32,880
Foreign government debt securities	88,346	93,037	59,660
Issued by financial institutions	18,843	18,041	17,206
Other fixed-income securities	27,445	26,248	22,907
Impairment losses	(291)	(144)	(207)
	180,130	**176,364**	**132,446**
Currency:			
Euro	81,196	74,833	63,263
Pound sterling	10,551	9,983	7,709
US dollar	27,011	20,452	14,195
Other currencies	61,663	71,240	47,486
Impairment losses	(291)	(144)	(207)
	180,130	**176,364**	**132,446**

In 2015 the Group reclassified certain financial instruments from the available-for-sale portfolio into the held-to-maturity investment portfolio. Pursuant to the applicable legislation, the fair value of these instruments at the date of reclassification was considered their initial cost and the valuation adjustments in the Group's consolidated equity remained in the consolidated balance sheet, together with the adjustments relating to the other available-for-sale financial assets. The reclassified instruments were subsequently measured at their amortised cost, and both the difference between their amortised cost and their maturity amount and the valuation adjustments previously recognised in equity will be recognised in the consolidated income statement over the remaining life of the financial assets using the effective interest method.

b) Breakdown

The breakdown, by origin of the issuer, of Debt instruments at 31 December 2015, 2014 and 2013, net of impairment losses, is afollows:

Millions of euros

	2015				2014				2013			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
Spain	7,387	45,787	53,174	29.52%	8,542	39,182	47,724	27.06%	11,752	32,880	44,632	33.70%
Portugal	3,889	9,975	13,864	7.70%	3,543	8,698	12,241	6.94%	2,634	3,465	6,099	4.60%
United Kingdom	3,746	6,456	10,202	5.66%	3,502	7,577	11,079	6.28%	3,268	5,112	8,380	6.33%
Poland	802	5,470	6,272	3.48%	745	6,373	7,118	4.04%	723	5,184	5,907	4.46%
Italy	1,312	4,423	5,735	3.18%	1,670	4,170	5,840	3.31%	733	2,857	3,590	2.71%
Ireland	342	-	342	0.19%	405	-	405	0.23%	848	-	848	0.64%
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Other European countries	7,912	3,133	11,045	6.13%	7,327	4,267	11,594	6.57%	5,357	3,607	8,964	6.77%
United States	11,919	9,753	21,672	12.03%	8,793	5,847	14,640	8.30%	5,945	3,997	9,942	7.51%
Brazil	5,405	25,588	30,993	17.21%	5,673	37,792	43,465	24.65%	4,954	19,852	24,806	18.73%
Mexico	723	15,296	16,019	8.89%	847	9,071	9,918	5.62%	566	8,156	8,722	6.59%
Chile	1,027	2,032	3,059	1.70%	909	2,389	3,298	1.87%	1,467	1,272	2,739	2.07%
Other American countries	762	1,611	2,373	1.32%	1,558	1,514	3,072	1.74%	1,384	995	2,379	1.80%
Rest of the world	771	4,609	5,380	2.99%	631	5,339	5,970	3.38%	275	5,163	5,438	4.11%
	45,997	**134,133**	**180,130**	**100%**	**44,145**	**132,219**	**176,364**	**100%**	**39,906**	**92,540**	**132,446**	**100%**

The detail, by issuer rating, of Debt instruments at 31 December 2015, 2014 and 2013 is as follows:

Millions of euros

	2015				2014				2013			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
AAA	16,975	9,164	26,139	14.51%	17,737	10,647	28,384	16.09%	10,357	7,847	18,204	13.74%
AA	3,452	13,168	16,620	9.23%	2,763	14,770	17,533	9.94%	2,884	11,304	14,188	10.71%
A	7,379	9,120	16,499	9.16%	5,711	6,373	12,084	6.85%	5,036	5,184	10,220	7.72%
BBB	8,011	65,707	73,718	40.92%	5,215	90,505	95,720	54.27%	7,158	64,341	71,499	53.98%
Below BBB	2,575	35,573	38,148	21.18%	3,092	8,698	11,790	6.69%	6,386	3,864	10,250	7.74%
Unrated	7,605	1,401	9,006	5.00%	9,627	1,226	10,853	6.15%	8,085	-	8,085	6.10%
	45,997	**134,133**	**180,130**	**100%**	**44,145**	**132,219**	**176,364**	**100%**	**39,906**	**92,540**	**132,446**	**100%**

The distribution of exposure by rating shown in the foregoing table has been affected by the various reviews of sovereign issuer ratings conducted in recent years. The main review in 2015 was that of Brazil (from BBB to Below BBB), whereas the main review in 2014 was that of Argentina (from Below BBB in 2013 to Unrated in 2014). Also, at 31 December 2015 the exposures with BBB ratings included mainly the sovereign exposures in Spain and Mexico, while those with ratings Below BBB included the sovereign exposures in Portugal and Brazil.

The detail, by type of financial instrument, of Private fixed-income securities at 31 December 2015, 2014 and 2013, net of impairment losses, is as follows:

Millions of euros

	2015	2014	2013
Securitised mortgage bonds	2,110	3,388	2,936
Other asset-backed bonds	3,073	2,315	2,781
Floating rate debt	16,633	13,172	10,857
Fixed rate debt	24,181	25,270	23,332
Total	**45,997**	**44,145**	**39,906**

c) Impairment losses

The changes in the impairment losses on Available-for-sale financial assets - Debt instruments are summarised below.

Millions of euros

	2015	2014	2013
Balance at beginning of year	119	188	129
Net impairment losses for the year	119	42	72
Of which:			
Impairment losses charged to income (Note 29)	*127*	*42*	*89*
Impairment losses reversed with a credit to income	*(8)*	*-*	*(18)*
Assets written off	-	(110)	-
Exchange differences and other items	(42)	(1)	(13)
Balance at end of year	**196**	**119**	**188**
Of which:			
By geographical location of risk:			
European Union	*9*	*9*	*105*
Latin America	*187*	*110*	*83*

Also, the impairment losses on Loans and receivables (EUR 95 million, EUR 25 million and EUR 19 million at 31 December 2015, 2014 and 2013, respectively) are disclosed in Note 10).

d) Other information

At 31 December 2015, the nominal amount of debt instruments assigned to certain own or third-party commitments, mainly to secure financing facilities received by the Group, amounted to EUR 80,746 million. Of these debt instruments, EUR 30,913 million related to Spanish government debt.

The detail, by term to maturity, of the debt instruments pledged as security for certain commitments, is as follows:

Millions of euros

	1 day	1 week	1 month	3 months	6 months	1 year	More than 12 months	Total
Government debt securities	4,994	35,611	5,349	5,906	6,875	528	3,559	62,822
Other debt instruments	2,380	2,968	2,494	1,642	811	512	942	11,749
Total	**7,374**	**38,579**	**7,843**	**7,548**	**7,686**	**1,040**	**4,501**	**74,571**

There are no particular conditions relating to the pledge of these assets that need to be disclosed.

Note 29 contains a detail of the valuation adjustments recognised in equity on available-for-sale financial assets.

Note 51 contains a detail of the residual maturity periods of Available-for-sale financial assets and of Loans and receivables and of the related average interest rates.

8. Equity instruments

a) Breakdown

The detail, by classification and type, of Equity instruments in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Classification:			
Financial assets held for trading	18,225	12,920	4,967
Other financial assets at fair value through profit or loss	630	879	866
Available-for-sale financial assets	4,849	5,001	3,955
	23,704	**18,800**	**9,788**
Type:			
Shares of Spanish companies	2,479	3,102	2,629
Shares of foreign companies	19,077	12,773	4,711
Investment fund units and shares	2,148	2,925	2,448
	23,704	**18,800**	**9,788**

Note 29 contains a detail of the valuation adjustments recognised in equity on available-for-sale financial assets, and also the related impairment losses.

b) Changes

The changes in Available-for-sale financial assets-Equity instruments were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	5,001	3,955	4,542
Changes in the scope of consolidation	-	-	-
Net additions (disposals)	(392)	743	(722)
Of which:			
Bank of Shanghai Co., Ltd.	*109*	*396*	-
SAREB	-	-	*44*
Valuation adjustments and other items	240	303	135
Balance at end of year	**4,849**	**5,001**	**3,955**

The main acquisitions and disposals made in 2015, 2014 and 2013 were as follows:

i. Bank of Shanghai Co., Ltd.

In May 2014 the Group acquired 8% of Bank of Shanghai Co., Ltd. for EUR 396 million.

In June 2015 the Group subscribed to a capital increase at this company for EUR 109 million, thereby retaining its ownership interest percentage.

ii. Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB)

In December 2012 the Group, together with other Spanish financial institutions, entered into an agreement to invest in the Spanish Bank Restructuring Asset Management Company (SAREB). The Group undertook to make an investment of up to EUR 840 million (25% in capital and 75% in subordinated debt), and at 31 December 2012, it had paid EUR 164 million of capital and EUR 490 million of subordinated debt.

In February 2013, following the review of the own funds that SAREB required, the aforementioned undertaking was reduced to EUR 806 million, and the Group disbursed the remaining EUR 44 million of capital and EUR 108 million of subordinated debt.

c) Notifications of acquisitions of investments

The notifications made by the Bank in 2015, 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. Trading 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 Group is as follows (see Note 36):

Millions of euros

	2015		2014		2013	
	Debit balance	Credit balance	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate risk	51,576	49,095	56,878	56,710	43,185	43,154
Currency risk	21,924	23,444	16,201	17,418	11,315	10,181
Price risk	2,598	3,343	2,800	4,118	3,247	4,609
Other risks	626	532	979	802	1,152	943
	76,724	**76,414**	**76,858**	**79,048**	**58,899**	**58,887**

b) Short positions

Following is a breakdown of the short positions:

Millions of euros

	2015	2014	2013
Borrowed securities:			
Debt instruments	3,098	3,303	3,921
Of which: Santander UK plc	*1,857*	*2,537*	*3,260*
Equity instruments	990	1,557	189
Of which: Santander UK plc	*905*	*1,435*	*7*
Short sales:			
Debt instruments	13,274	12,768	11,840
Of which:			
Banco Santander, S.A.	*6,953*	*7,093*	*6,509*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*1,290*	*1,561*	*2,882*
Banco Santander (Brasil) S.A.	*4,619*	*3,476*	*2,388*
Equity instruments	-	-	1
	17,362	**17,628**	**15,951**

10.Loans and advances to customers

a) Detail

The detail, by classification, of Loans and advances to customers in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Financial assets held for trading	6,081	2,921	5,079
Other financial assets at fair value through profit or loss	14,293	8,971	13,196
Loans and receivables	770,474	722,819	650,581
Of which:			
Disregarding impairment losses	*796,991*	*750,036*	*675,484*
Impairment losses	*(26,517)*	*(27,217)*	*(24,903)*
Of which, due to country risk	*(12)*	*(7)*	*(31)*
	790,848	**734,711**	**668,856**
Loans and advances to customers disregarding impairment losses*	**817,365**	**761,928**	**693,759**

* Includes Valuation adjustments for accrued interest receivable and other items amounting to EUR 3,628 million at 31 December 2015 (2014: EUR 3,402 million; 2013: EUR 2,593 million.

Note 51 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

Note 54 shows the Group's total exposure, by origin of the issuer.

There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

Following is a breakdown, by loan type and status, geographical area of residence and interest rate formula, of the loans and advances to customers of the Group, which reflect the Group's exposure to credit risk in its core business, disregarding impairment losses:

Millions of euros

	2015	2014	2013
Loan type and status:			
Commercial credit	18,404	18,900	11,898
Secured loans	478,925	440,827	396,432
Reverse repurchase agreements	11,969	3,993	13,223
Other term loans	216,862	206,261	185,951
Finance leases	22,798	15,353	15,871
Receivable on demand	8,466	10,329	10,155
Credit cards receivables	20,180	22,491	17,316
Impaired assets	36,133	40,372	40,320
Valuation adjustments for Accrued interest receivable and other items	3,628	3,402	2,593
	817,365	**761,928**	**693,759**
Geographical area:			
Spain	167,856	172,371	173,852
European Union (excluding Spain)	401,315	353,674	328,118
United States and Puerto Rico	88,737	71,764	43,566
Other OECD countries	69,519	60,450	54,713
Latin America (non-OECD)	77,519	93,145	84,000
Rest of the world	12,419	10,524	9,510
	817,365	**761,928**	**693,759**
Interest rate formula:			
Fixed rate	407,026	363,679	280,188
Floating rate	410,339	398,249	413,571
	817,365	**761,928**	**693,759**

At 31 December 2015, the Group had granted loans amounting to EUR 13,993 million (31 December 2014: EUR 17,465 million; 31 December 2013: EUR 13,374 million) to Spanish public sector agencies (which had ratings of BBB at 31 December 2015, 2014 and 2013), and EUR 7,722 million to the public sector in other countries (31 December 2014: EUR 7,053 million; 31 December 2013: EUR 4,402 million). At 31 December 2015, the breakdown of this amount by issuer rating was as follows: 21.2% AAA, 9.4% AA, 0.5% A, 46% BBB and 22.9% below BBB.

At 31 December 2015, the Group had EUR 759,627 million of loans and advances to customers classified as other than non-performing (excluding loans granted to the public sector). The percentage breakdown of these loans and advances by counterparty credit quality is as follows: 11.6% AAA, 14.85% AA, 18.9% A, 24.8% BBB and 29.9% below BBB.

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by the Group (see Note 54) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2015, net of impairment losses:

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	21,732	19,859	297	1,576	458	509	86	622	198
Other financial institutions	41,681	23,738	505	17,438	394	388	199	16,767	195
Non-financial companies and individual traders	265,645	135,992	62,122	67,531	20,808	17,532	18,589	47,505	25,219
Of which:									
Construction and property development	*28,508*	*3,841*	*21,321*	*3,346*	*7,551*	*5,315*	*5,354*	*4,129*	*2,318*
Civil engineering construction	*2,701*	*1,618*	*181*	*902*	*51*	*190*	*163*	*280*	*399*
Large companies	*139,075*	*90,805*	*10,682*	*37,588*	*4,498*	*4,307*	*3,736*	*21,327*	*14,402*
SMEs and individual traders	*95,361*	*39,728*	*29,938*	*25,695*	*8,708*	*7,720*	*9,336*	*21,769*	*8,100*
Other households and non-profit institutions serving households	470,886	102,902	328,301	39,683	68,910	105,397	103,201	49,508	40,968
Of which:									
Residential	*325,167*	*1,827*	*322,472*	*868*	*63,600*	*101,107*	*99,512*	*44,883*	*14,238*
Consumer loans	*133,633*	*97,688*	*1,973*	*33,972*	*3,647*	*3,011*	*2,045*	*1,897*	*25,345*
Other purposes	*12,086*	*3,387*	*3,856*	*4,843*	*1,663*	*1,279*	*1,644*	*2,728*	*1,385*
Subtotal	**799,944**	**282,491**	**391,225**	**126,228**	**90,570**	**123,826**	**122,075**	**114,402**	**66,580**
Less: valuation adjustments on unimpaired assets	9,096								
Total	**790,848**								
Memorandum item									
*Refinanced and restructured transactions**	*45,240*	*9,673*	*17,398*	*18,169*	*4,116*	*4,312*	*5,386*	*5,228*	*16,525*

* Includes the net balance of the valuation adjustments associated with impaired assets. Also, this portfolio has an allowance of EUR 788 million in relation to valuation adjustments associated with unimpaired assets.

a. The ratio of the carrying amount of the transactions at 31 December 2015 to the latest available appraisal value of the collateral.

Note 54 contains information relating to the restructured/refinanced loan book.

c) Impairment losses

The changes in the impairment losses on the assets making up the balances of Loans and receivables - Loans and advances to customers, Loans and receivables - Loans and advances to credit institutions (see Note 6) and Loans and receivables - Debt instruments (see Note 7) were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	27,321	24,959	25,467
Net impairment losses charged to income for the year	11,569	11,857	12,054
Of which:			
Impairment losses charged to income	*16,557*	*16,518*	*17,551*
Impairment losses reversed with a credit to income	*(4,988)*	*(4,661)*	*(5,497)*
Write-off of impaired balances against recorded impairment allowance	(12,361)	(11,827)	(10,626)
Exchange differences and other changes	102	2,332	(1,936)
Balance at end of year	**26,631**	**27,321**	**24,959**
Of which:			
By status of the asset:			
Impaired assets	*17,531*	*19,451*	*18,788*
Of which: due to country risk (Note 2.g)	*24*	*20*	*42*
Other assets	*9,100*	*7,870*	*6,171*
By classification of assets:			
Loans and advances to credit institutions (Note 6)	*19*	*79*	*37*
Debt instruments (Note 7)	*95*	*25*	*19*
Loans and advances to customers	*26,517*	*27,217*	*24,903*

Previously written-off assets recovered in 2015, 2014 and 2013 amounted to EUR 1,375 million, EUR 1,336 million and EUR 1,068 million, respectively. Taking into account these amounts and those recognised in Impairment losses charged to income for the year in the foregoing table, impairment losses on Loans and receivables amounted to EUR 10,194 million in 2015, EUR 10,521 million in 2014 and EUR 10,986 million in 2013.

d) Impaired assets and assets with unpaid past-due amounts

The detail of the changes in the balance of the financial assets classified as Loans and receivables - Loans and advances to customers and considered to be impaired due to credit risk is as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	40,372	40,320	35,301
Net additions	7,862	9,841	16,438
Written-off assets	(12,361)	(11,827)	(10,626)
Changes in the scope of consolidation	106	497	699
Exchange differences and other	154	1,541	(1,492)
Balance at end of year	**36,133**	**40,372**	**40,320**

This amount, after deducting the related allowances, represents the Group's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

At 31 December 2015, the Group's written-off assets totalled EUR 36,848 million (31 December 2014: EUR 35,654 million; 31 December 2013: EUR 30,006 million).

Following is a detail of the financial assets classified as Loans and receivables and considered to be impaired due to credit risk at 31 December 2015, classified by geographical location of risk and by age of the oldest past-due amount:

Millions of euros

		With balances past due by				
	With no past-due balances or less than 90 days past due	**90 to 180 days**	**180 to 270 days**	**270 days to 1 year**	**More than 1 year**	**Total**
Spain	6,623	894	622	551	8,329	17,019
European Union (excluding Spain)	1,854	1,720	916	791	4,394	9,675
United States and Puerto Rico	1,305	135	58	29	257	1,784
Other OECD countries	721	894	232	194	1,237	3,278
Latin America (non-OECD)	1,418	995	666	477	766	4,322
Rest of the world	8	2	-	-	45	55
	11,929	**4,640**	**2,494**	**2,042**	**15,028**	**36,133**

The detail at 31 December 2014 is as follows:

Millions of euros

		With balances past due by				
	With no past-due balances or less than 90 days past due	**90 to 180 days**	**180 to 270 days**	**270 days to 1 year**	**More than 1 year**	**Total**
Spain	6,664	2,764	909	866	9,404	20,607
European Union (excluding Spain)	2,027	2,520	908	767	3,532	9,754
United States and Puerto Rico	661	626	58	29	329	1,703
Other OECD countries	272	1,364	259	239	1,726	3,860
Latin America (non-OECD)	1,324	338	933	841	1,012	4,448
Rest of the world	-	-	-	-	-	-
	10,948	**7,612**	**3,067**	**2,742**	**16,003**	**40,372**

The detail at 31 December 2013 is as follows:

Millions of euros

		With balances past due by				
	With no past-due balances or less than 90 days past due	**90 to 180 days**	**180 to 270 days**	**270 days to 1 year**	**More than 1 year**	**Total**
Spain	6,876	3,327	1,707	1,700	8,255	21,865
European Union (excluding Spain)	1,791	3,141	994	763	3,461	10,150
United States and Puerto Rico	322	178	78	43	417	1,038
Other OECD countries	231	1,377	346	273	626	2,853
Latin America (non-OECD)	600	1,332	877	787	816	4,412
Rest of the world	-	-	-	-	2	2
	9,820	**9,355**	**4,002**	**3,566**	**13,577**	**40,320**

Set forth below for each class of impaired asset are the gross amount, associated allowances and information relating to the collateral and/or other credit enhancements obtained at 31 December 2015:

Millions of euros

	Gross amount	Allowance recognised	Estimated collateral value*
Without associated collateral	13,423	8,940	-
With property collateral	20,236	7,229	11,577
With other collateral	2,474	1,252	628
Balance at end of year	**36,133**	**17,421**	**12,205**

* Including the estimated value of the collateral associated with each loan. Accordingly, any other cash flows that may be obtained, such as those arising from borrowers' personal guarantees, are not included.

When classifying assets in the foregoing table, the main factors considered by the Group to determine whether an asset has become impaired are the existence of amounts past due -assets impaired due to arrears- or other circumstances that lead it to believe that not all the contractual cash flows will be recovered -assets impaired for reasons other than arrears-, such as a deterioration of the borrower's financial situation, the worsening of its capacity to generate funds or difficulties experienced by it in accessing credit.

Loans classified as standard: past-due amounts receivable
In addition, at 31 December 2015, there were assets with amounts receivable that were past due by 90 days or less, the detail of which, by age of the oldest past-due amount, is as follows:

Millions of euros

	Less than1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	1,654	553	407
Public sector	*4*	-	-
Private sector	*1,650*	*553*	*407*
Total	**1,654**	**553**	**407**

e) Securitisation

Loans and advances to customers includes, inter alia, the securitised loans transferred to third parties on which the Group has retained the risks and rewards, 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. Note 22 details the liabilities associated with these securitisation transactions.

Millions of euros

	2015	2014	2013
Derecognised	685	2,391	3,618
Of which			
Securitised mortgage assets	*685*	*2,391*	*3,618*
Retained on the balance sheet	107,643	100,503	78,229
Of which			
Securitised mortgage assets	*54,003*	*57,808*	*56,277*
Of which: UK assets	*30,833*	*36,475*	*45,296*
Other securitised assets(*)	*53,640*	*42,695*	*21,952*
Total	**108,328**	**102,894**	**81,847**

* The increase in Other securitised assets in 2014 with respect to 31 December 2013 relates mainly to the acquisition of control of SCUSA by the Group in January 2014 (see Note 3).

Securitisation is used as a tool for the management of regulatory capital and as a means of diversifying the Group's liquidity sources. In 2015, 2014 and 2013 the Group did not derecognise any of the securitisations performed, and the balance shown as derecognised for those years relates to securitisations performed in prior years.

The loans derecognised include assets of Santander Holdings USA, Inc. amounting to approximately EUR 506 million at 31 December 2015 (31 December 2014: EUR 1,942 million; 31 December 2013: EUR 3,082 million) that were sold, prior to this company's inclusion in the Group, on the secondary market for multifamily loans, and over which control was transferred and substantially all the associated risks and rewards were not retained. At 31 December 2015, the Group recognised under Other liabilities an obligation amounting to EUR 6 million (31 December 2014: EUR 34 million; 31 December 2013: EUR 49 million), which represents the fair value of the retained credit risk.

The loans retained on the face of the balance sheet include the loans associated with securitisations in which the Group retains a subordinated debt and/or grants any manner of credit enhancements to the new holders.

The loans transferred through securitisation are mainly mortgage loans, loans to companies and consumer loans.

11. Hedging derivatives

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting is as follows (see Note 36):

Millions of euros

	2015		2014		2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fair value hedges	4,620	5,786	5,072	5,321	5,403	4,146
Of which: Portfolio hedges	*426*	*2,168*	*413*	*2,319*	*610*	*1,703*
Cash flow hedges	2,449	3,021	2,094	1,650	1,766	1,023
Hedges of net investments in foreign operations	658	130	180	284	1,132	114
	7,727	**8,937**	**7,346**	**7,255**	**8,301**	**5,283**

Note 36 contains a description of the Group's main hedges.

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Tangible assets	5,623	5,256	4,845
Of which:			
Foreclosed assets	*5,533*	*5,139*	*4,742*
Of which: Property assets in Spain (Note 54)	*4,983*	*4,597*	*4,146*
Other tangible assets held for sale	*90*	*117*	*103*
Other assets	23	120	47
	5,646	**5,376**	**4,892**

At 31 December 2015, the allowances recognised represented 51.4% (2014: 51.3%; 2013: 51.1%). The net charges recorded in those years amounted to EUR 222 million, EUR 339 million and EUR 335 million, respectively (see Note 50).

In 2015 the Group sold, for EUR 898 million, foreclosed properties with a gross carrying amount of EUR 1,375 million, for which provisions totalling EUR 517 million had been recognised. These sales gave rise to gains of EUR 40 million; in addition, other tangible assets were sold for EUR 42 million, giving rise to a gain of EUR 11 million (see Note 50).

13. Investments

a) Breakdown

The detail, by company, of Investments (see Note 2.b) is as follows:

Millions of euros

	2015	2014	2013
Associates			
Zurich Santander Insurance América, S.L.	873	997	826
Santander Insurance (Ireland)	301	288	-
Metrovacesa, S.A.	-	-	647
Other companies	485	490	356
	1,659	**1,775**	**1,829**
Entidades multigrupo			
SAM Investment Holdings Limited	514	456	449
Aegon Santander Seguros	240	227	213
Unión de créditos inmobiliarios, S.A., EFC	184	178	189
Santander Consumer USA Inc.	-	-	2,159
Other companies	654	835	697
	1,592	**1,696**	**3,707**

b) Changes

The changes in Investments were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	3,471	5,536	4,454
Acquisitions (disposals) and capital increases (reductions)	(72)	80	422
Changes in the scope of consolidation (Note 3)	21	(2,383)	769
Of which:			
Santander Consumer USA Inc.	-	*(2,159)*	-
Metrovacesa Group	-	*(642)*	-
Santander Insurance (Ireland)	-	*285*	-
SAM Investment Holdings Limited	-	-	*449*
Aegon Santander Seguros	-	-	*211*
Effect of equity accounting (Note 41)	375	243	500
Dividends paid and reimbursements of share premium	(227)	(178)	(303)
Exchange differences and other changes	(317)	173	(306)
Balance at end of year	**3,251**	**3,471**	**5,536**

c) Impairment losses

In 2015, 2014 and 2013 there was no evidence of material impairment on the Group's investments.

d) Other information

Following is a summary of the financial information on the companies accounted for using the equity method (obtained from the information available at the date of preparation of the financial statements:

Millions of euros

	2015	2014	2013
Total assets	42,510	40,749	63,443
Total liabilities	(38,118)	(36,120)	(55,483)
Net assets	**4,392**	**4,629**	**7,960**
Group's share of net assets	1,904	2,272	3,755
Goodwill	1,347	1,199	1,781
Of which:			
Zurich Santander Insurance América, S.L.	*526*	*526*	*526*
Santander Insurance (Ireland)	*205*	*205*	-
Santander Consumer USA Inc.	-	-	*937*
Total Group share	**3,251**	**3,471**	**5,536**
Total income	11,430	9,780	11,756
Total profit	935	750	1,029
Group's share of profit	**375**	**243**	**500**

Following is a summary of the financial information for 2015 on the main associates and jointly controlled entities (obtained from the information available at the date of preparation of the financial statements):

Millions of euros

	Total assets	Total liabilities	Total income	Total profit
Associates	**17,921**	**(15,826)**	**6,594**	**616**
Of which				
Zurich Santander Insurance América, S.L.	*9,724*	*(9,014)*	*4,048*	*407*
Santander Insurance (Ireland)	*1,606*	*(1,413)*	*826*	*23*
Jointly controlled entities	**24,589**	**(22,292)**	**4,836**	**319**
Of which				
SAM Investment Holdings Limited	*3,157*	*(2,482)*	*2,232*	*129*
Unión de Créditos Inmobiliarios, S.A., EFC	*12,236*	*(11,868)*	*422*	*3*
Aegon Santander Seguros	*610*	*(270)*	*293*	*27*
	42,510	**(38,118)**	**11,430**	**935**

At 31 December 2015, 2014 and 2013, the Group did not hold any ownership interests in jointly controlled entities or associates whose shares are listed.

14. Insurance contracts linked to pensions

The detail of Insurance contracts linked to pensions in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Assets relating to insurance contracts covering post-employment benefit plan obligations: Banco Santander, S.A.	299	345	342
	299	**345**	**342**

15. Liabilities under insurance contracts and Reinsurance assets

The detail of Liabilities under insurance contracts and Reinsurance assets in the consolidated balance sheets (see Note 2.j) is as follows:

Millions of euros

	2015			2014			2013		
Technical provisions for:	**Direct insurance and reinsurance assumed**	**Reinsurance ceded**	**Total (balance payable)**	**Direct insurance and reinsurance assumed**	**Reinsurance ceded**	**Total (balance payable)**	**Direct insurance and reinsurance assumed**	**Reinsurance ceded**	**Total (balance payable)**
Unearned premiums and unexpired risks	62	(39)	23	107	(34)	73	245	(36)	209
Life insurance	149	(136)	13	157	(146)	11	546	(183)	363
Claims outstanding	335	(112)	223	378	(107)	271	315	(55)	261
Bonuses and rebates	18	(9)	9	15	(8)	7	25	(6)	19
Other technical provisions	63	(35)	28	56	(45)	11	299	(76)	222
	627	**(331)**	**296**	**713**	**(340)**	**373**	**1,430**	**(356)**	**1,074**

The reduction in the amount of Direct insurance and reinsurance assumed at 31 December 2014 is due to the sale of the insurance companies in Ireland -Santander Insurance Life Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited- (see Note 3).

16. Tangible assets

a) Changes

The changes in Tangible assets in the consolidated balance sheets were as follows:

Millions of euros

	For own use	Leased out under an operating lease	Investment property	Total
Cost				
Balances at 1 January 2013	15,780	3,117	4,265	23,162
Additions / disposals (net) due to change in the scope of consolidation	(17)	-	541	524
Additions / disposals (net)	1,021	(124)	(23)	874
Transfers, exchange differences and other items	(989)	212	(139)	(916)
Balances at 31 December 2013	15,795	3,205	4,644	23,644
Additions / disposals (net) due to change in the scope of consolidation	229	2,472	3,296	5,997
Additions / disposals (net)	952	4,868	(774)	5,046
Transfers, exchange differences and other items	375	(79)	258	554
Balances at 31 December 2014	17,351	10,466	7,424	35,241
Additions / disposals (net) due to change in the scope of consolidation	(22)	1	(27)	(48)
Additions / disposals (net)	878	3,857	(88)	4,647
Transfers, exchange differences and other items	(765)	597	36	(132)
Balances at 31 December 2015	**17,442**	**14,921**	**7,345**	**39,708**
Accumulated depreciation:				
Balances at 1 January 2013	(7,626)	(869)	(164)	(8,659)
Disposals due to change in the scope of consolidation	16	-	-	16
Disposals	280	179	14	473
Charge for the year	(1,020)	(1)	(17)	(1,038)
Transfers, exchange differences and other items	416	(235)	(36)	145
Balances at 31 December 2013	(7,934)	(926)	(203)	(9,063)
Disposals due to change in the scope of consolidation	4	-	-	4
Disposals	403	157	43	603
Charge for the year	(1,048)	-	(12)	(1,060)
Transfers, exchange differences and other items	(404)	(1,009)	(22)	(1,435)
Balances at 31 December 2014	(8,979)	(1,778)	(194)	(10,951)
Disposals due to change in the scope of consolidation	(27)	-	5	(22)
Disposals	423	196	11	630
Charge for the year	(1,161)	-	(11)	(1,172)
Transfers, exchange differences and other items	296	(1,794)	(95)	(1,593)
Balances at 31 December 2015	**(9,448)**	**(3,376)**	**(284)**	**(13,108)**

Millions of euros

	For own use	Leased out under an operating lease	Investment property	Total
Impairment losses:				
Balances at 1 January 2013	(18)	(68)	(556)	(642)
Impairment charge for the year	(53)	(24)	(260)	(337)
Disposals due to change in the scope of consolidation	-	-	39	39
Exchange differences and other	(3)	-	16	13
Balances at 31 December 2013	(74)	(92)	(761)	(927)
Impairment charge for the year	(5)	(31)	(112)	(148)
Disposals due to change in the scope of consolidation	-	-	28	28
Exchange differences and other	31	-	(18)	13
Balances at 31 December 2014	(48)	(123)	(863)	(1,034)
Impairment charge for the year	(2)	(37)	(89)	(128)
Disposals due to change in the scope of consolidation	5	-	(4)	1
Exchange differences and other	-	1	(120)	(119)
Balances at 31 December 2015	**(45)**	**(159)**	**(1,076)**	**(1,280)**
Tangible assets, net:				
Balances at 31 December 2013	7,787	2,187	3,680	13,654
Balances at 31 December 2014	8,324	8,565*	6,367*	23,256
Balances at 31 December 2015	7,949	11,386	5,985	25,320

* The increases in 2014 in Tangible assets - Leased out under an operating lease and Tangible assets - Investment property were due to the business combinations of SCUSA and Metrovacesa, S.A, respectively (see Note 3.b.vii and 3.b.xv).

b) Property, plant and equipment for own use

The detail, by class of asset, of Property, plant and equipment - For own use in the consolidated balance sheets is as follows:

Millions of euros

	Cost	Accumulated depreciation	Impairment losses	Carrying amount
Land and buildings	5,781	(1,624)	(74)	4,083
IT equipment and fixtures	4,168	(3,271)	-	897
Furniture and vehicles	5,616	(2,983)	-	2,633
Construction in progress and other items	230	(56)	-	174
Balances at 31 December 2013	**15,795**	**(7,934)**	**(74)**	**7,787**
Land and buildings	5,829	(1,790)	(48)	3,991
IT equipment and fixtures	4,716	(3,722)	-	994
Furniture and vehicles	6,494	(3,409)	-	3,085
Construction in progress and other items	312	(58)	-	254
Balances at 31 December 2014	**17,351**	**(8,979)**	**(48)**	**8,324**
Land and buildings	5,754	(1,892)	(45)	3,817
IT equipment and fixtures	4,984	(3,927)	-	1,057
Furniture and vehicles	6,374	(3,561)	-	2,813
Construction in progress and other items	330	(68)	-	262
Balances at 31 December 2015	**17,442**	**(9,448)**	**(45)**	**7,949**

The carrying amount at 31 December 2015 in the foregoing table includes the following approximate amounts:

- EUR 5,870 million (31 December 2014: EUR 6,161 million; 31 December 2013: EUR 5,615 million) relating to property, plant and equipment owned by Group entities and branches located abroad.

- EUR 195 million (31 December 2014: EUR 187 million; 31 December 2013: EUR 138 million) relating to property, plant and equipment being acquired under finance leases by the consolidated entities.

c) Investment property

The fair value of investment property at 31 December 2015 amounted to EUR 6,012 million (2014: EUR 6,366 million; 2013: EUR 3,689 million). A comparison of the fair value of investment property at 31 December 2015 with the carrying amount gives rise to unrealised gross gains of EUR 27 million (gross losses of EUR 1 million and gross gains of EUR 9 million at 31 December 2014 and 2013, respectively).

The rental income earned from investment property and the direct costs related both to investment properties that generated rental income in 2015, 2014 and 2013 and to investment properties that did not generate rental income in those years are not material in the context of the consolidated financial statements.

d) 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 2015 in connection with these operating lease agreements amounted to EUR 297 million (2014: EUR 292 million; 2013: EUR 286 million). At 31 December 2015, the present value of the minimum future payments that the Group will incur in the compulsory term amounted to EUR 243 million payable within one year, EUR 774 million payable at between one and five years and EUR 1,544 million payable at more than five years.

17. Intangible assets - Goodwill

The detail of Goodwill, based on the cash-generating units giving rise thereto, is as follows:

Millions of euros

	2015	2014	2013
Santander UK	10,125	9,540	8,913
Banco Santander (Brazil)	4,590	6,129	5,840
Santander Consumer USA	3,081	2,762	-
Bank Zachodni WBK	2,423	2,418	2,487
Santander Bank, National Association	1,886	1,691	1,489
Santander Consumer Germany	1,217	1,315	1,315
Banco Santander Totta	1,040	1,040	1,040
Banco Santander – Chile	644	675	687
Santander Consumer Bank (Nordics)	546	564	171
Grupo Financiero Santander (Mexico)	517	561	541
Other companies	891	853	798
Total goodwill	**26,960**	**27,548**	**23,281**

The changes in Goodwill were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	27,548	23,281	24,626
Additions (Note 3)	235	3,176	398
Of which:			
Carfinco Financial Group Inc.	*162*	-	-
Santander Consumer USA Holdings Inc.	-	*2,482*	-
*Santander Consumer Bank (Nordics)**	-	*408*	-
Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H. S.A. - Banco Santander (Brasil) S.A.	-	*229*	-
Financiera El Corte Inglés, E.F.C., S.A.	-	*32*	-
Bank Zachodni WBK S.A.	-	-	*326*
Impairment losses	(115)	(2)	(40)
Disposals or changes in scope of consolidation	(172)	-	(39)
Exchange differences and other items	(536)	1,093	(1,664)
Balance at end of year	**26,960**	**27,548**	**23,281**

* In 2015 the Group completed the purchase price allocation, the goodwill on which finally amounted to EUR 391 million (see Note 3.b.xii).

The Group has goodwill generated by cash-generating units located in non-euro currency countries (mainly the UK, Brazil, the United States, Poland, Chile, Norway, Sweden and Mexico) and, therefore, this gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. Accordingly, in 2015 goodwill decreased by EUR 514 million due to exchange differences (see Note 29.c) which, pursuant to current legislation, were recognised with a credit to Valuation adjustments - Exchange differences in equity in the consolidated statement of recognised income and expense.

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable value to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The amount to be recovered of each cash-generating unit is determined taking into consideration the carrying amount (including any fair value adjustment arising on the business combination) of all the assets and liabilities of all the independent legal entities composing the cash-generating unit, together with the related goodwill.

The amount to be recovered of the cash-generating unit is compared with its recoverable amount in order to determine whether there is any impairment.

The Group's directors assess the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing information including the following: (i) certain macroeconomic variables that might affect its investments (population data, political situation, economic situation -including bankarisation-, among others) and (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the cash-generating unit carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital adequacy ratio, return on equity, among others).

Regardless of whether there is any indication of impairment, every year the Group calculates the recoverable amount of each cash-generating unit to which goodwill has been allocated and, to this end, it uses price quotations, if available, market references (multiples), internal estimates and appraisals performed by independent experts.

Firstly, the Group determines the recoverable amount by calculating the fair value of each cash-generating unit on the basis of the quoted price of the cash-generating units, if available, and of the price earnings ratios of comparable local entities.

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flow projections. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the Group's directors which normally cover a five-year period (unless a longer time horizon can be justified), (ii) discount rates determined as the cost of capital taking into account the risk-free rate of return plus a risk premium in line with the market and the business in which the units operate and (iii) constant growth rates used in order to extrapolate earnings in perpetuity which do not exceed the long-term average growth rate for the market in which the cash-generating unit in question operates.

The cash flow projections used by Group management to obtain the values in use are based on the financial budgets approved by both local management of the related local units and the Group's directors. The Group's budgetary estimation process is common for all the cash-generating units. The local management teams prepare their budgets using the following key assumptions:

a) Microeconomic variables of the cash-generating unit: management takes into consideration the current balance sheet structure, the product mix on offer and the business decisions taken by local management in this regard.

b) Macroeconomic variables: growth is estimated on the basis of the changing environment, taking into consideration expected GDP growth in the unit's geographical location and forecast trends in interest and exchange rates. These data, which are based on external information sources, are provided by the Group's economic research service.

c) Past performance variables: in addition, management takes into consideration in the projection the difference (both positive and negative) between the cash-generating unit's past performance and that of the market.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2015 year-end, of the most significant cash-generating units which were valued using the discounted cash flow method:

	Projected period	Discount rate*	Nominal perpetual growth rate
Santander UK	5 years	9.3%	2.5%
Banco Santander (Brazil)	5 years	15.2%	6.9%
Santander Bank, National Association**	7 years	9.0%	2.5%
Santander Consumer Germany	5 years	8.7%	2.5%
Santander Consumer USA	3 years	9.9%	3.0%
Banco Santander Totta	5 years	10.2%	2.5%
Santander Consumer Bank (Nordics)	5 years	9.0%	2.5%

* Post-tax discount rate for the purpose of consistency with the earnings projections used.

** A seven-year period was used for Santander Bank, National Association in order to provide normalised earnings projections which reflect the strategic plan of the cash-generating unit's new management team.

Given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis thereof using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +/- 50 basis points and the perpetuity growth rate by +/-50 basis points. Following the sensitivity analysis performed, the value in use of all the cash-generating units still exceeds their recoverable amount.

The recoverable amount of Bank Zachodni WBK, Banco Santander - Chile and Grupo Financiero Santander (México) was calculated as the fair values of the aforementioned cash-generating units obtained from the market prices of their shares at year-end. This value exceeded the recoverable amount.

Based on the foregoing, and in accordance with the estimates, projections and sensitivity analyses available to the Bank's directors, in 2015 the Group recognised impairment losses on goodwill totalling EUR 115 million (2014: EUR 2 million; 2013: EUR 40 million), under Impairment losses on other assets (net) - Goodwill and other intangible assets. This related mainly to the Group's businesses in Puerto Rico and was due to the deterioration of the projected business expectations.

At 31 December 2015, none of the cash-generating units with significant goodwill had a recoverable amount approximating their carrying amount. The recoverable amount is considered to be close to the carrying amount when reasonable changes in the main assumptions used in the valuation cause the recoverable amount to be below the carrying amount.

18. Intangible assets - Other intangible assets

The detail of Intangible assets - Other intangible assets in the consolidated balance sheets and of the changes therein in 2015, 2014 and 2013 is as follows:

Millions of euros

	Estimated useful life	31 December 2014	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2015
With indefinite useful life:								
Brand names		61	-	(2)	-	(17)	7	49
With finite useful life:								
IT developments	3 to 7 years	5,350	1,481	(25)	-	(951)	(444)	5,411
Other		1,294	87	-	-	(81)	6	1,306
Accumulated amortisation		(3,623)	-	20	(1,246)	663	313	(3,873)
Impairment losses		(229)	-	-	(586)	386	6	(423)
		2,853	**1,568**	**(7)**	**(1,832)**	**-**	**(112)**	**2,470**

In 2015, impairment losses of EUR 586 million were recognised under Impairment losses on other assets (net) in the consolidated income statement. These impairment losses related mainly to the decline in or loss of the recoverable value of certain computer systems and applications as a result of the processes initiated by the Group to adapt to the various regulatory changes and to transform or integrate businesses.

Millions of euros

	Estimated useful life	31 December 2013	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2014
With indefinite useful life:								
Brand names		15	-	43	-	-	3	61
With finite useful life:								
IT developments	3 to 7 years	5,546	1,345	63	-	(1,731)	127	5,350
Other		1,132	(127)	525	-	(250)	14	1,294
Accumulated amortisation		(3,603)	-	-	(1,227)	1,269	(62)	(3,623)
Impairment losses		(130)	-	-	(699)	712	(112)	(229)
		2,960	**1,218**	**631**	**(1,926)**	**-**	**(30)**	**2,853**

Millions of euros

	Estimated useful life	31 December 2012	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2013
With indefinite useful life:								
Brand names		14	2	-	-	-	(1)	15
With finite useful life:								
IT developments	3 to 7 years	5,285	1,229	4	-	(679)	(293)	5,546
Other		1,373	(46)	37	-	(37)	(195)	1,132
Accumulated amortisation		(3,106)	-	(3)	(1,353)	715	144	(3,603)
Impairment losses		(130)	-	-	(1)	1	-	(130)
		3,436	**1,185**	**38**	**(1,354)**	**-**	**(345)**	**2,960**

19. Other assets

The detail of Other assets is as follows:

Millions of euros

	2015	2014	2013
Inventories	1,013	1,099	80
Transactions in transit	323	727	127
Net pension plan assets (Note 25)	787	413	149
Prepayments and accrued income	1,976	2,001	2,114
Other	3,277	3,909	3,344
	7,376	**8,149**	**5,814**

The increase in Inventories in 2014 related mainly to the consolidation of the assets of Metrovacesa, S.A. (see Note 3).

20. Deposits from central banks and Deposits from credit institutions

The detail, by classification, counterparty, type and currency, of Deposits from central banks and Deposits from credit institutions in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Classification:			
Financial liabilities held for trading	2,255	7,572	11,334
Of which			
Deposits from central banks	*2,178*	*2,041*	*3,866*
Deposits from credit institutions	*77*	*5,531*	*7,468*
Other financial liabilities at fair value through profit or loss	25,037	25,360	11,741
Of which:			
Deposits from central banks	*16,486*	*6,321*	*2,097*
Deposits from credit institutions	*8,551*	*19,039*	*9,644*
Financial liabilities at amortised cost	148,079	122,437	86,322
Of which:			
Deposits from central banks	*38,872*	*17,290*	*9,788*
Deposits from credit institutions	*109,207*	*105,147*	*76,534*
	175,371	**155,369**	**109,397**
Type:			
Reciprocal accounts	1,332	704	755
Time deposits	113,117	85,178	55,839
Other demand accounts	3,199	4,893	3,425
Repurchase agreements	57,723	64,594	49,378
	175,371	**155,369**	**109,397**
Currency:			
Euro	92,060	86,539	63,947
Pound sterling	5,961	8,107	6,993
US dollar	48,586	34,646	27,509
Other currencies	28,764	26,077	10,948
	175,371	**155,369**	**109,397**

The increase in Deposits from central banks measured at amortised cost in the last two years relates mainly to the Group's participation in the European Central Bank's targeted longer-term refinancing operations (TLTROs) for approximately EUR 21.8 thousand million and EUR 8.2 thousand million in 2015 and 2014, respectively.

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

21. Customer deposits

The detail, by classification, geographical area and type, of Customer deposits is as follows:

Millions of euros

	2015	2014	2013
Classification:			
Financial liabilities held for trading	9,187	5,544	8,500
Other financial liabilities at fair value through profit or loss	26,357	33,127	26,484
Financial liabilities at amortised cost	647,578	608,956	572,853
	683,122	**647,627**	**607,837**
Geographical area:			
Spain	183,778	186,051	185,460
European Union (excluding Spain)	311,314	275,291	259,903
United States and Puerto Rico	59,814	51,291	43,773
Other OECD countries	57,817	55,003	47,541
Latin America (non-OECD)	69,792	79,848	71,004
Rest of the world	607	143	156
	683,122	**647,627**	**607,837**
Type:			
Demand deposits-			
Current accounts	257,192	200,752	167,787
Savings accounts	180,415	173,105	164,214
Other demand deposits	5,489	5,046	3,512
Time deposits-			
Fixed-term deposits and other term deposits	196,965	223,262	225,955
Home-purchase savings accounts	59	71	102
Discount deposits	448	448	1,156
Hybrid financial liabilities	5,174	3,525	3,324
Repurchase agreements	37,380	41,418	41,787
	683,122	**647,627**	**607,837**

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

22. Marketable debt securities

a) Breakdown

The detail, by classification and type, of Marketable debt securities is as follows:

Millions of euros

	2015	2014	2013
Classification:			
Financial liabilities held for trading	-	-	1
Other financial liabilities at fair value through profit or loss	3,373	3,830	4,086
Financial liabilities at amortised cost	201,656	193,059	171,390
	205,029	**196,889**	**175,477**
Type:			
Bonds and debentures outstanding	182,073	178,710	161,274
Notes and other securities	22,956	18,179	14,203
	205,029	**196,889**	**175,477**

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates in those years.

b) Bonds and debentures outstanding

The detail, by currency of issue, of Bonds and debentures outstanding is as follows:

Millions of euros

				31 December 2015	
Currency of issue	**2015**	**2014**	**2013**	**Outstanding issue amount in foreign currency (millions)**	**Annual interest rate %**
Euro	88,922	89,803	85,120	88,922	2.25%
US dollar	46,463	39,992	25,641	50,585	2.46%
Pound sterling	16,757	19,613	20,237	12,299	2.58%
Brazilian real	19,125	18,707	15,017	82,459	13.57%
Hong Kong dollar	74	41	5,026	626	3.20%
Chilean peso	3,634	3,596	3,360	2,811,775	3.79%
Other currencies	7,098	6,958	6,873		
Balance at end of year	**182,073**	**178,710**	**161,274**		

The changes in Bonds and debentures outstanding were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	178,710	161,274	183,686
Net inclusion of entities in the Group	5,229	7,024	-
Of which:			
Banco Santander Totta S.A. (Note 3)	*1,729*	-	-
Auto ABS UK Loans PLC	*1,358*	-	-
Auto ABS DFP Master Compartment France 2013	*550*	-	-
Auto ABS2 FCT Compartiment 2013-A	*514*	-	-
PSA Financial Services, Spain, E.F.C, S.A.	*401*	-	-
Auto ABS FCT Compartiment 2012-1	*274*	-	-
Auto ABS FCT Compartiment 2013-2	*205*	-	-
PSA Finance Suisse, S.A.	*200*	-	-
Santander Consumer USA Holdings Inc. (Note 3)	-	*7,024*	-
Issues	66,223	66,360	61,754
Of which:			
Santander UK Group			
Bonds in other currencies	*11,727*	*18,608*	*23,491*
Bond in pounds sterling	*4,552*	*2,769*	*5,877*
Banco Santander (Brasil) S.A.			
Real estate letters of credit	*6,966*	*9,551*	*4,989*
Bonds	*8,870*	*4,511*	*5,777*
Agricultural letters of credit	*1,074*	*1,756*	*478*
Santander Consumer USA Holdings Inc. - Asset-backed securities	*11,330*	*7,600*	-
Santander Consumer Finance, S.A. - Bonds	*5,070*	*3,602*	*2,325*
Santander International Debt, S.A. Sole-Shareholder Company - Bonds - floating/fixed rate	*4,270*	*4,853*	*4,654*
Santander Holdings USA, Inc. - Bonds	*1,921*	-	*362*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander – México Bonds	*1,874*	*1,099*	*392*
Santander Consumer Bank AS - Bonds	*1,328*	*470*	*443*
Banco Santander - Chile - Bonds	*1,198*	*1,979*	*1,469*
Banco Santander, S.A.			
Mortgage-backed bonds - fixed rate	*995*	*2,944*	*1,990*
Territorial bonds - fixed rate	-	*218*	*4,000*
Bonds	-	-	*323*
Santander Bank, National Association - Bonds	*910*	-	-
Banco Santander Totta S.A.- Mortgage debentures	*749*	*1,746*	-
Emisora Santander España - Bonds	*745*	-	-
Fondo de Titulización RMBS Santander 4 - Asset-backed securities	*613*	-	-
Bilkreditt 7 Designated Activity Company - Bonds	*500*	-	-
Santander International Products, Plc. - Bonds	*402*	*341*	*65*
SCF Rahoituspalvelut I DAC - Bonds	*316*	-	-
Santander Consumer Bank S.p.A. - Bonds - floating rate	*300*	*35*	*100*
SC Poland Consumer 15-1 Sp. z.o.o. - Bonds	*247*	-	-
Bank Zachodni WBK S.A. - Bonds	*114*	-	-
Santander Consumer Bank SA - Bonds	*61*	*188*	*256*
Motor 2014-1 plc - Asset-backed securities	-	*736*	-
Bilkreditt 6 Limited - Asset-backed securities	-	*638*	-
Fondo de Titulización de Activos Pymes Santander 10 - Asset-backed securities	-	*590*	-
Svensk Autofinans WH 1 Ltd - Asset-backed securities	-	*474*	-

Millions of euros

	2015	2014	2013
SC Germany Auto 2014-1 UG (haftungsbeschränkt) - Asset-backed securities	-	389	-
Motor 2013-1 plc - Asset-backed securities	-	-	598
Bilkreditt 5 Limited - Asset-backed securities	-	-	494
Bilkreditt 3 Limited - Asset-backed securities	-	-	468
SC Germany Auto 2013-2 UG - Asset-backed securities	-	-	466
Dansk Auto Finansiering 1 Ltd - Asset-backed securities	-	-	416
SC Germany Auto 2013-2 UG (Haftungsbeschränkt) - Asset-backed securities	-	-	407
SCF Rahoituspalvelut 2013 Limited - Asset-backed securities	-	-	384
Bilkreditt 4 Limited - Asset-backed securities	-	-	357
Trade Maps 3 Ireland Limited - Debentures - floating rate	-	-	313
Fondo de Titulización de Activos PYMES Santander 6 - Asset-backed securities	-	-	235
Redemptions	(69,295)	(60,883)	(73,619)
Of which,			
Santander UK Group	(18,702)	(19,213)	(37,388)
Banco Santander (Brasil) S.A.	(14,718)	(14,359)	(8,246)
Banco Santander, S.A.	(12,058)	(12,391)	(11,434)
Santander Consumer USA Holdings Inc.	(7,556)	-	-
Santander International Debt, S.A. Sole-Shareholder Company	(5,938)	(6,967)	(10,437)
Santander Consumer Finance, S.A.	(2,838)	(1,422)	(1,012)
Banco Santander - Chile	(2,136)	(2,186)	(1,263)
Santander US Debt, S.A. Sole-Shareholder Company	(1,064)	-	(947)
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	(789)	(726)	(62)
Santander Holdings USA, Inc.	(494)	-	-
SCFI Ajoneuvohallinto Limited	(452)	-	-
Fondo de Titulización de Activos PYMES Santander 10	(404)	-	-
Bilkreditt 6 Limited	(268)	-	-
SC Germany Auto 2014-1 UG (haftungsbeschränkt)	(178)	-	-
Dansk Auto Finansiering 1 Ltd	(169)	-	-
Bilkreditt 3 Limited	(169)	-	-
Santander Consumer Bank A.S.	(163)	-	-
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	(147)	-	-
Bilkreditt 5 Limited	(143)	-	-
SC Austria Finance 2013-1 S.A.	(143)	-	-
Santander Consumer Bank S.A.	(141)	(200)	(48)
Santander Consumer Bank S.p.A.	(135)	-	-
Banco Santander Totta, S.A.	(130)	(1,095)	(962)
Santander International Products plc.	(64)	(610)	(1,605)
Brazil Foreign Diversified Payment Rights Finance Company	-	(655)	-
Santander Consumer Bank AG	-	-	(6)
Exchange differences	3,850	6,706	(5,590)
Other changes	(2,644)	(1,771)	(4,957)
Balance at end of year	**182,073**	**178,710**	**161,274**

c) Notes and other securities

These notes were issued basically by Abbey National Treasury Services plc, Santander Consumer Finance, S.A., Santander Commercial Paper, S.A. (Sole-Shareholder Company), Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Abbey National North America LLC, Bank Zachodni WBK S.A., Banco Santander Totta, S.A. and Banco Santander, S.A.

d) Guarantees

Set forth below is information on the liabilities secured by financial assets:

Millions of euros

	2015	2014	2013
Asset-backed securities	42,201	39,594	30,020
Of which, mortgage-backed securities	*14,152*	*18,059*	*22,843*
Other mortgage securities	48,227	60,569	59,984
Of which: mortgage-backed bonds	*19,747*	*29,227*	*32,717*
	90,428	**100,163**	**90,004**

The main characteristics of the assets securing the aforementioned financial liabilities are as follows:

1. Asset-backed securities:

   a. Mortgage-backed securities- these securities are secured by securitised mortgage assets (see Note 10.e) with average maturities of more than ten years that must: be a first mortgage for acquisition of principal or second residence, be current in payments, have a loan-to-value ratio below 80% and have a liability insurance policy in force covering at least the appraisal value. The value of the financial liabilities broken down in the foregoing table is lower than the balance of the assets securing them - securitised assets retained on the balance sheet - mainly because the Group repurchases a portion of the bonds issued, and in such cases they are not recognised on the liability side of the consolidated balance sheet.

   b. Other asset-backed securities- including asset-backed securities and notes issued by special-purpose vehicles secured mainly by mortgage loans that do not meet the foregoing requirements and other loans (mainly personal loans with average maturities of five years and loans to SMEs with average maturities of seven years).

2. Other mortgage securities include mainly: (i) mortgage-backed bonds with average maturities of more than ten years that are secured by a portfolio of mortgage loans and credits (included in secured loans - see Note 10.b) which must: not be classified as at procedural stage; have available appraisals performed by specialised entities; have a loan-to-value ratio below 80% in the case of home loans and below 60% for loans for other assets and have sufficient liability insurance, (ii) other debt securities issued as part of the Group's liquidity strategy in the UK, mainly covered bonds in the UK secured by mortgage loans and other assets.

The fair value of the guarantees received by the Group (financial and non-financial assets) which the Group is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Group's financial statements as a whole.

e) Spanish mortgage-market issues

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 (see Note 54).

The Group entities' procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

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.

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.

The information required by Bank of Spain Circulars 7/2010 and 5/2011, by application of Royal Decree 716/2009, of 24 April, is as follows:

Millions of euros

Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised bonds)	60,043
Of which:	
Loans eligible to cover issues of mortgage-backed securities	*39,414*
Transfers of assets retained on balance sheet: mortgage-backed certificates and other securitised mortgage assets	*21,417*

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 and without prejudice to the issuer's unlimited liability.

The mortgage-backed bonds include the holder's financial claim on the issuer, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

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.

The outstanding mortgage-backed bonds issued by the Group totalled EUR 19,747 million at 31 December 2015 (all of which were denominated in euros), of which EUR 18,603 million were issued by Banco Santander, S.A. and EUR 1,144 million were issued by Santander Consumer Finance, S.A. The issues outstanding at 31 December 2015 and 2014 are detailed in the separate financial statements of each of these companies.

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.

23. Subordinated liabilities

a) Breakdown

The detail, by currency of issue, of Subordinated liabilities in the consolidated balance sheets is as follows:

Millions of euros

				31 December 2015	
Currency of issue	**2015**	**2014**	**2013**	**Outstanding issue amount in foreign currency (millions)**	**Annual interest rate (%)**
Euro	8,001	5,901	4,600	8,001	3.59%
US dollar	9,174	5,525	4,413	9,987	4.02%
Pound sterling	851	1,776	2,750	625	8.36%
Brazilian real	1,878	2,267	2,734	8,097	14.64%
Other currencies	1,249	1,663	1,642		
Balance at end of year	**21,153**	**17,132**	**16,139**		
Of which, preference shares (acciones preferentes)	*449*	*739*	*401*		
Of which, preference shares (participaciones preferentes)	*6,749*	*6,239*	*3,652*		

Note 51 contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

b) Changes

The changes in Subordinated liabilities in the last three years were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	17,132	16,139	18,238
Net inclusion of entities in the Group (Note 3)	-	-	237
Placements	4,787	4,351	1,027
Of which:			
Santander Issuances, S.A., Sole-Shareholder Company	*2,878*	-	-
Santander UK Group Holdings plc	*1,377*	-	-
Santander UK plc	*521*	-	*599*
Banco Santander, S.A.	-	*4,235*	-
Banco Santander (Brasil) S.A.	-	*115*	-
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	-	-	*235*
Banco Santander - Chile	-	-	*191*
Redemptions and repurchases	(1,029)	(3,743)	(1,915)
Of which:			
Santander UK plc	*(466)*	-	-
Bank Zachodni WBK S.A.	*(237)*	-	-
Banco Santander, S.A.	*(114)*	*(61)*	*(28)*
Santander Central Hispano Issuances Limited	*(79)*	-	-
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*(64)*	-	-
Banco Santander (Brasil) S.A.	*(60)*	*(379)*	*(663)*
Banco Santander - Chile	*(4)*	*(174)*	*(7)*
Santander Issuances, S.A., Sole-Shareholder Company	-	*(1,425)*	*(608)*
Santander Finance Capital, S.A., Sole-Shareholder	-	*(21)*	*(4)*
Santander Finance Preferred, S.A., Sole-Shareholder	-	*(1,678)*	*(7)*
Santander Securities Services, S.A.	-	*(3)*	*(6)*
Abbey National Capital Trust I	-	-	*(278)*
Santander Holdings USA, Inc.	-	-	*(193)*
Santander PR Capital Trust I	-	-	*(91)*
Santander Perpetual, S.A., Sole-Shareholder Company	-	-	*(28)*
Exchange differences	389	737	(923)
Other changes	(126)	(352)	(525)
Balance at end of year	**21,153**	**17,132**	**16,139**

c) Other disclosures

This item includes the preference shares (participaciones preferentes) and other financial instruments issued by the consolidated companies 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-Group third parties and, except for the shares of Santander UK plc referred to below, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

At 31 December 2015, Santander UK plc had a GBP 200 million subordinated issue which is convertible, at Santander UK plc's option, into preference shares of Santander UK plc, at a price of GBP 1 per share.

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. The issues launched by Santander Issuances, S.A. (Sole-Shareholder Company), Santander Perpetual, S.A. (Sole-

Shareholder Company), Santander Finance Capital, S.A. (Sole-Shareholder Company), Santander International Preferred, S.A. (Sole-Shareholder Company) and Santander Finance Preferred, S.A. (Sole-Shareholder Company) are guaranteed by the Bank or by restricted deposits arranged at the Bank for this purpose and totalled EUR 8,118 million at 31 December 2015.

At 31 December 2015, the following issues were convertible into Bank shares:

On 5 March, 8 May and 2 September 2014, Banco Santander, S.A. announced that its executive committee had resolved to launch 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 25 March, 28 May and 30 September 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.

Furthermore, on 29 January 2014, Banco Santander (Brasil), S.A. launched an issue of Tier 1 perpetual subordinated notes for a nominal amount of USD 1,248 million, of which the Group has acquired 89.6%. The notes are perpetual and would convert into ordinary shares of Banco Santander (Brasil), S.A. if the common equity Tier 1 ratio, calculated as established by the Central Bank of Brazil, were to fall below 5.125%.

The interest accrued on subordinated liabilities amounted to EUR 934 million in 2015 (2014: EUR 1,084 million; 2013: EUR 1,260 million) (see Note 39).

The interest accrued on the CCPSs in 2015 amounted to EUR 276 million (2014: EUR 131 million).

24. Other financial liabilities

The detail of Other financial liabilities in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Trade payables	1,264	1,276	1,031
Clearing houses	708	562	841
Tax collection accounts:			
Tax payables	2,489	2,304	2,197
Factoring accounts payable	194	193	194
Unsettled financial transactions	5,584	4,445	3,063
Other financial liabilities	10,639	10,688	9,084
	20,878	**19,468**	**16,410**

Note 51 contains a detail of the residual maturity periods of other financial liabilities at each year-end.

25. Provisions

a) Breakdown

The detail of Provisions in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Provision for pensions and similar obligations	8,272	9,412	9,126
Provisions for taxes and other legal contingencies	2,577	2,916	2,727
Provisions for contingent liabilities and commitments (Note 2):	618	654	693
Of which: due to country risk	*2*	*2*	*4*
Other provisions	3,027	2,394	2,043
Provisions	**14,494**	**15,376**	**14,589**

b) Changes

The changes in Provisions in the last three years were as follows:

Millions of euros

	2015				2014				2013			
	Pensions	Contingent liabilities and commitments	Other provisions	Total	Pensions	Contingent liabilities and commitments	Other provisions	Total	Pensions	Contingent liabilities and commitments	Other provisions	Total
Balances at beginning of year	9,412	654	5,310	15,376	9,126	693	4,770	14,589	10,353	617	5,032	16,002
Net inclusion of entities in the Group	17	8	162	187	11	3	74	88	(1)	15	-	14
Additions charged to income:												
Interest expense and similar charges (Note 39)	270	-	-	270	344	-	-	344	363	-	-	363
Staff costs (Note 47)	96	-	-	96	75	-	-	75	88	-	-	88
Period provisions (net)	149	(1)	2,958	3,106	361	54	2,594	3,009	397	126	1,922	2,445
Other additions arising from insurance contracts linked to pensions	(18)	-	-	(18)	31	-	-	31	(27)	-	-	(27)
Changes in value recognised in equity	(575)	-	-	(575)	770	-	-	770	(90)	-	-	(90)
Payments to pensioners and pre-retirees with a charge to internal provisions	(1,014)	-	-	(1,014)	(1,038)	-	-	(1,038)	(1,086)	-	-	(1,086)
Benefits paid due to settlements	-	-	-	-	-	-	-	-	(2)	-	-	(2)
Insurance premiums paid	(1)	-	-	(1)	(11)	-	-	(11)	(6)	-	-	(6)
Payments to external funds	(146)	-	-	(146)	(607)	-	-	(607)	(217)	-	-	(217)
Amounts used	-	-	(1,684)	(1,684)	-	-	(2,293)	(2,293)	-	-	(1,661)	(1,661)
Transfers, exchange differences and other changes	82	(43)	(1,142)	(1,103)	350	(96)	165	419	(646)	(65)	(523)	(1,234)
Balances at end of year	**8,272**	**618**	**5,604**	**14,494**	**9,412**	**654**	**5,310**	**15,376**	**9,126**	**693**	**4,770**	**14,589**

c) Provision for pensions and similar obligations

The detail of Provisions for pensions and similar obligations is as follows:

Millions of euros

	2015	2014	2013
Provisions for post-employment plans - Spanish entities	4,826	4,915	4,643
Of which: defined benefit	*4,822*	*4,910*	*4,633*
Provisions for other similar obligations - Spanish entities	1,813	2,237	2,161
Of which: Pre-retirements	*1,801*	*2,220*	*2,149*
Provisions for post-employment plans - Santander UK plc	150	256	806
Provisions for post-employment plans and other similar obligations - Other foreign subsidiaries	1,483	2,004	1,516
Of which: defined benefit	*1,478*	*1,999*	*1,512*
Provisions for pensions and similar obligations	**8,272**	**9,412**	**9,126**

i. Spanish entities - Post-employment plans and other similar obligations

At 31 December 2015, 2014 and 2013, the Spanish entities had post-employment benefit obligations under defined contribution and defined benefit plans In addition, in various years some of the consolidated entities offered certain of their employees the possibility of taking pre-retirement and, therefore, provisions are recognised each year for the obligations to employees taking pre-retirement -in terms of salaries and other employee benefit costs- from the date of their pre-retirement to the date of effective retirement. In 2015, 589 employees accepted the pre-retirement and voluntary redundancy offers, and the provision recognised to cover these obligations totalled EUR 217 million (2014: EUR 642 million; 2013: EUR 334 million).

The expenses incurred by the Group in respect of contributions to defined contribution plans amounted to EUR 99 million in 2015 (2014: EUR 105 million; 2013: EUR 108 million).

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:

	Post-employment plans			Other similar obligations		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Annual discount rate	1.75%	2.00%	3.00%	1.75%	2.00%	3.00%
Mortality tables	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000
Cumulative annual CPI growth	1.0%	1.5%	1.5%	1.0%	1.5%	1.5%
Annual salary increase rate	2.0%*	2.50%*	2.50%*	N/A	N/A	N/A
Annual social security pension increase rate	1.0%	1.5%	1.5%	N/A	N/A	N/A
Annual benefit increase rate	N/A	N/A	N/A	0% to 1.5%	0% to 1.5%	0% to 1.5%

* Corresponds to the Group's defined-benefit obligations.

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in euros) with terms consistent with those of the obligations. The portfolio of bonds taken into consideration excludes callable, puttable and sinkable bonds which could distort the indices.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2015, 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 +5.70% and -5.10%, respectively, and an increase or decrease in the present value of the long-term obligations of +1.10% and -1.08%. These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

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:

	Post-employment plans			Other similar obligations		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Expected rate of return on plan assets	1.75%	2.0%	3.0%	N/A	N/A	N/A
Expected rate of return on reimbursement rights	1.75%	2.0%	3.0%	N/A	N/A	N/A

The funding status of the defined benefit obligations in 2015 and the four preceding years is as follows:

Millions of euros

	Post-employment plans					Other similar obligations				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Present value of the obligations:										
To current employees	48	62	50	58	1,533	-	-	-	-	-
Vested obligations to retired employees	4,551	4,708	4,483	4,765	4,367	-	-	-	-	-
To pre-retirees	-	-	-	-	-	1,801	2,220	2,149	2,389	2,769
Long-service bonuses and other benefits	-	-	-	-	-	12	13	11	7	7
Other	380	307	257	221	185	-	4	1	8	5
	4,979	**5,077**	**4,790**	**5,044**	**6,085**	**1,813**	**2,237**	**2,161**	**2,404**	**2,781**
Less -										
Fair value of plan assets	157	167	157	144	177	-	-	-	-	-
Provisions - Provisions for pensions	**4,822**	**4,910**	**4,633**	**4,900**	**5,908**	**1,813**	**2,237**	**2,161**	**2,404**	**2,781**
Of which:										
Internal provisions for pensions	*4,524*	*4,565*	*4,293*	*4,495*	*3,762*	*1,813*	*2,237*	*2,161*	*2,404*	*2,781*
Insurance contracts linked to pensions (Note 14)	*299*	*345*	*342*	*405*	*2,146*	-	-	-	-	-
Unrecognised net assets for pensions	*(1)*	-	*(2)*	-	-	-	-	-	-	-

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

Millions of euros

	Post-employment plans			Other similar obligations		
	2015	2014	2013	2015	2014	2013
Current service cost	12	10	10	2	1	-
Interest cost (net)	100	139	139	37	59	61
Expected return on insurance contracts linked to pensions	(6)	(9)	(11)	-	-	-
Extraordinary charges:						
Actuarial (gains)/ losses recognised in the year	-	-	-	(8)	48	3
Past service cost	4	-	30	-	-	34
Pre-retirement cost	4	12	8	213	630	326
Effect of curtailment/ settlement	(28)	(14)	(6)	(33)	-	-
	86	**138**	**170**	**211**	**738**	**424**

In addition, in 2015 Valuation adjustments – Other valuation adjustments increased by EUR 145 million with respect to defined benefit obligations (2014: an increase of EUR 427 million; 2013: an increase of EUR 52 million).

The changes in the present value of the accrued defined benefit obligations were as follows:

Millions of euros

	Post-employment plans			Other similar obligations		
	2015	2014	2013	2015	2014	2013
Present value of the obligations at beginning of year	5,077	4,790	5,044	2,237	2,161	2,404
Net inclusion of entities in the Group	-	-	(5)	-	-	-
Current service cost	12	10	10	2	1	-
Interest cost	105	144	145	37	59	61
Pre-retirement cost	4	12	8	213	630	326
Effect of curtailment/settlement	(28)	(14)	(6)	(33)	-	-
Benefits paid due to settlements	-	-	-	(1)	-	-
Other benefits paid	(327)	(355)	(394)	(657)	(665)	(661)
Past service cost	4	-	30	-	-	34
Actuarial (gains)/losses*	124	485	(79)	(8)	48	3
Exchange differences and other items	8	5	37	23	3	(6)
Present value of the obligations at end of year	**4,979**	**5,077**	**4,790**	**1,813**	**2,237**	**2,161**

* Including in 2015 demographic actuarial losses of EUR 24 million and financial actuarial losses of EUR 100 million in the post-employment plans, as well as demographic actuarial gains of EUR 12 million and financial actuarial losses of EUR 4 million in other similar obligations.

The changes in the fair value of plan assets and of insurance contracts linked to pensions were as follows:

Plan assets

Millions of euros

	Post-employment plans		
	2015	2014	2013
Fair value of plan assets at beginning of year	167	157	144
Expected return on plan assets	5	5	6
Actuarial gains/(losses)	(3)	27	-
Contributions/(surrenders)	1	11	5
Benefits paid	(17)	(38)	(12)
Exchange differences and other items	4	5	14
Fair value of plan assets at end of year	**157**	**167**	**157**

Insurance contracts linked to pensions

Millions of euros

	Post-employment plans		
	2015	2014	2013
Fair value of insurance contracts linked to pensions at beginning of year	345	342	405
Expected return on insurance contracts (Note 38)	6	9	11
Benefits paid	(34)	(37)	(47)
Actuarial gains/(losses)	(18)	31	(27)
Fair value of insurance contracts linked to pensions at end of year	**299**	**345**	**342**

In view of the conversion of the defined-benefit obligations to defined-contribution obligations, the Group will not make material current contributions in Spain in 2015 to fund its defined-benefit pension obligations.

The plan assets and the insurance contracts linked to pensions are instrumented mainly through insurance policies.

The following table shows the estimated benefits payable at 31 December 2015 for the next ten years:

Millions of euros

2016	873
2017	754
2018	647
2019	545
2020	459
2021 to 2025	1,510

ii. United Kingdom

At the end of each of the last three years, the businesses in the United Kingdom had post-employment benefit obligations under defined contribution and defined benefit plans. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 90 million in 2015 (2014: EUR 84 million; 2013: EUR 62 million).

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:

	2015	2014	2013
Annual discount rate	3.74%	3.65%	4.45%
Mortality tables	116/98 S1 Light TMC	116/98 S1 Light TMC	103 S1 Light TMC
Cumulative annual CPI growth	2.98%	3.05%	3.40%
Annual salary increase rate	1.00%	1.00%	3.40%
Annual pension increase rate	2.83%	2.85%	3.15%

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in pounds sterling) that coincide with the terms of the obligations. The portfolio of bonds taken into consideration excludes callable, puttable and sinkable bonds which could distort the indices.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2015, 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 obligations of +/- 10.1%. If the inflation assumption had been increased or decreased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 6.6%. These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the defined benefit obligations in 2015 and the four preceding years is as follows:

Millions of euros

	2015	2014	2013	2012	2011
Present value of the obligations	12,271	11,959	10,120	9,260	8,467
Less-					
Fair value of plan assets	12,880	12,108	9,455	9,194	8,496
Provisions - Provisions for pensions	**(609)**	**(149)**	**665**	**66**	**(29)**
Of which:					
Internal provisions for pensions	*150*	*256*	*806*	*409*	*255*
Net assets for pensions	*(759)*	*(405)*	*(141)*	*(343)*	*(284)*

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

Millions of euros

	2015	2014	2013
Current service cost	39	29	32
Interest cost (net)	(5)	16	1
Past service cost	-	(286)	-
	34	**(241)**	**33**

In addition, in 2015 Valuation adjustments – Other valuation adjustments decreased by EUR 435 million with respect to defined benefit obligations (2014: a decrease of EUR 173 million; 2013: a decrease of EUR 697 million).

The changes in the present value of the accrued defined benefit obligations were as follows:

Millions of euros

	2015	2014	2013
Present value of the obligations at beginning of year	11,959	10,120	9,260
Current service cost	39	29	32
Interest cost	466	455	396
Benefits paid	(342)	(263)	(239)
Past service cost	-	(286)	-
Actuarial (gains)/losses*	(656)	1,174	852
Exchange differences and other items	805	730	(181)
Present value of the obligations at end of year	**12,271**	**11,959**	**10,120**

* Including in 2015 demographic actuarial gains of EUR 364 million and financial actuarial gains of EUR 292 million.

In 2014 Santander UK reached an agreement with the workers' representatives to convert a portion of the defined-benefit obligations into defined-contribution plans. The effect of the reduction of the aforementioned obligations is shown in the preceding table under Past service cost.

The changes in the fair value of the plan assets were as follows:

Millions of euros

	2015	2014	2013
Fair value of plan assets at beginning of year	12,108	9,455	9,194
Expected return on plan assets	471	439	395
Actuarial gains/(losses)	(222)	1,346	155
Contributions	59	450	133
Benefits paid	(342)	(263)	(239)
Exchange differences and other changes	806	681	(183)
Fair value of plan assets at end of year	**12,880**	**12,108**	**9,455**

In 2016 the Group expects to make current contributions to fund these obligations for amounts similar to those made in 2015.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2015	2014	2013
Equity instruments	23%	22%	24%
Debt instruments	53%	56%	59%
Properties	15%	12%	11%
Other	9%	10%	6%

The following table shows the estimated benefits payable at 31 December 2015 for the next ten years:

	Millions of euros
2016	359
2017	383
2018	409
2019	436
2020	466
2021 to 2025	2,860

iii. Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits.

At 31 December 2015, 2014 and 2013, these entities had defined-contribution and defined-benefit post-employment benefit obligations. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 90 million in 2015 (2014: EUR 58 million; 2013: EUR 53 million).

The actuarial assumptions used by these entities (discount rates, mortality tables and cumulative annual CPI growth) are consistent with the economic and social conditions prevailing in the countries in which they are located.

Specifically, the discount rate used for the flows was determined by reference to high-quality corporate bonds, except in the case of Brazil where there is no extensive corporate bond market and, accordingly the discount rate was determined by reference to the series B bonds issued by the Brazilian National Treasury Secretariat for a term coinciding with that of the obligations.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2015, 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 obligations of +/-5%. These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the obligations similar to post-employment benefits and other long-term benefits in 2015 and the four preceding years is as follows:

Millions of euros

	2015	2014	2013	2012	2011
Present value of the obligations	8,337	10,324	9,289	12,814	11,245
Less -					
Of which: with a charge to the participants	*133*	*151*	*133*	*125*	*-*
Fair value of plan assets	7,008	8,458	7,938	10,410	9,745
Provisions - Provisions for pensions	**1,196**	**1,715**	**1,218**	**2,279**	**1,500**
Of which:					
Internal provisions for pensions	*1,478*	*1,999*	*1,512*	*2,626*	*1,827*
Net assets for pensions	*(28)*	*(8)*	*(8)*	*(5)*	*(15)*
Unrecognised net assets for pensions	*(254)*	*(276)*	*(286)*	*(342)*	*(312)*

In December 2011 the Portuguese financial institutions, including Banco Santander Totta, S.A., transferred in part their pension obligations to the social security authorities. As a result, Banco Santander Totta, S.A. transferred the related assets and liabilities and Provisions - Provision for pensions and similar obligations at 31 December 2011 included the present value of the obligations, net of the fair value of the related plan assets.

The amounts recognised in the consolidated income statements in relation to these obligations are as follows:

Millions of euros

	2015	2014	2013
Current service cost	43	35	46
Interest cost (net)	138	131	162
Extraordinary charges (credits):			
Actuarial (gains)/losses recognised in the year	(1)	4	(1)
Past service cost	1	1	7
Pre-retirement cost	-	-	-
Other	(1)	(34)	(2)
	180	**137**	**212**

In addition, in 2015 Valuation adjustments – Other valuation adjustments decreased by EUR 285 million with respect to defined benefit obligations (2014: an increase of EUR 515 million; 2013: an increase of EUR 735 million).

The changes in the present value of the accrued obligations were as follows:

Millions of euros

	2015	2014	2013
Present value of the obligations at beginning of year	10,324	9,289	12,814
Net inclusion of entities in the Group	26	25	4
Current service cost	43	35	46
Interest cost	778	865	951
Pre-retirement cost	-	20	-
Effect of curtailment/settlement	(1)	(6)	(1)
Benefits paid	(639)	(669)	(686)
Benefits paid due to settlements	-	(6)	(2)
Contributions made by employees	8	7	21
Past service cost	1	1	7
Actuarial (gains)/losses*	(271)	646	(2,039)
Exchange differences and other items	(1,932)	117	(1,826)
Present value of the obligations at end of year	**8,337**	**10,324**	**9,289**

* Including in 2015 demographic actuarial gains of EUR 393 million and financial actuarial gains of EUR 664 million.

The changes in the fair value of the plan assets were as follows:

Millions of euros

	2015	2014	2013
Fair value of plan assets at beginning of year	8,458	7,938	10,410
Net inclusion of entities in the Group	9	13	-
Expected return on plan assets	667	759	789
Actuarial gains/(losses)	43	124	(1,314)
Gains/(losses) due to settlements	1	(24)	-
Contributions	109	205	239
Benefits paid	(594)	(643)	(641)
Exchange differences and other items	(1,685)	86	(1,545)
Fair value of plan assets at end of year	**7,008**	**8,458**	**7,938**

In 2016 the Group expects to make contributions to fund these obligations for amounts similar to those made in 2015.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2015	2014	2013
Equity instruments	12%	8%	10%
Debt instruments	84%	83%	85%
Properties	1%	5%	2%
Other	3%	4%	3%

The following table shows the estimated benefits payable at 31 December 2015 for the next ten years:

Millions of euros

2016	626
2017	644
2019	670
2019	695
2020	720
2021 to 2025	3,982

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.

The detail, by geographical area, of Provisions for taxes and other legal contingencies and Other provisions is as follows:

Millions of euros

	2015	2014	2013
Recognised by Spanish companies	1,332	1,217	1,228
Recognised by other EU companies	1,766	1,206	1,027
Recognised by other companies	2,506	2,887	2,515
Of which:			
Brazil	*2,016*	*2,453*	*2,263*
	5,604	**5,310**	**4,770**

Set forth below is the detail, by type of provision, of the balance at 31 December 2015, 2014 and 2013 of Provisions for taxes and other legal contingencies and Other provisions. The types of provision were determined by grouping together items of a similar nature:

Millions of euros

	2015	2014	2013
Provisions for taxes	997	1.289	1.177
Provisions for employment-related proceedings (Brazil)	581	616	638
Provisions for other legal proceedings	999	1.011	912
Provision for customer remediation	916	632	465
Regulatory framework-related provisions	308	298	315
Provision for restructuring	404	273	378
Other	1,399	1,191	885
	5,604	**5,310**	**4,770**

Relevant information is set forth below in relation to each type of provision shown in the preceding table:

The provisions for taxes include provisions for tax-related proceedings.

The provisions for employment-related proceedings (Brazil) relate to claims filed by trade unions, associations, the prosecutor's office and ex-employees claiming employment rights to which, in their view, they are entitled, particularly the payment of overtime and other employment rights, including litigation concerning retirement benefits. The number and nature of these proceedings, which are common for banks in Brazil, justify the classification of these provisions in a separate category or as a separate type from the rest. The Group calculates the provisions associated with these claims in accordance with past experience of payments made in relation to claims for similar items. When claims do not fall within these categories, a case-by-case assessment is performed and the amount of the provision is calculated in accordance with the status of each proceeding and the risk assessment carried out by the legal advisers. The average duration of the employment-related proceedings is approximately eight years.

The provisions for other legal proceedings include provisions for court, arbitration or administrative proceedings (other than those included in other categories or types of provisions disclosed separately) brought against Santander Group companies.

The provisions for customer remediation include mainly the estimated cost of payments to remedy errors relating to the sale of certain products in the UK and Germany. To calculate the provision for customer remediation, the best estimate of the provision made by management is used, which is based on the estimated number of claims to be received and, of these, the number that will be accepted, as well as the estimated average payment per case.

The regulatory framework-related provisions include mainly the provisions for the extraordinary contribution to the Deposit Guarantee Fund in Spain and those relating to the FSCS and the Bank Levy in the UK.

The provisions for restructuring include only the costs arising from restructuring processes carried out by the various Group companies.

Qualitative information on the main litigation is provided in Note 25.e to the consolidated financial statements.

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.

The changes in Provisions for taxes and other legal contingencies and Other provisions are set forth in Note 25.b. With respect to Brazil, the main charges to the income statement in 2015 were EUR 289 million for civil contingencies (2014: EUR 316 million; 2013: EUR 247 million) and EUR 370 million for employment-related claims (2014: EUR 358 million; 2013: EUR 336 million). In addition, a charge of EUR 346 million was recognised in relation to restructuring provisions in 2013. This charge was offset in part by the use of the available provisions, of which EUR 241 million corresponded to employment-related payments (2014: EUR 343 million; 2013: EUR 500 million), EUR 273 million to civil payments (2014: EUR 278 million; 2013: EUR 215 million) and EUR 234 million to the use of restructuring provisions in 2014. In the UK, period provisions of EUR 689 million were recognised in connection with customer remediation (2014: EUR 174 million), of EUR 243 million in connection with the regulatory framework (the bank levy and the Financial Services Compensation Scheme (FSCS)) (2014: EUR 205 million; 2013: EUR 347 million), and of EUR 56 million for restructuring in 2014. These increases were offset by the use of EUR 227 million of provisions for customer remediation (2014: EUR 321 million; 2013: EUR 319 million), EUR 233 million in payments relating to the bank levy and the FSCS (2014: EUR 197 million; 2013: EUR 317 million) and EUR 41 million for restructuring in 2015 (2014: EUR 54 million). In Spain, EUR 95 million were paid in 2015 (2014: EUR 32 million) in relation to the extraordinary contribution to the Deposit Guarantee Fund, recognised in 2013, amounting to EUR 228 million. With regard to Germany, in 2014 period provisions of EUR 455 million were recognised for customer remediation payments and payments of EUR 184 million were made in 2015 (2014: EUR 197 million). In addition, period provisions of EUR 125 million were recognised at the companies acquired in the consumer lending business.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2015, 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 recognised for the amount of the estimated loss.

- Legal actions filed by certain Group companies in Brazil claiming their right to pay the Brazilian social contribution tax on net income at a rate of 8% and 10% from 1994 to 1998. No provision was recognised in connection with the amount considered to be a contingent liability.

- 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 favour of Banco Santander, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. On 23 April 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 28 May 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 3 September 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 favour, 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 programme of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the programme 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 programme 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 recognised, still subsist.

- 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 recognised in connection with the amount considered to be a contingent liability.

- 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 recognised 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. No provision was recognised in connection with the amount considered to be a contingent liability.

- 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 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities appealed against this decision at a higher administrative level. 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 8 October 2013. This decision has been appealed at the higher instance of CARF (Tax Appeal High Chamber). In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for amortisation of the goodwill. Banco Santander (Brasil) S.A. appealed against this infringement notice and the court found in its favour. The Brazilian tax authorities appealed against this decision at CARF. Based on the advice of its external legal counsel and in view of the first decision by CARF, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, no provisions were recognised 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 favourable decision and Banco Santander (Brasil) S.A. an unfavourable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavourable decisions were obtained by Banco Santander (Brasil) S.A. and DTVM on 12 and 19 June 2015, respectively. Both cases were appealed at court in a single proceeding and a provision was recognised for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros, S.A. (Brasil), as the successor by merger to ABN AMRO Brasil 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 aforementioned entity filed an appeal for reconsideration against this infringement notice. 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 defence arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognised 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 amortisation 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 amortisation 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 favourable decision in July 2015, which will foreseeably be appealed at CARF by the Brazilian tax authorities. No provision was recognised 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 amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. No provision was recognised in connection with this matter as it was 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 in connection with taxes paid outside the United States in fiscal years 2003 to 2005 in relation to financing transactions carried out with an international bank. Santander Holdings USA, Inc. considers that, in accordance with applicable tax legislation, it is entitled to recognise the aforementioned tax credits as well as the related issuance and financing costs. In addition, if the final outcome of this legal action is favourable 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. In 2013 and in 2015 at second instance the US courts found against two taxpayers in cases with a similar structure. In the case of Santander Holdings USA, Inc., on 13 November 2015, the district judge found for Santander Holdings USA, Inc. in the final decision. On 13 January 2016, the judge ordered the amounts paid over with respect to 2003 to 2005 to be refunded to Santander Holdings USA, Inc. The US government has until the deadline of 14 March 2016 to appeal the decision at the Court of Appeals. The estimated loss relating to this proceeding was provided for.

- Santander UK has proactively engaged with HM Revenue & Customs to resolve a number of outstanding legacy tax matters, all of which relate to periods prior to Santander UK plc's adoption of the Code of Practice on Taxation for Banks. However, litigation proceedings were commenced in relation to a small number of these issues, with respect to which the court of first instance found in favour of HM Revenue & Customs. Santander UK has decided not to appeal these rulings. The provision recognised for the amounts relating to these matters has been used in full.

At the date of preparation of these consolidated financial statements certain other less significant tax-related proceedings were also in progress.

ii. Other litigation
At 31 December 2015, 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.

  Payment protection insurance is a UK insurance product offering payment protection on unsecured personal loans (and credit cards). The product was sold by all UK banks. The mis-selling issues are predominantly related to business written before 2009. The nature and profitability of the product has changed materially since 2008.

  On 1 July 2008, the UK Financial Ombudsman Service (FOS) referred concerns regarding the handling of PPI complaints to the UK Financial Services Authority (FSA). On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling as an issue of wider implication. The FSA published its Policy Statement on 10 August 2010, setting out the evidence and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

  On 8 October 2010, the British Bankers' Association (BBA), the principal trade association for the UK banking and financial services sector, filed on behalf of certain financial institutions (which did not include Santander UK plc) an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008. The judicial review was heard in the courts in January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the proceeding brought by the BBA.

  Santander UK did not participate in the legal action undertaken by other UK banks and had been consistently making provisions and settling claims with regard to PPI complaints liabilities.

  There was a fall in compensation payments in the first half of 2015 and an increase from the third quarter, in line with industry trends, with compensation remaining stable in the last quarter.

  The FSA consultation papers of November 2015 were taken into account in order to calculate the provision in 2015. As a result of considering the contents of the consultation papers, an additional provision of GBP 450 million was recognised. This amount is based on a probable scenario of two years in which customers could make their claims and on the anticipated increase in the volume of claims due to the established two-year period.

  At 31 December 2015, the provision recognised in this connection totalled GBP 465 million.

  The following table shows information on the total claims received up to 31 December 2015 and the resolution thereof:

(Number of claims, in thousands)

	2015	2014	2013
Claims outstanding at the beginning of the period	20	14	31
Claims received[1]	251	246	363
Claims rejected as being invalid[2]	(195)	(194)	(298)
Resolved claims	(57)	(46)	(82)
Claims outstanding at the end of the period	**19**	**20**	**14**

1. Includes rejected claims relating to customers that had never purchased payment protection insurance from Santander UK.
2. Customers are entitled to appeal to the Financial Ombudsman Service (FOS) if their claims are rejected. The FOS may uphold or reject an appeal and if an appeal is upheld, Santander UK is required to compensate the customer. The table shows the result of appeals relating to paid or rejected claims.

The provision recognised at the end of 2015 represents the best estimate by Group management, taking into account the opinion of its advisers and of the costs to be incurred in relation to any compensation that may result from the redress measures associated with the sales of payment protection insurance (PPI) in the UK. The provision was calculated on the basis of the following key assumptions that required the use of judgement by management:

- Volume of claims- estimated number of claims;
- Percentage of claims lost- estimated percentage of claims that are or will be in the customers' favour; and
- Average cost- estimated payment to be made to customers, including compensation for direct loss plus interest.

These assumptions were based on the following information:

- A complete analysis of the causes of the claim, the probability of success, as well as the possibility that this probability could change in the future;

- Activity recorded with respect to the number of claims received;

- Level of compensation paid to customers, together with a projection of the probability that this level could change in the future;

- Impact on the level of claims in the event of proactive initiatives carried out by the Group through direct contact with customers; and

- Impact of the media coverage.

These assumptions are reviewed, updated and validated on a regular basis using the latest available information, such as, the number of claims received, the percentage of claims lost, the potential impact of any change in that percentage, etc. and any new evaluation of the estimated population.

The most relevant factor for calculating the balance of the provision is the number of claims received as well as the expected level of future claims. The percentage of claims lost is calculated on the basis of the analysis of the sale process. The average cost of compensation is calculated in a reasonable manner as the Group manages a high volume of claims and the related population is homogenous. Group management reviews the provision required at each relevant date, taking into account the latest available information on the aforementioned assumptions as well as past experience.

- After the Madrid Provincial Appellate Court had rendered null and void the award handed down in the previous arbitration proceeding, on 8 September 2011, Banco Santander, S.A. filed a new request for arbitration with the Spanish Arbitration Court against Delforca 2008, S.A. (formerly Gaesco Bolsa Sociedad de Valores, S.A.), claiming EUR 66 million that the latter owes it as a result of the notice of acceleration of all the financial transactions agreed upon between the parties, issued by the Bank on 4 January 2008.

  On 3 August 2012, Delforca 2008, S.A. was declared to be in a position of voluntary insolvency by Barcelona Commercial Court no. 10, which had agreed as part of the insolvency proceeding to stay the arbitration proceeding and the effects of the arbitration agreement entered into by Banco Santander, S.A. and Delforca 2008, S.A. The Arbitration Court, in compliance with the decision of the Commercial Court, agreed on 20 January 2013 to stay the arbitration proceedings at the stage reached at that date until a decision could be issued in this respect in the insolvency proceeding.

  In addition, as part of the insolvency proceeding of Delforca 2008, S.A., Banco Santander, S.A. notified its claim against the insolvent party with a view to having the claim recognised as a contingent ordinary claim without specified amount. However, the insolvency manager opted to exclude Banco Santander, S.A.'s claim from the provisional list of creditors and, accordingly, Banco Santander, S.A. filed an ancillary claim which was dismissed by a court decision on 17 February 2015. This decision also declared that Banco Santander, S.A. had breached its contractual obligations under the framework financial transaction agreement it had entered into with Delforca 2008, S.A.

As part of the same insolvency proceeding, Delforca 2008, S.A. filed another ancillary claim requesting the termination of the arbitration agreement included in the framework financial transaction agreement entered into by that party and Banco Santander, S.A. in 1998, as well as the termination of the obligation that allegedly binds the insolvent party to the High Council of Chambers of Commerce (Spanish Arbitration Court). This claim was upheld in full by the Court.

On 30 December 2013, Banco Santander filed a complaint requesting the termination of the insolvency proceeding of Delforca 2008, S.A. due to supervening disappearance of the alleged insolvency of the company. The complaint was dismissed by a decision handed down on 30 June 2014.

A court order dated 25 May 2015 declared the end of the common phase of the insolvency proceeding and the opening of the arrangement phase. Banco Santander, S.A. lodged an appeal against the court's decisions 1) to stay the arbitration proceeding and the effects of the arbitral award, 2) to terminate the arbitration agreement 3) not to recognise the contingent claim, and to declare a breach by Banco Santander, S.A. and 4) not to conclude the proceeding due to the non-existence of insolvency.

On 23 June 2015, Delforca 2008, S.A. submitted an arrangement proposal entailing the payment in full of the ordinary and subordinate claims.

In its appeal documents Banco Santander, S.A. requested the stay of any proceedings that might be affected by the decision on the appeals filed, including the stay of the insolvency proceeding and the processing of the arrangement phase until a decision has been handed down on the appeals. By means of an interlocutory order made on 16 September 2015 the Court resolved to postpone the holding of the creditors' meeting until the Provincial Appellate Court has handed down a decision on the requested stay of the proceedings.

In addition, in April 2009 Mobilaria Monesa, S.A. (parent of Delforca 2008, S.A.) filed a claim against Banco Santander, S.A. at Santander Court of First Instance no. 5, claiming damages which it says it incurred as a result of the (in its opinion) unwarranted claim filed by the Bank against its subsidiary, reproducing the same objections as Delforca 2008, S.A. This proceeding has currently been stayed on preliminary civil ruling grounds, against which Mobilaria Monesa, S.A. filed an appeal which was dismissed by the Cantabria Provincial Appellate Court in a judgment dated 16 January 2014.

Lastly, on 11 April 2012, Banco Santander, S.A. was notified of the claim filed by Delforca 2008, S.A., heard by Madrid Court of First Instance no. 21, in which it sought indemnification for the damage and losses it alleges it incurred due to the (in its opinion) unwarranted claim by the Bank. Delforca 2008, S.A. had already made this request in a counterclaim filed in the arbitration proceeding that concluded with the annulled award, putting the figure at up to EUR 218 million. The aforementioned Court upheld the motion for declinatory exception proposed by Banco Santander, S.A. as the matter has been referred for arbitration. This decision was confirmed in an appeal at the Madrid Provincial Appellate Court in a judgment dated 27 May 2014. The Group considers that the risk of loss arising as a result of these matters is remote and, accordingly, it has not recognised any provisions in connection with these proceedings.

- 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.

- "Planos economicos": 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 economicos"). 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.

- Proceeding under Criminal Procedure Law (case no. 1043/2009) conducted at Madrid Court of First Instance no. 26, following a claim brought by Banco Occidental de Descuento, Banco Universal, C.A. against the Bank for USD 150 million in principal plus USD 4.7 million in interest, upon alleged termination of an escrow contract.

  The court upheld the claim but did not make a specific pronouncement on costs. A judgment handed down by the Madrid Provincial Appellate Court on 9 October 2012 upheld the appeal lodged by the Bank and dismissed the appeal lodged by Banco Occidental de Descuento, Banco Universal, C.A., dismissing the claim. The dismissal of the claim was confirmed in an ancillary order to the judgment dated 28 December 2012. An appeal was filed at the Supreme Court by Banco Occidental de Descuento against the Madrid Provincial Appellate Court decision. The appeal was dismissed in a Supreme Court judgment dated 24 October 2014.

  Banco Occidental de Descuento filed a motion for annulment against the aforementioned judgment which was dismissed in an order dated 2 December 2015. The complainant has stated that it will appeal. The Bank has not recognised any provisions in this connection.

- On 26 January 2011, notice was served on the Bank of an ancillary insolvency claim to annul acts detrimental to the assets available to creditors as part of the voluntary insolvency proceedings of Mediterráneo Hispa Group, S.A. at Murcia Commercial Court no. 2. The aim of the principal action is to request annulment of the application of the proceeds obtained by the company undergoing insolvency from an asset sale and purchase transaction involving EUR 32 million in principal and EUR 2.7 million in interest. On 24 November 2011, the hearing was held with the examination of the proposed evidence. Upon completion of the hearing, it was resolved to conduct a final proceeding. The Court dismissed the claim in full in a judgment dated 13 November 2013. The judgment was confirmed at appeal by the Murcia Provincial Appellate Court in a judgment dated 10 July 2014. The insolvency managers have filed a cassation and extraordinary appeal against procedural infringements against the aforementioned judgment.

- The bankruptcy of various Lehman Group companies was made public on 15 September 2008. Various customers of Santander Group were affected by this situation since they had invested in securities issued by Lehman or in other products which had such assets as their underlying.

  At the date of these consolidated financial statements, certain claims had been filed in relation to this matter. The Bank's directors and its legal advisers consider that the various Lehman products were sold in accordance with the applicable legal regulations in force at the time of each sale or subscription and that the fact that the Group acted as intermediary would not give rise to any liability for it in relation to the insolvency of Lehman. Accordingly, the risk of loss is considered to be remote and, as a result, no provisions needed to be recognised in this connection.

- 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 arranged between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

The swaps under debate included swaps arranged 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 arranged 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.

Consequently, Banco Santander Totta, S.A. extended each of the claims to include the unpaid amounts.

On 29 November 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 14 February 2014, Banco Santander Totta, S.A. answered the counterclaim, maintaining its arguments and rejecting the opposing arguments in its documents dated 29 November 2013.

On 4 April 2014, the companies issued their replies to the bank's documents. The preliminary hearing took place on 16 May 2014.

The case was heard from 12 October to 10 December 2015. A judgment has yet to be handed down in the proceeding.

Banco Santander Totta, S.A. and its legal advisers consider that the entity acted at all times in accordance with applicable legislation and under the terms of the swaps, and take the view that the UK courts will confirm the full validity and effectiveness of the swaps. As a result, the Group has not recognised any provisions in this connection.

- Most of the German banking industry was affected by two German Supreme Court decisions in 2014 in relation to handling fees in consumer loan agreements.

In May 2014 the German Supreme Court held handling fees in loan agreements to be null and void. The Court subsequently handed down a ruling at the end of October 2014 whereby claims relating to the period from three to ten years prior to 2014 would become statute-barred. As a result, claims relating to handling fees paid between 2004 and 2011 became statute-barred in 2014. This situation gave rise to numerous claims at the end of 2014 which affected the income statements of banks in Germany.

Santander Consumer Bank AG stopped including these handling fees in agreements from 1 January 2013 and ceased charging these fees definitively at that date, i.e. before the Supreme Court handed down its judgment on the issue.

Provisions of approximately EUR 455 million were recognised in 2014 to cover the estimated cost of the claims. In order to calculate the provision, the claims already received, as well as an estimate of those that could be received in 2015 (the year in which the period for making claims ends as they become statute-barred) were taken into account. The provisions recognised to cover the claims received were used progressively throughout 2014 and 2015.

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).

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.

With the information available to it, the Group considers that at 31 December 2015, 2014 and 2013, 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.

26. Other liabilities

The detail of Other liabilities in the consolidated balance sheets is as follows:

Millions of euros

	2015	2014	2013
Transactions in transit	744	621	505
Accrued expenses and deferred income	6,562	6,415	5,275
Other	2,915	3,610	2,774
	10,221	**10,646**	**8,554**

27. 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).

The other Group companies file income tax returns in accordance with the tax regulations applicable to them.

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 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 2015 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 2015 open for review in relation to the main taxes applicable to it.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations.

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 Group'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 Group's consolidated financial statements.

c) Reconciliation

The reconciliation of the income tax expense calculated at the tax rate applicable in Spain (30%) to the income tax expense recognised and the detail of the effective tax rate are as follows:

Millions of euros

	2015	2014	2013
Consolidated profit (loss) before tax:			
From continuing operations	9,547	10,679	7,378
From discontinued operations	-	(26)	(18)
	9,547	10,653	7,360
Income tax at tax rate applicable in Spain (30%)	2,864	3,196	2,208
Effect of application of the various tax rates applicable in each country*	158	187	100
Of which:			
Brazil	*300*	*185*	*304*
United Kingdom	*(146)*	*(138)*	*(87)*
United States	*156*	*302*	*37*
Chile	*(60)*	*(79)*	*(105)*
Effect of profit or loss of associates and jointly controlled entities	(111)	(73)	(153)
Effect of deduction of goodwill in Brazil	(133)	(304)	(274)
Effect of reassessment of deferred taxes	30	279	(21)
Permanent differences	476	433	171
Reversal of tax liabilities**	(1,071)	-	-
Current income tax	**2,213**	**3,718**	**2,031**
Effective tax rate	*23.18%*	*34.90%*	*27.60%*
Of which:			
Continuing operations	*2,213*	*3,718*	*2,034*
Discontinued operations (Note 37)	*-*	*-*	*(3)*
Of which:			
Current taxes	*4,070*	*2,464*	*3,511*
Deferred taxes	*(1,857)*	*1,254*	*(1,480)*
Taxes paid in the year	*2,205*	*1,352*	*3,577*

* Calculated by applying the difference between the tax rate applicable in Spain and the tax rate applicable in each jurisdiction to the profit or loss contributed to the Group by the entities which operate in each jurisdiction.

** Effect of the reversal of the tax liabilities of Banco Santander (Brasil) S.A. associated with the tax-related proceedings concerning Brazilian PIS and COFINS social contributions (see Note 25.e).

d) Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement, the Group recognised the following amounts in consolidated equity in 2015, 2014 and 2013:

Millions of euros

	2015	2014	2013
Net tax credited (charged) to equity:			
Measurement of available-for-sale fixed-income securities	418	(633)	162
Measurement of available-for-sale equity securities	(34)	(50)	(51)
Measurement of cash flow hedges	51	(150)	(38)
Actuarial (gains) losses	(231)	319	(331)
Measurement of entities accounted for using the equity method	13	(33)	39
	217	**(547)**	**(219)**

e) Deferred taxes

Tax assets in the consolidated balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets. Tax liabilities includes the liability for the Group's various deferred tax liabilities.

On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every Member State as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetisable tax assets").

Italy had a very similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011.

In addition, in 2013 in Brazil, by means of Provisional Measure no. 608, of 28 February 2013 and, in Spain, through Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, tax regimes were established whereby certain deferred tax assets (arising from provisions to allowances for loan losses in Brazil and provisions to allowances for loan losses, provisions to allowances for foreclosed assets and provisions for pension and pre-retirement obligations in Spain) may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

In 2015 Spain completed its regulations on monetisable tax assets with the introduction of a financial contribution which will involve 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 monetisable assets generated prior to 2016.

The detail of deferred tax assets, by classification as monetisable or non-monetisable assets, and of deferred tax liabilities at 31 December 2015, 2014 and 2013 is as follows:

Millions of euros

	2015		2014		2013	
	Monetisable*	**Other**	**Monetisable***	**Other**	**Monetisable***	**Other**
Tax assets:	**8,887**	**13,158**	**8,444**	**13,720**	**7,902**	**13,291**
Tax losses and tax credits	-	4,808	-	5,650	-	5,671
Temporary differences	8,887	8,350	8,444	8,070	7,902	7,620
Of which:						
Non-deductible provisions	-	*1,631*	-	*2,709*	-	*2,365*
Valuation of financial instruments	-	*2,231*	-	*775*	-	*1,213*
Loan losses	*4,667*	*827*	*4,429*	*1,013*	*3,989*	*920*
Pensions	*3,557*	*475*	*3,408*	*759*	*3,286*	*553*
Valuation of tangible and intangible assets	*663*	*686*	*607*	*474*	*627*	*522*
Tax liabilities:	**-**	**5,565**	**-**	**4,527**	**-**	**1,825**
Temporary differences	-	5,565	-	4,527	-	1,825
Of which:	-					
Valuation of financial instruments	-	*896*	-	*1,093*		*729*
Valuation of tangible and intangible assets	-	*1,727*	-	*1,323*	-	*461*
Investments in Group companies (Note 3)		*1,249*	-	*1,096*	-	-

* Not deducted from regulatory capital.

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carryforwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

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.

These analyses take into account, inter alia: (i) the results generated by the various entities in prior years, (ii) each entity or tax group's projected earnings, (iii) the estimated reversal of the various temporary differences, based on their nature, and (iv) the period and limits established by the legislation of each country for the recovery of the various deferred tax assets, thereby concluding on each entity or tax group's ability to recover its recognised deferred tax assets.

The projected earnings used in these analyses are based on the financial budgets approved by the Group's directors for the various entities, which generally cover a period of three years (see further details in Note 17), applying constant growth rates not exceeding the average long-term growth rate for the market in which the consolidated entities operate, in order to estimate the earnings for subsequent years considered in the analyses.

Relevant information is set forth below for the main countries which have recognised deferred tax assets:

Spain

The deferred tax assets recognised at the Consolidated Tax Group total EUR 11,031 million, of which EUR 5,928 million were for monetisable temporary differences, EUR 1,876 million for other temporary differences and EUR 3,227 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered in 15 years. This period would also apply to the recovery of the recognised tax loss and tax credit carryforwards.

Brazil

The deferred tax assets recognised in Brazil total EUR 6,350 million, of which EUR 2,747 million were for monetisable temporary differences, EUR 3,371 million for other temporary differences and EUR 232 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences, tax losses and credits will be recovered in approximately eight years.

United States

The deferred tax assets recognised in the United States total EUR 1,596 million, of which EUR 518 million were for temporary differences and EUR 1,078 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered before 2024. The recognised tax loss and tax credit carryforwards will be recovered before 2029.

Mexico

The deferred tax assets recognised in Mexico total EUR 760 million, substantially all of which were for temporary differences.

The Group estimates that substantially all the recognised deferred tax assets for temporary differences will be recovered in three years.

The changes in Tax assets - Deferred and Tax liabilities - Deferred in the last three years were as follows:

Millions of euros

	Balances at 31 December 2014	(Charge)/ Credit to income	Foreign currency balance translation differences and other items	(Charge)/ Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2015
Deferred tax assets	22,164	2,330	(2,831)	356	26	22,045
Tax losses and tax credits	5,650	(449)	(399)	-	6	4,808
Temporary differences	16,514	2,779	(2,432)	356	20	17,237
Of which: monetisable	*8,444*	*1,199*	*(794)*	*38*	-	*8,887*
Deferred tax liabilities	(4,527)	(473)	(200)	(73)	(292)	(5,565)
Temporary differences	(4,527)	(473)	(200)	(73)	(292)	(5,565)
	17,637	**1,857**	**(3,031)**	**283**	**(266)**	**16,480**

Millions of euros

	Balances at 31 December 2013	(Charge)/ Credit to income	Foreign currency balance translation differences and other items	(Charge)/ Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2014
Deferred tax assets	21,193	36	194	21	720	22,164
Tax losses and tax credits	5,671	(392)	115	-	256	5,650
Temporary differences	15,522	428	79	21	464	16,514
Of which: monetisable	*7,902*	*406*	*14*	*122*	-	*8,444*
Deferred tax liabilities	(1,825)	(1,290)	(328)	(527)	(557)	(4,527)
Temporary differences	(1,825)	(1,290)	(328)	(527)	(557)	(4,527)
	19,368	**(1,254)**	**(134)**	**(506)**	**163**	**17,637**

Millions of euros

	Balances at 31 December 2012	(Charge)/ Credit to income	Foreign currency balance translation differences and other items	(Charge)/ Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2013
Deferred tax assets	20,987	1,315	(493)	(616)	-	21,193
Tax losses and tax credits	7,719	(488)	(1,560)*	-	-	5,671
Temporary differences	13,268	1,803	1,067*	(616)	-	15,522
Deferred tax liabilities	(2,603)	165	259	361	(7)	(1,825)
Temporary differences	(2,603)	165	259	361	(7)	(1,825)
	18,384	**1,480**	**(234)**	**(255)**	**(7)**	**19,368**

* Includes reclassification of tax loss carryforwards to monetisable temporary differences by application of Royal Decree-Law 14/2013, of 27 November, and Income Tax Law 27/14.

Also, the Group did not recognise deferred tax assets relating to tax losses, tax credits for investments and other incentives amounting to approximately EUR 2,300 million, the use of which is subject, among other requirements, to time limits. It also did not recognise certain deductible temporary differences, tax losses and tax credits for which there is currently no time limit for offset, amounting to approximately EUR 5,800 million.

f) Tax reforms

The following significant tax reforms were approved in 2015:

In the UK a surcharge of 8% on the standard income tax rate for bank profits was approved. This surcharge will be applied from 1 January 2016. In addition, from 2015 customer remediation payments are no longer considered to be tax-deductible.

In Brazil there was also an increase in the rate of the Brazilian social contribution tax on net income (CSL) from 15% to 20% (applicable from 1 September 2015), as a result of which the income tax rate (25%) plus the CSL rate total 45%.

In Poland, the introduction of a tax on certain bank assets at a monthly rate of 0.0366%, which comes into force in 2016, was approved.

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 in respect of the withholdings the Bank is required to make from the dividends to be paid to them. 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.

28. Non-controlling interests

Non-controlling interests include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by Group company, of Equity - Non-controlling interests is as follows:

Millions of euros

	2015	2014	2013
Bank Zachodni WBK S.A.	1,685	1,545	1,372
Santander Consumer USA Holdings Inc.	1,506	1,013	-
Grupo Financiero Santander México, S.A.B. de C.V.	1,201	1,192	978
Banco Santander (Brasil) S.A.	1,190	1,662	4,292
Banco Santander - Chile	1,037	1,049	950
Metrovacesa, S.A.	560	598	-
Société Financière de Banque - SOFIB	462	-	-
PSA Financial Services Spain, E.F.C., S.A.	181	-	-
PSA Finance UK Limited	148	-	-
Other companies*	1,375	731	568
	9,345	**7,790**	**8,160**
Profit/(Loss) for the year attributable to non-controlling interests	1,368	1,119	1,154
Of which:			
Santander Consumer USA Holdings Inc.	*329*	*219*	*-*
Banco Santander (Brasil) S.A.	*296*	*315*	*494*
Grupo Financiero Santander México, S.A.B. de C.V.	*201*	*193*	*251*
Banco Santander - Chile	*191*	*210*	*221*
Bank Zachodni WBK S.A.	*154*	*121*	*123*
Société Financière de Banque - SOFIB	*78*	*-*	*-*
PSA Finance UK Limited	*37*	*-*	*-*
Other companies	*82*	*61*	*65*
	10,713	**8,909**	**9,314**

* Includes an issue of perpetual equity instruments by Santander UK acquired by non-Group third parties.

b) Changes

The changes in Non-controlling interests are summarised as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	8,909	9,314	9,415
Banesto Group merger (Note 3)	-	-	(455)
Changes in the scope of consolidation (Note 3)	761	1,465	199
Change in proportion of ownership interest	(168)	(2,971)	925
Dividends paid to non-controlling interests	(461)	(380)	(747)
Changes in capital and other items	876	(524)	57
Profit for the year attributable to non-controlling interests	1,368	1,119	1,154
Valuation adjustments (including exchange differences)	(572)	886	(1,234)
Balance at end of year	**10,713**	**8,909**	**9,314**

In 2013 the Group reduced its ownership interest in Bank Zachodni WBK S.A. to 70%, thereby generating an increase in the balance of Non-controlling interests of EUR 1,329 million (see Note 3).

Also, in 2014 the Group increased its ownership interest in Banco Santander (Brasil), S.A., thereby generating a decrease in the balance of Non-controlling interests of EUR 2,572 million (see Note 3).

Lastly, in 2015 the Group acquired 50% of Société Financière de Banque - SOFIB, PSA Finance UK Limited and PSA Financial Services Spain, E.F.C., S.A. (see Note 3), thereby generating an increase in the balance of Non-controlling interests of EUR 462 million, EUR 148 million and EUR 181 million. Also, the acquisition of a 13.8% interest in Metrovacesa, S.A. from Banco Sabadell, S.A. (see Note 3) generated a decrease in the balance of Non-controlling interests of EUR 271 million.

The foregoing changes are shown in the consolidated statement of changes in total equity.

c) Other information

The financial information on the subsidiaries with significant non-controlling interests at 31 December 2015 is summarised below:

Millions of euros*

	Banco Santander (Brazil)	Banco Santander - Chile	Grupo Financiero Santander Mexico	Bank Zachodni WBK	Santader Consumer USA Holdings
Total assets	138,534	45,960	64,728	29,112	34,229
Total liabilities	126,988	41,723	58,251	24,751	29,667
Net assets	**11,546**	**4,237**	**6,477**	**4,361**	**4,562**
Total gross income	11,140	2,336	3,317	1,276	4,935
Total profit	**1,824**	**655**	**831**	**410**	**812**

* Information prepared in accordance with the segment reporting criteria described in Note 52 and, therefore, it may not coincide with the information published separately by each entity.

29. Valuation adjustments

The balances of Valuation adjustments include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the consolidated statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

It should be noted that the consolidated statement of recognised income and expense 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 consolidated 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 income statement: 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 the various valuation adjustment items.

The amounts of these items are recognised gross, including the amount of the valuation adjustments relating to non-controlling interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Available-for-sale financial assets

Valuation adjustments - Available-for-sale financial assets includes the net amount of unrealised changes in the fair value of assets classified as available-for-sale financial assets (see Notes 7 and 8).

The breakdown, by type of instrument and geographical origin of the issuer, of Valuation adjustments - Available-for-sale financial assets at 31 December 2015, 2014 and 2013 is as follows:

Millions of euros

	31 December 2015				31 December 2014				31 December 2013			
	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value
Debt instruments												
Government debt securities and debt instruments issued by central banks												
Spain	*641*	*(62)*	*579*	*35,283*	*835*	*(176)*	*659*	*31,190*	*356*	*(496)*	*(140)*	*25,664*
Rest of Europe	*283*	*(47)*	*236*	*20,310*	*325*	*(56)*	*269*	*20,597*	*28*	*(143)*	*(115)*	*12,080*
Latin America and rest of the world	*42*	*(671)*	*(629)*	*32,185*	*89*	*(97)*	*(8)*	*30,230*	*38*	*(217)*	*(179)*	*17,134*
Private-sector debt securities	165	(253)	(88)	29,409	243	(193)	50	28,232	258	(280)	(22)	24,966
	1,131	**(1,033)**	**98**	**117,187**	**1,492**	**(522)**	**970**	**110,249**	**680**	**(1,136)**	**(456)**	**79,844**
Equity instruments												
Domestic												
Spain	*66*	*(5)*	*61*	*1,140*	*35*	*(8)*	*27*	*1,447*	*132*	*(10)*	*122*	*1,432*
International												
Rest of Europe	*438*	*(14)*	*424*	*1,338*	*282*	*(23)*	*259*	*1,245*	*158*	*(25)*	*133*	*974*
United States	*14*	*(2)*	*12*	*980*	*25*	*-*	*25*	*762*	*20*	*(1)*	*19*	*661*
Latin America and rest of the world	*251*	*(2)*	*249*	*1,391*	*298*	*(19)*	*279*	*1,547*	*235*	*(18)*	*217*	*888*
	769	**(23)**	**746**	**4,849**	**640**	**(50)**	**590**	**5,001**	**545**	**(54)**	**491**	**3,955**
Of which:												
Listed	*436*	*(15)*	*421*	*1,986*	*311*	*(26)*	*285*	*1,787*	*313*	*(26)*	*287*	*1,330*
Unlisted	*333*	*(8)*	*325*	*2,863*	*329*	*(24)*	*305*	*3,214*	*232*	*(28)*	*204*	*2,625*
	1,900	**(1,056)**	**844**	**122,036**	**2,132**	**(572)**	**1,560**	**115,250**	**1,225**	**(1,190)**	**35**	**83,799**

At each reporting date the Group 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 Group is taken into account. As a general rule, for these purposes the Group 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 Group 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 Group 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 in equity under Valuation adjustments. Also, where the Group 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 2015 the Group performed the assessment described above and recognised in the consolidated income statement impairment losses of EUR 127 million in respect of debt instruments (2014: EUR 42 million; 2013: EUR 89 million) and of EUR 112 million in respect of equity instruments which had suffered a significant and prolonged fall in price at 31 December 2015 (2014: EUR 147 million; 2013: EUR 169 million).

At the end of 2015, 54.66% of the losses recognised under Valuation adjustments - Available-for-sale financial assets arising from debt securities had been incurred in more than twelve months.

Also, at the end of 2015, 12.64% of the losses recognised under Valuation adjustments - Available-for-sale financial assets arising from equity instruments had been incurred in more than twelve months. After carrying out the aforementioned assessment, the Group concluded that, given its ability and intention to hold the securities in the long term, it did not expect the factors giving rise to the decline in value described above to have an impact on future cash flows and, therefore, no impairment loss was required to be recognised at year-end.

b) Cash flow hedges

Valuation adjustments - Cash flow hedges includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognised in the consolidated income statement in the periods in which the hedged items affect it (see Note 11).

Accordingly, amounts representing valuation losses will be offset in the future by gains generated by the hedged instruments.

c) Hedges of net investments in foreign operations and Exchange differences

Valuation adjustments - Hedges of net investments in foreign operations includes the net amount of changes in the value of hedging instruments in hedges of net investments in foreign operations, for the portion of these changes considered as effective hedges (see Note 11).

Valuation adjustments - Exchange differences includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and the differences arising on the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2.a).

The changes in 2015 reflect the negative effect of the sharp depreciation of the Brazilian real and the positive effect of the appreciation of the US dollar and the pound sterling, whereas the changes in 2014 reflected the appreciation of the US dollar and the pound sterling.

Of the change in the balance in these years, a loss of EUR 514 million in 2015, a gain of EUR 1,093 million in 2014 and a loss of EUR 1,665 million in 2013 related to the measurement of goodwill.

The detail, by country, of Valuation adjustments - Hedges of net investments in foreign operations and Valuation adjustments - Exchange differences is as follows:

Millions of euros

	2015	2014	2013
Net balance at end of year	(11,980)	(8,955)	(10,642)
Of which:			
Brazilian real	*(10,679)*	*(5,936)*	*(5,480)*
Mexican peso	*(1,497)*	*(1,243)*	*(1,171)*
Pound sterling	*232*	*(1,042)*	*(2,364)*
Argentine peso	*(1,135)*	*(729)*	*(618)*
Chilean peso	*(711)*	*(528)*	*(453)*
US dollar	*2,342*	*535*	*(352)*
Other	*(532)*	*(12)*	*(204)*

d) Entities accounted for using the equity method

Valuation adjustments - Entities accounted for using the equity method includes the amounts of valuation adjustments recognised in equity arising from associates and jointly controlled entities.

The changes in Valuation adjustments - Entities accounted for using the equity method were as follows:

Millions of euros

	2015	2014	2013
Balance at beginning of year	(85)	(446)	(152)
Revaluation gains/(losses)	(156)	266	(283)
Net amounts transferred to profit or loss	9	95	23
Transfers	-	-	(34)
Balance at end of year	**(232)**	**(85)**	**(446)**
Of which:			
Metrovacesa, S.A.	-	-	*(63)*
Zurich Santander Insurance América, S.L.	*(136)*	*(37)*	*(135)*
Santander Consumer USA Inc.	-	-	*(145)*

e) Other valuation adjustments

Valuation adjustments - Other valuation adjustments 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).

The changes in this balance are shown in the consolidated statement of recognised income and expense, and the most significant changes in 2015 related to:

- Increase of EUR 145 million in the cumulative actuarial losses relating to the Group's entities in Spain, due basically to the change in the main actuarial assumptions - a decrease in the discount rate from 2% to 1.75%-.

- Decrease of EUR 282 million in the cumulative actuarial losses relating to the Group's businesses in Brazil, due basically to an increase in the discount rate from 10.94% to 12.25% on pension benefits and from 11.04% to 12.03% on medical benefits and to changes in other assumptions.

- Decrease of EUR 435 million in the cumulative actuarial losses relating to the Group's businesses in the UK, due basically to the change in the main actuarial assumptions – a decrease in the long-term inflation rate from 3.05% to 2.98% and an increase in the discount rate from 3.65% to 3.74%-.

- Also, changes arose as a result of fluctuations in exchange rates, mainly in Brazil (depreciation of the Brazilian real) and the UK (appreciation of the pound sterling).

30. Shareholders' equity

Shareholders' equity includes the amounts of equity contributions from shareholders, accumulated profit or loss recognised through the consolidated income statement, and components of compound financial instruments having the substance of permanent equity. Amounts arising from subsidiaries are presented in the appropriate items based on their nature.

The changes in Shareholders' equity are presented in the consolidated statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2015 is set forth below.

31. Issued capital

a) Changes

At 31 December 2012, the Bank's share capital consisted of 10,321,179,750 shares with a total par value of EUR 5,161 million.

On 30 January 2013, 30 April 2013, 31 July 2013 and 31 October 2013, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 217,503,395, 270,917,436, 282,509,392 and 241,310,515 shares (2.06%, 2.51%, 2.55% and 2.13% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 108.8 million, EUR 135.5 million, EUR 141.3 million and EUR 120.7 million, respectively.

At 31 December 2013, the Bank's share capital consisted of 11,333,420,488 shares with a total par value of EUR 5,667 million.

On 30 January 2014, 29 April 2014, 30 July 2014 and 5 November 2014, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 227,646,659, 217,013,477, 210,010,506 and 225,386,463 shares (2.01%, 1.88%, 1.78% and 1.82% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 113.8 million, EUR 108.5 million, EUR 105 million and EUR 112.7 million, respectively.

Also, on 4 November 2014, a capital increase was carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares (see Note 3), whereby 370,937,066 shares (3.09% of the share capital) were issued, corresponding to a capital increase of EUR 185.5 million (see Note 3).

At 31 December 2014, the Bank's share capital consisted of 12,584,414,659 shares with a total par value of EUR 6,292 million.

On 8 January 2015, the Group announced that its board of directors had resolved to increase capital through an accelerated bookbuilt offering with disapplication of pre-emption rights. The capital increase amounted to EUR 7,500 million, of which EUR 607 million related to the par value of the 1,213,592,234 new shares issued and EUR 6,893 million to the share premium.

On 29 January and 4 November 2015, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 262,578,993, 256,046,919 and 117,859,774 shares (1.90%, 1.82% and 0.82% of the share capital) were issued for an amount of EUR 131 million, EUR 128 million and EUR 59 million, respectively.

At 31 December 2015, the Bank's share capital consisted of 14,434,492,579 shares with a total par value of EUR 7,217 million.

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. At 31 December 2015, the only shareholders listed in the Bank's shareholders register with ownership interests of more than 3% were State Street Bank & Trust Company (12.62%), The Bank of New York Mellon (6.05%), Chase Nominees Ltd. (4.84%), EC Nominees Limited (3.99%), Société Générale (3.81%), Clearstream Banking S.A. (3.50%) and Guaranty Nominees Limited (3.23%).

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 or voting power.

b) Other considerations

The shareholders at the annual general meeting held on 27 March 2015 authorised additional share capital of EUR 3,515 million. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The resolution empowers the board to fully or partially disapply the pre-emption right in accordance with the terms of Article 506 of the Spanish Limited Liability Companies Law, although this power is limited to EUR 1,406 million.

The shareholders at the annual general meeting of 27 March 2015 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 aforementioned annual general meeting authorised the board to issue fixed-income securities, convertible into or exchangeable for shares of the Bank, for up to a total amount of the issue or issues of EUR 10,000 million or the equivalent amount in another currency. The Bank's directors are authorised to execute this resolution until 27 March 2020.

At 31 December 2015, the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Grupo Financiero Santander México, S.A.B. de C.V.; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Bank Zachodni WBK S.A. and Santander Consumer USA Holdings Inc.

At 31 December 2015, 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 53 million, which represented 0.37% of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was 220 million (equal to 1.52% of the Bank's share capital).

At 31 December 2015, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective general meetings were not material at Group level (see Appendix V).

32. 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 increase in the balance of Share premium in 2013 relates to the capital increases detailed in Note 31.a. The increase in 2014 is the result of the capital increase of EUR 2,372 million carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares (see Note 3) and the reduction of EUR 440 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme. The increase in 2015 is the result of the capital increase of EUR 6,893 million carried out on 8 January 2015 (see Note 31.a) and the reduction of EUR 318 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme.

Also, in 2015 an amount of EUR 185 million was transferred from the Share premium account to the Legal reserve (2014: EUR 125 million; 2013: EUR 102 million) (see Note 33.b.i).

33. Reserves

a) Definitions

Shareholders' equity - Reserves - Accumulated reserves (losses) includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to equity, and the own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof.

Shareholders' equity - Reserves - Reserves (losses) of entities accounted for using the equity method includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

b) Breakdown

The detail of Accumulated reserves and Reserves of entities accounted for using the equity method is as follows:

Millons of euros

	2015	2014	2013
Accumulated reserves:			
Restricted reserves-			
Legal reserve	1,444	1,259	1,134
Reserve for treasury shares	1,210	1,487	1,509
Revaluation reserve Royal Decree-Law 7/1996	43	43	43
Reserve for retired capital	11	11	11
Voluntary reserves	3,230	2,997	3,048
Consolidation reserves attributable to the Bank	8,256	7,908	7,968
Reserves of subsidiaries	31,275	27,268	24,080
	45,469	40,973	37,793
Reserves of entities accounted for using the equity method:			
Associates	291	187	263
	45,760	**41,160**	**38,056**

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 2015 the Bank transferred EUR 185 million from the Share premium account to the Legal reserve (2014: EUR 125 million; 2013: EUR 102 million).

Consequently, once again, after the capital increases described in Note 31 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and at 31 December 2015 the Legal reserve was at the stipulated level.

ii. 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.

iii.Revaluation reserve Royal Decree Law 7/1996, of 7 June

The balance of Revaluation reserve Royal Decree-Law 7/1996 can be used, free of tax, to increase share capital. From 1 January 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised.

If the balance of this reserve were used in a manner other than that provided for in Royal Decree-Law 7/1996, of 7 June, it would be subject to taxation.

iv. Reserves of subsidiaries

The detail, by company, of Reserves of subsidiaries, based on the companies' contribution to the Group (considering the effect of consolidation adjustments) is as follows:

Millions of euros

	2015	2014	2013
Banco Santander (Brasil) S.A. (Consolidated Group)	8,408	7,361	6,478
Santander UK Group	6,457	5,842	5,540
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	2,977	2,566	2,573
Santander Holdings USA Group	2,968	1,712	1,084
Banco Santander – Chile	2,534	2,446	2,736
Banco Santander Totta, S.A. (Consolidated Group)	2,165	2,021	1,890
Santander Consumer Finance Group	1,549	1,815	1,189
Banco Santander Río, S.A.	965	703	395
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	754	725	515
Bank Zachodni WBK, S.A.	578	315	175
Banco Santander International	472	408	348
Santander Investment, S.A.	367	282	222
Cartera Mobiliaria, S.A., SICAV	363	370	339
Banco Santander (Suisse) SA	346	282	242
Exchange differences, consolidation adjustments and other companies*	372	420	354
	31,275	**27,268**	**24,080**
Of which, restricted	*2,445*	*2,233*	*2,062*

* Includes the charge relating to cumulative exchange differences in the transition to International Financial Reporting Standards.

34. Other equity instruments and Treasury shares

a) 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.

b) Treasury shares

Shareholders' equity - Treasury shares includes the amount of own equity instruments held by all the Group entities.

Transactions involving own equity instruments, including their issuance and cancellation, are recognised directly in equity, and no profit or loss may be recognised on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

On 21 October 2013 and 23 October 2014, the Bank's board of directors amended the regulation of its treasury share policy in order to take into account the criteria recommended by the CNMV, establishing limits on average daily purchase trading and time limits. Also, a maximum price per share was set for purchase orders and a minimum price per share for sale orders.

The Bank's shares owned by the consolidated companies accounted for 0.279% of issued share capital at 31 December 2015 (31 December 2014: 0.012%; 31 December 2013: 0.013%).

The average purchase price of the Bank's shares in 2015 was EUR 6.00 per share and the average selling price was EUR 6.12 per share.

The effect on equity, net of tax, arising from the purchase and sale of Bank shares was a EUR 16 million increase in 2015 (2014: EUR 40 million increase; 2013: EUR 28 million reduction).

35. Memorandum items

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 consolidated entities although they may not impinge on their net assets.

a) Contingent liabilities

Contingent liabilities includes all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The detail is as follows:

Millions of euros

	2015	2014	2013
Financial guarantees	**14,648**	**13,383**	**13,479**
Financial bank guarantees	*13,704*	*12,121*	*12,186*
Non-performing guarantees	*944*	*1,262*	*1,293*
Irrevocable documentary credits	**2,139**	**2,381**	**2,430**
Other bank guarantees and indemnities provided	**23,047**	**28,006**	**24,690**
Other guarantees	*22,526*	*27,630*	*24,496*
Undertakings to provide bank guarantees	*521*	*376*	*194*
Other contingent liabilities	**281**	**308**	**450**
Assets earmarked for third-party obligations	*17*	*25*	*128*
Other contingent liabilities	*264*	*283*	*322*
	40,115	**44,078**	**41,049**

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities 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 Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

At 31 December 2015, the Group had recognised provisions of EUR 618 million to cover contingent liabilities (31 December 2014: EUR 654 million; 31 December 2013: EUR 693 million) (see Note 25).

i. Financial guarantees

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties

ii. 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.

iii. Other contingent liabilities

Other contingent liabilities includes the amount of any contingent liability not included in other items.

b) 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

	2015	2014	2013
Drawable by third parties	195,628	182,955	154,314
Financial asset forward purchase commitments	485	530	82
Regular way financial asset purchase contracts	12,755	11,725	8,222
Documents delivered to clearing houses	12,251	12,444	9,901
Other contingent commitments	338	386	278
	221,457	**208,040**	**172,797**

c) Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Group and by jointly controlled companies is as follows:

Millions of euros

	2015	2014	2013
Investment funds	109,028	109,519	93,304
Pension funds	11,376	11,481	10,879
Assets under management	20,337	20,369	20,987
	140,741	**141,369**	**125,170**

d) Third-party securities held in custody

At 31 December 2015, the Group held in custody debt securities and equity instruments totalling EUR 877,682 million (31 December 2014: EUR 1,023,819 million; 31 December 2013: EUR 853,509 million) entrusted to it by third parties.

36. Derivatives - Notional amounts and market values of trading and hedging derivatives

The detail of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Group is as follows:

Millions of euros

	2015		2014		2013	
	Notional amount	**Market value**	**Notional amount**	**Market value**	**Notional amount**	**Market value**
Trading derivatives:						
Interest rate risk-						
Forward rate agreements	175,661	(59)	192,659	(50)	120,773	(2)
Interest rate swaps	2,839,940	3,095	2,738,960	1,253	2,454,752	1,190
Options, futures and other derivatives	505,655	(555)	665,658	(1,035)	605,532	(1,157)
Credit risk-						
Credit default swaps	54,056	46	66,596	81	79,822	49
Foreign currency risk-						
Foreign currency purchases and sales	250,596	80	230,961	515	186,207	1,935
Foreign currency options	35,772	104	46,311	(38)	45,196	200
Currency swaps	342,401	(1,704)	278,380	(1,694)	255,731	(1,001)
Securities and commodities derivatives and other	90,662	(697)	105,901	(1,222)	95,634	(1,202)
	4,294,743	**310**	**4,325,426**	**(2,190)**	**3,843,647**	**12**
Hedging derivatives:						
Interest rate risk-						
Interest rate swaps	175,199	(1,153)	190,872	(185)	219,103	1,456
Options, futures and other derivatives	22,169	(54)	9,569	13	2,144	12
Credit risk-						
Credit default swaps	469	(5)	607	(9)	760	(14)
Foreign currency risk-						
Foreign currency purchases and sales	38,685	500	25,530	86	24,161	630
Foreign currency options	-	-	621	39	3,883	409
Currency swaps	59,472	(496)	46,727	147	38,760	525
Securities and commodities derivatives and other	299	(2)	168	-	258	-
	296,293	**(1,210)**	**274,094**	**91**	**289,069**	**3,018**

The notional and/or contractual amounts of the contracts entered into (shown above) do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group 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 consolidated 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 Group's held-for-trading portfolio.

The Group 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 notional amounts and fair values of the hedging derivatives, by type of hedge, are as follows:

Millions of euros

	2015		2014		2013	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Fair value hedges	214,591	(1,166)	234,939	(249)	229,439	1,257
Cash flow hedges	63,912	(572)	22,388	444	55,417	743
Hedges of net investments in foreign operations	17,790	528	16,767	(104)	4,213	1,018
	296,293	**(1,210)**	**274,094**	**91**	**289,069**	**3,018**

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

Hedge accounting

The Group, as part of its financial risk management strategy and for the purpose of reducing mismatches in the accounting treatment of its transactions, enters into interest rate, foreign currency or equity hedging derivatives, depending on the nature of the hedged risk.

In line with its objective, the Group classifies its hedges into the following categories:

- Cash flow hedges: hedge the exposure to variability in cash flows associated with an asset, liability or highly probable forecast transaction. Thus, floating rate issues in foreign currencies, fixed rate issues in non-local currency, floating rate interbank financing and floating rate assets (bonds, commercial credit, mortgages, etc.) are hedged.

- Fair value hedges: hedge the exposure to changes in the fair value of assets or liabilities attributable to an identified, hedged risk. Thus, the interest rate risk of assets and liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, investments in entities, issues in foreign currencies and deposits and other fixed rate liabilities are hedged.

- Hedges of net investments in foreign operations: hedge the foreign currency risk of investments in subsidiaries domiciled in countries outside the euro zone.

i. Cash flow hedges

The fair value of the cash flow hedges, net of the related tax effect, is recognised under Valuation adjustments - Cash flow hedges in the Group's equity. The detail of the terms, from 31 December 2015, within which the amounts recognised under Valuation adjustments - Cash flow hedges in equity will be recognised in the consolidated income statements in the coming years is as follows:

Millions of euros

	2015			
	Within 1 year	**1 to s 5 year**	**More than 5 years**	**Total**
Debit balances (losses)	1	145	25	171

The net amount recognised as an equity valuation adjustment in 2015, as a result of the cash flow hedges, was a reduction of EUR 33 million.

The market value of the derivatives in portfolio cash flow hedges gave rise to a loss of EUR 393 million at 31 December 2015.

The net amount transferred from equity to 2015 profit was EUR -14 million, relating to the accrual to the net interest margin of the cash flow hedges.

The impact on 2015 profit and loss of the ineffectiveness of the Group's cash flow hedges was a net loss of EUR 10 million (see Note 44).

ii. Fair value hedges

In 2015 a net loss of EUR 38 million was recognised (gains of EUR 258 million on hedged items and losses of EUR 296 million on hedging derivatives) on fair value hedging transactions (see Note 44). In this connection, at 31 December the Bank accounted for most of the Group's fair value hedges.

Hence, the financial management area of the Bank, as Parent of the Group, uses derivatives to hedge the interest rate risk and foreign currency risk of the issues of instrumental companies of the Group guaranteed by the Bank. Following are details of the main hedges taken out by the Bank which remained outstanding at the Group at 31 December 2015.

At 31 December 2015, the Group held hedging derivatives for a notional amount equivalent to EUR 22,769 million, the market value of which represented a gain of EUR 1,021 million which is offset in profit and loss on measurement of the hedged issues. The net result of these hedges is a net loss of EUR 23 million.

The main currencies of these fair value hedges are: the euro, with a notional amount of EUR 21,369 million and gains on derivatives of EUR 1,020 million, and the US dollar, with a notional amount of EUR 623 million and gains on derivatives of EUR 10 million.

The Bank also uses derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. At 31 December 2015, the notional amount of these derivatives was EUR 10,213 million and their market value gave rise to a loss of EUR 583 million, which was offset by the result of measuring the gain on the bonds attributable to their hedged risk, giving rise to a net overall gain on these hedges of EUR 1.7 million. Fair value hedges (hedging both interest rate and credit risk) have also been arranged on government bonds not hedged against interest rate risk, using forward bonds with a notional amount at 31 December 2015 of EUR 6,365 million and a market value representing a loss of

EUR 43 million which was offset by the gain on the value of the bonds attributable to the hedged risk.

Lastly, the Bank has two fair value macro-hedges from its merger with Banesto. At year-end, the notional amount of the related derivatives was EUR 2,860 million and their market value gave rise to a loss of EUR 73 million. Including the measurement of the hedged items, the net result of the macro-hedges was a gain of EUR 7.7 million. At 31 December 2015, the market value of the fair value derivative macro-hedges at the Group was a loss of EUR 1,742 million. Including the measurement of the hedged items, the net result of the macro-hedges was a loss of EUR 537 million.

iii. Foreign currency hedges (net investments in foreign operations)

As part of its financial strategy, the Group hedges the foreign currency risk arising from its investments in non-euro-zone countries. To this end, it arranges foreign currency derivatives in order to take a long position in euros vis-à-vis the local currency of the investment.

At 31 December 2015, the total notional amount of the instruments hedging these investments was the equivalent of EUR 20,349 million, of which EUR 16,504 million related to foreign currency swaps and forwards and EUR 3,845 million to spot foreign currency purchases/sales.

By currency,

- Hedges of the Brazilian real included hedging foreign currency non-deliverable forwards amounting to EUR 3,289 million (BRL 14,182 million), with a gain of EUR 733 million, of which EUR 27 million related to the gain on the settlement of options used as hedges which expired in January 2015 and were not renewed.

- The position in Mexican pesos is hedged through foreign currency forwards and swaps with a notional amount of EUR 2,582 million (MXN 48,836 million) and a gain of EUR 25 million.

- The Polish zloty is hedged through foreign currency forwards and swaps with a notional amount of EUR 1,981 million (PLN 8,445 million) and a loss of EUR 25 million.

- The hedging of the Chilean peso is instrumented through non-deliverable foreign currency forwards amounting to EUR 2,975 million (CLP 2,302,000 million), with a gain of EUR 146 million.

- The investment in Norwegian kroner is hedged through foreign currency forwards and swaps amounting to EUR 630 million (NOK 6,048 million), with a gain of EUR 34 million.

- The hedging of the Colombian peso is instrumented through non-deliverable foreign currency forwards with a notional amount of EUR 21 million (COP 73,400 million), with a gain of EUR 4 million.

- The position in Chinese yuan is hedged through non-deliverable foreign currency forwards of EUR 95 million (CNY 674 million). These instruments generated a gain of EUR 5 million in the year.

The positions in US dollars and pounds sterling are hedged through foreign currency forwards and swaps and, in addition, spot purchases and sales are made to offset the structural foreign currency risk. In the case of the US dollar, an amount of EUR 1,653 million (USD 1,800 million) was hedged with foreign currency forwards and EUR 954 million (USD 1,039 million) with spot foreign currency purchases and sales against euros, which gave rise to a loss of EUR 242 million in the year. In the case of pounds sterling, an amount of EUR 3,278 million (GBP 2,406 million) was hedged with foreign currency swaps and EUR 2,858 million (GBP 2,098 million) with spot foreign currency purchases and sales against euros, which gave rise to a loss of EUR 270 million in the year.

Lastly, positions in Canadian dollars and Swiss francs are hedged solely with spot foreign currency purchases and sales against euros. The hedged position in Canadian dollars amounted to EUR 25 million (CAD 38 million), with a gain of EUR 2 million in the year. The hedged position in Swiss francs amounted to EUR 8 million (CHF 9 million), giving rise to a loss of EUR 11 million in the year.

At 2014 year-end, the Group held foreign currency options in this connection with an equivalent euro notional amount of EUR 310 million, which were denominated in Brazilian reais. In 2014 gains amounting to EUR 124 million, which arose from the settlement of options that were exercised, were taken to equity. At 2014 year-end, the market value of the options not yet exercised represented a net gain of EUR 40 million. In addition to foreign currency options, the Group had also arranged other hedging derivatives to round off its hedging of the structural foreign currency risk of its foreign currency investments: derivatives in Chilean pesos for a notional amount of EUR 1,194 million, which gave rise to a loss of EUR 44 million; in Brazilian reais for a notional amount of EUR 4,549 million, with a loss of EUR 417 million; in Mexican pesos for a total notional amount of EUR 2,728 million, with a loss of EUR 123 million; in Polish zloty for a notional amount of EUR 1,376 million, with a gain of EUR 5 million; and in Norwegian kroner for a notional amount of EUR 326 million, with a gain of EUR 36 million.

In addition to these hedges with derivatives, spot foreign currency sales were made to offset the structural foreign currency risk: spot sales were made of US dollars against euros, which amounted to EUR 1,593 million and gave rise to a loss of EUR 233 million, of pounds sterling against euros, which totalled EUR 3,523 million and gave rise to a loss of EUR 264 million and, lastly, of Swiss francs against euros, with a notional amount of EUR 115 million, which gave rise to a loss of EUR 2 million.

At 2013 year-end, the Group held foreign currency options in this connection with an equivalent euro notional amount of EUR 8,846 million, which were denominated in Brazilian reais. In 2013 losses amounting to EUR 214 million, which arose from the settlement of options that were exercised, were taken to equity. At 2013 year-end, the market value of the options not yet exercised represented a net gain of EUR 399 million. In addition to foreign currency options, the Group had also arranged other hedging derivatives to round off its hedging of the structural foreign currency risk of its foreign currency investments: derivatives in Chilean pesos for a notional amount of EUR 1,187 million, which gave rise to a gain of EUR 139 million; in Brazilian reais for a notional amount of EUR 6,905 million, with a gain of EUR 720 million; in Mexican pesos for a total notional amount of EUR 3,185 million, with a loss of EUR 2 million; and in Polish zlotys for a notional amount of EUR 1,651 million, with a loss of EUR 40 million; as well as a gain of EUR 6 million on options that had already expired.

Lastly, in addition to these hedges involving derivatives, spot foreign currency sales were made to offset structural foreign currency risk. By currency, spot sales were made of US dollars against euros, which amounted to EUR 1,293 million and gave rise to a gain of EUR 68 million, and of pounds sterling against euros, which totalled EUR 3,345 million and gave rise to a gain of EUR 214 million.

In line with the purpose of hedging the underlying carrying amount of net assets in foreign currencies, the overall valuation adjustments (gains/losses) obtained from the aforementioned hedges offset from an equity position the exchange differences arising from the conversion to euros of the Group's investments in its investees' net assets.

The hedges of net investments in foreign operations did not generate gains or losses due to ineffectiveness in 2015.

37. Discontinued operations

No significant operations were discontinued in 2015, 2014 or 2013.

a) Profit or loss and net cash flows from discontinued operations

The detail of the profit or loss from discontinued operations is set forth below.

The comparative figures were restated in order to include the operations classified as discontinued:

Millions of euros

	2015	2014	2013
Net interest income	**-**	**4**	**84**
Net fee and commission income	-	-	22
Gains/losses on financial assets and liabilities	-	-	-
Other operating income (expenses)	-	-	-
Gross income	**-**	**4**	**106**
Staff costs	-	(1)	(7)
Other general administrative expenses	-	(3)	(23)
Depreciation and amortisation charge	-	-	(2)
Provisions (net)	-	(22)	(6)
Impairment losses on financial assets	-	(4)	(6)
Profit (loss) from operations	**-**	**(26)**	**62**
Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	-	(80)
Profit (loss) before tax	**-**	**(26)**	**(18)**
Income tax (Note 27)	-	-	3
Profit (loss) from discontinued operations	**-**	**(26)**	**(15)**

Additionally, following is a detail of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

Millions of euros

	2015	2014	2013
Cash and cash equivalents as at beginning of year	-	-	-
Cash flows from operating activities	-	(10)	2
Cash flows from investing activities	-	10	(2)
Cash flows from financing activities	-	-	-
Cash and cash equivalents as at end of year	**-**	**-**	**-**

b) Earnings per share relating to discontinued operations

The earnings per share relating to discontinued operations were as follows:

	2015	2014	2013
Basic earnings per share (euros)	0.00	(0.00)	(0.00)
Diluted earnings per share (euros)	0.00	(0.00)	(0.00)

38. Interest and similar income

Interest and similar income in the consolidated income statement 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 interest and similar income items earned in 2015, 2014 and 2013 is as follows:

Millions of euros

	2015	2014	2013
Balances with the Bank of Spain and other central banks	1,392	2,038	2,701
Loans and advances to credit institutions	1,845	1,782	766
Debt instruments	7,361	7,247	6,435
Loans and advances to customers	45,445	42,175	40,206
Insurance contracts linked to pensions (Note 25)	6	9	11
Other interest	1,149	1,405	1,328
	57,198	**54,656**	**51,447**

Most of the interest and similar income was generated by the Group's financial assets that are measured either at amortised cost or at fair value through equity.

39. Interest expense and similar charges

Interest expense and similar charges in the consolidated income statement 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 2015, 2014 and 2013 is as follows:

Millions of euros

	2015	2014	2013
Balances with the Bank of Spain and other central banks	79	55	118
Deposits from credit institutions	2,277	2,144	1,852
Customer deposits	12,826	13,415	14,805
Marketable debt securities	6,965	6,844	6,880
Subordinated liabilities (Note 23)	934	1,084	1,260
Provisions for pensions (Note 25)	270	344	363
Other interest	1,035	1,223	234
	24,386	**25,109**	**25,512**

Most of the interest expense and similar charges was generated by the Group's financial liabilities that are measured at amortised cost.

40. Income from equity instruments

Income from equity instruments 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

	2015	2014	2013
Equity instruments classified as:			
Financial assets held for trading	266	287	264
Available-for-sale financial assets	189	148	114
	455	**435**	**378**

41. Share of results of entities accounted for using the equity method

Share of results of entities accounted for using the equity method comprises the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of Share of results of entities accounted for using the equity method is as follows:

Millions of euros

	2015	2014	2013
Santander Consumer USA Inc.	-	-	322
Zurich Santander Insurance América, S.L	183	167	138
Metrovacesa, S.A.	-	(68)	(40)
SAM Investment Holdings Limited	64	51	-
Allfunds Bank, S.A.	-	23	17
Companhia de Crédito, Financiamento e Investimento RCI Brasil	28	20	21
Other companies	100	50	42
	375	**243**	**500**

42. Fee and commission income

Fee and commission income comprises the amount of all fees and commissions accruing in favour of the Group 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 is as follows:

Millions of euros

	2015	2014	2013
Collection and payment services:			
Bills	271	284	333
Demand accounts	1,074	1,006	1,163
Cards	2,768	2,769	2,890
Orders	412	422	347
Cheques and other	134	144	165
	4,659	**4,625**	**4,898**
Marketing of non-banking financial products:			
Investment funds	805	831	1,040
Pension funds	92	111	163
Insurance	2,350	2,304	2,399
	3,247	**3,246**	**3,602**
Securities services:			
Securities underwriting and placement	252	306	208
Securities trading	303	303	316
Administration and custody	265	248	212
Asset management	222	78	107
	1,042	**935**	**843**
Other:			
Foreign exchange	303	264	243
Financial guarantees	494	498	476
Commitment fees	314	343	329
Other fees and commissions	2,983	2,604	2,082
	4,094	**3,709**	**3,130**
	13,042	**12,515**	**12,473**

43. Fee and commission expense

Fee and commission expense shows the amount of all fees and commissions paid or payable by the Group 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 is as follows:

Millions of euros

	2015	2014	2013
Fees and commissions assigned to third parties	1,593	1,618	1,718
Of which: Cards	*1,201*	*1,149*	*1,279*
Brokerage fees on lending and deposit transactions	43	42	37
Other fees and commissions	1,373	1,159	957
	3,009	**2,819**	**2,712**

44. Gains/losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the valuation adjustments 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 origin, of Gains/losses on financial assets and liabilities is as follows:

Millions of euros

	2015	2014	2013
Financial assets and liabilities held for trading*	(2,312)	2,377	1,733
Other financial instruments at fair value through profit or loss*	325	239	(6)
Financial instruments not measured at fair value through profit or loss	1,265	1,427	1,622
Of which: Available-for-sale financial assets	*891*	*1,416*	*1,490*
Of which:			
Debt instruments	*760*	*1,173*	*1,345*
Equity instruments	*131*	*243*	*145*
Other (Note 36)	(48)	(69)	(115)
	(770)	**3,974**	**3,234**

* Includes the net gain or loss arising from transactions involving debt securities, equity instruments, derivatives and short positions included in this portfolio, since the Group manages its risk in these instruments on a global basis.

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

Millions of euros

	2015	2014	2013
Loans and advances to credit institutions	28,696	30,407	18,947
Loans and advances to customers	20,374	11,892	18,275
Debt instruments	47,681	58,605	44,716
Equity instruments	18,855	13,799	5,833
Derivatives	76,724	76,858	58,899
	192,330	**191,561**	**146,670**

The Group mitigates and reduces this exposure as follows:

- With respect to derivatives, the Group 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.

  At 31 December 2015, the actual credit risk exposure of the derivatives was EUR 43,468 million.

- Loans and advances to credit institutions and Loans and advances to customers included reverse repos amounting to EUR 37,563 million at 31 December 2015.

  Also, mortgage-backed assets totalled EUR 2,855 million.

- Debt instruments include EUR 40,148 million of Spanish and foreign government securities.

At 31 December 2015, the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

Millions of euros

	2015	2014	2013
Deposits from central banks	(18,664)	(8,362)	(5,963)
Deposits from credit institutions	(8,628)	(24,570)	(17,112)
Customer deposits	(35,544)	(38,671)	(34,984)
Marketable debt securities	(3,373)	(3,830)	(4,087)
Short positions	(17,362)	(17,628)	(15,951)
Derivatives	(76,414)	(79,048)	(58,887)
Other financial liabilities	(1)	-	-
	(159,986)	**(172,109)**	**(136,984)**

45. Exchange differences

Exchange differences shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

The Group 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 44).

46. Other operating income and Other operating expenses

Other operating income and Other operating expenses in the consolidated income statements include:

Millions of euros

	2015	2014	2013
Insurance activity	**98**	**137**	**117**
Income from insurance and reinsurance contracts issued	1,096	3,532	4,724
Of which:			
Insurance and reinsurance premium income	*961*	*3,284*	*4,513*
Reinsurance income (Note 15)	*135*	*248*	*211*
Expenses of insurance and reinsurance contracts	(998)	(3,395)	(4,607)
Of which:			
Claims paid and other insurance-related expenses	*(3,101)*	*(3,800)*	*(4,497)*
Net provisions for insurance contract liabilities	*2,361*	*910*	*382*
Reinsurance premiums paid	*(258)*	*(505)*	*(492)*
Non-financial services	**121**	**88**	**93**
Sales and income from the provision of non-financial services	711	343	322
Cost of sales	(590)	(255)	(229)
Other operating income and expenses	**(385)**	**(384)**	**(512)**
Other operating income	1,260	1,339	857
Of which, fees and commissions offsetting direct costs	*115*	*106*	*115*
Other operating expenses	(1,645)	(1,723)	(1,369)
Of which, Deposit Guarantee Fund	*(769)*	*(577)*	*(570)*
	(166)	**(159)**	**(302)**

Most of the Bank's insurance activity is carried on in life insurance.

47. Staff costs

a) Breakdown

The detail of Staff costs is as follows:

Millions of euros

	2015	2014	2013
Wages and salaries	8,034	7,412	7,215
Social security costs	1,330	1,293	1,296
Additions to provisions for defined benefit pension plans (Note 25)	96	75	88
Contributions to defined contribution pension funds (Note 25)	279	247	223
Share-based remuneration costs	47	66	103
Other staff costs	1,321	1,149	1,144
	11,107	**10,242**	**10,069**

b) Headcount

The average number of employees in the Group, by professional category, was as follows:

Average number of employees**

	2015	2014	2013
The Bank:			
Senior management*	93	101	133
Other line personnel	20,909	21,376	23,403
Clerical staff	2,138	2,563	3,421
General services personnel	22	25	28
	23,162	**24,065**	**26,985**
Rest of Spain	6,922	6,781	6,931
Santander UK plc	20,069	19,866	19,773
Banco Santander (Brasil) S.A.	47,720	47,296	51,462
Other companies**	91,591	85,930	81,222
	189,464	**183,938**	**186,373**

* Categories of deputy assistant executive vice president and above, including senior management.

** Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, at 31 December 2015 is as follows:

Functional breakdown by gender

	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	995	237	6,162	3,135	21,711	29,068
United Kingdom	132	35	1,219	565	9,539	13,430
Latin America	671	106	6,167	3,674	40,653	56,364
	1,798	**378**	**13,548**	**7,374**	**71,903**	**98,862**

The same information, expressed in percentage terms at 31 December 2015, is as follows:

Functional breakdown by gender

	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	81%	19%	66%	34%	43%	57%
United Kingdom	79%	21%	68%	32%	42%	58%
Latin America	86%	14%	63%	37%	42%	58%
	83%	**17%**	**65%**	**35%**	**42%**	**58%**

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

c) Share-based payments

The main share-based payments granted by the Group in force at 31 December 2015, 2014 and 2013 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) performance share plan; (ii) obligatory investment share plan; (iii) deferred conditional delivery share plan; (iv) deferred conditional variable remuneration plan and (v) performance share plan. The characteristics of the plans are set forth below:

(i) Performance share plan

This deferred share-based variable remuneration was instrumented through a multiannual incentive plan payable in shares of the Bank. The beneficiaries of the plan were the executive directors and other members of senior management, together with any other Group executives determined by the board of directors or, when delegated by it, the executive committee, except for Plan PI14 (approved in 2011), of which the executive directors and senior executives who participated in the deferred conditional variable remuneration plan were not beneficiaries.

This plan involved successive three-year cycles of share deliveries to the beneficiaries. In June 2010 and 2011 the fifth and sixth and final cycles (PI13 and PI14, respectively) were approved. On 31 July 2013 and 2014 the fifth and sixth cycles (PI13 and PI14, respectively) were cancelled.

For each cycle a maximum number of shares was established for each beneficiary who remained in the Group's employ for the duration of the plan. The target, which, if met, would determine the number of shares to be delivered, was defined by comparing the Total Shareholder Return (TSR) performance of the shares of Banco Santander, S.A. with the TSR of a benchmark group of financial institutions.

The ultimate number of shares to be delivered in the aforementioned cycles was determined by the degree of achievement of the targets on the third anniversary of commencement of each cycle, and the shares would be delivered within a maximum period of seven months from the beginning of the year in which the corresponding cycle ended.

Plans I14 and I13 expired in 2014 and 2013, without any shares having been delivered to the plan beneficiaries, since the minimum target for shares to be delivered had not been achieved.

Following is a summary of the changes in the cycles of this plan in the period from 2013 to 2014:

	Number of shares (in thousands)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/13	**34,089**					
Options cancelled, net (Plan I13)	(19,613)	2010	Executives	(6,782)	11/06/10	31/07/13
Plans outstanding at 31/12/13	**14,476**					
Options cancelled, net (Plan I14)	(14,476)	2011	Executives	(6,699)	17/06/11	31/07/14
Plans outstanding at 31/12/14	-					

(ii) Obligatory investment share plan

This deferred share-based variable remuneration was instrumented through a multiannual incentive plan payable in shares of the Bank and conditional upon compliance with certain investment and continued Group service requirements. The beneficiaries of this plan were the executive directors, members of the Bank's senior management and other Group executives determined by the board of directors.

This plan, which was discontinued in 2010, was structured in three-year cycles. The beneficiaries of the plan had to use 10% of their gross annual variable cash-based remuneration (or bonus) to acquire shares of the Bank in the market (the "Obligatory Investment"). In accordance with the terms and conditions of the corresponding cycles, the Obligatory Investments were made before 29 February 2008, 28 February 2009 and 28 February 2010, respectively.

Participants who held the shares acquired through the Obligatory Investment and remained in the Group's employ for three years from the date on which the Obligatory Investment was made (until 2011, 2102 and 2013, respectively) were entitled to receive the same number of Bank shares as that composing their initial obligatory investment.

The shares would be delivered within a maximum period of one month from the third anniversary of the date on which the obligatory investment was made.

In 2009 a requirement was introduced for the third cycle additional to that of remaining in the Group's employ, which was that in the three-year period from the investment in the shares, none of the following circumstances should occur: (i) poor financial performance of the Group; (ii) breach by the beneficiary of the codes of conduct or other internal regulations, including, in particular, those relating to risks, where applicable to the executive in question; or (iii) material restatement of the Group's financial statements, except when it was required pursuant to a change in accounting standards.

This plan was cancelled with the delivery of the shares of the third cycle in March 2013.

(iii) 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 22 March 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. 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.

(iv) Deferred conditional variable remuneration plan

In 2013, 2014 and 2015 the Bank's board of directors, at the proposal of the appointments and remuneration committee in 2013 and 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 2013, 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 with the Guidelines on Remuneration Policies and Practices approved by the Committee of European Banking Supervisors on 10 December 2010 for 2013; in 2014, pursuant to Article 92(2) of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, and the related implementing legislation; 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).

Since the aforementioned cycles entail the delivery of Bank shares, the shareholders at the annual general meetings of 22 March 2013, 28 March 2014 and 27 March 2015 approved, respectively, the application of the third, fourth and fifth 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 third and fourth 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.

The bonus will be paid in accordance with the following percentages, based on the timing of the payment and the group to which the beneficiary belongs (the "immediate payment percentage" identifies the portion of the bonus for which payment is not deferred, and the "deferred percentage" identifies the portion of the bonus for which payment is deferred):

	2015		
	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 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 2.6 million)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

	2014	
	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%

* Generally applicable percentages. In some countries deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

	2013	
	Immediate payment percentage*	**Deferred percentage***
Executive directors	40%	60%
Division managers and other executives of the Group with a similar profile	50%	50%
Other executives subject to supervision	60%	40%

* 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 third and fourth 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 2015, 2016 and 2017 for the third cycle, and in 2016, 2017 and 2018 for the fourth 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.

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.

On each delivery, 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.

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.

(v) 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 28 March 2014 and 27 March 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 2015 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 2015 RoTE)	2015 RoTE coefficient
≥ 90%	1
> 75% but < 90%	0.75 – 1*
≤ 75%	0

* Straight-line increase of the 2015 RoTE coefficient based on the specific percentage that the 2015 RoTE represents of the budgeted RoTE within this line of the scale.

Based on the Group's performance, 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	1
5 or less	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	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 in the customer satisfaction index in 2017	Customer coefficient
10	1
Between 6 and 9	0.2-0.8*
5 or less	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 31 December 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

* 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 31 December 2017.

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 31 December 2017.

- Scales of compliance at Santander Group level:

Individual customers (millions)	Individual coefficient
≥ 17	1
> 15 but < 17	0.5 – 1*
≤ 15	0

* Straight-line increase of the individual coefficient and business coefficient based on the number of customers of each type at 31 December 2017.

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 31 December 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 1 January 2014 and 31 December 2015, for the accrual for 2017, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2016 and for the accrual for 2018, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2017.

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.

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 01/01/13	**14,814**						
Options granted (Sharesave)	4,340	3.69	2013	Employees	13,110**	01/11/13	01/11/16
						01/11/13	01/11/18
Options exercised	(78)	4.02					
Options cancelled (net) or not exercised	(3,169)	4.72					
Plans outstanding at 31/12/13	**15,907**						
Options granted (Sharesave)	6,745	4.91	2014	Employees	6,639**	01/11/14	01/11/17
						01/11/14	01/11/19
Options exercised	(1,375)	4.36					
Options cancelled (net) or not exercised	(2,155)	4.85					
Plans outstanding at 31/12/14	**19,122**						
Options granted (Sharesave)	14,074	3.13	2015	Employees	7,759**	01/11/15	01/11/18
						01/11/15	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**						

* At 31 December 2015, 2014 and 2013, the euro/pound sterling exchange rate was EUR 1.36249/GBP 1; EUR 1.28386/GBP 1 and EUR 1.19947/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 will have between GBP 5 and GBP 250 (between GBP 5 and GBP 500 in 2014 and 2015) 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 authorised by the annual general meeting held on 21 June 2008. Also, the scheme was authorised by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the annual general meetings held on 19 June 2009, 11 June 2010, 17 June 2011, 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, 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) 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.

b) 2014 Performance share 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 thousands of simulations to determine the TSR of the Bank and of each of the companies in the benchmark group. Taking into account the foregoing, the fair value of the plan at the grant date was 36.3% of the maximum amount.

c) Performance share plans:

- 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.

	PI13	PI14
Expected volatility*	49.65%	51.35%
Annual dividend yield based on last few years	6.34%	6.06%
Risk-free interest rate (Treasury Bond yield (zero coupon) over the period of the plan)	3.33%	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 62.62% 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:

	2015	2014	2013
Risk-free interest rate	1.06%-1.37%	1.56%-1.97%	1.2%-1.7%
Dividend increase	6.91%-7.36%	10.16%-10.82%	16%-19%
Volatility of underlying shares based on historical volatility over five years	28.54%-29.11%	24.16%-24.51%	32.15%-32.32%
Expected life of options granted	3 and 5 years	3 and 5 years	3 and 5 years

48. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses is as follows

Millions of euros

	2015	2014	2013
Property, fixtures and supplies	1,943	1,930	1,980
Technology and systems	1,188	979	992
Technical reports	810	606	493
Advertising	705	655	630
Communications	587	489	519
Taxes other than income tax	529	462	445
Surveillance and cash courier services	413	397	425
Per diems and travel expenses	278	287	284
Insurance premiums	74	64	59
Other administrative expenses	1,668	1,788	1,556
	8,195	**7,657**	**7,383**

b) Technical reports and other

Technical reports includes 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:

Millions of euros

	2015	2014	2013
Audit fees	49.6	44.2	35.9
Audit-related fees	46.9	31.1	20.8
Tax fees	9.1	6.6	4.6
All other fees	12.6	8.0	6.5
Total	**118.2**	**89.9**	**67.8**

The detail of the main items included in Audit fees is as follows:

Millions of euros

	2015	2014	2013
Audit of the financial statements of the companies audited by Deloitte	32.1	28.3	21.7
Of which:			
Santander UK plc	*6.6*	*5.8*	*5.0*
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	*6.7*	*5.7*	*2.4*
Banco Santander (Brasil) S.A.	*1.4*	*1.8*	*1.7*
Audit of the Bank's separate and consolidated financial statements	*2.4*	*2.1*	*2.1*
Other audit engagements	17.5	15.9	14.2
Of which:			
Internal control audit (SOX) and capital audit (Basel)	*7.9*	*6.9*	*5.9*
Audit of the Group's half-yearly financial statements	*6.5*	*6.0*	*6.0*
Issue of comfort letters	*3.1*	*3.0*	*2.3*
Audit fees	**49.6**	**44.2**	**35.9**

The detail of the main items included in Audit-related fees is as follows:

Millions of euros

	2015	2014	2013
Other recurring engagements and reports required by the various national supervisory bodies of the countries in which the Group operates	10.9	8.8	7.6
Limited reviews and other reports required by the Group due to its listing in Brazil	3.8	5.3	-
Non-recurring reviews required by regulators	0.4	0.6	1.1
Due diligence audits and other reviews	2.2	1.7	3.1
Issuance of other attest reports	5.2	4.0	3.7
Reviews of procedures, data and controls and other checks	24.4	10.7	5.3
Total audit-related fees	**46.9**	**31.1**	**20.8**

Other information

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US Securities and Exchange Commission (SEC) rules and the Public Accounting Oversight Board (PCAOB), and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than Deloitte amounting to EUR 117.4 million in 2015 (2014: EUR 97.3 million; 2013: EUR 48.6 million).

49. Gains/(losses) on disposal of assets not classified as non-current assets held for sale

The detail of Gains/(losses) on disposal of assets not classified as non-current assets held for sale is as follows:

Millions of euros

	2015	2014	2013
Gains:			
On disposal of tangible and intangible assets*	104	216	74
On disposal of investments	104	3,026	2,167
Of which:			
Santander Consumer USA (Note 3)	*-*	*1,739*	*-*
Altamira Asset Management (Note 3)	*-*	*550*	*-*
Insurance companies in Ireland (Note 3)	*-*	*413*	*-*
Management companies (Note 3)	*-*	*-*	*1,372*
Insurance companies in Spain (Note 3)	*-*	*-*	*385*
Payment services company (Note 3)	*-*	*-*	*122*
	208	3,242	2,241
Losses:			
On disposal of tangible and intangible assets	(83)	(103)	(78)
On disposal of investments	(13)	(3)	(11)
	(96)	(106)	(89)
	112	**3,136**	**2,152**

* Includes in 2014 mainly the gains recognised on the sale of corporate buildings in Mexico and Argentina (EUR 85 million) and the gains arising from the sales of branches (EUR 76 million) in various countries in which the Group operates.

50. Gains/(losses) on non-current assets held for sale not classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations is as follows:

Millions of euros

Net balance	2015	2014	2013
Tangible assets	(171)	(291)	(422)
Impairment (Note 12)	*(222)*	*(339)*	*(335)*
Gain (loss) on sale (Note 12)	*51*	*48*	*(87)*
Other gains and other losses	(2)	48	-
	(173)	**(243)**	**(422)**

51. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheet is as follows:

Millions of euros

31 December 2015	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash and balances with central banks	68,469	4,677	3,714	1,573	35	2,845	16	81,329	2.26%
Available-for-sale financial assets-									
Debt instruments	172	4,268	2,389	11,899	18,718	18,537	61,204	117,187	3.87%
Loans and receivables-									
Loans and advances to credit institutions	19,697	11,974	4,115	5,294	3,897	1,240	4,039	50,256	1.58%
Loans and advances to customers	20,976	38,004	39,647	73,928	105,614	96,146	396,159	770,474	5.99%
Debt instruments	15	1,383	1,083	1,143	1,764	1,241	4,278	10,907	5.40%
Held-to-maturity investments	-	-	-	-	2,013	140	2,202	4,355	2.39%
	109,329	**60,306**	**50,948**	**93,837**	**132,041**	**120,149**	**467,898**	**1,034,508**	**5.22%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	1,580	3,874	2,348	-	31,070	-	-	38,872	0.17%
Deposits from credit institutions	7,043	30,187	11,801	31,843	15,926	6,294	6,113	109,207	2.64%
Customer deposits	394,956	88,173	33,128	56,418	41,810	8,163	24,930	647,578	2.48%
Marketable debt securities*	133	13,134	14,547	32,563	55,689	30,877	54,713	201,656	2.91%
Subordinated liabilities	-	7	354	1,742	2,193	4,126	12,731	21,153	5.85%
Other financial liabilities	4,212	4,955	6,814	648	661	515	3,072	20,877	N/A
	407,924	**140,330**	**68,992**	**123,214**	**147,349**	**49,975**	**101,559**	**1,039,343**	**2.56%**
Difference (assets less liabilities)	**(298,595)**	**(80,024)**	**(18,044)**	**(29,377)**	**(15,308)**	**70,174**	**366,339**	**(4,835)**	

* Includes promissory notes, certificates of deposit and other short-term debt issues.

The Group's net borrowing position with the ECB was EUR 33.6 thousand million at 31 December 2015, mainly because in 2015 and 2014 the Group borrowed funds under the ECB's targeted longer-term refinancing operations (TLTRO) programme.

Millions of euros

31 December 2014	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash and balances with central banks	46,521	17,667	4,060	518	-	645	17	69,428	3.21%
Available-for-sale financial assets-									
Debt instruments	154	3,878	1,098	4,528	19,811	24,363	56,417	110,249	4.62%
Loans and receivables-									
Loans and advances to credit institutions	18,270	16,481	3,285	4,951	3,738	317	4,264	51,306	2.11%
Loans and advances to customers	17,095	41,520	31,093	67,627	97,744	80,123	387,617	722,819	6.37%
Debt instruments	14	1,422	1,180	947	858	554	2,535	7,510	3.66%
	82,054	**80,968**	**40,716**	**78,571**	**122,151**	**106,002**	**450,850**	**961,312**	**5.69%**
Debt instruments:									
Financial liabilities at amortised cost:									
Deposits from central banks	4,614	2,703	1,179	500	-	8,294	-	17,290	0.24%
Deposits from credit institutions	7,390	24,596	23,238	19,154	18,546	5,995	6,228	105,147	3.16%
Customer deposits	347,108	79,128	28,570	66,632	56,359	8,629	22,530	608,956	2.50%
Marketable debt securities*	54	10,802	22,847	35,913	49,978	22,457	51,008	193,059	3.50%
Subordinated liabilities	114	24	15	109	3,699	5,458	7,713	17,132	6.46%
Other financial liabilities	4,131	4,145	8,265	942	465	447	1,073	19,468	N/A
	363,411	**121,398**	**84,114**	**123,250**	**129,047**	**51,280**	**88,552**	**961,052**	**2.81%**
Difference (assets less liabilities)	**(281,357)**	**(40,430)**	**(43,398)**	**(44,679)**	**(6,896)**	**54,722**	**362,298**	**260**	

* Includes promissory notes, certificates of deposit and other short-term debt issues.

Millions of euros

31 December 2013	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash and balances with central banks	70,303	4,565	1,410	706	-	-	119	77,103	2.53%
Available-for-sale financial assets-									
Debt instruments	200	3,034	2,194	5,100	13,243	16,965	39,108	79,844	4.60%
Loans and receivables-									
Loans and advances to credit institutions	13,794	25,619	3,710	2,120	3,360	2,415	4,999	56,017	2.36%
Loans and advances to customers	13,475	45,117	28,939	70,130	88,822	67,727	336,371	650,581	5.69%
Debt instruments	3	1,024	646	1,470	1,042	283	3,418	7,886	3.01%
	97,775	**79,359**	**36,899**	**79,526**	**106,467**	**87,390**	**384,015**	**871,431**	**5.07%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	485	3,207	156	312	5,628	-	-	9,788	0.27%
Deposits from credit institutions	2,756	27,665	5,578	14,436	13,106	7,837	5,156	76,534	2.18%
Customer deposits	328,508	53,108	26,039	80,639	63,278	9,576	11,705	572,853	2.55%
Marketable debt securities*	146	8,551	17,198	27,092	53,966	20,667	43,770	171,390	3.72%
Subordinated liabilities	24	159	2	821	2,468	2,723	9,942	16,139	6.02%
Other financial liabilities	5,524	7,476	1,613	312	486	115	884	16,410	N/A
	337,443	**100,166**	**50,586**	**123,612**	**138,932**	**40,918**	**71,457**	**863,114**	**2.80%**
Difference (assets less liabilities)	**(239,668)**	**(20,807)**	**(13,687)**	**(44,086)**	**(32,465)**	**46,472**	**312,558**	**8,317**	

* Includes promissory notes, certificates of deposit and other short-term debt issues.

The detail of the undiscounted contractual maturities of the existing financial liabilities at amortised cost at 31 December 2015 is as follows:

Millions of euros

31 December 2015	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial liabilities at amortised cost*								
Deposits from central banks	1,579	3,872	2,347	-	31,053	-	-	**38,851**
Deposits from credit institutions	7,021	30,094	11,765	31,745	15,877	6,275	6,094	**108,871**
Customer deposits	393,213	87,784	32,982	56,169	41,626	8,127	24,820	**644,721**
Marketable debt securities	130	12,801	14,178	31,737	54,277	30,094	53,325	**196,542**
Subordinated liabilities	-	5	333	1,640	2,065	3,885	11,987	**19,915**
Other financial liabilities	4,212	4,955	6,814	648	661	515	3,072	**20,877**
	406,155	**139,511**	**68,419**	**121,939**	**145,559**	**48,896**	**99,298**	**1,029,777**

* The analysis of the expiry dates of the derivatives is not broken down because this is not essential to the comprehension of the cash flow schedule, since substantially all of them are subject to netting arrangements with other derivatives held with the same counterparty.

In the Group's experience, no outflows of cash or other financial assets take place prior to the contractual maturity date that might affect the information broken down above.

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

Equivalent value in millions of euros

	2015		2014		2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cash and balances with central banks	72,153	-	64,839	-	71,328	-
Financial assets/liabilities held for trading	94,640	66,576	94,375	66,011	72,888	61,473
Other financial assets at fair value through profit or loss	7,367	21,546	7,107	15,494	9,177	9,953
Available-for-sale financial assets	68,012	-	65,031	-	43,558	-
Loans and receivables	561,805	-	521,497	-	454,791	-
Held-to-maturity investments	2,342	-	-	-	-	-
Investments	1,191	-	1,231	-	3,941	-
Tangible assets	15,005	-	12,479	-	5,611	-
Intangible assets	26,377	-	26,710	-	22,422	-
Financial liabilities at amortised cost	-	668,014	-	618,936	-	526,588
Liabilities under insurance contracts	-	1	-	-	-	-
Other	23,622	22,626	23,915	23,997	20,700	23,817
	872,514	**778,763**	**817,184**	**724,438**	**704,416**	**621,831**

c) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Group are measured at fair value in the accompanying consolidated balance sheet, except for cash and balances with central banks, loans and receivables, held-to-maturity investments, 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, the Group's financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives other than those having as their underlying equity instruments whose market value cannot be estimated reliably- are measured at amortised cost in the accompanying consolidated balance sheet.

Following is a comparison of the carrying amounts of the Group's financial instruments measured at other than fair value and their respective fair values at year-end:

i) Financial assets measured at other than fair value

Assets
Millions of euros

	2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and advances to credit institutions	50,256	50,440	-	22,663	27,777
Loans and advances to customers	770,474	775,716	-	114,463	661,250
Debt instruments	15,262	15,071	4,310	9,333	1,428
	835,992	**841,224**	**4,310**	**146,459**	**690,455**

ii) Financial liabilities measured at other than fair value

Liabilities
Millions of euros

	2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Deposits from central banks	38,872	38,894	-	-	38,894
Deposits from credit institutions	109,207	109,478	-	109,478	-
Customer deposits	647,578	646,916	-	-	646,916
Marketable debt securities	201,656	204,290	52,148	152,142	-
Subordinated liabilities	21,153	21,085	10,391	10,694	-
Other financial liabilities	20,877	21,178	-	-	21,178
	1,039,343	**1,041,841**	**62,539**	**272,314**	**706,988**

2014					2013				
Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
51,306	51,202	-	25,660	25,542	56,017	56,213	-	-	56,213
722,819	727,383	-	197,187	530,196	650,581	651,338	-	-	651,338
7,510	7,441	-	6,065	1,376	7,886	7,858	-	3,017	4,841
781,635	**786,026**	**-**	**228,912**	**557,114**	**714,484**	**715,409**	**-**	**3,017**	**712,392**

2014					2013				
Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
17,290	17,290	-	-	17,290	9,788	9,788	-	-	9,788
105,147	105,557	-	105,557	-	76,534	76,636	-	76,636	-
608,956	608,339	-	-	608,339	572,853	570,312	-	-	570,312
193,059	197,093	53,925	143,168	-	171,390	170,787	41,355	129,432	-
17,132	17,428	7,971	9,457	-	16,139	16,342	-	16,342	-
19,468	19,428	-	-	19,428	16,410	16,407	-	-	16,407

The main valuation methods and inputs used in the estimates at 31 December 2015 of the fair values of the financial assets and liabilities in the foregoing table were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates, spreads on newly approved transactions or market spreads -when available-.

- Held-to-maturity investments: the fair value was calculated based on market prices for these instruments.

- Financial liabilities at amortised cost:

  i) The fair value of Deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

  ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

  iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group's current cost of funding in similar transactions.

  iv) Marketable debt securities and Subordinated liabilities: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads.

In addition, the fair value of Cash and balances with central banks was taken to be their carrying amount since they are mainly short-term balances.

Lastly, at 31 December 2015, 2014 and 2013, equity instruments amounting to EUR 1,790 million, EUR 1,646 million and EUR 1,041 million, respectively, and recognised as available-for-sale financial assets were measured at cost in the consolidated balance sheet because it was not possible to estimate their fair value reliably, since they related to investments in entities not listed on organised markets and, consequently, the non-observable inputs were significant.

d) Exposure of the Group to Europe's peripheral countries

The detail at 31 December 2015, 2014 and 2013, by type of financial instrument, of the Group's sovereign risk exposure to Europe's peripheral countries and of the short positions held with them, taking into consideration the criteria established by the European Banking Authority (EBA) –explained in Note 54– is as follows:

Sovereign risk by country of issuer/borrower at 31 December 2015*

Millions of euros

	Debt instruments							Derivatives***	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investment	Loans and advances to customers**	Total net direct exposure	Other than CDSs	CDSs
Spain	7,647	(2,446)	26,443	1,032	2,025	13,993	48,694	(217)	-
Portugal	278	(174)	7,916	916	-	1,071	10,007	-	1
Italy	3,980	(1,263)	-	-	-	-	2,717	(4)	4
Greece	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	6	-

* Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 11,273 million (of which EUR 9,892 million, EUR 605 million and EUR 776 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 3,134 million (EUR 3,045 million and EUR 89 million to Spain and Portugal, respectively).

** Presented without taking into account the valuation adjustments recognised (EUR 31 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2014*

Millions of euros

	Debt instruments						Derivatives***	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers**	Total net direct exposure	Other than CDSs	CDSs
Spain	4,374	(2,558)	23,893	1,595	17,465	44,769	(60)	-
Portugal	163	(60)	7,811	-	590	8,504	-	-
Italy	3,448	(1,723)	-	-	-	1,725	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	61	-

* Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 8,420 million (of which EUR 7,414 million, EUR 691 million and EUR 315 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 3,081 million (EUR 2,929 million, EUR 97 million and EUR 55 million to Spain, Portugal and Italy, respectively).

** Presented without taking into account the valuation adjustments recognised (EUR 45 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2013*

Millions of euros

	Debt instruments						Derivatives***	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers**	Total net direct exposure	Other than CDSs	CDSs
Spain	4,783	(2,079)	21,144	1,145	13,374	38,367	(153)	-
Portugal	148	-	2,076	-	583	2,807	-	-
Italy	2,571	(1,262)	77	-	-	1,386	-	2
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	199	-

* Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 5,645 million (of which EUR 4,783 million, EUR 654 million and EUR 208 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 1,884 million (EUR 1,627 million, EUR 118 million, EUR 137 million and EUR 2 million to Spain, Portugal, Italy and Ireland, respectively).

** Presented without taking into account the valuation adjustments recognised (EUR 20 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

The detail of the Group's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 31 December 2015, 2014 and 2013 is as follows:

Exposure to other counterparties by country of issuer/borrower at 31 December 2015*

Millions of euros

		Debt instruments						Derivatives***	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customer**	Total net direct exposure	Other than CDSs	CDSs
Spain	2,349	15,739	1,545	4,166	1,143	153,863	198,805	3,367	(42)
Portugal	2,938	-	159	992	2,999	29,928	37,016	1,729	-
Italy	5	-	167	813	-	6,713	7,698	35	5
Greece	-	-	-	-	-	44	44	32	-
Ireland	-	-	63	239	40	734	1,076	300	-

* Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 64,159 million, EUR 6,374 million, EUR 3,746 million, EUR 17 million and EUR 387 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively

** Presented excluding valuation adjustments and impairment losses recognised (EUR 11,641 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2014*

Millions of euros

		Debt instruments						Derivatives***	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customer**	Total net direct exposure	Other than CDSs	CDSs
Spain	1,513	17,701	3,467	5,803	1,176	154,906	184,567	3,521	(15)
Portugal	675	-	229	1,126	2,221	24,258	28,509	1,889	-
Italy	5	-	1,037	1,040	-	6,342	8,424	20	6
Greece	-	-	-	-	-	50	50	37	-
Ireland	-	-	161	133	111	538	943	299	-

* Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 60,318 million, EUR 6,051 million, EUR 3,049 million, EUR 17 million and EUR 237 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

** Presented excluding valuation adjustments and impairment losses recognised (EUR 12,238 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2013*

Millions of euros

		Debt instruments						Derivatives***	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers**	Total net direct exposure	Other than CDSs	CDSs
Spain	816	7,451	3,148	7,826	1,804	160,478	181,523	1,981	(44)
Portugal	1,716	-	209	1,168	1,845	25,578	30,516	1,454	(1)
Italy	11	-	368	273	93	6,490	7,235	(115)	(2)
Greece	-	-	-	-	-	80	80	-	-
Ireland	-	-	229	360	259	507	1,355	1,031	-

* Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 48,659 million, EUR 5,982 million, EUR 2,717 million, EUR 4 million and EUR 93 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

** Presented excluding valuation adjustments and impairment losses recognised (EUR 13,209 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Following is certain information on the notional amount of the CDSs at 31 December 2015, 2014 and 2013 detailed in the foregoing tables:

31/12/15
Millions of euros

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	724	991	(267)	(3)	(39)	(42)
Portugal	Sovereign	28	187	(159)	-	1	1
	Other	71	77	(6)	-	-	-
Italy	Sovereign	183	448	(265)	(1)	5	4
	Other	553	618	(65)	4	2	6
Greece	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Ireland	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-

31/12/14
Millions of euros

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	1,260	1,576	(316)	(11)	(4)	(15)
Portugal	Sovereign	210	239	(29)	1	(1)	-
	Other	149	162	(13)	-	-	-
Italy	Sovereign	401	318	83	(1)	1	-
	Other	668	735	(67)	2	4	6
Greece	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Ireland	Sovereign	4	4	-	-	-	-
	Other	-	-	-	-	-	-

31/12/13
Millions of euros

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	1,735	2,277	(542)	(18)	(26)	(44)
Portugal	Sovereign	192	174	18	5	(5)	-
	Other	223	278	(55)	1	(2)	(1)
Italy	Sovereign	603	570	33	(1)	3	2
	Other	834	913	(79)	(2)	-	(2)
Greece	Sovereign	-	-	-	-	-	-
	Other	5	5	-	-	-	-
Ireland	Sovereign	4	4	-	-	-	-
	Other	6	6	-	-	-	-

52. Geographical and business segment reporting

Business segment reporting is a basic tool used for monitoring and managing the Group's various activities.

In 2015 the Group made the following changes to its criteria for the management and presentation of its financial information by segment:

- Changes in criteria: they affect mainly the net interest income, net gains/losses on financial assets and liabilities and operating expenses items, through a decrease in the corporate centre and the allocation thereof to the business units.

Previous criteria	New criteria
The Spain business unit was treated as a retail network. Therefore, individualised internal transfer rates (ITR) by operation were applied to calculate the financial margin and, accordingly, the balance sheet was matched in terms of interest rate risk. The counterparty of these results was the corporate centre.	The Spain business unit is treated like the other countries and units of the Group. All results from financial management of the balance sheet are therefore recorded in Spain, including the aforementioned results from interest rate risk management.
The cost of issuances eligible as Additional Tier 1 (AT1) capital made by Brazil and Mexico to replace Core Equity Tier 1 (CET1) capital was recorded in the corporate centre, as the issuances were made for capital optimisation in these units.	Each country recognises the cost related to its AT1 issuances.
The corporate centre costs were charged to the countries/units based on the previous structure, which had not changed in recent years.	The scope of costs allocated to the units from the corporate centre is expanded in accordance with the new structure.

- The "Real estate operations in Spain" unit was created, which includes the former "Real estate operations discontinued in Spain" unit, together with other real estate assets, such as assets pertaining to the investment in Metrovacesa and to the former real estate fund (Santander Banif Inmobiliario), which were previously included in the corporate centre.

- The United States geographical segment was changed to include Santander Bank, Santander Holdings USA, SCUSA and Puerto Rico (already included in previous scope) plus Banco Santander International Miami and the New York branch.

- The private banking, asset management and insurance business, which was previously classified as an independent global business, became part of the commercial banking business.

Other changes: Annual change in the scope of the customer global relationship model between commercial banking and global banking and markets. This change does not have any effect on the geographical segments.

Consequently, the segment information for 2014 and 2013 shown below has been recalculated using these criteria in order to make it comparable.

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises five segments: four operating areas plus the corporate centre. The operating areas, which include all the business activities carried on therein by the Group, are: Continental Europe, the United Kingdom, Latin America and the United States, based on the location of the Group's assets.

The Continental Europe area encompasses all the business activities carried on in the region. The United Kingdom area includes the business activities carried on by the various Group units and branches with a presence in the UK. The Latin America area includes all the financial activities carried on by the Group through its banks and subsidiaries in the region. The United States area includes the holding company (SHUSA) and the businesses of Santander Bank, Santander Consumer USA, Banco Santander Puerto Rico, Banco Santander International's specialised unit and the New York branch.

The corporate centre segment includes the centralised management business relating to financial investments, financial management of the structural currency position, within the remit of the Group's corporate asset and liability management committee, and management of liquidity and equity through issues.

The financial information of each operating segment is prepared by aggregating the figures for the Group’s various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available in the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group.

Consequently, the sum of the various segment income statements is equal to the consolidated income statement. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the Intra-Group eliminations column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of gross income.

The condensed balance sheets and income statements of the various geographical segments are as follows:

	2015						
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Intra-Group eliminations	Total
Total Assets	**538,645**	**383,155**	**267,885**	**130,584**	**148,134**	**(128,143)**	**1,340,260**
Loans and advances to customers	287,252	282,673	133,139	84,190	3,594	-	790,848
Financial assets held for trading (excluding loans and advances)	60,151	40,138	33,669	2,299	2,656	-	138,913
Available-for-sale financial assets	60,913	12,279	25,926	19,145	3,773	-	122,036
Credit institutions	81,867	15,459	21,923	3,902	6,781	(50,980)	78,952
Non-current assets*	11,798	3,025	3,522	9,156	289	-	27,790
Other asset accounts	36,664	29,581	49,706	11,892	131,041	(77,163)	181,721
Total Liabilities and Equity	**538,645**	**383,155**	**267,885**	**130,584**	**148,134**	**(128,143)**	**1,340,260**
Customer deposits	263,462	231,947	122,413	60,115	5,185	-	683,122
Marketable debt securities	50,934	70,133	33,172	23,000	27,790	-	205,029
Subordinated liabilities	169	4,127	6,356	905	9,596	-	21,153
Liabilities under insurance contracts	626	-	1	-	-	-	627
Deposits from central banks and credit institutions	132,688	23,610	42,393	26,170	1,490	(50,980)	175,371
Other accounts**	58,253	36,162	43,872	9,073	18,012	-	165,372
Share capital, reserves, profit for the year and valuation adjustments	32,513	17,176	19,678	11,321	86,061	(77,163)	89,586
Other Customer funds under management	**64,433**	**9,703**	**59,065**	**7,540**	**-**	**-**	**140,741**
Investment funds	44,393	9,564	54,426	645	-	-	109,028
Pension funds	11,376	-	-	-	-	-	11,376
Assets under management	8,664	139	4,639	6,895	-	-	20,337
Customer funds under management* **	**378,998**	**315,910**	**221,006**	**91,560**	**42,571**	**-**	**1,050,045**

The corporate centre segment acts as the Group's holding company. Therefore, it manages all equity (share capital and reserves of all the units) and determines the allocation thereof to each unit. The Group's share capital and reserves are initially assigned to this segment, and is then allocated in accordance with corporate policies to the business units. This allocation is shown as an asset of the corporate centre segment (included in Other asset accounts) and as a liability of each business unit (included in Share capital, reserves, profit for the year and valuation adjustments). Therefore, the allocation is reflected in the balance sheet net of adjustments for intra-Group eliminations in order not to duplicate the balances and obtain the total consolidated balance sheet for the Group.

(Condensed) balance sheet

Millions of euros

	2014						
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Intra-Group eliminations	Total
Total assets	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Loans and advances to customers	268,735	251,191	139,955	70,420	4,410	-	734,711
Financial assets held for trading (excluding loans and advances)	65,863	39,360	31,766	5,043	2,120	-	144,152
Available-for-sale financial assets	56,845	11,196	31,174	12,737	3,298	-	115,250
Loans and advances to credit institutions	66,602	14,093	22,104	3,460	2,858	(27,404)	81,713
Non-current assets*	11,796	2,700	3,912	6,905	796	-	26,109
Other asset accounts	26,757	35,695	39,577	9,469	127,893	(75,030)	164,361
Total liabilities and equity	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Customer deposits	256,909	202,328	131,826	51,304	5,260	-	647,627
Marketable debt securities	54,431	69,581	31,920	16,000	24,957	-	196,889
Subordinated liabilities	409	5,376	6,443	796	4,108	-	17,132
Liabilities under insurance contracts	713	-	-	-	-	-	713
Deposits from central banks and credit institutions	90,305	26,720	35,978	17,760	12,010	(27,404)	155,369
Other accounts**	64,305	34,888	39,945	10,542	17,610	-	167,290
Share capital, reserves, profit for the year and valuation adjustments	29,526	15,342	22,376	11,632	77,430	(75,030)	81,276
Other customer funds under management	**60,679**	**9,667**	**62,488**	**8,535**	**-**	**-**	**141,369**
Investment funds	40,829	9,524	57,548	1,618	-	-	109,519
Pension funds	11,481	-	-	-	-	-	11,481
Assets under management	8,369	143	4,940	6,917	-	-	20,369
Customer funds under management* **	**372,428**	**286,952**	**232,677**	**76,635**	**34,325**	**-**	**1,003,017**

* Including Tangible assets and Other intangible assets.

** Including, in addition to liability items not broken down, the balances of Non-controlling interests.

*** Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

(Condensed) balance sheet

Millions of euros

	2013						
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Intra-Group eliminations	Total
Total assets	**430,021**	**323,743**	**233,918**	**68,933**	**158,230**	**(99,082)**	**1,115,763**
Loans and advances to customers	267,532	231,046	125,349	43,698	1,231	-	668,856
Financial assets held for trading (excluding loans and advances)	50,320	28,831	20,584	2,638	2,334	-	104,707
Available-for-sale financial assets	37,319	6,003	20,792	9,008	10,677	-	83,799
Loans and advances to credit institutions	37,660	17,136	26,157	2,362	24,564	(32,915)	74,964
Non-current assets*	8,635	2,498	3,858	650	973	-	16,614
Other asset accounts	28,555	38,229	37,178	10,577	118,451	(66,167)	166,823
Total liabilities and equity	**430,021**	**323,743**	**233,918**	**68,933**	**158,230**	**(99,082)**	**1,115,763**
Customer deposits	257,050	187,467	116,652	43,817	2,851	-	607,837
Marketable debt securities	53,409	64,092	28,987	1,146	27,843	-	175,477
Subordinated liabilities	406	5,805	4,812	1,245	3,871	-	16,139
Liabilities under insurance contracts	1,430	-	-	-	-	-	1,430
Deposits from central banks and credit institutions	41,636	26,902	25,039	9,051	39,684	(32,915)	109,397
Other accounts**	47,737	27,774	37,995	4,404	16,839	-	134,749
Capital, reservas, resultado del ejercicio y ajustes por valoración	28,353	11,703	20,433	9,270	67,142	(66,167)	70,734
Investment funds	**51,768**	**9,645**	**52,610**	**11,147**	**-**	**-**	**125,170**
Pension funds	33,485	9,645	48,243	1,931	-	-	93,304
Assets under management	10,879	-	-	-	-	-	10,879
Patrimonios administrados	7,404	-	4,367	9,216	-	-	20,987
Customer funds under management* **	**362,633**	**267,009**	**203,061**	**57,355**	**34,565**	**-**	**924,623**

* Including Tangible assets and Other intangible assets.

** Including, in addition to liability items not broken down, the balances of Non-controlling interestss

*** Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

(Condensed) income statement

Millions of euros

	2015					
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Total
Net interest income	**8,006**	**4,942**	**13,752**	**6,116**	**(4)**	**32,812**
Income from equity instruments	277	1	57	48	72	455
Share of results of entities accounted for using the equity method	120	10	285	3	(43)	375
Net fee and commission income (expense)	3,417	1,091	4,452	1,086	(13)	10,033
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,186	302	517	231	150	2,386
Other operating income (expenses)	(178)	37	(308)	316	(33)	(166)
Gross income	**12,828**	**6,383**	**18,755**	**7,800**	**129**	**45,895**
Administrative expenses	(6,274)	(3,009)	(7,230)	(2,761)	(28)	(19,302)
Depreciation and amortisation charge	(461)	(348)	(676)	(264)	(669)	(2,418)
Provisions (net)	(352)	(351)	(831)	(164)	(1,408)	(3,106)
Impairment losses on financial assets	(2,083)	(107)	(5,108)	(3,103)	(251)	(10,652)
Profit from operations	**3,658**	**2,568**	**4,910**	**1,508**	**(2,227)**	**10,417**
Impairment losses on other assets	(172)	(9)	20	-	(931)	(1,092)
Other income and charges	(120)	5	78	16	243	222
Profit before tax	**3,366**	**2,564**	**5,008**	**1,524**	**(2,915)**	**9,547**
Income tax	(887)	(556)	(1,219)	(517)	966	(2,213)
Profit for the year from continuing operations	**2,479**	**2,008**	**3,789**	**1,007**	**(1,949)**	**7,334**
Profit (Loss) from discontinued operations	-	-	-	-	-	-
Consolidated profit for the year	**2,479**	**2,008**	**3,789**	**1,007**	**(1,949)**	**7,334**
Attributable to non-controlling interests	261	37	596	329	145	1,368
Profit attributable to the parent	**2,218**	**1,971**	**3,193**	**678**	**(2,094)**	**5,966**

(Condensed) income statement

Millions of euros

	2014					
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Total
Net interest income	**7,517**	**4,234**	**13,620**	**4,789**	**(613)**	**29,547**
Income from equity instruments	286	1	88	29	31	435
Share of results of entities accounted for using the equity method	(25)	9	283	4	(28)	243
Net fee and commission income (expense)	3,500	1,028	4,372	830	(34)	9,696
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,221	241	484	205	699	2,850
Other operating income (expenses)	5	28	(290)	122	(24)	(159)
Gross income	**12,504**	**5,541**	**18,557**	**5,979**	**31**	**42,612**
Administrative expenses	(5,972)	(2,702)	(7,130)	(2,039)	(56)	(17,899)
Depreciation and amortisation charge	(472)	(353)	(720)	(200)	(542)	(2,287)
Provisions (net)	(205)	(184)	(946)	(21)	(1,653)	(3,009)
Impairment losses on financial assets	(2,975)	(332)	(5,145)	(2,233)	(25)	(10,710)
Profit from operations	**2,880**	**1,970**	**4,616**	**1,486**	**(2,245)**	**8,707**
Impairment losses on other assets	(156)	-	16	(12)	(786)	(938)
Other income and charges	(238)	3	113	46	2,986	2,910
Profit before tax	**2,486**	**1,973**	**4,745**	**1,520**	**(45)**	**10,679**
Income tax	(639)	(416)	(1,053)	(439)	(1,171)	(3,718)
Profit for the year from continuing operations	**1,847**	**1,557**	**3,692**	**1,081**	**(1,216)**	**6,961**
Profit (loss) from discontinued operations	(26)	-	-	-	-	(26)
Consolidated profit for the year	**1,821**	**1,557**	**3,692**	**1,081**	**(1,216)**	**6,935**
Attributable to non-controlling interests	174	1	790	219	(65)	1,119
Profit attributable to the parent	**1,647**	**1,556**	**2,902**	**862**	**(1,151)**	**5,816**

(Condensed) income statement

Millions of euros

	2013					
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Total
Net interest income	**7,189**	**3,451**	**14,808**	**1,807**	**(1,320)**	**25,935**
Income from equity instruments	265	1	54	24	34	378
Share of results of entities accounted for using the equity method	14	4	264	331	(113)	500
Net fee and commission income (expense)	3,467	992	4,477	578	247	9,761
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,905	402	982	106	(1)	3,394
Other operating income (expenses)	(48)	31	(267)	(63)	45	(302)
Gross income	**12,792**	**4,881**	**20,318**	**2,783**	**(1,108)**	**39,666**
Administrative expenses	(5,991)	(2,318)	(7,497)	(1,481)	(165)	(17,452)
Depreciation and amortisation charge	(522)	(316)	(827)	(149)	(577)	(2,391)
Provisions (net)	(163)	(231)	(770)	(59)	(1,222)	(2,445)
Impairment losses on financial assets	(3,833)	(580)	(6,487)	(43)	(284)	(11,227)
Profit from operations	**2,283**	**1,436**	**4,737**	**1,051**	**(3,356)**	**6,151**
Impairment losses on other assets	(149)	(4)	(24)	(17)	(309)	(503)
Other income and charges	(372)	-	312	(2)	1,792	1,730
Profit before tax	**1,762**	**1,432**	**5,025**	**1,032**	**(1,873)**	**7,378**
Income tax	(385)	(293)	(1,113)	(164)	(79)	(2,034)
Profit for the year from continuing operations	**1,377**	**1,139**	**3,912**	**868**	**(1,952)**	**5,344**
Profit (loss) from discontinued operations	(6)	(9)	-	-	-	(15)
Consolidated profit for the year	**1,371**	**1,130**	**3,912**	**868**	**(1,952)**	**5,329**
Attributable to non-controlling interests	135	1	861	(1)	158	1,154
Profit attributable to the parent	**1,236**	**1,129**	**3,051**	**869**	**(2,110)**	**4,175**

Following is the detail of revenue by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be that recognised under Interest and similar income, Income from equity instruments, Fee and commission income, Gains/Losses on financial assets and liabilities (net) and Other operating income in the consolidated income statements for 2015, 2014 and 2013.

Revenue

Millions of euros

	Revenue from external customers			Inter-segment revenue			Total revenue		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Continental Europe	22,877	21,218	23,106	422	56	1,141	23,299	21,274	24,247
United Kingdom	11,150	9,091	9,612	416	1,204	1,180	11,566	10,295	10,792
Latin America	32,936	35,038	31,930	(776)	(441)	341	32,160	34,597	32,271
United States	9,364	7,791	6,147	157	30	126	9,521	7,821	6,273
Corporate centre	(3,335)	3,656	2,641	6,643	7,323	9,416	3,308	10,979	12,057
Inter-segment revenue adjustments and eliminations	-	-	-	(6,862)	(8,172)	(12,204)	(6,862)	(8,172)	(12,204)
	72,992	**76,794**	**73,436**	**-**	**-**	**-**	**72,992**	**76,794**	**73,436**

b) Business segments

At this secondary level of segment reporting, the Group is structured into commercial banking, Santander Global Corporate Banking and the segment relating to real estate operations in Spain; the sum of these segments is equal to that of the primary geographical operating segments. Total figures for the Group are obtained by adding to the business segments the data for the corporate centre.

The commercial banking segment encompasses the entire customer banking business (including the consumer finance business), except for the corporate banking business, which is managed through Santander Global Corporate Banking. Also, this segment includes the gains or losses on the hedging positions taken in each country, within the remit of each of their asset-liability management committees. The Santander Global Corporate Banking segment reflects the returns on the global corporate banking business and the markets and investment banking business worldwide, including all the globally managed treasury departments (excluding the portion allocated to commercial banking customers) and the equities business. The real estate operations in Spain include loans to customers engaging mainly in property development, for which a specialised management model is in place, Metrovacesa's real estate assets and the assets of the former real estate fund (Santander Banif Inmobiliario), together with the Group's ownership interest in SAREB and foreclosed assets.

The condensed income statements are as follows:

(Condensed) income statement

Millions of euros

	2015				
	Commercial banking	*Santander Global Corporate Banking*	Real estate operations in Spain	Corporate centre	Total
Net interest income	**30,027**	**2,830**	**(41)**	**(4)**	**32,812**
Income from equity instruments	124	259	-	72	455
Share of results of entities accounted for using the equity method	434	(6)	(10)	(43)	375
Net fee and commission income (expense)	8,621	1,425	-	(13)	10,033
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,346	739	151	150	2,386
Other operating income (expenses)	(194)	24	37	(33)	(166)
Gross income	**40,358**	**5,271**	**137**	**129**	**45,895**
Administrative expenses	(17,153)	(1,897)	(224)	(28)	(19,302)
Depreciation and amortisation charge	(1,577)	(161)	(11)	(669)	(2,418)
Provisions (net)	(1,656)	(51)	9	(1,408)	(3,106)
Impairment losses on financial assets	(9,462)	(688)	(251)	(251)	(10,652)
Profit from operations	**10,510**	**2,474**	**(340)**	**(2,227)**	**10,417**
Net impairment losses on other assets	2	(37)	(126)	(931)	(1,092)
Other non-financial gains/(losses)	117	4	(142)	243	222
Profit before tax	**10,629**	**2,441**	**(608)**	**(2,915)**	**9,547**
Income tax	(2,663)	(695)	179	966	(2,213)
Profit for the year from continuing operations	**7,966**	**1,746**	**(429)**	**(1,949)**	**7,334**
Profit (loss) from discontinued operations	-	-	-	-	-
Consolidated profit for the year	**7,966**	**1,746**	**(429)**	**(1,949)**	**7,334**
Attributable to non-controlling interests	1,112	120	(9)	145	1,368
Profit attributable to the parent	**6,854**	**1,626**	**(420)**	**(2,094)**	**5,966**

2014					2013				
Commercial banking	***Santander Global Corporate Banking***	**Real estate operations in Spain**	**Corporate centre**	**Total**	**Commercial banking**	***Santander Global Corporate Banking***	**Real estate operations in Spain**	**Corporate centre**	**Total**
27,699	**2,481**	**(20)**	**(613)**	**29,547**	**24,856**	**2,361**	**38**	**(1,320)**	**25,935**
132	272	-	31	435	79	265	-	34	378
341	(2)	(68)	(28)	243	656	(1)	(42)	(113)	500
8,338	1,392	-	(34)	9,696	8,206	1,293	15	247	9,761
1,394	749	8	699	2,850	2,239	1,155	1	(1)	3,394
(215)	31	49	(24)	(159)	(378)	15	16	45	(302)
37,689	**4,923**	**(31)**	**31**	**42,612**	**35,658**	**5,088**	**28**	**(1,108)**	**39,666**
(15,946)	(1,682)	(215)	(56)	(17,899)	(15,478)	(1,634)	(175)	(165)	(17,452)
(1,573)	(158)	(14)	(542)	(2,287)	(1,652)	(148)	(14)	(577)	(2,391)
(1,309)	(38)	(9)	(1,653)	(3,009)	(1,179)	(44)	-	(1,222)	(2,445)
(9,812)	(552)	(321)	(25)	(10,710)	(9,578)	(953)	(412)	(284)	(11,227)
9,049	**2,493**	**(590)**	**(2,245)**	**8,707**	**7,771**	**2,309**	**(573)**	**(3,356)**	**6,151**
(26)	(43)	(83)	(786)	(938)	(74)	(37)	(83)	(309)	(503)
158	(13)	(221)	2,986	2,910	255	11	(328)	1,792	1,730
9,181	**2,437**	**(894)**	**(45)**	**10,679**	**7,952**	**2,283**	**(984)**	**(1,873)**	**7,378**
(2,128)	(667)	248	(1,171)	(3,718)	(1,617)	(633)	295	(79)	(2,034)
7,053	**1,770**	**(646)**	**(1,216)**	**6,961**	**6,335**	**1,650**	**(689)**	**(1,952)**	**5,344**
(26)	-	-	-	(26)	(15)	-	-	-	(15)
7,027	**1,770**	**(646)**	**(1,216)**	**6,935**	**6,320**	**1,650**	**(689)**	**(1,952)**	**5,329**
1,033	145	6	(65)	1,119	799	197	-	158	1,154
5,994	**1,625**	**(652)**	**(1,151)**	**5,816**	**5,521**	**1,453**	**(689)**	**(2,110)**	**4,175**

53. 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 ordinary business transactions performed by the Group with its related parties, distinguishing between 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 recognise

Millions of euros

	2015			
	Associates and jointly controlled entities	**Members of the board of directors**	**Executive vicepresidents**	**Other related parties**
Assets:	**6,542**	**-**	**28**	**573**
Loans and advances to credit institutions	8	-	-	-
Loans and advances to customers	5,997	-	28	293
Debt instruments	537	-	-	280
Liabilities:	**(1,122)**	**(25)**	**(16)**	**(103)**
Deposits from credit institutions	(501)	-	-	-
Customer deposits	(620)	(25)	(16)	(103)
Marketable debt securities	(1)	-	-	-
Income statement:	**802**	**-**	**-**	**24**
Interest and similar income	98	-	-	17
Interest expense and similar charges	(15)	-	-	-
Gains/losses on financial	73	-	-	-
assets and liabilities	664	-	-	8
Comisiones pagadas	(18)	-	-	(1)
Other:	**4,123**	**2**	**4**	**2,682**
Derivative financial instruments	46	-	-	191
Assets:	95	2	4	132
Loans and advances to credit institutions	3,982	-	-	2,359

In addition to the detail provided above, there were insurance contracts linked to pensions amounting to EUR 299 million at 31 December 2015 (31 December 2014: EUR 345 million; 31 December 2013: EUR 342 million).

2014				2013			
Associates and jointly controlled entities	**Members of the board of directors**	**Executive vicepresidents**	**Other related parties**	**Associates and jointly controlled entities**	**Members of the board of directors**	**Executive vicepresidents**	**Other related parties**
6,885	**5**	**25**	**1,276**	**9,425**	**6**	**36**	**1,599**
5	-	-	-	7,392	-	-	-
6,202	5	25	284	1,331	6	36	424
678	-	-	992	702	-	-	1,175
(1,034)	**(9)**	**(20)**	**(315)**	**(946)**	**(9)**	**(10)**	**(197)**
(337)	-	-	-	(440)	-	-	-
(696)	(9)	(20)	(315)	(498)	(9)	(10)	(197)
(1)	-	-	-	(8)	-	-	-
656	**-**	**-**	**11**	**143**	**-**	**-**	**29**
89	-	-	6	109	-	-	6
(18)	-	-	(2)	(12)	-	-	(7)
35	-	-	2	12	-	-	25
572	-	-	5	56	-	-	5
(22)	-	-	-	(22)	-	-	-
4,270	**2**	**3**	**3,720**	**14,029**	**-**	**4**	**4,137**
43	-	-	265	74	-	-	145
59	2	3	77	1,063	-	4	95
4,168	-	-	3,378	12,892	-	-	3,897

54. Risk management

a) Cornerstones of the risk function

The Group has calculated that the risk function should be based on the following cornerstones, which are in line with the Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

- The business strategy is defined by the risk appetite. The Group's board calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and its deployment in objective verifiable limits that are consistent with the risk appetite for each significant activity.

- All risks must be managed by the units that generate them using advanced models and tools and integrated in the various businesses. The Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

- A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

- The independence of the risk function encompasses all risks and appropriately separates the risk generating units from those responsible for risk control.

- The best processes and infrastructure must be used for risk management.

- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks.

b) Risk management and control model - Advanced Risk Management (ARM)

The risk management and control model ensures that the risk profile remains within the levels set for the risk appetite and other limits. Similarly, it includes the adoption of the corrective and mitigating measures required to keep risk levels in line with the defined objectives.

In 2014, the Group launched the ARM programme, the main aim of which is to contribute to progress towards advanced risk management by laying the foundations to make available the best integrated risk management model in the industry.

The roll-out of the ARM in 2015 at the various Group units enabled progress to be made in strategic projects that were already under way, such as the Risk Data Aggregation/Risk Reporting Framework (RDA/RRF), the risk appetite to be developed, the control environment through the governance of the risk function to be strengthened and new initiatives such as the risk management model or the Advanced Operational Risk Management (AORM) model, inter alia, to be developed.

The instruments that help ensure that all the risks arising from the Group's business activity are properly managed and controlled are described below.

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:

- Financial risks

  - Credit risk: risk that might arise from the failure to meet agreed-upon contractual obligations in financial transactions.

  - Market risk: that which is incurred as a result of the possibility of changes in market factors affecting the value of positions in the trading portfolios.

  - Liquidity risk: risk of non-compliance with payment obligations on time or of complying with them at an excessive cost.

  - Structural and capital risks: risk caused by the management of the various balance sheet items, including those relating to the adequacy of capital and those arising from the insurance and pensions businesses.

- Non-financial risks

  - Operational risk: the risk of incurring losses due to the inadequacy or failure of processes, staff and internal systems or due to external events.

  - Conduct risk: the risk caused by inappropriate practices in the Group's dealings with its customers, and the treatment and products offered to each particular customer and the adequacy thereof

  - Compliance and legal risk: risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.

- Transversal risks

  - Model risk: includes losses arising from decisions based mainly on the results of models, due to errors in the design, application or use of the aforementioned models.

  - Reputational risk: risk of damage in the perception of the Group by public opinion, its customers, investors or any other interested party.

  - Strategic risk: the risk that results diverge significantly from the Group's strategy or business plan due to changes in general business conditions and risks associated with strategic decisions. This includes the risk of poor implementation of decisions or lack of capacity to respond to changes in the business environment.

2. Risk governance

In line with the objective of strengthening the Group's corporate governance, the governance of the risk function was updated and reinforced in 2015. In this connection, the responsibilities of the various committees were defined more clearly, and the decision-making and risk management units, with the participation of the business functions, were separated from those engaged in risk control.

Governance of the risk function should seek to ensure that risk decisions are taken appropriately and efficiently and that risks are effectively controlled, and also guarantee that risks are managed in accordance with the risk appetite level defined by senior management of the Group and the units.

For this purpose, the following principles were established:

- Separation of decision-making from risk control.
- Strengthening of the responsibility of the risk generating functions in decision-making.
- Ensuring that all risk decisions have a formal approval process.
- Ensuring an aggregate view of all risks.
- Strengthening of the risk control committes.
- Maintenance of a simple committee structure.

2.1. Lines of defence

The Group follows a risk management and control model based on three lines of defence.

The business functions or activities that take or generate risk exposure comprise the first line of defence against it. The assumption or generation of risks in the first line of defence must comply with the defined risk appetite and limits. In order to perform its function, the first line of defence must have available the means to identify, measure, handle and report the risks assumed.

The second line of defence comprises the risk control and oversight function and the compliance function. This second line seeks to ensure effective control of risks and guarantees that risks are managed in accordance with the defined risk appetite level.

Internal audit, as the third line of defence and in its role as the last control layer, performs regular assessments to ensure that the policies, methods and procedures are appropriate and checks their effective implementation.

The risk control function, the compliance function and the internal audit function are sufficiently separate and independent of each other and of the other functions that 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 presiding officers.

2.2. Risk committee structure

Responsibility for the control and management of risk and, in particular, for the setting of the Group's risk appetite, rests ultimately with the board of directors, which has the powers delegated to the various committees. The board is supported by the risk, regulation and compliance oversight committee and the independent risk control and supervision committee. In addition, the Group's executive committee pays particular attention to the management of the Group's risks.

The following bodies constitute the top level risk governance bodies.

Independent control bodies

Risk, regulation and compliance oversight committee:
This committee's mission is to assist the board in the oversight and control of risk, the definition of the Group's risk policies, relationships with supervisory bodies and matters of regulation and compliance, sustainability and corporate governance.

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

Risk control committee (CCR):
This collective body is responsible for the effective control of risks, ensuring that risks are managed in accordance with the risk appetite level approved by the board, while taking into account at all times an overall view of all the risks included in the general risk framework. This means the identification and monitoring of current and emerging risks and their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) and is composed of executives of the entity. At least, the risk function, which holds the chairmanship, and the compliance, financial, controller's unit and risk control functions, inter alia, are represented. The CROs of local entities participate periodically in order to report, inter alia, on the various entities' risk profiles.

The risk control committee reports to the risk, regulation and compliance oversight committee and assists it in its function of supporting the board.

Decision-making bodies

Executive risk committee (CER):
This collective body is responsible for risk management pursuant to the powers delegated by the board of directors and, in its sphere of action and decision-making, oversees all risks.

It participates in decision-making on the assumption of risks at the highest level, guarantees that these are within the limits set in the Group's risk appetite and reports on its activities to the board or its committees when so required.

This committee is chaired by an executive deputy chairman of the board, comprises the CEO, executive directors and other executives of the entity, and the risk, financial, and compliance functions, inter alia, are represented. The Group CRO has the right of veto over this committee's decisions.

2.3. Organisational risk function structure

The GCRO is the head of the Group's risk function and reports to an executive deputy chairman of the Bank who is a member of the board of directors and chairman of the executive risk committee.

The GCRO, whose duties include advising and challenging the executive line, also reports separately to the risk, regulation and compliance oversight committee and to the board.

Advanced risk management has a holistic forward-looking vision of risks, based on the intensive use of models, aimed at constructing a sound control environment while complying with the requirements of the regulator and supervisor.

In this connection, the risk management and control model has the following key features:

- Coordination of the relationship between the countries and the corporate headquarters, assessing the effective implementation of the risk management and control framework at each unit and ensuring the alignment with the achievement of strategic risk objectives.

- Enterprise Wide Risk Management (EWRM) involves providing a consolidated view of all risks to senior management and the Group's governing bodies together with the development of the risk appetite and identifying and assessing all risks (Risk identification & assessment). It also handles the relationship with supervisors and regulators in relation to risks.

- Control of financial, non-financial and transversal risks, checking, for each type of risk, that management and exposure are in keeping with the guidelines established by senior management.

- Development, in the sphere of risk, of reporting regulations, methodologies, scenario analysis, stress tests and infrastructure, together with robust risk governance.

2.4. The Group's relationship with subsidiaries regarding risk management

Alignment of units with the corporate centre

The risk management and control model, at all Group units, has a common set of basic principles, achieved by means of corporate frameworks. These emanate from the Group itself and the subsidiaries adhere to them through their respective governing bodies, thus configuring the relationships between the subsidiaries and the Group, including its participation in the making of important decisions by validating them.

Beyond these principles and fundamentals, each unit adapts its risk management to its local reality, pursuant to the corporate frameworks and reference documents furnished by corporate headquarters, which makes it possible to identify a risk management model at the Group.

Committee structure

The subsidiaries' governing bodies are structured taking into account local regulatory and legal requirements and each subsidiary's size and complexity and are consistent with those of the Parent, as established in the internal governance framework, thus facilitating communication, reporting and effective control.

The subsidiaries' managing bodies, in accordance with the internal governance framework in place at the Group, have their own model of (quantitative and qualitative) risk management powers and must adhere to the principles of conduct contained in the benchmark models and frameworks developed at corporate level. Given its ability to take an aggregate, comprehensive view of all risks, corporate headquarters reserves for itself the powers to validate and question the operations and management policies at the various units, to the extent that they affect the Group's risk profile.

3. Management processes and tools

3.1 Risk appetite and limits structure

Risk appetite is defined at the Group as the amount and type of risk that it considers reasonable to assume in implementing its business strategy, in order to ensure that it can continue to operate normally if unexpected events occur. To this end, severe scenarios are taken into account, which might have an adverse impact on its levels of capital or liquidity, its profits and/or its share price.

The board of directors is the body responsible for establishing and annually updating the Group's risk appetite, for monitoring its actual risk profile and for ensuring consistency between the two. The risk appetite is determined both for the Group as a whole and for each of the main business units using a corporate methodology adapted to the circumstances of each unit/market. At local level, the boards of directors of the related subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

Banking business model and fundamentals of the risk appetite

The definition and establishment of the Group's risk appetite is consistent with its risk culture and its banking business model from the risk perspective. The main features defining the business model, which form the basis of the risk appetite at the Group, are as follows:

- A predictable general medium-low risk profile based on a diversified business model focusing on retail banking with a diversified international presence and significant market shares, and a wholesale banking model which prioritises the relationship with the customer base in the Group's principal markets.

- A stable, recurring earnings generation and shareholder remuneration policy based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities.

- A corporate structure based on autonomous subsidiaries that are self-sufficient in capital and liquidity terms, 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 highly active involvement of senior management to guarantee a strong risk culture focused on protecting and ensuring an adequate return on capital.

- To maintain a management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, and all geographical areas.

- A business model that focuses on the products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).

- The conduct of the Group's business activity on the basis of a behaviour model that safeguards the interests of its customers and shareholders.

- The availability of sufficient and adequate human resources, systems and tools to enable the Group to maintain a risk profile compatible with the established risk appetite, at both global and local level.

- The application of a remuneration policy containing the incentives required 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.

Corporate risk appetite principles
The Group's risk appetite is governed by the following principles at all the entities :

- Responsibility of the board and of senior executives. The board of directors is the body ultimately responsible for establishing the risk appetite and its supporting regulations, as well as for overseeing compliance therewith.

- Integral view of risk, involving the checking and questioning of the risk profile. The risk appetite should take into consideration all the significant risks to which the Group may be exposed, providing an aggregate view of the Group's risk profile through the use of quantitative metrics and qualitative indicators.

- Future risk estimate. The risk appetite should take into consideration the desirable risk profile at the present time and in the medium term considering both the most likely circumstances and stress scenarios.

- Links with strategic and business plans and integration in management. The risk appetite is a benchmark in strategic and business planning.

- Risk appetites that are consistent across the various units and risk language that is common to the entire organisation.

- Periodic review, ongoing checking and adaptation to best practices and regulatory requirements.

Limits, monitoring and control structure
The risk appetite exercise is performed annually and includes a series of metrics and limits on the aforementioned metrics that express in quantitative and qualitative terms the maximum risk exposure that each Group entity and the Group as a whole are willing to assume.

Compliance with risk appetite limits is subject to ongoing monitoring. The specialised control functions report at least quarterly to the board and its specialised risk committee on the compliance of the risk profile with the authorised risk appetite.

The linking of the risk appetite limits with the limits used in the management of the business units and of the portfolios is a key element for ensuring that the use of the risk appetite as a risk management tool is effective.

Pillars of the risk appetite
The risk appetite is expressed through limits on quantitative metrics and qualitative indicators that measure the Group's exposure or risk profile by type of risk, portfolio, segment and business line, in both current and stressed conditions. The aforementioned risk appetite metrics and limits are structured around five main pillars that define the position that the Group's senior management wishes to adopt or maintain in developing its business model.

- The volatility in the income statement that the Group is willing to assume.

- The solvency position the Group wishes to maintain.

- The minimum liquidity position the Group wishes to have.

- The maximum concentration levels that the Group considers it reasonable to assume.

- Qualitative aspects and complementary metrics.

3.2. Risk identification and assessment (RIA)

As part of its routine management, the Group identifies and assesses the risks inherent to its business activity to which it is exposed in the various geographical areas in which it operates.

In order to make the measurement of the Group's risk profile more robust and systematic, at the end of 2014 a corporate Risk identification and assessment exercise was started that continued throughout 2015.

Risk identification and assessment is one of the initiatives that form part of the ARM (Advanced Risk Management) programme the purpose of which is the advanced management of risks to enable Santander to continue to be a sound sustainable bank over the long term.

Also, it complies with regulatory expectations on the need to deepen the understanding of the Group's risk profile and the importance of identifying, measuring and assessing the entity's main risks, the associated control environment and the possible factors that might pose a threat to the achievement of the Group's strategic plan.

Per the methodology used in the RIA exercise, the Group's risk profile is determined by a combination of three aspects:

- Risk performance which enables the profile by type of risk and business activity to be ascertained.

- Control environment to objectively establish a self-assessment of the effectiveness of the management and control of the risk in accordance with pre-established targets and a defined control model.

- Top Risks identify the material risks threatening the strategic and business objectives and establish action plans and monitor them.

One of the most important aspects of the RIA exercise is the development of a methodology to identify the current material risks on which senior management will focus its attention. These risks are considered to be those which, either on their own or collectively, could have a significant impact on the Group's results, financial position or ability to maintain appropriate capital levels.

It also enables the identification of so-called emerging risks, i.e. those risks that could potentially have an adverse impact on the Group's future performance, even though their outcome and time horizon are uncertain and difficult to predict.

3.3. Scenario analysis

The Group conducts advanced risk management through the analysis of the impact that various scenarios in the environment in which the Group operates might cause. These scenarios are expressed in terms of both macroeconomic variables and other variables that affect management.

Scenario analysis is a very useful tool for senior management since it allows them to test the Bank's resistance to stressed environments or scenarios and to implement packages of measures to reduce the Bank's risk profile vis-à-vis such scenarios.

The robustness and consistency of the scenario analysis exercises are based on the following three pillars:

- The development of mathematical models that estimate the future performance of metrics (e.g. loan losses) based on historical information (internal Group information or external market information) and simulation models.

- The inclusion of expert judgement and the knowledge of the portfolios, and questioning and checking the results of the models.

- Backtesting or periodic checking of the results of the models against the data observed, which ensures that the aforementioned results are appropriate.

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.

- Daily risk management: scenario analysis is used in budgetary and strategic planning processes, in the generation of commercial risk approval policies, in senior management's overall analysis of risk or in specific analyses of the profiles of activities or portfolios.

3.4. Living wills (recovery and resolution plans)

The sixth version of the living will (the most important portion of which envisages the measures that the entity would have available to exit a highly severe crisis situation by itself) was prepared in 2015. The living will was prepared, for the first time, at the request of the European Central Bank, which has become the Group's main supervisor (pursuant to the mandate assigned under the Single Supervisory Mechanism, which came into force on 4 November 2014). The will also follows the non-binding recommendations made in this regard by international bodies such as the Financial Stability Board.

As with the other versions prepared between 2010 and 2014, the will was submitted to the competent authorities for assessment in the first half of 2016.

The living will comprises the corporate living will (corresponding to Banco Santander, S.A.) and the individual living wills for the most important local units (the UK, Brazil, Mexico, the US, Germany, Argentina, Chile, Poland and Portugal).

The Group's senior management keeps itself fully involved in the preparation and periodic monitoring of the content of the living wills by holding specific committee meetings of a technical nature, as well as for monitoring at institutional level, and this ensures that the content and structure of the documents are adapted to local and international crisis management legislation, which has been in continuous development in recent years.

The board of directors is responsible for approving the corporate living will, without prejudice to the content and important data therein being previously presented and discussed by the Bank's main management and control committees. In turn, the individual living wills are approved by local bodies, always in coordination with the Group since they must form part of the corporate living will.

As regards resolution plans, the competent authorities forming part of the Crisis Management Group (CMG) have decided on a common approach to the Group's resolution strategy which, given Santander's legal and business structure, is the multiple point of entry (MPE) strategy; also, they have signed the corresponding cooperation agreement (COAG) and developed the initial resolution plans.

3.5. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years the Group has developed and implemented structural and operational improvements in order to reinforce and consolidate its integral view of risk based on complete, accurate and recurring information, thus enabling senior management of the Group to assess risk and take decisions accordingly.

2015 saw the completion of the project launched at the beginning of 2014 whose main objective was to ensure that risk reporting to senior management incorporates the basic principles of Risk Data Aggregation (RDA).

Risk reports maintain a balance between data, analysis and qualitative commentaries, and include forward-looking measures and information on risk appetite, risk limits and emerging risks.

With regard to governance, the data quality and risk reporting committee was created, which is responsible for executing the measures decided upon by the board in this area; in addition, a common data management methodology was implemented though the relevant models, procedures and guidelines.

The Group has a common risk reporting taxonomy covering the significant areas of risk within the organisation, in keeping with the Group's size, risk profile and activity.

3.6. Control environment

The risk management model has a control environment that ensures appropriate control of all risks and provides an integrated view thereof.

This control is performed at all the Group's units and for each type of risk in order to ensure that the Group's exposures and overall risk profile are within the framework of the mandates established by both the board of directors and the regulators.

The main elements ensuring effective control are:

- The allocation of responsibilities in risk-generating functions through decision-making and the due control of their activity.
- Specialised control of each risk factor.
- The supervision and aggregate consolidation of all risks.
- The assessment of control mechanisms.
- Independent assessment by internal audit.

c) Credit risk

1. Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

In credit risk management terms, segmentation is based on the distinction between three types of customers:

- The individuals segment includes all individuals, except for those engaging in a business activity. This segment is in turn divided into various sub-segments based on income levels, which makes it possible to tailor risk management to each type of customer.
- The SMEs, companies and institutions segment includes legal entities and individuals engaging in a business activity. It also includes public-sector entities in general and not-for-profit private-sector entities.
- The Santander Global Corporate Banking - SGCB - segment comprises corporate customers, financial institutions and sovereigns, which make up a closed list of entities that is reviewed on an annual basis. Inclusion of an entity on this list is determined on the basis of a comprehensive analysis of the enterprise (business, countries in which it operates, types of products used, level of income it represents for the Bank, length of relationship with the customer, etc.).

The Group has a mainly retail profile, with 84% of its total risk exposure being generated by its commercial banking business.

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

Data at 31 December 2015

	Credit risk exposure to customers [1] (Millions of euros)		Non-performing loans ratio (%)		Coverage ratio (%)	
	2015	2014	2015	2014	2015	2014
Continental Europe	**321,395**	**308,205**	**7.27**	**8.93**	**64.2**	**57.2**
Spain	173,032	182,974	6.53	7.38	48.1	45.5
Santander Consumer Finance[1]	76,688	63,654	3.42	4.82	109.1	100.1
Portugal	31,922	25,588	7.46	8.89	99.0	51.8
Poland	20,951	18,920	6.30	7.42	64.0	60.3
United Kingdom	**282,182**	**256,337**	**1.52**	**1.79**	**38.2**	**41.9**
Latin America	**151,302**	**167,065**	**4.96**	**4.65**	**79.0**	**84.7**
Brazil	72,173	90,572	5.98	5.05	83.7	95.4
Mexico	32,463	27,893	3.38	3.84	90.6	86.1
Chile	35,213	33,514	5.62	5.97	53.9	52.4
Argentina	6,328	5,703	1.15	1.61	194.2	143.3
United States	**90,727**	**72,477**	**2.13**	**2.54**	**225.0**	**192.8**
Puerto Rico	3,924	3,871	6.96	7.45	48.5	55.6
Santander Bank	54,089	45,825	1.16	1.41	114.5	109.4
SC USA	28,280	22,782	3.66	3.97	337.1	296.2
Total Group	**850,909**	**804,084**	**4.36**	**5.19**	**73.1**	**67.2**

1. Including gross loans and advances to customers, guarantees and documentary credits.

In 2015 credit risk exposure to customers increased by 6%. The growth was across the board in local currency terms, except in Spain. The fall in lending in Brazil in euros was due the devaluation of the Brazilian real in the year.

These lending levels, together with the fall in non-performing loans, resulted in a reduction in the Group's non-performing loans ratio to 4.36%.

The Group's coverage ratio stood at 73%. It is important to take into account that this ratio is reduced by the relatively high proportion of mortgage portfolios (especially in the UK and Spain), which require lower on-balance-sheet provisions since they are secured by collateral.

3. Detail of the main geographical areas

3.1. United Kingdom

Credit risk exposure to UK customers amounted to EUR 282,182 million at the end of December 2015, and represented 33% of the Group total.

Due to its importance, not only to Santander UK, but also to the Group's lending activity as a whole, the mortgage loan portfolio (which totalled EUR 207,319 million at the end of December 2015) must be highlighted.

This portfolio is composed entirely of first-mortgage home purchase or refurbishment loans to new and existing customers, since transactions involving second or successive liens on mortgaged properties are no longer originated.

The property on which the mortgage guarantee is constituted must always be located in the UK, irrespective of where the funding is to be employed, except for certain one-off transactions performed in the Isle of Man. Loans may be granted for the purchase of residences abroad, but the mortgage guarantee must in all cases be constituted on a property located in the UK.

Geographically speaking, the credit risk exposure is concentrated mainly in the South East of the country, particularly in the metropolitan area of London, where house prices rose last year. Properties are appraised independently prior to the approval of each new transaction, in accordance with the Group's risk management principles.

For mortgage loans that have already been granted, the appraised value of the mortgaged property is updated quarterly by an independent agency using an automatic appraisal system in accordance with standard procedure in the market and in compliance with current legislation.

The non-performing loans ratio fell from 1.64% in 2014 to 1.44% at 2015 year-end. This decrease in the non-performing loans ratio was based on the behaviour of non-performing loans, which improved significantly as a result of the more favourable macroeconomic environment and the increase in re-performing loans due to the improved efficiency of the recovery teams. Thus, the amount of non-performing loans fell by 10.2%, continuing the trend observed in 2014.

The credit policies limit the maximum loan-to-value ratio to 90% for loans on which principal and interest are repaid and to 50% for loans on which interest is paid periodically and the principal is repaid on maturity.

Current credit risk policies expressly prohibit loans considered to be high risk (subprime mortgages), and establish demanding requirements regarding the credit quality of both loans and customers. For example, the granting of mortgage loans with LTVs exceeding 100% has been forbidden since 2009.

Another indicator of the performance of the portfolio is the small volume of foreclosed properties, which amounted to EUR 62 million at 31 December 2015. The management of foreclosures, coupled with the existence of a dynamic market for foreclosed homes, makes it possible to sell these properties in a short space of time (on average approximately 18 weeks), thus contributing to the good results obtained.

3.2. Spain

Portfolio overview

Total credit risk exposure in Spain (including guarantees and documentary credits but excluding the real estate operations unit - discussed below) amounted to EUR 173,032 million (20% of the Group total), with an adequate degree of diversification in terms of both products and customer segments.

In 2015 the growth was consolidated in new production in the main portfolios in the individuals and companies segments, underpinned by the improvement in the economic situation and in the various strategies implemented at the Group. In year-on-year terms, total credit risk exposure fell by 5% mainly as a result of the lower level of funding to public authorities and a rate of repayments even higher than the rate of growth of new production in the other segments.

The non-performing loans ratio for the total portfolio stood at 6.53%. The reduction in lending was offset by the improvement in non-performing loans. This improvement is due mainly to the fall in gross new NPLs and, to a lesser extent, to the return to performing status of various restructured positions and portfolio sales. The coverage ratio stood at around 48%, continuing the increase recognised in 2014.

Portfolio of home purchase loans to families

Home purchase loans granted to families in Spain stood at EUR 50,786 million at 2015 year-end. Of this amount, 99% was secured by mortgages.

31/12/15
In millions of euros

	Gross amount	Of which: Non-performing
Home purchase loans to families	50,786	2,567
Without mortgage guarantee	*480*	*40*
With mortgage guarantee	*50,306*	*2,527*

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.
- Debtors provide all their assets as security, not just the home.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.
- Stable average debt-to-income ratio at around 28%.
- 69% 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).

31/12/15

In millions of euros

	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
Initial gross amount	10,300	11,079	13,178	9,249	6,500	50,306
Of which: Non-performing	*134*	*201*	*359*	*484*	*1,349*	*2,527*

Companies portfolio

The EUR 92,889 million of direct credit risk exposure to SMEs and companies constitute the most important lending segment in Spain, representing 54% of the total.

94% of the portfolio relates to customers to which an analyst has been assigned who monitors the customer on an ongoing basis in all the phases of the risk cycle.

The non-performing loans ratio of this portfolio stood at 7.64% in 2015.

Real estate business

The Group manages, as a separate unit, its real estate business in Spain, which includes loans to customers engaging mainly in property development, for which a specialised management model is in place, investments in real-estate industry companies and foreclosed assets.

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

	31/12/15	31/12/14	31/12/13
Balance at beginning of year (net)	9,349	12,105	15,867
Foreclosed assets	(62)	(357)	(848)
Reductions[1]	(1,481)	(2,015)	(2,114)
Written-off assets	(418)	(384)	(800)
Balance at end of year (net)	**7,388**	**9,349**	**12,105**

1. Includes portfolio sales, cash recoveries and third-party subrogations.

The NPL ratio of this portfolio ended the year at 67.6% (compared with 67.3% at December 2014) due to the increase in the proportion of non-performing assets in the problem 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 exposure in Spain stands at 41.16%.

31/12/15

Millions of euros

	Gross amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (business in Spain)	7,388	3,618	3,041
Of which: Non-performing	*4,995*	*2,701*	*2,861*
Of which: Substandard	*582*	*231*	*180*
Memorandum items: Written-off assets	1,352		

Memorandum items: Data from the public consolidated balance sheet

Millions of euros

	31/12/15
Total loans and advances to customers excluding the public sector (business in Spain)	153,863
Total consolidated assets	1,340,260
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	919

At year-end, the concentration of this portfolio was as follows:

31/12/15
Millions of euros

	Loans: Gross amount
1. Without mortgage guarantee	875
2. With mortgage guarantee	6,513
2.1 Completed buildings	3,862
2.1.1 Residential	1,740
2.1.2 Other	2,122
2.2 Buildings under construction	236
2.2.1 Residential	226
2.2.2 Other	10
2.3 Land	2,415
2.3.1 Developed land	1,991
2.3.2 Other land	424
Total	**7,388**

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.

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.
- 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, subject to the restoration of a sufficient level of coverage in existing financing arrangements or to the obtainment of increased collateral.

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 authorised on a centralised basis.

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 management of on-balance-sheet property assets is performed by companies that specialise in the sale of property, which is supplemented by the commercial network structure. The sale prices are reduced in line with market conditions.

Foreclosed Properties

At 31 December 2015, the net balance of these assets amounted to EUR 4,983 million (gross amount: EUR 10,609 million; recognised allowance: EUR 5,626 million, of which EUR 3,310 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 2015:

Millions of euros

	31-12-15			
	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	**8,638**	**4,726**	**2,771**	**3,912**
Of which:				
Completed buildings	*2,535*	*1,150*	*504*	*1,385*
Residential	*1,019*	*474*	*180*	*545*
Other	*1,516*	*676*	*324*	*840*
Buildings under construction	*831*	*408*	*244*	*423*
Residential	*831*	*408*	*244*	*423*
Other	-	-	-	-
Land	*5,272*	*3,168*	*2,023*	*2,104*
Developed land	*2,167*	*1,268*	*705*	*899*
Other land	*3,105*	*1,900*	*1,318*	*1,205*
Property assets from home purchase mortgage loans to households	1,971	900	359	1,071
Other foreclosed property assets	-	-	-	-
Total property assets	**10,609**	**5,626**	**3,130**	**4,983**
Equity instruments, ownership interests and financing provided to non-consolidated companies holding these assets	-	-	-	-
Total	**10,609**	**5,626**	**3,130**	**4,983**

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). If fair value (less costs to sell) is lower than the net value of the debt, the difference is recognised under Impairment losses on financial assets (net) - Loans and receivables in the consolidated income statement for the year. 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 changes in foreclosed properties were as follows:

Thousands of millions of euros

	2015	2014	2013
Gross additions	1.7	1.8	1.9
Disposals	(1.1)	(0.9)	(0.9)
Difference	0.6	0.9	1.0

3.3. Brazil

Credit risk exposure in Brazil amounted to EUR 72,173 million, and fell by 20.3% compared to 2014, due mainly to the depreciation of the Brazilian real. Thus, Santander Brazil accounts for 8.5% of the Group's total credit risk exposure. The exposure is adequately diversified and has a predominantly retail profile, with approximately 46.4% of lending granted to individual, consumer finance and SME customers.

At 2015 year-end, growth of 5.70% was recognised, at constant exchange rates, which is in line with the average of private banks in Brazil.

In 2015 the change of mix strategy initiated in recent years was continued, and more intense growth was registered in segments with a more conservative risk profile and, accordingly, higher loan quality products increased their relative importance. Noteworthy in the individuals segment was the growth in the mortgage portfolio and the portfolio of loans that are discounted from salaries ("crédito consignado").

At 2015 year-end, the non-performing loans ratio was 5.98%. The factors explaining the increase on 2014 are: the economic recession the country is suffering and the added difficulties in the sectors of activity most sensitive to changes in the prices of commodities, especially the energy and oil industries.

In view of this situation, Santander Brazil has implemented a series of measures to strengthen risk management. These measures focus both on improving the quality of new production and on mitigating the effects of the aforementioned adverse environment on the portfolio. This package of measures is based mainly on preventive management of arrears, thus anticipating possible further deterioration of customer balances. The highlights of the defensive measures included in the plan are as follows:

- Reduction of limits vis-à-vis medium-high risk products/customers.
- Implementation of maximum debt limits.
- Migration of revolving products to instalment payment products.
- Higher collateralisation of the portfolio.
- Improvements to acceptance models, to make them more precise and predictive, and in collection channels.
- More individualised treatment of SMEs of a certain size (individualised model).
- Management of risk appetite by sector, and restriction of powers in the most critical sectors.

The coverage ratio stood at 83.7% at 2015 year-end.

4. Credit risk from other standpoints

4.1. Credit risk from financial market operations

This concept includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed using both money market financing products arranged with various financial institutions and products with counterparty risk intended to provide service to the Group's customers.

As defined in Chapter 6 of the CRR (Regulation (EU) No 575/2013), counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. It includes the following types of transaction: derivative instruments, repurchase agreements, securities or commodities lending transactions, deferred settlement transactions and guarantee financing transactions.

The Group uses two methods to measure its exposure to this risk: a mark-to-market method (replacement cost for derivatives or amount drawn down for committed facilities) including an add-on for potential future exposure; and another method, introduced in mid-2014 for certain regions and products, which calculates exposure using Monte Carlo simulations. Calculations are also performed of capital at risk or unexpected loss (i.e. the loss which, once the expected loss is subtracted, constitutes the economic capital, net of guarantees and recoveries).

When the markets close, the exposures are recalculated by adjusting all the transactions to their new time horizon, the potential future exposure is adjusted and mitigation measures are applied (netting arrangements, collateral arrangements, etc.) so that the exposures can be controlled daily against the limits approved by senior management.

Risk control is performed using an integrated, real-time system that enables the Group to know at any time the unused exposure limit with respect to any counterparty, for any product and maturity and at any Group unit.

4.2. Concentration risk

Concentration risk control is key to the risk management process. The Group continuously monitors the degree of credit risk concentration, by country, sector and customer group.

The board of directors, by reference to the risk appetite, determines the maximum levels of concentration. In keeping with the risk appetite, the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

In geographical terms, credit risk exposure to customers is diversified in the main markets where the Group has a presence.

The Group is subject to the regulation of "Large Exposures" contained in Part Four of CRR (Regulation (EU) No 575/2013), according to which an institution's exposure to a customer or group of connected customers is considered a "large exposure" where its value is equal to or exceeds 10% of its eligible capital. Additionally, in order to limit large exposures, an institution may not incur an exposure to a customer or group of connected customers the value of which exceeds 25% of its eligible capital, after taking into account the effect of the credit risk mitigation contained in the Regulation.

At 31 December 2015, after applying risk mitigation techniques and the regulations applicable to large exposures, the exposure to each of the reported groups was below 4.9% of eligible capital, with the exception of two entities, one central counterparty in the EU, the exposure to which stood at 7.3% and an EU-based corporate group, the exposure to which stood at 6.8%.

The Group's risk division works closely with the finance division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at 31 December 2015 is as follows:

Millions of euros

	31/12/15				
	Total	**Spain**	**Other EU countries**	**Americas**	**Rest of the world**
Credit institutions	162,410	26,037	86,726	41,269	8,378
Public sector	158,215	60,482	33,306	59,528	4,899
Of which:					
Central government	*137,873*	*46,353*	*33,020*	*53,677*	*4,823*
Other	*20,342*	*14,129*	*286*	*5,851*	*76*
Other financial institutions	74,246	16,206	24,194	31,586	2,260
Non-financial companies and individual traders	338,140	87,781	113,873	124,082	12,404
Of which:					
Construction and property development	*30,087*	*4,638*	*5,387*	*20,009*	*53*
Civil engineering construction	*4,671*	*2,837*	*1,307*	*525*	*2*
Large companies	*200,380*	*52,141*	*60,194*	*77,534*	*10,511*
SMEs and individual traders	*103,002*	*28,165*	*46,985*	*26,014*	*1,838*
Other households and non-profit institutions serving households	477,693	67,319	298,851	106,405	5,118
Of which:					
Residential	*325,169*	*49,948*	*238,836*	*36,119*	*266*
Consumer loans	*133,841*	*11,990*	*57,270*	*60,490*	*4,091*
Other purposes	*18,683*	*5,381*	*2,745*	*9,796*	*761*
Subtotal	1,210,704	257,825	556,950	362,870	33,059
Less: valuation adjustments for unimpaired assets	9,253				
Total*	**1,201,451**				

* 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 customers, Debt instruments, Equity instruments, Trading derivatives, Hedging derivatives, Investments and Contingent liabilities.

4.3. Country risk

Country risk is a credit risk component inherent in all cross-border credit transactions due to circumstances other than ordinary commercial risk. Its main elements are sovereign risk, transfer risk and other risks that can affect international financial operations (war, natural disasters, balance of payments crises, etc.).

At 31 December 2015, the provisionable country risk exposure amounted to EUR 193 million (2014: EUR 176 million). The allowance recognised in this connection at 2015 year-end amounted to EUR 25 million, as compared with EUR 22 million at 2014 year-end.

The Group's country risk management policies continued to adhere to a principle of maximum prudence, and country risk is assumed, applying highly selective criteria, in transactions that are clearly profitable for the Group and bolster its global relationship with its customers.

4.4. Sovereign risk and exposure to other public sector entities

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with the central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar body (government debt securities) and the risk arising from transactions with public entities that have the following features: their funds are obtained only from fiscal income; they are legally recognised as entities directly included in the central government public sector; and their activities are of a non-commercial nature.

This criterion, which has been employed historically by the Group, differs in certain respects from that requested by the European Banking Authority (EBA) for its periodic stress tests. The most significant differences are that the EBA's criteria do not include risk exposure to central banks, exposure to insurance companies or indirect exposure by means of guarantees or other instruments. However, they do include exposure to public sector entities (including regional and local entities) in general, not only the central government public sector.

Sovereign risk exposure (per the criteria applied at the Group) arises mainly from the subsidiary banks' obligations to make certain deposits at the corresponding central banks, from the arrangement of deposits using liquidity surpluses, and from the fixed-income portfolios held as part of the on-balance-sheet structural interest rate risk management strategy and in the trading books of the treasury departments. The vast majority of these exposures are taken in local currency and are financed out of local customer deposits, also denominated in local currency.

The detail at 31 December 2015, 2014 and 2013, 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:

31/12/15

Millions of euros

	Portfolio				
Country	**Financial assets held for trading and Other financial assets at fair value through profit or loss***	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to maturity investments**	**Total net direct exposure**
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 31 December 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.

31/12/14

Millions of euros

	Portfolio			
Country	Financial assets held for trading and Other financial assets at fair value through profit or loss*	Available-for-sale financial assets	Loans and receivables	Total net direct exposure
Spain	5,778	23,893	15,098	44,769
Portugal	104	7,811	589	8,504
Italy	1,725	-	-	1,725
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,070)	3	1	(1,066)
United Kingdom	(613)	6,669	144	6,200
Poland	5	5,831	30	5,866
Rest of Europe	1,165	444	46	1,655
United States	88	2,897	664	3,649
Brazil	11,144	17,685	783	29,612
Mexico	2,344	2,467	3,464	8,275
Chile	593	1,340	248	2,181
Other American countries	181	1,248	520	1,949
Rest of the world	4,840	906	618	6,364
Total	**26,284**	**71,194**	**22,205**	**119,683**

* Includes short positions.

In addition, at 31 December 2014, the Group had net direct derivative exposures the fair value of which amounted to EUR 1,028 million and net indirect derivative exposures the fair value of which amounted to EUR 5 million. Also, the Group did not have any exposure to held-to-maturity investments.

31/12/13

Millions of euros

	Portfolio			
Country	Financial assets held for trading and Other financial assets at fair value through profit or loss*	Available-for-sale financial assets	Loans and receivables	Total net direct exposure
Spain	4,359	21,144	12,864	38,367
Portugal	148	2,076	583	2,807
Italy	1,309	77	-	1,386
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,229)	67	-	(1,161)
United Kingdom	(1,375)	3,777	-	2,402
Poland	216	4,770	43	5,030
Rest of Europe	5	117	-	122
United States	519	2,089	63	2,671
Brazil	8,618	8,901	223	17,743
Mexico	3,188	2,362	2,145	7,695
Chile	(485)	1,037	534	1,086
Other American countries	268	619	663	1,550
Rest of the world	5,219	596	146	5,964
Total	**20,762**	**47,632**	**17,268**	**85,661**

* Includes short positions.

In addition, at 31 December 2013, the Group had net direct derivative exposures the fair value of which amounted to EUR (206) million and net indirect derivative exposures the fair value of which amounted to EUR 6 million. Also, the Group did not have any exposure to held-to-maturity investments.

4.5. Social and environmental risk

The Group considers social and environmental issues to be key to the risk analysis and decision-making processes in its financing transactions. It has implemented processes to identify, analyse and assess risk in the credit transactions that are subject to the Group's policies, which are based on the Equator Principles, an initiative in which the Group has participated since 2009. In accordance with these principles, an analysis is performed of the social and environmental risk of Project Finance transactions and corporate loans granted for known purposes (bridge loans that are intended to be refinanced through Project Finance, and corporate loans for the construction or extension of a particular project).

5. Credit risk cycle

The credit risk management process consists of identifying, analysing, controlling and deciding on, as appropriate, the risks incurred in the Group's operations. The parties involved in this process are the business areas, senior management and the risk units.

The process involves the board of directors and the executive risk committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale. The process is being permanently updated, with the findings and conclusions of the post-sale phase being fed back into the risk analysis and planning of the pre-sale phase.

5.1. Risk analysis and credit rating process

In general, the risk analysis consists of examining the customer's ability to meet its contractual obligations to the Group and to other creditors. This involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

Since 1993 the Group has used internal rating models for this purpose. These mechanisms are used in both the wholesale segment (sovereigns, financial institutions and corporate banking) and the other companies and institutions segment.

The rating is obtained from a quantitative module based on balance sheet ratios or macroeconomic variables and supplemented by the analyst's expert judgement.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship.

The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

In contrast to the use of ratings in the wholesale and other companies and institutions segments, in the individuals and SMEs segment scoring techniques predominate; in general, these tools automatically assign a customer a score for decision-making purposes.

5.2. Planning (Commercial Strategic Plan)

The purpose of this phase is to efficiently and comprehensively limit the risk levels the Group assumes.

The credit risk planning process is used to establish the budgets and limits at portfolio level.

Risk limit planning is instrumented through the Commercial Strategic Plan (PEC), thus ensuring the coordination of the business plan, the risk-appetite-based lending policy and the resources required to implement it. Thus, it was created as a joint initiative between the commercial and risk units and is not only a management tool but also a form of teamwork.

Approval and monitoring is the responsibility of each entity's top executive risk committee. Validation and monitoring is performed at corporate level.

The PECs enable the map of all the Group's loan portfolios to be defined.

Scenario analysis

Credit risk scenario analysis enables senior management to gain a clearer understanding of the performance of the portfolio in response to changing market and circumstantial conditions and it is a basic tool for assessing the adequacy of the provisions recognised and the capital held to cater for stress scenarios.

These analyses, which are performed for all the Group's significant portfolios, comprise the following milestones:

- Definition of benchmark scenarios (at global level and for each of the Group units).
- Determination of the value of the risk parameters (probability of default, loss given default) in various scenarios.
- Estimation of the expected loss associated with each of the scenarios considered and of the other salient credit risk metrics derived from the parameters obtained (non-performing loans, provisions, ratios, etc.).
- Analysis of the changes in the credit risk profile at portfolio, segment, unit and Group level in various scenarios and in comparison with previous years.

The simulation models used by the Group rely on data from a complete economic cycle to calibrate the behaviour of the credit risk parameters in response to changes in the macroeconomic variables. These models undergo regular backtesting and recalibration processes in order to ensure that they provide a correct reflection of the relationship between the macroeconomic variables and the risk parameters.

The process is completed with a package of controls and checks that ensure that the metrics and calculations are appropriate.

The risk and loss parameters are projected, usually with a three-year time horizon, using various economic scenarios that include the main macroeconomic variables (GDP, unemployment rate, housing prices, inflation, etc.).

The economic scenarios defined are based on different stress levels, ranging from the base or most probable scenario to more stressed economic scenarios which, although less probable, could possibly arise.

These scenarios are generally defined by the Group's economic research service, in coordination with each unit, using as a reference the data published by the main international organisations.

A global stress scenario is defined that describes a situation of worldwide crisis and the manner in which it affects each of the main geographical regions in which the Group is present. In addition, a local stress scenario is defined which, affecting certain of the Group's main units in an isolated fashion, includes a higher level of stress than the global stress scenario.

5.3. Limit setting/pre-classifications

The risk limits are planned and set using documents agreed upon by the business areas and risk units and approved by the executive risk committee or its delegated committees, which contain the expected results of transactions in terms of risk and return, as well as the limits applicable to the activity and the management of the related risk by group/customer.

Also, an analysis is conducted at customer level in the wholesale and other companies and institutions segments. When certain features concur, an individual limit is established for the customer (pre-classification).

Thus, for large corporate groups a pre-classification model based on an economic capital measurement and monitoring system is used. The result of the pre-classification is the maximum level of risk that can be assumed vis-à-vis a customer or group in terms of amount or maturity. In the companies segment, a simplified pre-classification model is applied for customers meeting certain requirements (thorough knowledge, rating, etc.).

5.4. Transaction decision-making

The sale phase comprises the decision-making process, the aim of which is to analyse and resolve upon transactions, since approval by the risk unit is a pre-requisite for the arrangement of any risk transaction. This process must consider the transaction approval policies defined and take into account both the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

In the sphere of lower-revenue individuals, businesses and SMEs, the management of large volumes of loan transactions is facilitated by the use of automatic decision-making models that rate the customer/loan relationship. Thus, loans are classified in homogeneous risk groups using the rating assigned to the transaction by the model on the basis of information on the features of the transaction and the borrower.

The preliminary limit-setting stage can follow two different paths, giving rise to different types of decisions in the companies sphere:

- Automatic decisions, consisting of verification by the business that the proposed transaction (in terms of amount, product, maturity and other conditions) falls within the limits authorised pursuant to the aforementioned pre-classification. This process is generally applied to corporate pre-classifications.

- Decisions requiring the analyst's authorisation, even if the transaction meets the amount, maturity and other conditions established in the pre-classified limit. This process applies to pre-classifications of retail banking companies.

Credit risk mitigation techniques

The Group applies various methods of reducing credit risk, depending, inter alia, on the type of customer and product. As we shall see, some of these methods are specific to a particular type of transaction (e.g. real estate guarantees) while others apply to groups of transactions (e.g. netting and collateral arrangements).

The various mitigation techniques can be grouped into the following categories:

Netting by counterparty

Netting refers to the possibility of determining a net balance of transactions of the same type, under the umbrella of a master agreement such as an ISDA or similar agreement.

It consists of aggregating the positive and negative market values of the derivatives transactions entered into by the Group with a particular counterparty, so that, in the event of default, the counterparty owes the Group (or the Group owes the counterparty, if the net figure is negative) a single net figure and not a series of positive or negative amounts relating to each of the transactions entered into with the counterparty.

An important aspect of master agreements is that they represent a single legal obligation encompassing all the transactions they cover. This is the key to being able to set off the risks of all the transactions covered by the contract with the same counterparty (see Note 2.f).

Collateral

Collateral refers to the assets pledged by the customer or a third party to secure the performance of an obligation. Collateral may be:

- Financial: cash, security deposits, gold, etc.

- Non-financial: property (both residential and commercial), other movable property, etc.

From the risk acceptance standpoint, collateral of the highest possible quality is required. For regulatory capital calculation purposes, only collateral that meets the minimum quality requirements described in the Basel capital accords can be taken into consideration.

One very important example of financial collateral is the collateral agreement. Collateral agreements comprise a set of highly liquid instruments with a certain economic value that are deposited or transferred by a counterparty in favour of another party in order to guarantee or reduce any counterparty credit risk that might arise from the portfolios of derivative transactions between the parties in which there is exposure to risk.

Collateral agreements vary in nature but, whichever the specific form of collateralisation may be, the ultimate aim, as with the netting technique, is to reduce counterparty risk.

Transactions subject to a collateral agreement are assessed periodically (normally on a daily basis). The agreed-upon parameters defined in the agreement are applied to the net balance arising from these assessments, from which the collateral amount (normally cash or securities) payable to or receivable from the counterparty is obtained.

With regard to real estate collateral, periodic re-appraisal processes are in place, based on the actual market values for the different types of real estate, which meet all the requirements established by the regulator.

Personal guarantees and credit derivatives

Personal guarantees are guarantees that make a third party liable for another party's obligations to the Group. They include, for example, security deposits, suretyships and standby letters of credit. Only guarantees provided by third parties that meet the minimum requirements established by the supervisor can be recognised for capital calculation purposes.

Credit derivatives are financial instruments whose main purpose is to hedge credit risk by buying protection from a third party, whereby the Bank transfers the risk of the issuer of the underlying instrument. Credit derivatives are OTC instruments, i.e. they are not traded in organised markets.

Credit derivative hedges, mainly credit default swaps, are entered into with leading financial institutions.

5.5. Monitoring/anticipation

The monitoring function is founded on a process of ongoing observation, which makes it possible to detect early any changes that might arise in customers' credit quality, so that action can be taken to correct any deviations with an adverse impact.

Monitoring is based on the segmentation of customers, is performed by dedicated local and global risk teams and is complemented by the work performed by internal audit. In the individuals model this function is performed using customer behaviour valuation models.

The function involves, inter alia, identifying and monitoring companies under special surveillance, reviewing ratings and the ongoing monitoring of indicators.

The system called "companies under special surveillance" (FEVE) distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a position in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for the position in question, to place a person in charge and to set the policy implementation period.

Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by internal audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to lower-revenue individuals, businesses and SMEs, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.

5.6. Measurement and control

In addition to monitoring customers' credit quality, the Group establishes the control procedures required to analyse the current credit risk portfolio and the changes therein over the various credit risk phases.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product, etc., thus facilitating the early detection of specific areas requiring attention and the preparation of action plans to correct possible impairment.

Each control pillar can be analysed in two ways:

Quantitative and qualitative analysis of the portfolio

In the analysis of the portfolio, any variances in the Group's risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these variances in certain future situations, both those of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures aimed at placing the profile and amount of the risk portfolio within the parameters set by the Group.

In addition to the traditional metrics, the following, inter alia, are used in the credit risk control phase: Change in non-performing loans (VMG), EL (expected loss) and capital.

Assessment of the control processes

This includes a systematic periodic review of the procedures and methodology, and is performed over the entire credit risk cycle to ensure that they are in force and effective.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. In this connection, the risk division assesses the efficiency of the internal control of its activities on an annual basis.

5.7. Recovery management

Recovery is a significant function within the sphere of the Group's risk management. This function is performed by the recovery and collection unit, which defines a global strategy and an integrated approach to recovery management.

The Group has in place a corporate management model that defines the general recovery action guidelines. These guidelines are applied in the various countries, always taking into account the local peculiarities required for the recovery activity, due either to the local economic environment, to the business model or to a combination of both. The Recovery Units are business areas involving direct customer management and, accordingly, this corporate model has a business approach that creates value sustainably over time on the basis of effective and efficient collection management, achieved through either the return of unpaid balances to performing status or the full recovery thereof.

The recovery management model requires the proper coordination of all management areas (recovery business, commercial, technology and operations, human resources and risk) and the management processes and methodology supporting it are reviewed and enhanced on an ongoing basis, through the application of the best practices developed in the various countries.

In order to manage recovery properly, action is taken in four main phases: early arrears management, recovery of non-performing loans, recovery of written-off loans and management of foreclosed assets.

In fact, the actions taken by the recovery function commence even before the first missed payment, i.e. when there are signs of a deterioration of the customer's ability to pay, and they end when the customer's debt has been paid or has returned to performing status. The recovery function aims to anticipate default events and focuses on preventive management.

The macroeconomic environment has a direct effect on the customer default rate. Therefore, the quality of the portfolios is fundamental to the development and growth of our businesses in the various countries, and particular attention is paid, on a permanent basis, to the debt collection and recovery functions in order to guarantee that this quality remains at the expected levels at all times.

The differing characteristics of customers make segmentation necessary in order to ensure proper recovery management. The mass management of large groups of customers with similar profiles and products is performed using highly technological processes, while personalised management is reserved for customers who, due to their profile, require the assignment of a specific manager and a more tailored analysis.

The recovery activity has been aligned with the social and economic reality of the different countries, and various management mechanisms have been used, all involving appropriate prudential criteria, based on the age, collateral and conditions of the transaction, while always ensuring that, at least, the required ratings and provisions are maintained.

Within the recovery function particular emphasis has been placed on using the mechanisms referred to above for early arrears management, in accordance with corporate policies, considering the various local realities and closely monitoring the production, inventory and performance of those local areas. The aforementioned policies are reviewed and adapted periodically in order to reflect both best management practices and any applicable regulatory amendments.

In addition to the measures aimed at adapting transactions to the customer's ability to pay, special mention should be made of recovery management, in which alternative solutions to legal action are sought to ensure the early collection of debts.

One of the channels for the recovery of debts of customers whose ability to pay has deteriorated severely is foreclosure (either court-ordered or through dation in payment) of the property assets securing the transactions. In geographical regions that are highly exposed to real estate risk, such as Spain, the Group has very efficient instruments in place to manage the sale of such assets, making it possible to maximise recovery and reduce the on-balance-sheet stock of property assets at a much faster pace than at other financial institutions.

Forborne loan portfolio

The term forborne loan portfolio refers, for the purposes of the Group's risk management, to those transactions in which the customer has, or might foreseeably have, financial difficulty that might materially affect its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Group has a detailed customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 6/2012 and the technical standards published by the European Banking Authority in 2014, which it develops in greater detail based on the level of customer impairment.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.
- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.
- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.
- This practice must not give rise to the granting of additional funding, or be used to refinance debt of other entities or as a cross-selling instrument.
- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.
- Forborne transactions are classified using criteria which ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.
- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators to facilitate the identification of situations of financial difficulty that might materially affect whether payment obligations are met.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators assessing financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.
- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.
- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.
- Where a customer submits successive loan modification requests at unreasonable time intervals.
- In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by backtesting), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification relate to financial difficulties, for management purposes a distinction is made between two types of forbearance based on the original management status of the transactions: ex-ante forbearance, when the original transaction was classified as other than non-performing; and ex-post forbearance, when it had previously been classified as non-performing.

In addition, within the category of ex-post forbearance, distinct treatments are established for cases of advanced impairment, the classification requirements and criteria for which are even more stringent than those for other forborne transactions.

As regards the strategies to be applied, corporate policy requires the customer's ability and willingness to pay to be analysed and a distinction to be drawn between the severity and the estimated duration of the impairment. The results of this analysis will be used as a basis for deciding whether the debt should be forborne and the most appropriate way of doing so for each case:

- When borrowers display a severe but transitory deterioration in their ability to pay (which is expected to be recovered in a short space of time), short-term adjustment strategies are applied, such as a payment moratorium on the principal or the reduction of instalments for a short, limited period until the ability to pay is recovered.
- When borrowers display a slight deterioration in their ability to pay (an early recovery of which is not expected), more long-term strategies are applied, such as reducing instalments by deferring either the maturity date or a portion of the principal, which would be paid at the same time as the last instalment, at all times securing its payment through the provision of effective guarantees.

In any case, through a case-by-case analysis, priority is given to modifications for customers displaying a slight but prolonged deterioration, since those experiencing severe but transitory deterioration carry a higher risk, as they depend on the accuracy of the estimated time of their future recovery. Cases of severe deterioration deemed to be prolonged over time are not considered for forbearance.

Corporate policy also establishes mechanisms for the management and control of forborne transactions, allowing them to be treated in a different way from other transactions, with particular attention being paid to the processes of:

- Planning and budgeting, including preparing the pertinent business plans, projections and limits for the most relevant aggregates.
- Monitoring the performance of the portfolio and assessing the degree of achievement of the projections prepared in the planning phase.

Once forbearance measures have been adopted, transactions that have to remain classified as non-performing because at the date of forbearance they do not meet the regulatory requirements to be classified in a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be non-performing, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as non-performing, the original default dates continue to be considered for all purposes, including the calculation of provisions, irrespective of whether as a result of forbearance the transaction becomes current in its payments.

By contrast, if following arrangement of forbearance there is no improvement in the customer's payment performance, the possibility of extending new forbearance measures will be considered, with the application of more stringent classification/return-to-performing criteria, including the establishment of a longer period of uninterrupted payments before the transaction can return to performing status, which could last up to 36 months in certain circumstances. The duration of this period is determined by any collateral provided and the residual maturity of the loan. The Group's policy permits a maximum of one modification per year and three modifications every five years.

The internal models used by the Group for provisioning purposes include forborne transactions as follows:

- Customers not subject to individual monitoring: the internal models consider forborne transactions as a distinct segment with its own probability of default calculated on the basis of past experience, considering, among other factors, the performance of the successive forbearance measures.

- Customers subject to individual monitoring: the internal rating is an essential input in determining the probability of default and it takes into consideration the existence of successive forbearance measures. This rating must be updated at least once every six months for customers with forborne transactions.

At 31 December 2015, 34% of the forborne loan portfolio had undergone several modifications.

Quantitative information required by Bank of Spain Circular 6/2012

Set forth below is the quantitative information required by Bank of Spain Circular 6/2012 on the restructured/refinanced transactions in force at 31 December 2015. The following terms are used in Bank of Spain Circular 6/2012 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[a]

Millions of euros

	Standard[b]									
	Full property mortgage guarantee		Other collateral[c]		Without collateral		Full property mortgage guarantee		Other collateral[c]	
	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount
Public sector	10	21	12	257	78	513	1	8	-	-
Other legal entities and individual traders	7,791	2,883	3,567	3,046	84,017	2,495	3,942	1,171	1,254	791
Of which: Financing for construction and property development	560	563	*118*	*168*	*195*	*4*	*455*	*302*	*39*	*92*
Other individuals	91,501	7,252	510,288	8,609	1,227,992	1,865	28,057	2,612	7,617	1,039
Total	**99,302**	**10,156**	**513,867**	**11,912**	**1,312,087**	**4,873**	**32,000**	**3,791**	**8,871**	**1,830**

a. Including all refinanced or restructured transactions as defined in section 1.g) of Annex IX of Bank of Spain Circular 4/2004.

b. Standard risks classified as under special monitoring pursuant to section 7.a) of Annex IX of Bank of Spain Circular 4/2004.

c. Including transactions without a full property mortgage guarantee, i.e. with a loan-to-value ratio of more than 1, and transactions with collateral other than a real estate mortgage, irrespective of their loan-to-value ratio.

The transactions presented in the foregoing tables were classified at 31 December 2015, by nature, as follows:

- Non-performing: transactions that are in the process of being returned to performing status, those for which advantageous conditions had to be granted that would not have been granted for an ordinary loan approval or those which, having been classified as standard or substandard, have again encountered payment difficulties during the term of the transaction.

- Substandard: transactions previously classified as non-performing with respect to which, following forbearance, sustained payments have been made for a certain period, depending on the transaction features and the type of guarantee, and transactions previously classified as standard: i) which have been granted an initial grace period and will remain in this category until three monthly instalments (or the equivalent) have been paid after the grace period, or ii) that following forbearance have become irregular (missed payment).

- Standard: transactions previously classified as non-performing or substandard which have successfully completed the precautionary observation periods established in the corporate policy evidencing that payment capacity pursuant to the terms established has been restored, and transactions classified as standard at the date of forbearance, until they meet the requirements to cease to be subject to the special monitoring described above.

The table below shows the changes in 2015 in the forborne loan portfolio:

Millions of euros

	2015
Beginning balance	**56,703**
Of which: Unimpaired	*33,135*
Impaired	*23,568*
Additions	18,178
Reductions*	(19,519)
Balance at end of year	**55,362**
Of which: Unimpaired	*34,190*
Impaired	*21,172*

* Including, mainly, debt repayments, foreclosures and write-offs and transactions that have ceased to be subject to special monitoring because the probation periods and aforementioned requirements have been met.

62% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (77% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 20% of the total forborne loan portfolio and 52% of the non-performing portfolio).

d) Trading market and structural risk

1. Activities subject to market risk and types of market risk

The scope of activities subject to market risk encompasses all operations exposed to net worth risk as a result of changes in market factors. It includes both risks arising from trading activities and the structural risks that are also affected by market fluctuations:

This risk arises from changes in the risk factors -interest rates, inflation rates, exchange rates, equity prices, credit spreads, commodity prices and the volatility thereof- and from the liquidity risk of the various products and markets in which the Group operates.

Substandard			Non-performing							Total		
Without collateral			Full property mortgage guarantee		Other collateral[c]		Without collateral					
Number of transactions	Gross amount	Allowance	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Allowance	Number of transactions	Gross amount	Allowance
2	3	2	5	4	-	-	30	32	8	138	838	10
31,047	903	427	10,239	4,808	6,414	5,456	71,890	4,252	7,637	220,161	25,805	8,064
169	*15*	*118*	*2,236*	*2,123*	*1,269*	*2,519*	*364*	*509*	*2,869*	*5,405*	*6,295*	*2,987*
266,780	722	359	34,184	2,329	64,794	2,562	909,193	1,729	2,477	3,140,406	28,719	2,836
297,829	**1,628**	**788**	**44,428**	**7,141**	**71,208**	**8,018**	**981,113**	**6,013**	**10,122**	**3,360,705**	**55,362**	**10,910**

- Interest rate risk is the possibility that fluctuations in interest rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Interest rate risk affects, inter alia, loans, deposits, debt securities, most financial assets and liabilities held for trading and derivatives.

- Inflation rate risk is the possibility that fluctuations in inflation rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Inflation rate risk affects, inter alia, loans, debt securities and derivatives, the returns on which are linked to inflation or to an actual variation rate.

- Foreign currency risk is defined as the sensitivity of the value of a position in a currency other than the base currency to a potential change in exchange rates. Accordingly, a long position in a foreign currency will generate a loss if this currency depreciates against the base currency. The positions affected by this risk include investments in subsidiaries in currencies other than the euro, and loans, securities and derivatives denominated in foreign currencies.

- Equity risk is the sensitivity of the value of the open positions in equity securities to adverse changes in the market prices of those equity securities or in future dividend expectations. Equity risk affects, among other instruments, positions in shares, equity indices, convertible bonds and equity derivatives (puts, calls, equity swaps, etc.).

- Credit spread risk is the sensitivity of the value of open positions in fixed-income securities or in credit derivatives to fluctuations in the credit spread curves or in the recovery rates (RR) of specific issuers and types of debt. The spread is the differential between the quoted price of certain financial instruments over other benchmark instruments, mainly the IRR of government bonds and interbank interest rates.

- Commodity price risk is the risk arising from the effect of potential changes in commodity prices. The Group's exposure to commodity price risk is not material and it is concentrated in commodity derivatives with customers.

- Volatility risk is the sensitivity of the value of the portfolio to changes in the volatility of risk factors: interest rates, exchange rates, share prices, credit spreads and commodities. Volatility risk arises on financial instruments whose measurement model includes volatility as a variable, most notably financial option portfolios.

All these market risks can be mitigated in part or in full through the use of derivatives such as options, futures, forwards and swaps.

In addition, there are other market risks, which are more difficult to hedge and are as follows:

Correlation risk. Correlation risk is defined as the sensitivity of the value of the portfolio to changes in the relationship between risk factors (correlation), whether they are the same type (e.g. between two exchange rates) or different (e.g. between an interest rate and a commodity price).

- Market liquidity risk. The risk that a Group entity or the Group as a whole may not able to unwind or close a position on time without affecting the market price or the cost of the transaction. Market liquidity risk may be caused by the reduction in the number of market makers or institutional investors, the execution of large volumes of transactions and market instability, and it increases as a result of the current concentration in certain products and currencies.

- Prepayment or termination risk. When the contractual relationship in certain transactions explicitly or implicitly permits early repayment before maturity without negotiation, there is a risk that the cash flows might have to be reinvested at a potentially lower interest rate. It mainly affects mortgage loans or 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.

Pensions risk and actuarial risk are also affected by changes in market factors.

The activities are segmented by risk type as follows:

a) Trading: financial services for customers, trading operations and positions taken mainly in fixed-income, equity and foreign currency products. This activity is managed mainly by the Santander Global Corporate Banking (SGCB) division.

b) Structural risks: a distinction is made between on-balance-sheet risks and pensions and actuarial risks:

b.1) Structural balance sheet risks: marke t risks inherent to the balance sheet, excluding financial assets and liabilities held for trading. Decisions affecting the management of these risks are taken through the ALCO committees in the respective countries in coordination with the Group's ALCO committee and are implemented by the financial management division. The aim pursued is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Group's economic value, whilst maintaining adequate liquidity and solvency levels. The structural balance sheet risks are as follows:

- Structural interest rate risk: arises as a result of the maturity and repricing gaps of all the assets and liabilities on the balance sheet.

- Structural foreign currency risk/hedges of results: foreign currency risk resulting from the fact that investments in consolidable and non-consolidable companies are made in currencies other than the euro (structural exchange rate). In addition, this item includes the positions to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

- Structural equity risk: this item includes equity investments in non-consolidated financial and non-financial companies and available-for-sale portfolios comprising equity positions.

b.2) Pensions and actuarial risks

- Pensions risk: the risk assumed by the entity in relation to pension obligations to its employees. This relates to the possibility that the fund may not cover these obligations in the accrual period of the benefits and the return obtained by the portfolio may not be sufficient and might oblige the Group to increase the level of contributions.

- Actuarial risk: unexpected losses arising as a result of an increase in the obligations to policyholders, and losses arising from an unexpected increase in expenses.

2. Trading market risk

The Group's trading risk profile remained moderately low in 2015, in line with previous years, due to the historical focus of the Group's activity on providing a service to its customers, the limited exposure to complex structured products and the diversification by geographical area and risk factor.

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 2015 year-end, the Group had:

- Hedge funds: the total exposure was not material (EUR 220 million at 31 December 2015) and was entirely indirect: the Group acted mainly as a counterparty in derivatives transactions and in hedge fund funding transactions. This exposure featured low loan-to-value ratios, at around 17% (collateral of EUR 1,225 million at the end of December). The risk exposure to this type of counterparty is analysed on a case-by-case basis, and the percentages of collateral are established according to the features and assets of each fund.

- Monolines: the Group's exposure to monoline insurers amounted to EUR 138 million[5] in December 2015, and was concentrated mainly on an indirect exposure of EUR 136 million, by virtue of the guarantee provided by entities of this kind for various traditional financing or securitisation transactions. The exposure was to double-default risk in this case. The primary underlyings had high credit ratings. The small remainder was direct exposure (e.g. through the purchase of a credit default swap to protect it against the risk of default of these insurance companies). Exposure remained substantially the same as in 2014.

In short, it can be affirmed that, in general, the exposure to instruments of this kind in the ordinary course of the Group's business continued to decrease in 2015. It is due mainly to the integration of exposures at entities acquired by the Group, such as Sovereign in 2009. All these exposures were known at the time of the purchase and adequate provisions were recognised. Since their integration in the Group these exposures have been reduced notably, the final objective being their derecognition.

The Group's policy with respect to the approval of new transactions involving these products continues to be very prudent and conservative and is subject to strict supervision by the Group's senior management. Before authorising a new transaction, product or underlying, the risk division checks:

- Whether there is an adequate valuation model (mark-to-market, mark-to-model or mark-to-liquidity) to monitor the value of each exposure.

- Whether the inputs enabling application of this valuation model are observable in the market.

Provided the two aforementioned conditions are met, the risk division ascertains:

- The availability of adequate systems duly adapted for the daily calculation and monitoring of the results, positions and risks of the new transactions envisaged.

5. The guarantees provided by monoline insurers for US municipal bonds are not treated as exposure. These guarantees amounted to EUR 19 million at December 2015..

- The degree of liquidity of the product or underlying, with a view to arranging the related hedge on a timely basis.

Calibration and test measures

Actual losses may differ from those projected by the value-at-risk (VaR) model for different reasons relating to the limitations of this metric. Therefore, the Group performs regular analyses and tests to check the accuracy of the VaR calculation model in order to verify its reliability.

The most important tests are the backtesting exercises, which are analysed at both local and global level, following the same methodology in all cases. The backtesting exercise consists of comparing the projected VaR measurements, for a given confidence level and time horizon, with the actual losses obtained in the same time horizon. This facilitates the detection of any anomalies in the VaR model of the portfolio in question (e.g. deficiencies in the parameterisation of the valuation models of certain instruments, scantly adequate proxies, etc.).

Three types of backtesting are calculated and assessed at the Group:

- 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.

The number of violations in 2015 is in line with the expected performance of the VaR calculation model, given that a confidence level of 99% and a time horizon of one year are used (with a longer time horizon one could expect an average of two or three violations a year).

3. Structural balance sheet risks[6]

3.1. Main aggregates and variations

The market risk profile inherent to the Group's balance sheet, in relation to the volume of assets and capital, and the projected net interest margin, remained at moderate levels in 2015, in line with previous years.

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.

In any case, the level of exposure in all countries is moderate in relation to the annual budget and the amount of capital.

At the end of December 2015, the exposure relating to the net interest margin at one year, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was concentrated on the euro yield curve, with EUR 257 million of exposure, the Polish zloty yield curve, with EUR 83 million of exposure and the US dollar yield curve, with EUR 78 million of exposure, in all cases to falls in interest rates.

At the same date, the most significant exposure relating to the market value of equity, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was that of the euro yield curve, with EUR 3,897 million of exposure to falls in interest rates. The exposure to falls in interest rates of the US dollar and pound sterling yield curves was EUR 691 million and EUR 488 million, respectively. These scenarios are very unlikely at present.

Latin America

The balance sheets are positioned, in terms of both value of equity and net interest margin, for falling interest rates, except in the case of the net interest margin in Mexico, since the country's excess liquidity is invested in local currency in the short term.

In 2015 the level of exposure in all countries continued to be moderate in relation to the annual budget and the amount of capital.

At year-end, the exposure relating to the net interest margin at one year, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was concentrated on three countries: Brazil (EUR 124 million), Mexico (EUR 37 million) and Chile (EUR 23 million).

VaR of on-balance-sheet structural interest rate risk

In addition to sensitivities to interest rate fluctuations (shifts not only of ±100 basis points, but also of ±25, ±50 and ±75 basis points are assessed, in order to better characterise risk in countries with very low rate levels), the Group uses other methods to monitor on-balance-sheet structural interest rate risk including, inter alia, scenario analysis and VaR calculations, using a methodology similar to that used for the trading book.

6. Includes the total balance sheet, except for financial assets and liabilities held for trading.

Structural foreign currency risk/hedges of results
Structural foreign currency risk arises from the Group's operations in foreign currencies, and relates mainly to long-term investments, the results thereof and the hedges for both.

Foreign currency risk is managed dynamically, in order to limit the impact on the core capital ratio of exchange rate fluctuations[7]. In 2015 the levels of the foreign currency risk core capital ratio remained at around 100%.

At 2015 year-end, the largest long-term exposures (with their potential impact on equity) corresponded, in descending order, to the pound sterling, the US dollar, the Brazilian real, the Chilean peso, the Mexican peso and the Polish zloty. The Group hedges a portion of these long-term exposures through foreign exchange derivatives.

Additionally, the financial management division at consolidated level is responsible for managing the foreign currency risk inherent in the expected results and dividends of the Group at the units whose base currency is not the euro.

Structural equity risk
The Group has equity positions in its balance sheet (banking book) in addition to the trading positions. These positions are classified as available-for-sale financial assets (equity instruments) or as investments, depending on the length of time they are expected to remain in the portfolio.

At the end of December 2015, the equity positions (banking book) were diversified across various geographical areas, the main ones being Spain, the US, China, Brazil and the Netherlands. As regards industries, the equity positions are mainly invested in financial services and insurance; other industries represented to a lesser extent are professional, scientific and technical activities, the public sector (the holding in SAREB), the manufacturing industry and the transport and storage industry.

The structural equity positions are exposed to market risk. VaR is calculated for these positions using series of market prices or proxies.

Structural VaR
In short, a homogeneous metric such as VaR can be used to monitor the total on-balance-sheet market risk (excluding the Santander Global Corporate Banking trading activity), distinguishing between fixed-income (considering both interest rates and credit spreads for ALCO portfolios), exchange rate and equities.

In general, it can be said that structural VaR is not high in terms of the Group's volume of assets or capital.

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

Limit control system
For trading market risk, structural balance sheet risk limits are established, within the framework of the annual limit plan, in response to the level of the Group's risk appetite.

The main limits are:

- On-balance-sheet structural interest rate risk:
  - Limit on net interest margin sensitivity at one year.
  - Limit on the sensitivity of the market value of equity.
- Structural foreign currency risk: Net position in each currency (for positions hedging results).

If any of these limits or sublimits are breached, risk management officers must explain the reasons why and provide an action plan for remedying the situation.

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.

7. At the beginning of 2015 the method of covering the core capital ratio was changed from phase-in to fully-loaded.

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

1. 1. Introduction to the treatment of liquidity and funding risk

Liquidity and funding management has always been a basic element of the Group's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests.

The Group relies on a decentralised funding model composed of subsidiaries that are autonomous and self-sufficient in terms of liquidity. Each subsidiary is responsible for covering the liquidity needs arising from its current and future activity, either by taking deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates, subject to management and supervision procedures coordinated at Group level.

This funding structure has proven to be most effective in situations of high market stress as it prevents difficulties in one area from affecting funding capacity in other areas and, therefore, the Group as a whole, which could occur if a centralised funding model were used.

In addition, at the Group this funding structure benefits from the advantages of having a commercial banking model with a significant presence in ten markets with great potential, with the focus on retail customers and a high level of efficiency. As a result, the subsidiaries have a considerable capacity to attract stable deposits, as well as a significant issue capacity in the wholesale markets of their respective countries, generally in local currency.

2. Liquidity management

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 sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy.
- An in-depth balance-sheet analysis and liquidity risk measurement to support the decision-making process and the control thereof.
- A management approach adapted in practice to the liquidity needs of each business.

2.1. Organisational and governance model

Decisions relating to all structural risks, including liquidity and funding risk, are made though local asset-liability committees (ALCOs) in coordination with the Global ALCO.

The Global ALCO is the body empowered by the board of directors of Banco Santander to coordinate the asset and liability management (ALM) function throughout the Group, including the management of liquidity and funding, which is carried out by the local ALCOs in accordance with the corporate ALM framework.

It is presided over by the Bank's chair and its members are an executive deputy chairman (who, in turn, is the chairman of the executive risk committee), the CEO, the finance and risk executive vice presidents, and other executive vice presidents and heads of certain business and analysis units who perform advisory functions.

The liquidity risk profile and appetite aim to reflect the Group's strategy in conducting its business, which consists of structuring the balance sheet to render it as resilient as possible to potential liquidity stress scenarios. To this end, appetite metrics have been structured to reflect the application, on an individual basis, of the principles of the Group's management model, with specific levels for the structural funding ratio and minimum liquidity horizons under various stress scenarios.

Simultaneously, various scenario analyses are conducted considering the additional liquidity needs that could arise if certain very severe but highly unlikely events occur.

2.2. Balance sheet analysis and liquidity risk measurement

Liquidity and funding decision-making is based on a thorough understanding of the Group's current situation (environment, strategy, balance sheet and liquidity position), of the future liquidity needs of the various units and businesses (liquidity projection) and of the accessibility and situation of the funding sources in wholesale markets.

Its aim is to ensure that the Group maintains adequate liquidity levels to cover its short- and long-term requirements with stable funding sources, optimising the impact of funding costs on the income statement.This requires the monitoring of the balance sheet structure, the preparation of short- and medium-term liquidity projections and the establishment of basic metrics.

The results of these balance-sheet, projection and scenario analyses provide the inputs required to prepare the Group's various contingency plans, which, if necessary, would enable it to anticipate a broad spectrum of potential adverse situations.

All these measures are in line with the practices being promoted to strengthen the liquidity of financial institutions by the Basel Committee and the various regulators (in the European Union, the European Banking Authority). The objective is to define a framework of principles and metrics which, in certain cases, are nearing implementation and, in others, are at the early stages of development.

In 2015 the Internal Liquidity Adequacy Assessment Process (ILAAP) was conducted for the first time. The ILAAP, which focuses on both quantitative and qualitative aspects, must be integrated with the Group's other strategic and risk management processes. The Group maintained a robust liquidity position across all its units, in both the base scenario and potential stress scenarios.

Methodology for liquidity risk monitoring and control

The aims of the liquidity risk metrics adopted by the Group are:

- To attain the highest degree of effectiveness in liquidity risk measurement and control.

- To provide support for financial management, to which end the metrics are adapted to the manner in which the Group's liquidity is managed.

- To be aligned with the regulatory requirements arising from the transposition of Basel III in the European Union, in order to avoid any conflicts between limits and to facilitate management.

- To act as an early warning system that anticipates potential risk situations by monitoring certain indicators.

- To achieve involvement at country level. Although the metrics are developed on the basis of common, uniform concepts affecting liquidity, these have to be analysed and adapted by each unit.

Two kinds of basic metrics are used to control liquidity risk: short term and structural.

Short-term metrics include basically the liquidity gap, while structural metrics feature the net structural balance-sheet position. The Group supplements these metrics by developing various stress scenarios. Following is a detailed description of these three metrics:

Liquidity gap

The liquidity gap provides information on potential cash inflows and outflows -both contractual and those estimated using assumptions- for a given period. Liquidity gap analyses are prepared for each of the main entities and for each of the currencies in which the Group operates. At the end of 2015, all units complied comfortably with the horizons set at corporate level for the liquidity scenario.

Net structural position

The purpose of this metric is to determine the reasonableness of the balance-sheet funding structure. The Group's aim is to ensure that its structural needs (lending, non-current assets, etc.) are satisfied by means of an appropriate combination of wholesale funding sources and a stable retail customer base, as well as capital and other non-current liabilities. Each unit prepares its liquidity balance sheet based on the nature of its business and compares its liquidity needs with the various funding sources available to it. At the end of 2015, the Group had a structural liquidity surplus of more than EUR 149,000 million.

Scenario analysis

The Group supplements the aforementioned metrics by developing various stress scenarios. Its main objective is to identify the critical factors of potential crises and, at the same time, to define the most appropriate management measures to address each of the situations assessed.

In their liquidity analyses the units generally consider three different scenarios: idiosyncratic, local systemic and global systemic. These scenarios constitute the minimum standard analysis established for all Group units to be reported to senior management. Also, each unit develops ad-hoc scenarios which replicate major historical crises or the liquidity risks specific to its particular environment.

The definition of scenarios and the calculation of metrics under each of them are directly related to the definition and execution of the liquidity contingency plan, which is the responsibility of financial management.

2.3. Management tailored to business needs

The Group performs its liquidity management at subsidiary and/or business unit level in order to finance its recurring activities with the appropriate terms and prices.

In practice, in keeping with the funding principles mentioned above, the liquidity management at these units consists of the following:

- Preparation of a liquidity plan each year on the basis of the funding needs arising from the budgets of each business. Based on these liquidity requirements and taking into account certain prudential limits on the raising of funds in the short-term markets, the financial management area establishes an issue and securitisation plan for the year at subsidiary/global business level.

- Year-round monitoring of the actual changes in the balance sheets and in the funding requirements of the subsidiaries/businesses, which results in the relevant updates of the plan.

- Monitoring and management of the units' compliance with the regulatory ratios, and oversight of the level of encumbered assets in each unit's funding, from a structural standpoint and with regard to its shortest-term component.

- Continuous active presence in a wide range of wholesale funding markets, enabling the Group to maintain an adequate issue structure that is diversified in terms of product type and has a conservative average maturity.

The effectiveness of this management effort at Group level is based on the fact that it is implemented at all subsidiaries. Specifically, each subsidiary budgets the liquidity requirements resulting from its intermediation activity and assesses its own ability to raise funds in the wholesale markets so that, in ongoing coordination with the Group, it can establish an issue and securitisation plan.

Traditionally, the Group's main subsidiaries have been self-sufficient in terms of their structural funding. The exception is Santander Consumer Finance (SCF), which, because it specialises in consumer financing mainly through dealer/retailer recommendations, has required the financial support of other Group units, especially the Parent.

This support, at all times provided at market prices based on the term of the funding and the internal rating of the borrower unit, has decreased over time and currently relates substantially in full to needs with regard to the new portfolios and business units included in SCF within the framework of the agreement with Banque PSA Finance. This requirement for increased financial support from the Group will remain in 2016, since further units have yet to be included. In the medium term, as the new units develop their own wholesale funding capacities, as required by the Group's model, this financial support will be reduced.

3. Funding strategy and evolution of liquidity in 2015

3.1. Funding strategy

In the last few years the Group's funding activity has been underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions, and, above all, by the adaptation of the subsidiaries' strategies to the growing demands of both markets and regulators. These demands were not uniform across the markets and reached far higher levels of difficulty and pressure in certain areas, such as the peripheral regions of Europe.

In any case, it is possible to identify a series of general trends in the policies implemented by the Group's subsidiaries in their funding and liquidity management strategies since the beginning of the crisis, namely:

- Maintenance of adequate, stable medium- and long-term wholesale funding levels at Group level. At 2015 year-end, this funding represented 21% of the liquidity balance sheet, a level similar to that of recent years but well below that at 2008 year-end (28%) when wholesale liquidity, which was more abundant and less expensive, had not yet suffered the pressures of the crisis.

- Holding a sufficient volume of assets eligible for discount at central banks as part of the liquidity reserve to cater for episodes of stress on wholesale markets. In particular, in recent years the Group has raised its total discount capacity significantly, from close to EUR 85,000 million at 2008 year-end to the current level of more than EUR 195,000 million.

- Strong generation of liquidity from the commercial business due to the lower growth of credit and greater emphasis on attracting customer funds.

Thanks to all these market and business developments, based on a sound liquidity management model, the Group currently enjoys a very robust funding structure, the main features of which are as follows:

- High proportion of customer deposits in a predominantly commercial balance sheet. Customer deposits are the Group's major source of funding. These deposits represent around two thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and at the end of 2015 they accounted for 86% of net loans.

- Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term. Medium- and long-term wholesale funding represents 21% of the Group's net liabilities and enables it to cater for the net loans not funded with customer deposits (the commercial gap).

This funding is well-balanced by type of instrument (approximately 40% senior debt, 30% securitisations and structured instruments with collateral, 20% cédula-type covered bonds, with the remainder consisting of preference shares and subordinated debt) and by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

3.2. Evolution of liquidity in 2015

At the end of 2015, in comparison with 2014, the Group reported:

- A stable ratio of loans to net assets (total assets less trading derivatives and interbank balances) at 75% due to the improvement in lending following the end of deleveraging in mature markets.

- A loan-to-deposit (LTD) ratio of 116%. This trend reflects the recovery of credit in mature markets, both organic and inorganic (acquisition of consumer finance businesses in Europe), and the increased focus on optimising the cost of retail deposits in countries with low interest rates.

- A decline in the ratio of customer deposits plus medium- and long-term funding to loans, for reasons similar to those for the trend in the LTD ratio, since the increase in the wholesale funds raised at the Group is also lower than that in loans.

- A continuing limited recourse to short-term wholesale funding at the Group. The ratio of this funding stood at around 2%.

- Lastly, an increase in the Group's structural surplus (i.e. the excess of structural funding resources -deposits, medium- and long-term funding, and capital- over structural liquidity requirements -non-current assets and loans-), which had an average balance of EUR 159,000 million in 2015.

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)
In 2014, following the approval by the Basel Committee of the final definition of the short-term liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, within the scope of the CRD IV, defines the criteria for calculating and implementing this metric in the European Union. The implementation has been delayed until October 2015, although the level of initial compliance remains at 60%, which should gradually increase to 100% by 2018.

The starting position in short-term liquidity, coupled with the autonomous management of the ratio in all major units, has enabled compliance levels exceeding 100% to be maintained throughout 2015, thereby surpassing regulatory requirements.

•NSFR (Net Stable Funding Ratio)
The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and it has still to be transposed into local legislation.

In relation to this ratio, the Group benefits from a high weighting of customer deposits, which are more stable, from long-term liquidity needs arising from the commercial activity funded by medium- and long-term instruments, and from limited recourse to short term. All of this enables the Group to maintain a balanced liquidity structure, which is reflected in NSFR levels exceeding 100% at 2015 year-end, although compliance will not be required until 2018.

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 2015 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
Assets	**323.3**	**1,017.0**
Credits and loans	217.8	725.9
Equity instruments	13.2	10.5
Debt securities	74.6	105.5
Other assets	17.7	175.1

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	44.9	52.0
Credits and loans	1.2	-
Equity instruments	0.9	1.7
Debt securities	42.8	45.1
Other collateral received	-	5.2
Own debt securities issued other than own covered bonds or ABSs	-	5.6

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)	302.6	368.3

On-balance-sheet encumbered assets amounted to EUR 323.3 thousand million, more than two-thirds of which are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 44.9 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 368.3 thousand million of encumbered assets, which give rise to EUR 302.6 thousand million of matching liabilities.

At 31 December 2015, total assets encumbered in funding transactions represented 26% of the Group's expanded balance sheet under EBA standards (total assets plus collateral received: EUR 1,437 thousand million at December 2015). Therefore, the ratio of encumbered assets in funding transactions remained at the same level as in 2014: the Group's recourse to TLTROs in 2015 was offset by the maturity of secured debt (mainly mortgage-backed securities) that has been replaced by unsecured debt.

Lastly, regard should be had to the different sources of encumbrance and the role they play in the Group's funding:

- 44% 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 11% of the expanded balance sheet under EBA standards.

- The other 56% 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

1. Definition and objectives

Following the Basel guidelines, the Group defines operational risk (OR) as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational risk is inherent in all products, activities, processes and systems, and is generated in all business and support areas; accordingly, all employees are responsible for managing and controlling the risks arising in their area of activity.

The aim pursued by the Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report this risk.

The Group's priority, therefore, is to identify and mitigate any clusters of operational risk, irrespective of whether or not they have given rise to any losses. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the standardised approach provided for under the European Capital Requirements Directive.

2. Operational risk management and control model

2.1. Operational risk management cycle

The operational risk management and control model includes the following phases:

- Identification of the operational risk inherent in all the Group's activities, products, processes and systems.

- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the annual loss budget and the monitoring thereof.

- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.

- Objective and ongoing measurement and assessment of operational risk, consistent with the industry and regulatory standards (Basel, Bank of Spain, etc.).

- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of the internal control environment and mitigation of losses.

- Establishment of mitigation measures to eliminate or minimise operational risk.

- Preparation of periodic reports on the exposure to operational risk and its level of control for senior management and the Group's areas/units, and reporting to the market and the regulatory authorities.

- Definition and implementation of the methodology required for the internal calculation of capital in terms of expected and unexpected loss.

The following is required for each of the key processes indicated above:

- Definition and implementation of systems enabling the Group to monitor and control operational risk exposures. These systems are integrated into the Group's daily management, using the current technology and maximising the automation of applications.

- Definition and documentation of operational risk management and control policies and implementation of the related methodologies and tools consistent with current regulations and best practices.

2.2. Risk identification, measurement and assessment model

In order to identify, measure and assess operational risk, the Group defined a set of quantitative and qualitative corporate techniques/tools that are combined to perform a diagnosis based on the identified risks and obtain a valuation through the measurement/assessment of the area/unit.

The quantitative analysis of this risk is carried out mainly using tools that record and quantify the potential level of losses associated with operational risk events.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place.

2.3. Operational risk information system

The Group has a corporate information system that supports the operational risk management tools and facilitates the information and reporting functions and requirements at local and corporate level.

This system features event recording, risk mapping, assessment, indicator, mitigation and reporting modules, and is applicable to all the Group entities.

3. Mitigation measures

The model requires the Group to monitor the mitigation measures established in response to the main sources of risk, which were identified through an analysis of the tools used in managing operational risk, and as a result of the organisational and development model and the preventive implementation of operational risk management and control policies and procedures.

The Group's model integrates the measures in a shared database, which makes it possible to assign each mitigating measure to the various tools used (events, indicators, self-assessment, scenarios, recommendations and preventive policies).

The most significant mitigation measures have focused on the improvement of security for customers in their day-to-day transactions, the management of external fraud, the ongoing improvement of processes and technology, and on taking steps to ensure that products are sold and services are provided in an appropriate manner.

Cybersecurity and data security plans

In 2015 the Group continued to devote its full attention to cybersecurity-related risks, which affect all types of companies and institutions, including those in the financial sector.

This situation, which is generating concern among entities and regulators, is prompting the adoption of preventive measures in order to be prepared for cyberattacks.

In order to step up and supplement the actions already in progress, the Group has prepared the Santander cyber-security programme, which stipulates: i) a governance integrating the three lines of defence; ii) a cyber resilience-oriented line of action envisaging measures in the areas of identification, prevention, protection, detection and reaction; iii) aspects of cybersecurity with an impact on training, access control and segregation of functions, as well as secure software development; and iv) initiatives for organisational reinforcement.

Inspired by international standards, the Group has developed its internal cybersecurity reference model, endowing it with certain maturity concepts. At the same time, it has continued to implement the cybersecurity master plans at the various Group entities, achieving the following noteworthy milestones:

- Specific budgetary allocations for the improvement of mechanisms to protect against cybersecurity problems at the Group's various entities and geographical locations.
- Arrangement of a corporate-wide cyber insurance policy.
- Improvement of the security monitoring services and extension of their scope.
- Participation in the numerous cyber exercises conducted at various Group locations, aimed at evaluating the response of companies to cyber incidents.
- Cooperation with international forums with the objective of identifying best practices and sharing information about threats.

4. Business continuity plan

The Group has a business continuity management system to ensure the continuity of the business processes of its entities in the event of a disaster or serious incident.

This basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for the Group, resulting from an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Protecting the public image of, and confidence in, the Group.
- Meeting the Group's obligations to its employees, customers, shareholders and other third-party stakeholders.

In 2015 the Group continued to make progress in the implementation and ongoing improvement of its business continuity management system. Implementation of the three lines of defence with regard to business continuity was reinforced and the newly-created businesses and divisions were included in the scope of management.

5. Other matters relating to operational risk control and monitoring

Analysis and monitoring of controls in market operations

In view of the specific features and complexity of financial markets, the Group continually improves its operational control procedures in order to remain in line with new regulations and best market practices. Thus, in 2015, further improvements were made to the control model for this business, placing particular emphasis on the following points:

- Analysis of the individual transactions of each treasury operator to detect any possible anomalous conduct. In the course of the year, the thresholds applied for each of the controls were reviewed, together with the other control areas, and, as a new feature, specific limits were introduced for each desk.

- Implementation of a new tool enabling compliance with new record-keeping requirements in monitoring communication channels adapted to the new regulations.

- Tightening of controls on transaction cancellations and modifications, and calculation of the actual cost of such events if they are due to operational errors.

- Reinforcement of controls on contributions of prices to market indices.

- Development of additional controls to detect and prevent irregular transactions (such as, for example, the establishment of controls on triangular transactions).

- Development of additional controls on access to front-office transaction record-keeping systems (for example, for the purpose of detecting shared users).

- Adaptation of existing controls and development of new controls to comply with Volcker Rule requirements.

- Formalisation of IT procedures, tools and systems for cybersecurity risk protection, prevention and training.

The financial market business is also undergoing a global transformation and evolution of the operational risk management model, combined with a modernisation of the technology platforms and operating processes which, incorporating a robust control model, will reduce the operational risk associated with this activity.

Corporate information

The operational risk function has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: one corporate, with consolidated information, and the other individualised for each country/unit.

- Dissemination of best practices among the Group's countries/units, obtained from the combined study of the results of qualitative and quantitative analyses of operational risk.

This information acts as the basis for meeting reporting requirements vis-à-vis the risk control committee, the risk, regulation and compliance oversight committee, the operational risk committee, senior management, regulators, rating agencies, etc.

The role of insurance in operational risk management

The Group considers insurance as a key factor in operational risk management. 2015 saw the reinforcement of the common guidelines for coordinating the various functions involved in the management cycle for operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also the various front-line risk management areas, based on the procedure designed in 2014.

These guidelines included most notably the following activities:

- Identification of all risks at the Group which could be covered by insurance, as well as new insurance cover for risks already identified in the market.

- Establishment and implementation of methods for quantifying insurable risk, based on loss analysis and loss scenarios that make it possible to determine the Group's level of exposure to each risk.

- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.

- Technical assessment of the level of protection provided by a policy, and of the cost and retention levels that the Group will assume (excesses and other items to be borne by the insured), for the purpose of deciding whether to arrange it.

- Negotiation with insurance providers and award of policies in accordance with the relevant procedures established by the Group.

- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting, establishing action protocols and specific monitoring forums.

- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any deficiencies detected.

- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.

- Active involvement of the two areas in the global insurance sourcing desk (the Group's highest technical body for the definition of insurance cover and arrangement strategies), in the insured risk monitoring forum and in the corporate operational risk committee.

g) Compliance and conduct risk

1. Scope, mission, definitions and objective

The compliance function encompasses all matters relating to regulatory compliance, the prevention of money laundering and terrorist financing, product governance and consumer protection, and reputational risk.

To this end, the compliance function promotes adherence by the Group to the rules, oversight requirements, principles and values of good conduct by establishing standards, holding debates and providing advice and information in the interest of employees, customers, shareholders and society in general.

Based on the current corporate arrangement of the Group's three lines of defence, the compliance function is a second-line independent control function with direct access to the board of directors and its committees through the Group Chief Compliance Officer (GCCO), who has access to these bodies on a regular and independent basis. This structure is in line with banking regulatory requirements and supervisory expectations.

Compliance risks are defined as including the following:

- Compliance risk: the risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.

- Conduct risk: the risk caused by inappropriate practices vis-à-vis the Bank's relationship with its customers, the treatment and products offered to customers, and their suitability for each particular customer.

- Reputational risk: the risk arising from negative perception of the Bank on the part of public opinion, its customers, investors or any other stakeholder.

The Group's objective regarding compliance and conduct risk is to minimise the likelihood of non-compliance and irregularities occurring and to ensure that, should they ultimately occur, they are promptly identified, assessed, reported and resolved.

Other control functions (risk) and support functions (legal, T&O, etc.) are also involved in the control of the aforementioned risks.

2. Control and supervision of compliance risks

Based on the arrangement of the Group's lines of defence, in particular within the compliance function, primary responsibility for managing compliance risks is shared, in the first line of defence, by the business units directly originating those risks and the compliance function, acting either directly or by assigning compliance activities or tasks to that first line.

Furthermore, as the second line of defence, in its control and oversight capacity, the compliance function is charged with establishing, encouraging and achieving adherence by the units to the uniform frameworks, policies and standards in place across the Group. To this end, a set of controls is established, the application of which is monitored and verified.

In the sphere of compliance, the GCCO is responsible for reporting to the governing and managing bodies, and also for advising and informing senior management about compliance matters and for fostering a compliance culture, within the framework of an annual programme, the effectiveness of which is assessed on a regular basis. In addition to the foregoing, the deputy chairman in charge of risk and the CRO also report to the governing and managing bodies on all the Group's risks, including compliance risks.

The compliance function provides the basic components for the management of these risks (frameworks and policies for anti-money laundering measures, codes of conduct, product marketing, reputational risk, etc.) and ensures that the other components are duly addressed by the corresponding Group units (responsible financing, data protection, customer claims, etc.), for which purpose it has established the appropriate control and supervision systems, within the second line of defence against compliance risk.

Also, internal audit - as part of its functions in the third line of defence - conducts the tests and reviews required to check that the appropriate supervision controls and components are applied, and that the standards and procedures established at the Group are being complied with.

The essential components of compliance risk management are based on resolutions adopted by the board of directors, as the highest authority for such matters, through the approval of corporate frameworks - which regulate the relevant matters - and the Group's general code of conduct. These frameworks are approved at corporate level by Banco Santander, S.A. as the Parent of the Group, and are subsequently approved by the units, by way of their adherence thereto, for the purpose of transposing them, taking into account any applicable local requirements.

The corporate frameworks for the compliance function are as follows:

- General compliance framework.

- Product and service marketing framework.

- Claims management framework.

- Framework for the prevention of money laundering and of terrorist financing.

These corporate frameworks are developed within the sphere of the Group's internal governance and are in keeping with the parent-subsidiaries relationship model.

For its part, the general code of conduct contains the rules of behaviour and ethical principles that must govern the actions of all Group employees and is supplemented in certain matters by the rules contained in other codes and the related internal implementing regulations.

Also, the code establishes:

- The functions and responsibilities relating to the compliance matters addressed by it.

- The rules regulating the consequences of failure to observe the code.

- The channel for submitting and processing notifications of allegedly irregular actions.

The regulatory compliance function, under the supervision of the risk, regulation and compliance oversight committee (CSRRC) and the regulatory compliance committee, is responsible for ensuring the effective implementation and monitoring of the general code of conduct.

Governance and organisational model

It is the responsibility of the board of directors of the Bank, as part of its general supervisory function, to approve the appointment of the person ultimately responsible for the compliance function (the GCCO), as well as for its framework and its development policies. In addition, the board is in charge of the Group's general code of conduct and the corporate frameworks developed by the compliance function.

In order to reinforce the independence of compliance, the executive committee of the board of directors resolved to appoint an executive vice president to the position of GCCO. In this connection, pursuant to the GCCO's mandate, in 2015 a programme was developed for the transformation of the compliance function at global level, namely the target operating model for compliance (TOM), which will be implemented over a three-year time horizon, with the aim of elevating this function to place it on a par with the best standards in the financial services industry.

The compliance function reports to the board of directors and its committees on a monthly basis.

Also worthy of mention is the appropriate coordination in place with the operational risk function, which compiles the various loss events arising from compliance and conduct risks and which, using a risk governance featuring a combined view of all the Group's risks, also reports to the board and its committees.

3.1. Governance

The corporate committees listed below are collective bodies with responsibilities in the sphere of compliance and are replicated at local level:

- The regulatory compliance committee: this is the collective governance body for regulatory compliance, without prejudice to the responsibilities assigned to the specialist bodies currently existing in the function (namely the corporate product and service marketing committee, the monitoring committee and the committee for the prevention of money laundering and terrorist financing).

- The product and service marketing committee: this is the collective governance body for the validation of products and services. The units are empowered to make the initial proposals and give authorisation for new products and services, although such proposals and their compliance with corporate policies must be validated at corporate level. The committee's objectives and functions are based on minimising the improper marketing of products and services for customers, taking into account consumer protection principles. Its functions are performed at both corporate and local level.

- The corporate monitoring committee is the Group's collective governance body for the monitoring of products and services and the evaluation of customer claims across all the Group's units. Approved products and services are monitored locally by the local monitoring committees or equivalent bodies, which report their conclusions directly to the corporate monitoring committee.

- The committee for the prevention of money laundering and terrorist financing (formerly the analysis and resolution committee - CAR) is the collective body in this sphere that defines the related action frameworks, policies and general objectives. It also validates the prevention and coordination regulations of other collective bodies and units of the Group. In order to reinforce the governance of the function and safeguard its independence, the objectives and duties of the aforementioned committees have been revised, in the adaptation of TOM, to bring them into line with the Group's governance model.

3.2. Organisational model

As a result of the aforementioned transformation programme (TOM) and in order to ensure a vision and integrated management of the various compliance risks, the organisational structure of the function was modified, using a hybrid approach, so as to make the specialist compliance risks (vertical functions) converge with the standardised aggregate vision of those risks (transversal functions).

4. Regulatory compliance

The following functions are in place to ensure the proper control and supervision of regulatory compliance risks:

- Application of the Group's general code of conduct and the other codes and rules implementing it. Provision of advice on the resolution of any doubts arising from their application.

- Cooperation with Internal Audit in the periodic reviews conducted by it on compliance with the general code of conduct and with the other codes and rules implementing it, without prejudice to any periodic reviews of compliance matters that have to be conducted directly.

- Preparation (or amendment) of compliance programmes on specific regulations, for submission to the regulatory compliance committee and, where appropriate, subsequent approval by the board of directors or its committees.

- Presentation of periodic reports to the risk, regulation and compliance oversight committee (CSRRC) and to the board of directors on the development of the framework and the application of the compliance programme.

- Assessment of any changes that may need to be made to the compliance programme, in particular where unregulated risk situations and improvable procedures are detected, and proposal of such changes to the regulatory compliance committee or to the CSRRC.

- Receipt and handling of the complaints made by employees through the whistleblowing facility.

- Direction and coordination of any investigations into breaches, with possible support from internal audit, and proposal of the appropriate penalties to the related committee.

- Supervision of the compulsory training activity for the compliance programme.

The target operating model (TOM) for compliance places the spotlight of the regulatory compliance function on the following areas:

- Compliance in employee-related matters.

- Compliance in organisational matters.

- Compliance with market regulations.

- Conduct in securities markets.

5. Product governance and consumer protection

As a result of the transformation of the compliance function into its new TOM, the former reputational risk management office was renamed as the product governance and consumer protection office. Its responsibilities were extended to bolster the adequate control and oversight of product and service marketing risks, to foster transparency and a simple, personal and fair approach to customers in order to protect their rights, and to ensure that policies and procedures take the consumers' perspective into account. For this purpose, the functions listed below were established, based on two corporate frameworks and a set of policies that define the basic principles and rules of action in this area:

Frameworks:

- Corporate marketing framework: a uniform system for the marketing of products and services, aimed at minimising exposure to the risks and possible claims arising in all phases of the marketing process (validation, pre-sale, sale, monitoring).

- Claims management framework: a uniform system for the systematised management of the recording, control, management and analysis of the causes of claims, based on their various types; this makes it possible to identify the reasons for customer dissatisfaction, to provide suitable solutions for each case and to improve, where appropriate, the processes that gave rise to the claims.

Functions:

- To promote the adherence of the units to the above-mentioned corporate frameworks.

- To facilitate the functions of the corporate marketing committee by guaranteeing the proper validation, prior to its launch, of any new product or service proposed by any Group subsidiary or by the Parent.

- To safeguard the internal protection of consumers, with the aim of improving their relationships with the Group, by effectively promoting their rights and providing solutions to possible disputes, in accordance with best practices through any channel, as well as by fostering consumers' financial knowledge. All these efforts are geared towards building lasting relationships with customers.

- To identify, analyse and control the fiduciary risk generated by the private banking, asset management and insurance businesses and the outsourced custody services for customers' financial instruments. Fiduciary risk is considered to be that arising from the management of financial instruments on behalf of customers.

- To compile, analyse, and report to the Group's governance bodies, the information required to conduct a proper analysis of product and service marketing risk and of claims risk, from a two-fold perspective: the possible impact on customers and on the Group, as well as on the monitoring of products and services throughout their life-cycle.

- To supervise the marketing and claims management processes in place at the subsidiaries, making proposals for improvements and monitoring the mitigating actions taken for the risks detected.

6. Prevention of money laundering and of terrorist financing

The following functions are in place to ensure the proper control and supervision of risks relating to the prevention of money laundering and of terrorist financing:

- One of the Group's strategic objectives is to have an effective advanced system for the prevention of money laundering and terrorist financing that is constantly adapted to the latest international regulations and has the capacity to respond to the appearance of new techniques employed by criminal organisations.

- This system is based on a corporate framework that defines the principles and basic action guidelines required to set minimum standards that the Group's units must observe and which in addition are formulated on the basis of the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and of the obligations and stipulations of EU directives on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

- The local units, in their role as the first line of defence, are responsible for directing and coordinating the systems and procedures for the prevention of money laundering and terrorist financing in the countries where the Group has a presence, as well as for investigating and reporting suspect transactions and meeting the related supervisory reporting requirements. In addition, all local units have officers in charge of this function.

- Corporate systems and processes have been set up at all Group units, based on decentralised technology systems, which make it possible to obtain locally managed information and data, as well as corporate function reporting, monitoring and control information. These systems enable the Group to take an active and preventive approach in analysing, identifying and monitoring any transactions that could be linked to money laundering or terrorist financing activities.

- The Group is a founder member, along with other large international banks, of the Wolfsberg Group, the objective of which is to establish international standards to increase the effectiveness of programmes to combat money laundering and terrorist financing in the financial community. In this connection, various initiatives have been conducted which have addressed a number of different issues. The supervisory authorities and experts in this area consider that the Wolfsberg Group and the principles and guidelines set by it represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

7. Reputational risk

As a result of the transformation of the compliance function in the development of the TOM, major progress has been made in the definition of the reputational risk model.

The specific nature of reputational risk, which arises from a wide variety of sources, combined with the highly variable perception of this risk, as it is understood by the various stakeholders, requires an approach and a management and control model that are unique, different from those used for other risks.

The reputational risk model is based on an eminently preventive approach, but also on effective crisis management processes.

Therefore, the Group's intention is for reputational risk management to be integrated both in business and support activities and in internal processes, thus allowing the risk control and supervision functions to integrate it in their activities.

Also, the reputational risk model requires a comprehensive understanding, not only of the Group's business activities and processes, but also of how it is perceived by its stakeholders (employees, customers, shareholders, investors and society in general) in its different environments. This approach requires close coordination between the management, support and control functions and the various stakeholders.

As mentioned above, reputational risk governance is one of the components of compliance governance. The compliance function reports on reputational risk to senior management, once the information on sources of reputational risk has been consolidated.

8. Compliance risk assessment model and risk appetite
The Group's risk appetite, in relation to compliance, is set by its statement that it is not willing to accept any risks of this nature, the clear objective being to minimise any economic, regulatory or reputational impact on the Group. To this end, a uniform system is implemented across the units through the establishment of a common methodology consisting of the setting of a series of compliance risk indicators and assessment matrices prepared by each local unit.

In 2015 the corporate compliance function carried out a regulatory risk assessment exercise focusing on the main countries in which the Group operates. Each quarter the Group monitors -on a country-by-country basis- the action plans designed to mitigate any high risks arising from this risk assessment exercise.

Based on the new compliance TOM, in 2015 an exercise was also launched to establish new indicators and an initial risk assessment in the following functions: product governance and consumer protection, regulatory compliance, prevention of money laundering and terrorist financing, and reputational risk.

In order to obtain a global integrated view of all compliance risks and to ensure that these can be included, together with all the Group's risks, in a single view, so that the board of directors may in turn have a holistic perspective of those risks, from 2015 onwards the risk assessment will be conducted on a consolidated basis.

Thus, the setting of the Group's compliance risk appetite, the monitoring of compliance risks and the adoption of corrective measures, if necessary, will be included in a single view. All this will be achieved using methods and indicators that are shared with the risk function and, therefore, form part of the Group's risk appetite framework. The incurred losses resulting from compliance risks are entered into the shared event database managed by the risk function, in order to facilitate a comprehensive view, as well as an integrated control and management, of non-financial risks.

The Group also intends, as part of the development of the TOM, to revise the taxonomy of the various types of compliance risk, as first-level risks, in order to clearly identify them and thus be able to respond to possible stress test exercises in the future.

h) Model risk

The Group understands a model as being any metric based on a quantitative method, system or approach that provides a simplified representation of reality by applying statistical, economic, financial or mathematical techniques to process data and obtain a result based on a series of assumptions and subject to a certain degree of uncertainty. Using models makes it possible to take swifter, more objective decisions, generally supported by the analysis of large quantities of information.

The use of models invariably presents model risk, which is defined as the potential for adverse consequences, including losses, from decisions based on incorrect or misused models.

According to this definition, the sources of model risk are as follows:

- The model itself, due to the use of incorrect or incomplete data in its construction, and due to the modelling method used and its implementation in the systems.

- The misuse of the model.

In recent years the Group has been working on the definition, management and control of model risk. A particularly noteworthy development was the creation in 2015 of a dedicated area within its risk division. This area comprises both the former model validation team and a specific control team.

The model risk function is performed both at corporate level and at each of the main entities in which the Group is present. A control framework has been defined for this function detailing, inter alia, matters relating to organisation, governance and model management and validation.

Model risk management and control are structured around the life cycle of a model, as defined by the Group:

1. Definition of standards
The Group has defined a series of standards for the development, monitoring and validation of its models. All models used within the Group -both those developed in-house and those acquired from third parties- must meet these standards. Thus, the quality of the models used at the Group for decision-making purposes is assured.

2. Inventory
A key component of good model risk management is a complete, exhaustive inventory of the models in use.

The Group has a centralised inventory that has been constructed using a uniform taxonomy for all the models used in the various business units. This inventory contains all the relevant information on each of the models, which permits an appropriate monitoring of the models based on their importance.

The inventory also makes it possible to perform cross data analyses (by geographical area, type of model, materiality, etc.), thus facilitating the taking of strategic decisions in relation to the models.

3. Planning
This phase features the participation of all those involved in the life-cycle of the model (users, developers, validators, data providers, technology personnel, etc.), who agree upon and set the relevant priorities.

Model planning is performed annually at each of the Group's main units and is approved by the local governance bodies and endorsed at corporate level.

4. Compilation of information
As indicated above, the data used in the construction of a model constitute one of the potential sources of model risk. These data must be reliable, complete and have sufficient historical depth to guarantee the suitability of the model developed.

The Group has teams that specialise in providing model construction data that have previously been certified by the data owners.

5. Development
This is the phase in which the model is constructed, based on the needs established in the model plan and using the information provided by specialists for this purpose.

Most of the models used by the Group are developed by in-house methodology teams, although certain models are also acquired from external providers. In both cases, the models must be developed in accordance with the established standards.

6. Pre-implementation testing
Once a model has been constructed, the developers, together with the model owners, subject it to various tests in order to ensure that the model functions as expected and, where appropriate, they make the necessary adjustments.

7. Materiality
Each of the Group's models must have an associated level of materiality that is set by consensus of the parties involved.

The criteria for establishing materiality are documented in a corporate policy, which is transposed and approved by each of the Group's main units.

Materiality determines the thoroughness, frequency and scope of the validations and follow-ups performed on the model, as well as the governance bodies in which decisions on the model have to be taken.

Materiality is one of the basic data for the proper management of model risk and one of the attributes contained in the corporate inventory.

8. Independent validation
In addition to being a regulatory requirement in certain cases, the independent validation of models is a fundamental cornerstone for the proper management and control of model risk at the Group.

Therefore, as mentioned earlier, the Group has a specialist unit, fully independent of the developers and users, which issues a technical opinion on the suitability of the internal models for the intended purposes and concludes on their robustness, usefulness and effectiveness.

Internal validation currently covers all models used in the risk function, i.e. credit, market, structural and operational risk models, as well as economic and regulatory capital models, allowance models and stress test models (including, for the latter, the models used to estimate the Group's balance sheet and income statement aggregates).

The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the data quality that underpin the effective operation of the models. In general, it includes all the relevant aspects of model management: controls, reporting, uses, involvement of senior management, etc.

After each model has been reviewed, the opinion issued is translated into a rating which, on a scale of one to five, summarises the model risk perceived by the internal validation team.

It should be noted that the Group's corporate internal validation environment is fully consistent with the criteria for internal validation of advanced approaches issued by the various supervisory authorities to which the Group is subject. Accordingly, the Group maintains a segregation of functions between the units that develop and use models (first line of defence), the internal validation units (second line of defence) and internal audit (third line), which, in its role as the last layer of control, is responsible for reviewing the efficiency of the function, compliance with internal and external policies and procedures and for giving its opinion on the degree of effective independence.

9. Approval
Before it is implemented -and, therefore, used- each model must be submitted for approval by the body corresponding to it on the basis of its materiality.

10. Implementation
This is the phase in which the developed model is implemented in the system through which it is intended to be used. As mentioned above, the implementation phase is another possible source of model risk and, therefore, it is absolutely essential that the technical teams and model owners conduct tests to certify that the model has been implemented as defined in the relevant methodology.

11. Monitoring
A model is designed and constructed using certain information and in specific circumstances which may change in the course of time. Consequently, models must be reviewed periodically in order to ensure that they continue to function correctly and, if this is not the case, they are adapted or redesigned.

The frequency and thoroughness with which a model is monitored is established on the basis of that model's materiality.

12. Management reporting
Senior Group management, both at the different units and at corporate level, monitors model risk on a regular basis through various reports that enable it to obtain a consolidated view and take the appropriate decisions.

13. Governance
According to the model risk control framework, the models committee is the body responsible for authorising the use of models in management. Each business unit has a models committee that is responsible for deciding on the approval of the local use of models once the consent of the corporate models committee has been obtained. Pursuant to current Group policy, all models submitted to a models committee must be accompanied by an internal validation report.

i) Strategic risk
Strategic risk is one of the risks considered by the Group to be transversal. In 2015 a management and control model was designed for this risk that serves as a benchmark for the Group subsidiaries. This model includes the definition of strategic risk, the functional and governance-related matters and a description of the main processes associated with the management and control of this risk.

Strategic risk is the risk associated with strategic decisions and with changes in an entity's general conditions that have a significant impact on its business model and its medium- and long-term strategy.

An entity's business model is a key element around which strategic risk revolves. It must be viable and sustainable, i.e. capable of generating acceptable results each year and for at least three years into the future.

Three categories or subtypes of strategic risk can be distinguished:

- Business model risk: the risk associated with an entity's business model. This includes, inter alia, the risk that the business model may become outdated or irrelevant and/or may no longer have the value to generate the desired results. This risk is caused both by external factors (macroeconomic, regulatory, social and political matters, changes in the banking industry, etc.) and by internal factors (strength and stability of the income statement, distribution model/channels, income and cost structure, operational efficiency, suitability of human resources and systems, etc.).

- Strategy design risk: the risk associated with the strategy reflected in the entity's five-year strategic plan. More specifically, it includes the risk that this plan may prove to be inadequate in terms of its nature or due to the assumptions considered, leading to unexpected results. Another factor that should be borne in mind is the opportunity cost of designing another more effective strategy or even that arising from a lack of action if no such strategy is designed.

- Strategy execution risk: the risk associated with the implementation processes of three- and five-year strategic plans. Due to the medium- and long-term nature of such plans, their execution often entails risk, as a result of its complexity and the numerous variables involved. Other sources of risk to be considered are inadequate resources, change management and, lastly, the inability to respond to changes in the business environment.

In addition, for the purpose of managing and controlling strategic risk, the transversal risks associated with corporate development transactions must be taken into consideration, since they can represent a significant source of risk for the business model. These transactions are understood to be: those resulting in a change in an entity's scope and activity, acquisitions or transfers of significant ownership interests or assets, joint ventures, strategic alliances, shareholders agreements and capital transactions.

Lastly, other types of risk must be taken into account the origin of which may be other than strategic in nature (credit, market, operational and compliance risks, etc.). These risks may have a significant impact on an entity's financial health and also affect its strategy and business model; therefore, they must be identified, assessed, managed and controlled.

Thus, top risks are those risks with a material impact on an entity's earnings, liquidity or capital or risks that may have undesired concentrations. These risks can reduce the entity's distance to default.

In addition, emerging and evolving risks are those risks that had not appeared before or which have taken on a different form. Although these risks often involve a high level of uncertainty and are very difficult to quantify, their impact could be significant over a medium-long term time horizon.

j) Capital risk

The Group defines capital risk as the risk that the Group or any of its companies may have an insufficient amount and/or quality of capital to: meet the minimum regulatory requirements in order to operate as a bank; respond to market expectations regarding its creditworthiness; and support its business growth and any strategic possibilities that might arise, in accordance with its strategic plan.

The objectives in this connection include most notably:

- To meet the internal capital and capital adequacy targets.

- To meet the regulatory requirements.

- To align the Bank's strategic plan with the capital expectations of external agents (rating agencies, shareholders and investors, customers, supervisors, etc.).

- To support the growth of the businesses and any strategic opportunities that may arise.

The Group has a capital adequacy position that surpasses the levels required by regulations and the European Central Bank. In 2015 the Group continued to bolster its main capital ratios in response to the difficult economic and financial environment and the new regulatory demands. It began the year with a EUR 7,500 million capital increase and established a dividend policy that guarantees the organic generation of capital.

At the end of 2015 the ECB notified each bank of its minimum prudential capital requirements for the following year. In 2016, at consolidated level, Santander Group must have a minimum phase-in CET1 capital ratio of 9.75% (9.5% is the requirement for Pillar 1, Pillar 2 and the capital conservation buffer, and 0.25% is the requirement for being a global systemically important bank). At 31 December 2015, the Group's capital exceeded the ECB's minimum requirement.

The Group is working towards achieving a fully-loaded CET1 capital ratio in excess of 11% in 2018.

1. Regulatory framework

The regulations known as Basel III, which establish new global capital, liquidity and leverage standards for financial institutions, came into force in 2014.

From the capital standpoint, Basel III redefines what is considered to be available capital at financial institutions (including new deductions and raising the requirements for eligible equity instruments), increases the minimum capital requirements, requires financial institutions to operate permanently with capital buffers, and adds new requirements in relation to the risks considered.

In Europe, the new standards were implemented through Directive 2013/36/EU, known as the Capital Requirements Directive ("CRD IV"), and the related Capital Requirements Regulation 575/2013 ("CRR"), which is directly applicable in all EU Member States (as part of the Single Rulebook). In addition, these standards are subject to Implementing Technical Standards commissioned from the European Banking Authority (EBA).

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 84/2015. The CRR is directly applicable in EU Member States as from 1 January 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. The phase-in arrangements were incorporated into Spanish regulations through 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. 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 Group shares the ultimate objective pursued by the regulator, namely to endow the international financial system with greater stability and resilience. In this regard, for many years the Group has provided assistance by supporting the regulators and participating in the impact studies to calibrate standards promoted by the Basel Committee and the European Banking Authority (EBA) and coordinated at local level by the Bank of Spain.

Lastly, the latest G-20 summit (Antalya, November 2015) approved the total loss-absorbing capacity (TLAC) requirement for global systemically important banks (G-SIBs), an event which constitutes a major regulatory milestone. Banks are required to have a sufficient buffer of liabilities (capital and contingently convertible debt) that are capable of absorbing losses, either because they convert into capital or because a debt reduction is applied to them. The aim is to enable banks, when faced with the risk of bankruptcy, to regain solvency without requiring the intervention of any government. The TLAC standard has not yet been included in the current legal framework. However, the Financial Stability Board (FSB) has set its entry into force for 2019, with a three-year phase-in arrangement. For January 2019 the FSB proposes a minimum TLAC requirement equal to the higher of 16% of risk-weighted assets and 6% of leverage exposure, and, for January 2022, the higher of 18% of risk-weighted assets and 6.75% of leverage exposure.

The standard stipulates that the liabilities eligible to meet the TLAC requirement must be subordinated to other non-eligible liabilities and may include common equity, preference shares qualifying as Tier 1 capital and subordinated debt qualifying as Tier 2 capital; also, at least 33% of the TLAC-eligible liabilities must be in the form of senior and junior debt.

The FSB standard provides that the TLAC requirement must be met at consolidated level and at the level of each resolution group, as defined in the living wills. It also establishes certain restrictions on the financial support that a parent may provide to a subsidiary in complying with the standard.

In Europe, Directive 2014/59/EU -known as the Bank Recovery and Resolution Directive (BRRD)- was implemented, which pursues objectives similar to those of the TLAC standard.

This directive also includes the concept of loss absorption and a minimum requirement for own funds and eligible liabilities (MREL), which is similar to the TLAC requirement. However, there are differences in terms of the ratios established, the scope of application and other definitions. The MREL is applicable to all entities operating in Europe and is not limited to global systemically important banks. It shall begin to apply on 1 January 2016, based on an "entity-by-entity" calibration, with a phase-in period of 48 months, and it is only applicable within the EU.

The MREL regulations will be reviewed at the end of 2016, following a report to be submitted to the European Commission by the EBA.

2. Regulatory capital

At 31 December 2015, the Group met the minimum capital requirements established by current legislation.

Model roll-out

With regard to credit risk, the Group is continuing to adopt its plan to implement the advanced internal ratings-based (AIRB) approach under Basel for substantially all its banks, and it intends to do so until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this objective in the short term will also depend on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes for the internal approaches.

The Group is present in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive. However, in other jurisdictions, the same process is subject to the framework of cooperation between the home and host country supervisors under different legislations, which in practice entails adapting to different criteria and timetables in order to obtain authorisation to use the advanced approaches on a consolidated basis.

Accordingly, the Group continued in 2015 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory capital calculation purposes at the remaining Group units.

To date the Group has obtained authorisation from the supervisory authorities to use AIRB approaches 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 (Sweden, Finland and Norway), France and the United States. The Group's Basel implementation strategy is focused on obtaining authorisation for the use of AIRB approaches at the main entities in the Americas and Europe. In 2015 authorisation was obtained for the Santander Consumer Nordics auto loan portfolios to switch from the standardised approach to the AIRB approach, while the IRB approach was maintained for the corporate and retail portfolios of PSA France, following the acquisition of this investee.

With regard to operational risk, Santander Group currently uses the standardised approach for regulatory capital calculation provided for in the European Capital Directive. In 2015 the Group stepped up the pace of its transition towards an advanced operational risk management (AORM) approach. The AORM programme will enable the Group to have internal capital estimation models in place in the main geographical areas, both for economic capital and stress testing purposes and with a view to their potential application for regulatory capital purposes.

As regards the other risks explicitly addressed in Pillar 1 of the Basel Capital Accord, Santander Group has been authorised to use its internal model for market risk on the treasury areas' trading activities in Spain, Chile, Portugal and Mexico, thus continuing implementation of the roll-out plan it submitted to the Bank of Spain for the other units.

Leverage ratio

The leverage ratio was established within the Basel III regulatory framework as a non-risk-sensitive measure of the capital that financial institutions are required to hold. CRD IV was amended on 17 January 2015 through the modification of Regulation (EU) No

575/2013 to harmonise the calculation criteria with those specified in the Basel Committee's document entitled "Basel III leverage ratio framework and disclosure requirements".

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.
- The net value of derivatives (gains and losses vis-à-vis the same counterparty are netted, less the collateral if certain conditions are met) plus an add-on for potential future exposure.
- An add-on for the potential exposure of securities financing transactions.
- Lastly, an add-on for the exposure of credit derivatives (CDSs).

The leverage ratio is still in the calibration phase and there is no obligation to comply with it until 2018. It is currently set at 3%, a ratio which the Bank surpasses.

Global systemically important banks
The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

Designation as a global systemically important bank is the result of an assessment by the regulators (FSB and BCBS) on the basis of five criteria (size, cross-jurisdictional activity, interconnectedness, substitutability and complexity).

Its designation as a G-SIB obliges the Group to comply with additional requirements. These consist mainly of a capital buffer (the Group belongs to the group of banks with the lowest capital buffer, i.e. 1%), total loss-absorbing capital (TLAC) requirements, the requirement to publicly disclose relevant information more frequently than other banks, greater regulatory requirements for its internal control bodies, special supervision and the requirement to submit special reports to its supervisors.

Compliance with these requirements renders the Group more robust than its domestic rivals.

3. Economic capital
Economic capital is the capital required, based on an internally-developed model, to support all the risks of the Group's business activity with a given solvency level. In the Group's case, the solvency level is determined by the A long-term target rating (two notches above the rating for Spain), which results in the application of a 99.95% confidence level (higher than the regulatory 99.90%) for the purpose of calculating the required capital.

The Group's economic capital model includes in its measurement all the significant risks incurred by it in its operations. Accordingly, it considers risks such as concentration risk, structural interest rate risk, business risk, pension risk and other risks outside the scope of regulatory Pillar 1 capital requirements. Economic capital also includes the diversification effect, which in the Group's case, owing to the multinational, multibusiness nature of its operations, is of key importance in determining its overall risk and solvency profile.

Economic capital is a fundamental tool for the internal management and implementation of the Group's strategy, from the viewpoint of both the assessment of capital adequacy and the management of portfolio and business risk.

With regard to capital adequacy, in the context of Pillar 2 of the Basel Capital Accord, the Group conducts the internal capital adequacy assessment process (ICAAP) using its economic capital model. To this end, it plans the evolution of the business and the capital requirements under a central scenario and under alternative stress scenarios. With this planning the Group ensures that it will continue to meet its capital adequacy targets, even in adverse economic scenarios.

Also, the economic capital-based metrics make it possible to assess risk-return targets, price transactions on a risk basis and gauge the economic viability of projects, units or lines of business, with the ultimate objective of maximising the generation of shareholder value.

Since it is a uniform risk measure, economic capital makes it possible to explain the distribution of risk across the Group, placing different activities and types of risk in a comparable metric.

RORAC and value creation
The Group has used RORAC methodology in its risk management since 1993, with the following objectives:

- Calculation of economic capital requirements and of the return thereon for the Group's business units, segments, portfolios and customers, in order to facilitate an optimal allocation of capital.
- Measurement of management of the Group's units, through the budgetary monitoring of capital requirements and RORAC.
- Analysis and setting of prices in the decision-making process for transactions (loan approval) and customers (monitoring).

The RORAC methodology facilitates the comparison, on a like-for-like basis, of the performance of transactions, customers, portfolios and businesses, and identifies those which achieve a risk-adjusted return higher than the Group's cost of capital, thus aligning risk management and business management with the aim of maximising value creation, which is the ultimate objective of Group senior management.

The Group periodically assesses the level of and the changes in the value creation (VC) and return on risk-adjusted capital (RORAC) of the Group and of its main business units. The VC is the profit generated over and above the cost of the economic capital (EC) used, and is calculated using the following formula: value creation = recurring profit – (average economic capital x cost of capital).

The profit used is obtained by making the required adjustments to accounting profit in order to reflect only the recurring profit obtained by each unit from its business activity.

4. Capital planning and stress tests

Capital stress tests have gained particular significance as a tool for the dynamic evaluation of banks' risk exposure and capital adequacy. A new forward-looking assessment model has become a key component of capital adequacy analysis.

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 have a bearing on the adequacy of a bank's capital.

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.

Internally, the 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 aim of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in adverse yet 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 var¬ious business environments (including severe recessions as well as "normal" macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The process implemented 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.

The entire process is carried out with the maximum involvement and under the close supervision of senior management, and within a framework that guarantees suitable governance and the application of adequate levels of challenge, review and analysis to all components of the process.

It should be noted that this internal capital planning and stress process is conducted transversally across the entire Group, not only at consolidated level, but also locally at the various units composing the Group. These units use the capital planning and stress process as an internal management tool and to respond to their local regulatory requirements.

During the recent economic crisis, the Group has undergone five stress tests in which it has demonstrated its strength and capital adequacy in the most extreme and severe macroeconomic scenarios. All the tests showed that, due mainly to its business model and current geographical diversification, the Group would continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

Appendix

Appendix I

Subsidiaries of Banco Santander, S.A.[1]

Company	Location	% of ownership held by the Bank		% of voting power[k]		Line of business	Millions of euros[a]		
		Direct	Indirect	Year 2015	Year 2014		Capital and reserves	Net profit (loss) for the year	Carrying amount
2 & 3 Triton Limited[d]	United Kingdom	0.00%	100.00%	100.00%	100.00%	Property	46	6	14
A & L CF (Jersey) Limited[l]	Jersey	0.00%	100.00%	100.00%	100.00%	Leasing	105	0	0
A & L CF December[10] Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	43	0	0
Abbey Covered Bonds LLP	United Kingdom	-	[b]	-	-	Securitisation	(880)	426	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	Banking	18	11	0
Abbey National Property Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	582	26	188
Abbey National Treasury Services Overseas Holdings	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	1,497	17	1,477
Abbey National Treasury Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	4,586	377	3,882
Alliance & Leicester Commercial Bank plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	30	0	30
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	4	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	(277)	1	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Property	658	(245)	415
Atlantys Espacios Comerciales, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property	25	0	24
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Full-service leasing	34	6	28
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Full-service leasing	34	3	25
Aviación Intercontinental, A.I.E.	Spain	65.00%	0.00%	65.00%	65.00%	Full-service leasing	74	5	35
Aviación RC II, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Full-service leasing	26	3	23
Aviación Regional Cántabra, A.I.E.	Spain	73.58%	0.00%	73.58%	73.58%	Full-service leasing	34	4	22
Aviación Scorpius, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Full-service leasing	34	4	26
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Full-service leasing	21	2	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	Finance	301	142	373
Banca PSA Italia S.p.a.	Italy	0.00%	50.00%	50.00%	50.00%	Banking	10	0	5
Banco Bandepe S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	Banking	683	59	662
Banco Bonsucesso Consignado S.A.	Brazil	0.00%	53.55%	60.00%	-	Banking	138	4	89
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	12	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	1,094	0	1,095
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	Banking	3,128	580	2,823
Banco Santander (Brasil) S.A.	Brazil	13.72%	75.53%	89.86%	89.66%	Banking	12,906	1,295	9,918
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	0.00%	75.07%	99.99%	99.99%	Banking	5,148	750	4,427
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	75.07%	100.00%	100.00%	Finance	85	11	72
Banco Santander (Panamá), S.A.	Panama	0.00%	100.00%	100.00%	100.00%	Banking	92	3	95

Subsidiaries of Banco Santander, S.A.[1]

		% of ownership held by the Bank		% of voting power[k]			Millions of euros[a]		
Company	Location	Direct	Indirect	Year 2015	Year 2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Banco Santander (Suisse) SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Banking	542	26	325
Banco Santander Bahamas International Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	957	8	965
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	115	39	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	99.99%	99.99%	99.99%	Finance	54	(2)	53
Banco Santander International	United States	100.00%	0.00%	100.00%	100.00%	Banking	787	68	481
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	Banking	118	18	103
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Banking	747	40	850
Banco Santander Río S.A.	Argentina	0.00%	99.30%	98.44%	98.44%	Banking	846	298	416
Banco Santander Totta, S.A.	Portugal	0.00%	99.83%	99.94%	99.91%	Banking	2,104	515	3,115
Banco Santander, S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	Banking	312	16	189
Banif International Bank, Ltd	The Bahamas	0.00%	99.83%	100.00%	-	Banking	20	(3)	18
Bank Zachodni WBK S.A.	Poland	69.41%	0.00%	69.41%	69.41%	Banking	3,976	412	4,195
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance	33	10	73
BST International Bank, Inc.	Puerto Rico	0.00%	99.83%	100.00%	100.00%	Banking	2	26	4
BZ WBK Asset Management S.A.	Poland	50.00%	34.71%	100.00%	100.00%	Fund management company	5	14	39
BZ WBK Finanse Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	Financial services	38	10	21
BZ WBK Leasing S.A.	Poland	0.00%	69.41%	100.00%	100.00%	Leasing	102	7	24
CAPB Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	0	0	0
Carfax (Guernsey) Limited (i)	Guernsey	0.00%	100.00%	100.00%	100.00%	Insurance broker	28	0	27
Cartera Mobiliaria, S.A., SICAV	Spain	0.00%	81.12%	95.46%	93.43%	Securities investment	713	20	458
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	75.05%	99.97%	99.97%	Securities company	53	1	40
Cater Allen Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	315	95	303
Cavalsa Gestión, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Securities investment	284	(2)	250
CCAP Auto Lease Ltd.	United States	0.00%	58.94%	100.00%	100.00%	Leasing	290	340	0
Central Eólica Inhambu S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	Electricity production	20	0	16
Central Eólica Tamanduá Mirim S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	Electricity production	20	0	16
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Lease of aircraft	(47)	(6)	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	58.94%	100.00%	-	Finance	0	(45)	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	(87)	(36)	0
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	-	Banking	497	154	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	-	Finance	37	5	21
Desarrollo Urbano de Patraix, S.A.	Spain	0.00%	68.72%	100.00%	45.16%	Property	24	1	18
Drive Auto Receivables Trust 2015-A	United States	-	(b)	-	-	Securitisation	0	(130)	0

Subsidiaries of Banco Santander, S.A.[1]

Company	Location	% of ownership held by the Bank		% of voting power[k]		Line of business	Millions of euros[a]		
		Direct	Indirect	Year 2015	Year 2014		Capital and reserves	Net profit (loss) for the year	Carrying amount
Drive Auto Receivables Trust 2015-B	United States	-	(b)	-	-	Securitisation	0	(25)	0
Drive Auto Receivables Trust 2015-C	United States	-	(b)	-	-	Securitisation	0	(23)	0
Drive Auto Receivables Trust 2015-D	United States	-	(b)	-	-	Securitisation	0	(54)	0
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Finance	214	53	140
Fuencarral Agrupanorte, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property	91	1	89
Geoban, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	18	3	24
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	78.98%	88.50%	88.50%	Payment services	283	72	244
Global Carihuela, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	Property	3	17	13
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	Securitisation	35	0	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	Securitisation	27	1	0
Ingeniería de Software Bancario, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	It services	184	26	145
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Property	54	0	54
Isban Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	It services	18	2	20
Isban México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	It services	59	4	61
Isban U.K., Ltd.	United Kingdom	0.00%	100.00%	100.00%	100.00%	It services	16	6	0
La Vital Centro Comercial y de Ocio, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Shopping centre	20	2	19
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	Agriculture and livestock	28	0	16
Lease Totta No. 1 FTC[j]	Portugal	-	(b)	-	-	Securitisation	28	4	0
Luri 1, S.A.[m]	Spain	26.00%	0.00%	100.00%	100.00%	Property	38	(7)	9
Luri 6, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate investment	1,139	8	1,473
Metroparque, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	Shopping centre	72	5	52
Metropolitana Castellana, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property management	21	1	41
Metrovacesa Alquileres Urbanos, S.L. Unipersonal	Spain	0.00%	68.72%	100.00%	100.00%	Property	61	1	35
Metrovacesa Inmuebles y Promociones, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property	37	(5)	32
Metrovacesa, S.A.	Spain	68.72%	0.00%	68.72%	55.89%	Property	1,236	(64)	1,418
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	21	0	21
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Full-service leasing	48	2	43
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	Securities investment	98	(2)	96
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	78.46%	78.59%	77.26%	Investment fund	325	0	254
Oildor, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Finance	166	0	122
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	157	0	159
Optimal Investment Services SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Fund management company	30	(3)	5
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidado)[c]	The Bahamas	0.00%	55.62%	56.10%	54.89%	Fund management company	47	0	0
Paseo Comercial Carlos III, S.A.	Spain	0.00%	34.36%	50.00%	50.00%	Shopping centre	25	2	21
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	Property	110	4	103
Pentapolitano, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property	76	0	76

Subsidiaries of Banco Santander, S.A.[1]

		% of ownership held by the Bank		% of voting power[k]			Millions of euros[a]		
Company	Location	Direct	Indirect	Year 2015	Year 2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Produban Servicios Informáticos Generales, S.L.	Spain	99.96%	0.04%	100.00%	100.00%	Services	202	13	201
Promociones Vallebramen, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property	(29)	0	0
PSA Finance Suisse, S.A.	Switzerland	0.00%	50.00%	100.00%	-	Leasing	24	10	23
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	-	Finance	309	70	149
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	-	Finance	324	10	181
PSA Lion Deutschland GmbH	Germany	0.00%	50.00%	50.00%	-	Banking	7	(1)	4
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	29	1	35
Riobank International (Uruguay) SAIFE[j]	Uruguay	0.00%	100.00%	100.00%	100.00%	Banking	0	0	0
Sadorma 2003, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Hotel operations	20	2	23
Santander Agente de Valores Limitada	Chile	0.00%	67.43%	100.00%	100.00%	Securities company	74	13	59
Santander Ahorro Inmobiliario 2, S.I.I., S.A.	Spain	85.50%	0.01%	85.51%	85.51%	Real estate investment	30	0	26
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	49	5	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	159	79	198
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Fund management company	26	0	26
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Holding company	940	12	457
Santander Bank & Trust Ltd.	The Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	787	6	403
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	Banking	12,080	161	12,240
Santander Benelux, S.A./N.V.	Belgium	100.00%	0.00%	100.00%	100.00%	Banking	1,162	37	1,125
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.25%	100.00%	100.00%	Services	34	5	35
Santander Brasil, EFC, S.A.	Spain	0.00%	89.25%	100.00%	100.00%	Finance	765	6	685
Santander Capitalização S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	Insurance	22	22	39
Santander Carbón Finance, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	Securities investment	(31)	0	0
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Cards	125	1	126
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	188	7	140
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	635	103	355
Santander Consumer Auto Receivables Funding 2011-A LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	180	47	0
Santander Consumer Auto Receivables Funding 2013-B1 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	142	29	0
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	7	(55)	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	7	(53)	0
Santander Consumer Auto Receivables Funding 2013-L1 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	(56)	(74)	0
Santander Consumer Auto Receivables Funding 2014-B1 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	(11)	34	0
Santander Consumer Auto Receivables Funding 2014-L1 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	(21)	(23)	0
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	Banking	3,063	547	4,820
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	Finance	1,359	120	1,783
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Banking	326	34	363

Subsidiaries of Banco Santander, S.A.[1]

Company	Location	% of ownership held by the Bank		% of voting power[k]		Line of business	Millions of euros[a]		
		Direct	Indirect	Year 2015	Year 2014		Capital and reserves	Net profit (loss) for the year	Carrying amount
Santander Consumer Bank S.A.	Poland	0.00%	81.65%	100.00%	100.00%	Banking	531	102	518
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	Banking	542	20	523
Santander Consumer Chile S.A.	Chile	51.00%	0.00%	51.00%	51.00%	Finance	46	12	14
Santander Consumer Credit Funding 3 LLC	United States	0.00%	58.94%	100.00%	-	Finance	0	57	0
Santander Consumer Credit Funding I LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	(2)	26	0
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	(41)	(1)	0
Santander Consumer Finance Benelux B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	Finance	128	20	190
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	Finance	160	38	130
Santander Consumer Finance, S.A.	Spain	63.19%	36.81%	100.00%	100.00%	Banking	9,225	414	7,378
Santander Consumer France S.A.S.	France	0.00%	100.00%	100.00%	100.00%	Banking	490	(8)	490
Santander Consumer Funding 3 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	203	(3)	0
Santander Consumer Funding 5 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	19	0	0
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Holding company	4,226	556	5,677
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Leasing	20	36	101
Santander Consumer Receivables 10 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	285	250	0
Santander Consumer Receivables 11 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	38	64	0
Santander Consumer Receivables 3 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	117	67	0
Santander Consumer Receivables 7 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	64	120	0
Santander Consumer Receivables 9 LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	153	27	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Full-service leasing	61	4	39
Santander Consumer USA Holdings Inc.	United States	0.00%	58.94%	58.94%	60.46%	Holding company	3,284	796	5,597
Santander Consumer USA Inc.	United States	0.00%	58.94%	100.00%	100.00%	Finance	2,904	(143)	2,548
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Finance	353	61	505
Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Mexico	0.00%	75.07%	100.00%	100.00%	Cards	654	160	611
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	Insurance broker	79	2	54
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	Securities company	55	2	48
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	Securities company	94	19	101
Santander Drive Auto Receivables Trust 2012-5	United States	-	[b]	-	-	Securitisation	114	18	0
Santander Drive Auto Receivables Trust 2012-6	United States	-	[b]	-	-	Securitisation	190	29	0
Santander Drive Auto Receivables Trust 2013-1	United States	-	[b]	-	-	Securitisation	169	36	0
Santander Drive Auto Receivables Trust 2013-2	United States	-	[b]	-	-	Securitisation	164	39	0
Santander Drive Auto Receivables Trust 2013-3	United States	-	[b]	-	-	Securitisation	153	42	0
Santander Drive Auto Receivables Trust 2013-4	United States	-	[b]	-	-	Securitisation	14	31	0
Santander Drive Auto Receivables Trust 2013-5	United States	-	[b]	-	-	Securitisation	5	64	0

Subsidiaries of Banco Santander, S.A.[1]

Company	Location	% of ownership held by the Bank		% of voting power[k]		Line of business	Millions of euros[a]		
		Direct	Indirect	Year 2015	Year 2014		Capital and reserves	Net profit (loss) for the year	Carrying amount
Santander Drive Auto Receivables Trust 2013-A	United States	-	(b)	-	-	Securitisation	7	22	0
Santander Drive Auto Receivables Trust 2014-1	United States	-	(b)	-	-	Securitisation	(3)	74	0
Santander Drive Auto Receivables Trust 2014-2	United States	-	(b)	-	-	Securitisation	(31)	76	0
Santander Drive Auto Receivables Trust 2014-3	United States	-	(b)	-	-	Securitisation	(55)	79	0
Santander Drive Auto Receivables Trust 2015-1	United States	-	(b)	-	-	Securitisation	0	(40)	0
Santander Drive Auto Receivables Trust 2015-2	United States	-	(b)	-	-	Securitisation	0	(48)	0
Santander Drive Auto Receivables Trust 2015-3	United States	-	(b)	-	-	Securitisation	0	(59)	0
Santander Drive Auto Receivables Trust 2015-4	United States	-	(b)	-	-	Securitisation	0	(91)	0
Santander Drive Auto Receivables Trust 2015-5	United States	-	(b)	-	-	Securitisation	0	(103)	0
Santander Energías Renovables I, SCR de Régimen Simplificado, S.A.	Spain	56.76%	0.00%	56.76%	56.76%	Venture capital company	23	(1)	11
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance	45	0	45
Santander Factoring S.A.	Chile	0.00%	99.83%	100.00%	100.00%	Factoring	42	2	44
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Factoring	369	98	126
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance	900	5	363
Santander Financial Services, Inc.	Puerto Rico	100.00%	0.00%	100.00%	100.00%	Finance	395	(92)	403
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Securitisation	40	(3)	34
Santander Fundo de Investimento Amazonas Multimercado Crédito Privado Investimento no Exterior[i]	Brazil	0.00%	89.25%	100.00%	100.00%	Investment fund	97	13	98
Santander Fundo de Investimento Diamantina Multimercado Crédito Privado Investimento no Exterior[g]	Brazil	0.00%	89.25%	100.00%	100.00%	Investment fund	22	1	21
Santander Fundo de Investimento em Cotas de Fundos de Investimento Contract i Referenciado DI[f]	Brazil	0.00%	93.48%	100.00%	100.00%	Investment fund	40	1	38
Santander Fundo de Investimento Financial Curto Prazo[e]	Brazil	0.00%	89.24%	100.00%	100.00%	Investment fund	1,873	129	1,787
Santander Fundo de Investimento Guarujá Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.25%	100.00%	100.00%	Investment fund	56	6	55
Santander Fundo de Investimento Renda Fixa Capitalization[e]	Brazil	0.00%	89.25%	100.00%	100.00%	Investment fund	82	7	79
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado[h]	Brazil	0.00%	89.25%	100.00%	100.00%	Investment fund	23	0	21
Santander Fundo de Investimento Unix Multimercado Crédito Privado[i]	Brazil	0.00%	89.25%	100.00%	100.00%	Investment fund	54	13	60
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Property management	109	1	142
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Property	685	4	614
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	Securities investment	251	48	255
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Sports operations	31	(1)	29
Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Mexico	0.00%	75.07%	100.00%	100.00%	Finance	262	45	230
Santander Holding Vivienda, S.A. de C.V.	Mexico	0.00%	75.07%	100.00%	100.00%	Services	29	2	23
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	Holding company	16,968	305	9,168

Subsidiaries of Banco Santander, S.A.[1]

		% of ownership held by the Bank		% of voting power[k]			Millions of euros[a]		
Company	Location	Direct	Indirect	Year 2015	Year 2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	Insurance	1	0	1
Santander Insurance Holding, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company	574	(4)	384
Santander Insurance Services UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Asset management company	46	1	35
Santander Investment Bank Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	958	26	899
Santander Investment Bolsa, Sociedad de Valores, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Securities company	176	10	140
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Finance	487	31	321
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	Securities company	153	(4)	143
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	333	(18)	157
Santander Lease, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	100.00%	Leasing	65	5	35
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.24%	99.99%	99.99%	Leasing	1,204	56	1,125
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Mortgage loan company	235	9	243
Santander Overseas Bank, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Banking	199	101	165
Santander Participações S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	Holding company	423	(99)	289
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	Fund management company	30	5	26
Santander Private Banking s.p.a.	Italy	100.00%	0.00%	100.00%	100.00%	Banking	51	(6)	48
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Property	353	(7)	443
Santander Real Estate, S.G.I.I.C., S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Fund management company	118	0	116
Santander S.A. - Serviços Técnicos, Administrativos e de Corretagem de Seguros	Brazil	0.00%	93.48%	100.00%	100.00%	Insurance broker	134	6	122
Santander Securities LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Securities company	62	(36)	26
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Management company	182	20	201
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Holding company	199	12	272
Santander Securities Services, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Banking	435	(10)	372
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Insurance	918	70	664
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.89%	100.00%	100.00%	Insurance	152	4	47
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	Finance	16,777	689	20,986
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance	59	0	54
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	19,605	157	15,352
Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	Mexico	0.00%	75.07%	100.00%	100.00%	Finance	106	1	80
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	Holding company	10,095	215	11,542
Scottish Mutual Pensions Limited[j]	United Kingdom	0.00%	100.00%	100.00%	100.00%	Insurance	0	0	0
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	Property	61	1	70
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	21	0	20

Subsidiaries of Banco Santander, S.A.[1]

Company	Location	% of ownership held by the Bank		% of voting power[k]		Line of business	Millions of euros[a]		
		Direct	Indirect	Year 2015	Year 2014		Capital and reserves	Net profit (loss) for the year	Carrying amount
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	Electricity production	285	10	258
SIAF LLC	United States	0.00%	58.94%	100.00%	100.00%	Finance	(108)	(8)	0
Société Financière de Banque - SOFIB	France	0.00%	50.00%	50.00%	-	Banking	939	2	463
Socur, S.A.[f]	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance	30	20	59
Sol Orchard Imperial 1 LLC[c]	United States	0.00%	82.04%	100.00%	100.00%	Electricity production	38	(1)	38
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	125	3	123
Sovereign Precious Metals, LLC	United States	0.00%	100.00%	100.00%	100.00%	Purchase and sale of precious metals	139	0	14
Sovereign Securities Corporation, LLC	United States	0.00%	100.00%	100.00%	100.00%	Inactive	52	0	49
Taralga Holding Land Trust	Australia	0.00%	90.00%	90.00%	-	Property	62	3	59
Totta & Açores Inc. Newark	United States	0.00%	99.83%	100.00%	100.00%	Banking	1	0	1
Totta (Ireland), PLC[h]	Ireland	0.00%	99.83%	100.00%	100.00%	Finance	421	18	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.83%	100.00%	100.00%	Property	133	3	100
Varitelia Distribuciones, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Property	(143)	(11)	0
Vertiarama, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	Securities investment	(86)	0	0
Vista Desarrollo, S.A., SCR	Spain	100.00%	0.00%	100.00%	100.00%	Venture capital company	291	(22)	215
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Securities investment	(742)	(200)	0

a. Amount per books of each company at 31 December 2015, disregarding any interim dividends paid in the year. The carrying amount (cost, net of allowances) is the figure of each holding company multiplied by the Group's percentage of ownership, disregarding impairment of goodwill arising on consolidation. The data on foreign companies were translated to euros at the year-end exchange rates.

b. Companies over which effective control is exercised.

c. Data from the latest approved financial statements as at 31 December 2014.

d. Data from the latest approved financial statements as at 31 March 2015.

e. Data from the latest approved financial statements as at 30 June 2015.

f. Data from the latest approved financial statements as at 30 September 2015.

g. Data from the latest approved financial statements as at 31 July 2015.

h. Data from the latest approved financial statements as at 30 November 2015.

i. Data from the latest approved financial statements as at 31 August 2015.

j. Company in liquidation as at 31 December 2015.

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. Data from the latest available approved financial statements at 31 December 2013.

m. See note 2.b.

n. Company resident in the UK for tax purposes.

o. Data from the latest approved financial statements as at 28 February 2015.

p. Data from the latest approved financial statements as at 31 May 2015.

q. Data from the latest approved financial statements as at 31 January 2015.

r. Company with no available approved financial statements.

1. The preference share issuer companies are detailed in Appendix III, together with other relevant information.

Appendix II

Companies in which Santander Group has ownership interests of more than 5%[g], associates of Santander Group and jointly controlled entities

		% of ownership held by the Bank		% of voting power[f]				Millions of euros[a]		
Company	Location	Direct	Indirect	Year 2015	Year 2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Aegon Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Jointly controlled entity	340	143	17
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Jointly controlled entity	15	12	0
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Jointly controlled entity	86	17	3
Aegon Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Jointly controlled entity	270	170	9
Aguas de Fuensanta, S.A.	Spain	36.78%	0.00%	36.78%	36.78%	Food	Associate	0	(24)	(16)
Allfunds Bank International S.A.	Luxembourg	0.00%	25.25%	50.00%	50.00%	Banking	Jointly controlled entity	263	19	6
Allfunds Bank, S.A.	Spain	0.00%	25.25%	50.00%	50.00%	Banking	Jointly controlled entity	855	141	69
Attijariwafa Bank Société Anonyme (consolidado)[b]	Morocco	0.00%	5.26%	5.26%	5.26%	Banking	-	37,266	3,270	477
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.[b]	Poland	0.00%	6.94%	10.00%	10.00%	Pension fund management company	-	179	38	69
Aviva Towarzystwo Ubezpieczeń na Życie S.A.[b]	Poland	0.00%	6.94%	10.00%	10.00%	Insurance	-	3,604	3,191	142
Banco Internacional da Guiné-Bissau, S.A.[d e]	Guinea-Bissau	0.00%	48.92%	49.00%	49.00%	Banking	-	12	(30)	(1)
Banco RCI Brasil S.A.	Brazil	0.00%	35.60%	39.89%	39.89%	Leasing	Jointly controlled entity	308	171	23
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	Finance	Associate	3,034	238	75
Bank of Shanghai Co., Ltd. (consolidado)[b]	China	7.20%	0.00%	7.20%	7.20%	Banking	-	168,175	8,917	1,615
Brendenbury, S.L.U.	Spain	0.00%	40.00%	40.00%	-	Holding company	Jointly controlled entity	245	142	(4)
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	34.01%	49.00%	66.00%	Insurance	Associate	221	11	7
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	0.00%	34.01%	49.00%	66.00%	Insurance	Associate	92	23	9
CNP Santander Insurance Europe Designated Activity Company	Ireland	0.00%	49.00%	49.00%	49.00%	Insurance broker	Associate	553	55	5
CNP Santander Insurance Life Designated Activity Company	Ireland	0.00%	49.00%	49.00%	49.00%	Insurance broker	Associate	1,049	114	17
Companhia de Crédito, Financiamento e Investimento RCI Brasil	Brazil	0.00%	35.60%	39.89%	39.90%	Finance	Jointly controlled entity	2,072	284	37
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	-	864	318	48
Cubico Sustainable Investments Holdings Limited (consolidado)	United Kingdom	0.00%	32.94%	32.94%	100.00%	Electricity production	Jointly controlled entity	1,035	258	(13)
Federal Home Loan Bank of Pittsburgh[b]	United States	0.00%	17.60%	17.60%	14.00%	Banking	-	78,697	3,442	235
Federal Reserve Bank of Boston[b]	United States	0.00%	30.25%	30.25%	30.81%	Banking	-	129,577	2,272	109

Companies in which Santander Group has ownership interests of more than 5%[g], associates of Santander Group and jointly controlled entities

		% of ownership held by the Bank		% of voting power[f]				Millions of euros[a]		
Company	Location	Direct	Indirect	Year 2015	Year 2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	Finance	Jointly controlled entity	1,117	138	9
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	Property	Associate	75	42	32
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	Collection and payment services	Associate	135	12	15
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	Finance	Jointly controlled entity	2,126	92	25
Imperial Holding S.C.A.[e c]	Luxembourg	0.00%	36.36%	36.36%	36.36%	Securities investment	-	0	(113)	0
Inbond Inversiones 2014, S.L.	Spain	40.00%	0.00%	40.00%	-	Domestic appliances	Jointly controlled entity	142	142	0
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	Securities and real estate investment	Associate	350	319	52
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	Securities and real estate investment	Associate	406	220	47
Konecta Bto, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	Telemarketing	Jointly controlled entity	144	30	10
Monitise PLC (consolidado)[h]	United Kingdom	5.08%	0.00%	5.08%	5.08%	Payment services	-	464	637	(293)
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.41%	29.00%	29.00%	Holding company	Associate	28	19	1
Parques Empresariales Gran Europa, S.A. (consolidado)	Spain	0.00%	34.36%	50.00%	50.00%	Land management	-	80	44	1
POLFUND - Fundusz Por ęczeń Kredytowych S.A.[b]	Poland	0.00%	34.71%	50.00%	50.00%	Management company	Associate	22	19	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	-	Insurance	Jointly controlled entity	42	37	0
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	-	Insurance	Jointly controlled entity	11	9	0
Redsys Servicios de Procesamiento, S.L.U.[b]	Spain	17.56%	0.00%	17.56%	16.97%	Cards	Associate	112	17	8
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Services	Jointly controlled entity	62	(23)	(9)
Rio Alto Gestão de Créditos e Participações, S.A.	Brazil	0.00%	44.62%	50.00%	50.00%	Collection and payment services	-	159	99	52
Route 66 Wind Power LLC	United States	0.00%	33.00%	33.00%	-	Electricity production	-	83	81	2
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	Spain	40.00%	0.01%	40.02%	30.95%	Real estate investment	Associate	44	29	0
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	49.99%	49.99%	49.99%	Fund management company	Jointly controlled entity	36	16	7
Santander Asset Management UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	Fund and portfolio manager	Jointly controlled entity	80	32	15
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	50.00%	50.00%	50.00%	Fund management company	Jointly controlled entity	161	39	53
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.50%	50.50%	50.50%	Management company	Jointly controlled entity	51	30	2
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	50.00%	50.00%	50.00%	Real estate investment	Jointly controlled entity	504	463	24

Companies in which Santander Group has ownership interests of more than 5%[g], associates of Santander Group and jointly controlled entities

		% of ownership held by the Bank		% of voting power[f]				Millions of euros[a]		
Company	Location	Direct	Indirect	Year 2015	Year 2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Santander Elavon Merchant Services Entidad de Pago, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Payment services	Jointly controlled entity	228	169	5
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	50.00%	50.00%	50.00%	Pension fund management company	Jointly controlled entity	53	28	18
Saudi Hollandi Bank (consolidado)[b]	Saudi Arabia	0.00%	11.16%	11.16%	11.16%	Banking	-	24,162	2,231	455
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.[b]	Spain	17.28%	0.00%	17.28%	17.28%	Financial services	-	51,314	(1,098)	(585)
Stephens Ranch Wind Energy Holdco LLC (consolidado)	United States	0.00%	44.00%	44.00%	44.00%	Electricity production	-	88	85	4
Tecnologia Bancária S.A.	Brazil	0.00%	18.52%	19.81%	19.81%	ATMs	Associate	285	87	0
Teka Industrial, S.A. (consolidado)[b]	Spain	0.00%	9.42%	9.42%	9.42%	Domestic appliances	-	604	169	(3)
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	Cards	Associate	885	46	6
Transolver Finance EFC, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Leasing	Jointly controlled entity	341	31	3
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Holding company	Jointly controlled entity	230	61	(10)
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.46%	21.50%	21.50%	Finance	Associate	348	71	40
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	Mortgage loan company	Jointly controlled entity	12,236	383	3
Uro Property Holdings SOCIMI, S.A.[b]	Spain	14.96%	7.82%	22.77%	-	Property	-	1,951	9	388
Webmotors S.A.	Brazil	0.00%	65.43%	70.00%	70.00%	Services	Jointly controlled entity	65	52	8
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associate	8,329	399	182
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associate	175	(3)	34
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associate	939	936	152
Zurich Santander Seguros Argentina S.A.[h]	Argentina	0.00%	49.00%	49.00%	49.00%	Insurance	Associate	43	6	14
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associate	272	47	40
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associate	175	33	7
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	Insurance	Associate	892	74	93
Zurich Santander Seguros Uruguay, S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	Insurance	Associate	27	8	(1)

a. Amounts per the books of each company generally as at 31 December 2015, unless otherwise stated, because the financial statements have not yet been authorised for issue. The data on foreign companies were translated to euros at the year-end exchange rates.

b. Data from the latest approved financial statements as at 31 December 2014.

c. Recently created company with no available approved financial statements.

d. Data from the latest approved financial statements as at 30 April 2002.

e. Company in liquidation as at 31 December 2015.

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.

Appendix III

Preference share issuer subsidiaries

		% of ownership held by the Bank			Millions of euros[a]			
Company	Location	Direct	Indirect	Line of business	Share capital	Reserves	Preference share cost	Net profit (loss) for the year
Banesto Holdings, Ltd.[b]	Guernsey	99.99%	0.00%	Inactive	0	1	0	0
Emisora Santander España, S.A. Unipersonal	Spain	100.00%	0.00%	Finance	0	0	0	0
Santander Emisora 150, S.A. Unipersonal	Spain	100.00%	0.00%	Finance	0	1	0	0
Santander Finance Capital, S.A. Unipersonal	Spain	100.00%	0.00%	Finance	0	1	10	0
Santander Finance Preferred, S.A. Unipersonal	Spain	100.00%	0.00%	Finance	0	4	108	2
Santander International Preferred, S.A. Unipersonal	Spain	100.00%	0.00%	Finance	0	0	19	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	Finance	5,276	(3,137)	41	19
Totta & Açores Financing, Limited	Cayman Islands	0.00%	99.83%	Inactive	0	(9)	21	9

a. Amounts per the books of each company as at 31 December 2015, translated to euros (in the case of foreign companies) at the year-end exchange rates.
b. Company in liquidation as at 31 December 2015.

Appendix IV

Notifications of acquisitions and disposals of investments in 2015

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law).

On 22 May 2015, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in NH Hoteles, S.A. had fallen below 3% on 20 May 2015.

On 7 August 2015, the CNMV registered a notification from Banco Santander (and seven other banks) which disclosed that the ownership interest of all of them in GENERAL DE ALQUILER DE MAQUINARIA, S.A. had exceeded 60% on 5 August 2015. Santander Group's position in this company was 4.742% at that date.

Appendix V

Other information on the Group's banks

A) Following is certain information on the share capital of the Group's main banks based on their total assets.

1. Santander UK plc

a) Number of financial equity instruments held by the Group

Santander UK plc has issued 31,051,768,866 ordinary shares with a par value of GBP 0.10 each, amounting to GBP 3,105,176,886.6. On 10 January 2014, Cántabro Catalana de Inversiones, S.A. transferred one ordinary share with a par value of GBP 0.10 to Banco Santander, S.A. for GBP 1. Subsequently, on 1 April 2014, Banco Santander, S.A. transferred 24,117,268,866.6 ordinary shares with a par value of GBP 0.10 each to Santander UK Group Holdings Limited for GBP 2,411,726,886.6. Also, on 1 April 2014, Santusa Holding, S.L. transferred 6,934,500,000 shares with a par value of GBP 0.10 each to Santander UK Group Holdings Limited for GBP 693,450,000. As at 31 December 2015, the Group holds all the ordinary share capital (31,051,768,866 ordinary shares with a par value of GBP 0.10 each, amounting to GBP 3,105,176,886.6) through Santander UK Group Holdings Limited.

On 23 October 1995, Santander UK plc issued 10.0625% exchangeable capital securities amounting to GBP 200,000,000, exchangeable into 200,000,000 10.375% non-cumulative sterling preference shares with a par value of GBP 1 each. At 31 December 2015, the Group held 30.10% of the 10.0625% exchangeable capital securities (amounting to GBP 66,147,000) through Banco Santander, S.A.

Also, on 23 October 1995, Santander UK plc issued 10.375% non-cumulative sterling preference shares amounting to GBP 100,000,000 with a par value of GBP 1 each, and on 13 February 1996 Santander UK plc issued additional 10.375% non-cumulative sterling preference shares amounting to GBP 100,000,000 with a par value of GBP 1 each. At 31 December 2015, the Group held 32% of the 10.375% non-cumulative sterling preference shares (amounting to GBP 63,913,355) through Banco Santander, S.A.

On 9 June 1997, Santander UK plc issued 8.625% non-cumulative sterling preference shares amounting to GBP 125,000,000 with a par value of GBP 1 each. At 31 December 2015, the Group held 80.40% of the 8.625% non-cumulative sterling preference shares (amounting to GBP 100,487,938) through Banco Santander, S.A.

On 28 April 2010, pursuant to current legislation, preference shares of Alliance & Leicester Limited (formerly Alliance & Leicester plc) were exchanged for 300,002 redeemable fixed/floating rate series A non-cumulative preference shares of Santander UK plc amounting to GBP 300,002,000, with a par value of GBP 1 each and a liquidation preference of GBP 1,000. On 16 December 2014, Santander UK plc repurchased 265,069 redeemable fixed/floating rate series A non-cumulative preference shares for GBP 265,069,000. On 12 June 2015, Santander UK plc repurchased 21,136 redeemable fixed/floating rate series A non-cumulative preference shares for GBP 22,509,840. At 31 December 2015, 13,797 redeemable fixed/floating rate series A non-cumulative preference shares, amounting to GBP 13,797,000, were still outstanding.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Share capital authorised by the shareholders at the general meeting

The shareholders at the annual general meeting held on 21 April 2015 resolved to unconditionally authorise the company to carry out the following repurchases of share capital:

1. The repurchase of its own 8.625% non-cumulative sterling preference shares subject to the following conditions:

(a) The company may repurchase up to 125,000,000 of the 8.625% non-cumulative sterling preference shares.

(b) The lowest price that the company may pay for the 8.625% non-cumulative sterling preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each 8.625% non-cumulative preference sterling share will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its 8.625% preference shares even if the purchase is finalised after this authorisation expires.

2. The repurchase of its own 10.375% non-cumulative sterling preference shares subject to the following conditions:

(a) The company may repurchase up to 200,000,000 of the 10.375% preference shares;

(b) The lowest price that the company may pay for the 10.375% non-cumulative sterling preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each 10.375% non-cumulative preference sterling share will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its 10.375% preference shares even if the purchase is finalised after this authorisation expires.

3. The repurchase of its own redeemable fixed/floating rate series A non-cumulative preference shares subject to the following conditions:

(a) The company may repurchase up to 300,002 redeemable fixed/floating rate series A non-cumulative preference shares;

(b) The lowest price that the company may pay for the redeemable fixed/floating rate series A non-cumulative preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each of the redeemable fixed/floating rate series A non-cumulative preference shares will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its redeemable fixed/floating rate series A non-cumulative preference shares even if the purchase is finalised after this authorisation expires.

However, prior to such expiry, the company may submit bids or adopt resolutions that could require the allocation of shares and the directors may allocate shares in accordance with any bid or resolution, considering the expiry of the authorisation granted in this resolution.

In accordance with this resolution, any previous authorisations granted to the directors and not exercised for the allocation of shares are hereby revoked and substituted, notwithstanding any allocation of shares or grant of rights already completed, offered or agreed.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

2. Abbey National Treasury Services plc

a) Number of financial equity instruments held by the Group
The Group holds ordinary shares amounting to GBP 2,549,000,000 through Santander UK plc (2,548,999,999 ordinary shares with a par value of GBP 1 each) and Abbey National Nominees Limited (1 ordinary share with a par value of GBP 1).

The Group also holds 1,000 tracker shares (shares without voting rights but with preferential dividend rights) amounting to GBP 1,000 and 1,000 B tracker shares amounting to GBP 1,000 through Santander UK plc, both with a par value of GBP 1 each.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
Not applicable.

e) Specific circumstances that restrict the availability of reserves
Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity
Not applicable.

g) Quoted equity instruments
Not applicable.

3. Banco Santander (Brasil) S.A.

a) Number of financial equity instruments held by the Group
The Group holds 3,440,170,512 ordinary shares and 3,273,507,089 preference shares through Banco Santander, S.A. and its subsidiaries Sterrebeeck B.V., Grupo Empresarial Santander, S.L. and Santander Insurance Holding, S.L., and Banco Madesant - Sociedade Unipessoal, S.A.

The shares composing the share capital of Banco Santander (Brasil) S.A. have no par value and there are no capital payments payable. At 2015 year-end the bank's treasury shares consisted of 20,217,733 ordinary shares and 20,217,733 preference shares, with a total of 40,435,466 shares.

In accordance with current Bylaws (Article 5.7) the preference shares do not confer voting rights on their holders, except under the following circumstances:

(a) The event of the transformation, merger, consolidation or spin-off of the company.

(b) In the event of approval of agreements between the company and the shareholders, either directly, through third parties or other companies in which the shareholders hold a stake, provided that, due to legal or bylaw provisions, they are submitted to a general meeting.

(c) In the event of an assessment of the assets used to increase the company's share capital.

The General Assembly may, at any moment, decide to convert the preference shares into ordinary shares, establishing a reason for the conversion.

However, the preference shares do have the following advantages (Article 5.6):

(a) Their dividends are 10% higher than those on ordinary shares.

(b) Priority in the distribution of dividends.

(c) Participation, on the same terms as ordinary shares, in capital increases resulting from the capitalisation of reserves and profits and in the distribution of bonus shares arising from the capitalisation of retained earnings, reserves or any other funds.

(d) Priority in the reimbursement of capital in the event of the dissolution of the company.

(e) In the event of a public offering due to a change in control of the company, the holders of preference shares are guaranteed the right to sell the shares at the same price paid for the block of shares that changed hands as part of the change of control, i.e. they are treated the same as shareholders with voting rights.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
The company is authorised to increase share capital, subject to approval by the board of directors, up to a limit of 9,090,909,090 ordinary shares or preference shares, and without the need to maintain any ratio between any of the different classes of shares, provided they remain within the limits of the maximum number of preference shares established by Law.

At present the share capital consists of 7,563,082,417 shares (3,850,970,714 ordinary shares and 3,712,111,703 preference shares).

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
At the general meeting held on 30 April 2015, the shareholders approved the rules relating to the 2015 deferred remuneration plans for the directors, management and other employees of the company and of companies under its control. The delivery of the shares is linked to the achievement of certain targets in 2015. The company considers that the exercise of these rights could give rise to the delivery of 8,800,000 treasury shares to these directors and employees.

At the general meeting held on 14 December 2015, the shareholders approved the rules relating to the 2016 deferred remuneration plans for the directors, management and other employees of the company and of companies under its control. The delivery of the shares is linked to the achievement of certain targets in 2016. The company considers that the exercise of these rights could give rise to the delivery of 9,000,000 treasury shares to these directors and employees.

e) Specific circumstances that restrict the availability of reserves
The only restriction on the availability of Banco Santander (Brasil) S.A.'s reserves relates to the legal reserve (restricted reserves), which can only be used to offset losses or to increase capital.

The legal reserve is provided for in Article 196 of the Spanish Public Limited Liability Companies Law, which establishes that before being allocated to any other purpose, 5% of profits must be transferred to the legal reserve, which must not exceed 20% of share capital.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity
Not applicable.

g) Quoted equity instruments
All the shares are listed on the Brazilian Securities, Commodities and Futures Exchange (BM&FBOVESPA) and the share deposit certificates (units) are listed on the New York Stock Exchange (NYSE).

4. Santander Bank, National Association

a) Number of financial equity instruments held by the Group
At 31 December 2015, the Group held 530,391,043 ordinary shares that carry the same voting and dividend acquisition rights over Santander Holdings USA, Inc. (SHUSA). This holding company and Independence Community Bank Corp. (ICBC) hold 1,237 ordinary shares with a par value of USD 1 each, which carry the same voting rights. These shares constitute all the share capital of Santander Bank, National Association (SBNA).

SHUSA holds an 80.84% ownership interest in SBNA, and the remaining 19.16% belongs to ICBC. ICBC is wholly owned by SHUSA. There is no shareholders' meeting for the ordinary shares of SBNA.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
Not applicable.

e) Specific circumstances that restrict the availability of reserves
Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity
Not applicable.

g) Quoted equity instruments
Not applicable.

5. Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

a) Number of financial equity instruments held by the Group
The Group holds a 75% ownership interest in the subsidiary in Mexico through the holding company Grupo Financiero Santander México, S.A.B. de C.V. At 31 December 2015, this holding company and Santander Global Facilities, S.A. de C.V. (Mexico) held 80,848,258,165 ordinary shares that constitute 99.99% of the share capital of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
The shareholders at the general meeting held on 22 February 2012 resolved to increase the authorised share capital of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México to MXN 8,085,540,380.30, represented by a total of 80,855,403,803 fully subscribed and paid shares of MXN 0.10 par value each, which remained unchanged at 31 December 2015.

d) Rights on founder's shares, bonds or debt issues, convertible debentures and similar securities or rights
(i) At the board of directors meeting held on 22 October 2015 the directors acknowledged their awareness of the situation of the debt issue of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México that had been ratified at the board meeting held on 17 October 2013 for the issue of debt up to USD 6,500 million in local or international markets. They stipulated that the debt should be senior or subordinated for a maximum term of 15 years and that debt instruments that qualify as capital under current legislation should be included, and resolved that such issue may be instrumented individually or through various issue programmes.

At present, the detail of Banco Santander's debt issue is as follows:

Instrument	Type	Term	Amount	Undrawn balance
Issue programme in connection with stock market certificates and term deposit certificates of deposit	Revolving	We are currently in the process of authorising a new programme for the same amount, as recurring issuer	Up to MXN 55,000,000,000.00	N/A
Private structured bank bond certificate	Non-revolving*	16 December 2044	Up to MXN 20,000,000,000.00	Up to MXN 1,800,000,000.00
Private structured bank bond certificate	- - -	We are currently in the process of authorising a new programme for the same amount, as recurring issuer	Up to MXN 10,000,000,000.00	N/A
Issue of Tier II subordinated debt in international markets	Non-revolving	26 January 2021	USD 1,300,000,000	N/A

* The issue of private structured bank bonds is non-revolving. Once the amount established in the related certificate is placed, a new certificate is issued for the authorised amount.

The issue of public structured bank bonds with subsequent placements was approved for up to MXN 10 thousand million, the equivalent amount in US dollars or in any other currency, for a term of 1 day to 15 years, with the understanding that the bonds may not be redeemed after the term of the related certificate of issue. They may be issued with or without loss of capital, with a public offering and with registration in the Mexican National Securities Register. This issue had not yet been launched at the reporting date.

(ii) On 19 December 2013, Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México issued a total of USD 1,300,000,000 in subordinated notes that meet the capital requirements established by Basel III for Tier 2 capital at a rate of 6.125% and maturing in 2023. The Parent of Santander México, Banco Santander, S.A. Spain, resolved to purchase USD 975,000,000, i.e. 75% of the total amount of the notes.

These notes were offered through a private placement to qualified institutional buyers only in accordance with Rule 144A under the US Securities Act of 1933 and subsequent amendments thereto. Outside the US, they were offered in accordance with Regulation S of the Securities Act.

The issue was approved with a view to increasing the efficiency of the bank's capital structure, adapting the bank's profile with regard to capitalisation to that of its competitors and obtaining greater returns on capital with the same strength of capital and capacity for growth of risk-weighted assets.

(iii) The shareholders at the general meeting held on 14 May 2012 ratified the resolution adopted by the shareholders at the extraordinary general meeting held on 17 March 2009, which approved the arrangement of a collective loan from the shareholders for USD 1,000,000,000 through the placement of unsecured subordinated non-preference debentures not convertible into shares. This issue had not yet been launched at the reporting date.

(iv) At the board of directors meeting held on 27 January 2011 the directors approved the general terms and conditions for the issue of senior debt in international markets. This issue of USD 500 million and USD 1,000 million at a five to ten year term was authorised on 18 October 2012. The issue was approved in order to obtain resources to finance the increase of business assets and the management of the Bank's liquidity. As a result of these resolutions adopted by the board of directors, on 9 November 2012, debt amounting to USD 1,000 million was issued.

e) Specific circumstances that restrict the availability of reserves

Pursuant to the Mexican Credit Institutions Law and the general provisions applicable to credit institutions, the Mexican Companies Law and the institutions' own Bylaws, universal banking institutions are required to constitute or increase capital reserves for the purposes of ensuring solvency and protecting payment systems and savers.

The bank increases its legal reserve annually directly from the profit obtained in the year.

The bank must recognise the various reserves as stipulated in the legal provisions applicable to credit institutions. Credit loss reserves are calculated on the basis of the credit rating assigned to each loan and are released when the rating of the related loan improves or when the loan is settled.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

6. Banco Santander Totta, S.A

a) Number of equity instruments held by the Group
The Group holds 956,153,370 ordinary shares through its subsidiaries: Santander Totta, SGPS, S.A. with 941,269,620 shares, Taxagest Sociedade Gestora de Participações Sociais, S.A. with 14,593,315 shares, and Banco Santander Totta, S.A. with 290,435 treasury shares, all of which have a par value of EUR 1 each and identical voting and dividend rights and are subscribed and paid in full.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
Not applicable.

e) Specific circumstances that restrict the availability of reserves
Under Article 296 of the Portuguese Companies' Code, the legal and merger reserves can only be used to offset losses or to increase capital.

Non-current asset revaluation reserves are regulated by Decree-Law 31/98, under which losses can be offset or capital increased by the amounts for which the underlying asset is depreciated, amortised or sold.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity .
Not applicable.

g) Quoted equity instruments
Not applicable.

7. Santander Consumer Bank AG

a) Number of financial equity instruments held by the Group
At 31 December 2015, through Santander Consumer Hol¬ding GmbH, the Group held 30,002 ordinary shares with a par va¬lue of EUR 1,000 each, all of which carry the same voting rights.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
Not applicable.

e) Specific circumstances that restrict the availability of reserves
Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity
Not applicable.

g) Quoted equity instruments
Not applicable.

8. Banco Santander - Chile

a) Number of financial equity instruments held by the Group
The Group holds a 67% ownership interest in its subsidiary in Chile corresponding to 126,593,017,845 ordinary shares of Banco Santander - Chile through its subsidiaries: Santander Chile Holding S.A. with 66,822,519,695 ordinary shares, Teatinos Siglo XXI Inversiones S.A., with 59,770,481,573 ordinary shares and Santander Inversiones S.A. with 16,577 fully subscribed and paid ordinary shares that carry the same voting and dividend rights.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
Share capital at 31 December 2015 amounted to CLP 891,302,881,691.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
Not applicable.

e) Specific circumstances that restrict the availability of reserves
Remittances to foreign investors in relation to investments made under the Statute of Foreign Investment (Decree-Law 600/1974) and the amendments thereto require the prior authorisation of the foreign investment committee.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity
Not applicable.

g) Quoted equity instruments
All the shares are listed on the Chilean stock exchanges and, through American Depositary Receipts (ADRs), on the New York Stock Exchange (NYSE).

9. Banco Zachodni WBK S. A.

a) Number of financial equity instruments held by the Group
At 31 December 2015, Banco Santander, S.A. held 68,880,774 ordinary shares with a par value of PLN 10 each, all of which carry the same voting rights.

b) Capital increases in progress
At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting
Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights
At the general meeting held on 30 June 2014, the shareholders resolved to approve the "Incentive Scheme V" as an initiative to attract, motivate and retain the bank's employees. Delivery of the shares is tied to the achievement of certain targets in the years from 2014 to 2016. The bank considers that the exercise of these rights might give rise to the issuance of more than 250,000 shares.

e) Specific circumstances that restrict the availability of reserves
Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity
Not applicable.

g) Quoted equity instruments
All the shares of Bank Zachodni WBK S.A. are listed on the Warsaw stock exchange.

B) The restrictions on the ability to access or use the assets and settle the liabilities of the Group, as required under paragraph 13 of IFRS 12, are described below.

In certain jurisdictions, restrictions have been established on the distribution of dividends on the basis of the new, much more stringent capital adequacy regulations. However, there is currently no evidence of any practical or legal impediment to the transfer of funds by Group subsidiaries to the Parent in the form of dividends, loans or advances, repatriation of capital or any other means.

Appendix VI

Annual banking report

The Group's total tax contribution in 2015 (taxes incurred directly by the Group and the collection of taxes incurred by third parties generated in the course of its economic activities) exceeded EUR 16,000 million.

This Annual Banking Report was prepared in compliance with Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and its transposition into Spanish law pursuant to Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must send the Bank of Spain and publish annually a report as an appendix to the financial statements audited in accordance with the legislation regulating audits of financial statements, which specifies, by country in which they are established, the following information on a consolidated basis for each year:

a) Name(s), nature of activities and geographical location.
b) Turnover.
c) Number of employees on a full time equivalent basis.
d) Gross profit or loss before tax.
e) Tax on profit or loss.
f) Public subsidies received.

Following is a detail of the criteria used to prepare the annual banking report for 2015:

a) Name(s), nature of activities and geographical location
The aforementioned information is available in Appendices I and III to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The number of Group offices totals 13,030 (the largest commercial network of any international bank) and these offices provide our customers with all their basic financial needs.

b) Turnover
For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

c) Number of employees on a full time equivalent basis
The data on employees on a full time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Gross profit or loss before tax
For the purposes of this report, gross profit or loss before tax is considered to be profit or loss before tax, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

e) Tax on profit or loss
In the absence of specific criteria, this is the amount of tax effectively paid in respect of the taxes the effect of which is recognised in Income tax in the consolidated income statement.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- supplementary payments relating to income tax returns, normally for prior years.

- advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.

- refunds collected in the year with respect to returns for prior years that resulted in a refund.

- where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts are part of the statement of cash flows and, therefore, differ from the income tax expense recognised in the consolidated income statement. Such is the case because the tax legislation of each country establishes:

- the time at which taxes must be paid and, normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax.

- its own criteria for calculating the tax and establishes temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carryforwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

f) Public subsidies received
In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2015.

The detail of the information for 2015 is as follows:

	2015			
Jurisdiction	Turnover (millions of euros)	Headcount	Gross profit or loss before tax (millions of euros)	Tax on profit or loss (millions of euros)
Germany	1,519	4,748	463	140
Argentina	1,548	7,475	544	202
Australia	7	9	2	-
Austria	129	382	43	-
The Bahamas	19	43	15	-
Belgium	83	118	60	9
Brazil[1]	11,720	44,957	2,411	361
Canada	34	135	9	2
Chile	2,364	12,041	828	166
China	89	197	29	16
Colombia	11	57	(2)	1
Spain[2]	5,551	29,838	(990)	69
United States[3]	7,581	15,140	1,545	(95)
Denmark	115	236	56	10
Finland	83	136	48	4
France	468	665	266	119
Hungary	2	31	(15)	-
Ireland	25	10	27	3
Isle of Man	5	20	2	-
Cayman Islands	8	-	8	-
Italy	324	738	59	84
Jersey	(16)	92	(36)	2
Morocco	1	-	1	-
Mexico[4]	3,467	17,345	1,054	86
Norway	381	522	103	16
The Netherlands	57	192	12	33
Panama	5	5	1	-
Peru	78	141	19	8
Poland	1,653	14,874	705	251
Portugal[5]	1,108	5,904	647	72
Puerto Rico	388	1,492	(13)	29
United Kingdom	6,561	24,716	1,514	582
Singapore	8	11	4	-
Sweden	116	338	7	5
Switzerland	83	161	27	12
Uruguay	320	1,398	94	18
Consolidated Group total	**45,895**	**184,167**	**9,547**	**2,205**

1. Including the information relating to a branch in the Cayman Islands the profits of which are taxed in full in Brazil. The contribution of this branch to profit before tax for 2015 is EUR 365 million.
2. Includes the corporate centre.
3. Tax accrued in the year in this jurisdiction amounted to approximately EUR 500 million due mainly to the difference in deferred taxes.
4. Including the information on a branch in the Bahamas the profits of which are taxed in full in Mexico. In 2015 the contribution of this branch to profit before tax was EUR 50 million.
5. Including the information relating to the branch in the UK, which is taxed both in the UK and in Portugal. In 2015 the contribution of this branch to profit before tax was EUR 127 million.

At 31 December 2015, the Group's return on assets (ROA) was estimated at 0.5%.

Consolidated Directors' Report

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Directors' Report for 2015

This report has been prepared following the recommendations given in the guide for the preparation of management reports of listed companies published by the Spanish Securities Market Commission (CNMV) in September 2013, and is arranged in the nine sections suggested in the guide.

1. Situation of the entity

1.1 Description

At the end of 2015, the Group was the largest bank in the euro area and the 19th in the world in terms of market capitalisation: EUR 65,792 million.

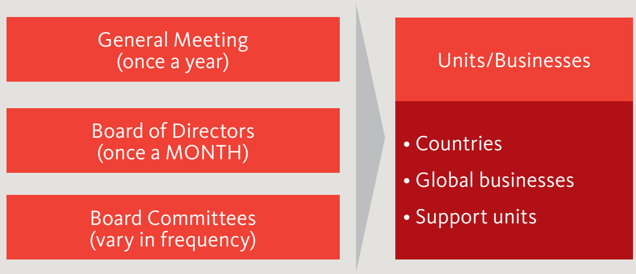
Its corporate purpose is to engage in all kinds of activities, operations and services that are typical of the banking business in general. Its business model focuses on commercial banking products and services with the objective of meeting the needs of its 121 million customers - private individuals, SMEs and businesses, through its global network of 13,030 branch offices, which is the biggest in international banking, as well as digital channels, in order to provide top-quality service and greater flexibility. It has EUR 1,340 thousand million in assets and manages funds of EUR 1,507 thousand million for all the customer segments. It has 3.6 million shareholders and more than 190,000 employees. Commercial banking accounts for 88% of its income.

The Group is highly diversified and operates in 10 main markets where it has a significant market share.

Within the Group organisation, the senior decision-making body is the board of the directors, which has the broadest powers to administer the Bank except with respect to matters for which the general meeting has sole responsibility. The board's operating procedures and actions are regulated under the Bank's internal regulations, which are governed by the principles of transparency, efficiency and defence of shareholder interests. The board also monitors compliance with international best practices in corporate governance, and engages fully in the Group's risk taking.

In particular, at the proposal of the senior management, it is responsible for establishing and monitoring the Group's risk appetite, and

Santander Group organisation



for approving the internal capital and liquidity adequacy assessment processes (ICAAP/ILAAP).

The board has fifteen members: four executive directors and eleven non-executive directors. Of the latter, eight are independent, one is a proprietary director and two, in the board's opinion, are neither proprietary nor independent.

The board has set up an executive committee to which general decision-making powers have been delegated. The board also has other committees with supervisory, reporting, advisory and proposal powers (the audit; risk supervision, regulation and compliance; appointments; remuneration; innovation and technology; and international committees).

The model of corporate governance follows a set of principles designed to safeguard the equal rights of shareholders. These include the principle of one share, one vote, one dividend. The Bylaws do not contain 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 is recognised by socially responsible investment indices. The Group has been included in the DJSI and FTSE4Good indices since 2000 and 2003, respectively. Further information on the Bank's administrative structure is provided in Section C of the Annual Corporate Governance Report.

Regular (usually weekly), meetings are held, which are 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.

The structure of the operating business areas is presented on two levels:

a) Geographic businesses

This segments the activities of the operating units 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:

- Continental Europe, which comprises all the businesses in the region, as well as the real estate operations in Spain business unit. Detailed financial information is given for Spain, Portugal, Poland and Santander Consumer Finance (which covers all the business in the region, including that of Spain, Portugal and Poland).

Geographical structure

EE.UU.
Brazil
Mexico
Chile
Argentina

Uruguay
Peru
Colombia

Spain
Portugal
United Kingdom
SCF[1]
Poland

Asia, Pacific
Representative branches

Commercial banking
Global corporate banking

Group funtions & corporate centre activities

Risks	Compliance	Internal Audit	Chairman´s Office & Strategy	Innovation	Universities	Communication, Corporate Marketing & Research
General & Board Secretary & Human Resources	Technology & Operations	Controller´s Office & Management Control	Financial Management	Corporate Development & Financial Plans	Strategic alliances in Asset management & insurance	Costs

1. Santander Consumer Finance (SCF) operates in Austria, Belgium,Denmark,Finland, France, Germany, Italy, Netherlands, Norway, Poland, Portugal, Spain, Switzerland and the United Kindom.

- United Kingdom, which includes all the business done by the Group's units and branches operating there.

- Latin America. This includes all of the financial business activities that the Group engages in through its banks and subsidiaries in the region. Details are provided of the accounts for Brazil, Mexico and Chile.

- United States. This includes the holding company (SHUSA) and the businesses of Santander Bank, Santander Consumer USA, Banco Santander Puerto Rico, the specialised unit of Banco Santander International and the New York branch.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of gross 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 unit.

- Commercial banking. This contains all of the customer banking businesses, including consumer finance, except those of corporate banking, which are managed through SGCB. Also included in this business area are the results of the hedging positions taken in each country within the scope of the relevant ALCO committees.

- Santander global corporate banking (SGCB). This reflects the income from the global corporate banking, investment banking and markets businesses worldwide, including the globally managed treasury departments (after passing the appropriate share to commercial banking customers), and the equities business.

In addition to the operating businesses described above by region and business, the Group also maintains the corporate centre area. This segment includes 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 committee, as well as the management of liquidity and equity through issues.

As the Group's holding unit, this segment handles the total capital and reserves, capital allocations and liquidity with the other businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services, which are charged to the areas, with the exception of corporate and institutional expenses related to the Group's functioning.

Lastly, the Group has a number of support units, such as Risks; Compliance; Internal Audit; Strategy; Innovation; Communication, Marketing and Research; General Secretary's Office and Human Resources; Technology and Operations; Controller's Office and Management Control; Financial Management; Corporate Development; Strategic Alliances; and Costs.

The function of them all is to ensure that the Group is a cohesive, efficient and productive group, and they are responsible for implementing the Group's corporate policies.

1.2 Mission and business model

Santander has a customer-focused business model that enables it to fulfil its mission of helping people and businesses to prosper.

Geographic diversification, focused on Europe and America

The Group's geographic diversification is balanced between mature and emerging markets, with significant operations in Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has a significant market share in Uruguay, and consumer finance businesses in other European countries.

In addition to its local offering of services, Santander has global business areas which develop products that are distributed in the Group's commercial networks and serve global customers.

Focus on customer-oriented commercial banking

Banco Santander's commercial model focuses on meeting the needs of all types of customers: individuals with different levels of income; businesses of any size in different sectors of activity; private corporations and public institutions.

Developing lasting and sustainable relations with them is the Bank's principal objective. Santander has high market shares in commercial banking in its main countries where its biggest business is attracting deposits and extending loans. The Bank concentrates its wholesale banking offering on serving its principal customers in the local markets where it operates.

Model of subsidiaries

Santander Group is structured using a model of subsidiaries that are autonomous in terms of capital and liquidity, which are subject to the regulation and supervision of their local authorities as well as the European Central Bank's regulation and supervision of the Group.

The subsidiaries are managed according to local criteria and by local teams with a high level of knowledge and experience of customer relations in their markets, while enjoying the benefit of the synergies and advantages of belonging to Santander Group. The autonomy of the subsidiaries limits any contagion among the Group's units, thereby reducing risk.

International talent, with the same culture and a global brand

Santander employees share a culture focused on fulfilling the Group's mission and achieving its vision.

The Santander brand synthesises the Group's identity and expresses a corporate culture and a unique international positioning that is consistent and congruent with a way of doing banking that helps people and businesses to prosper in a Simple, Personal and Fair way.

Balance sheet strength, prudence in risks and global control frameworks

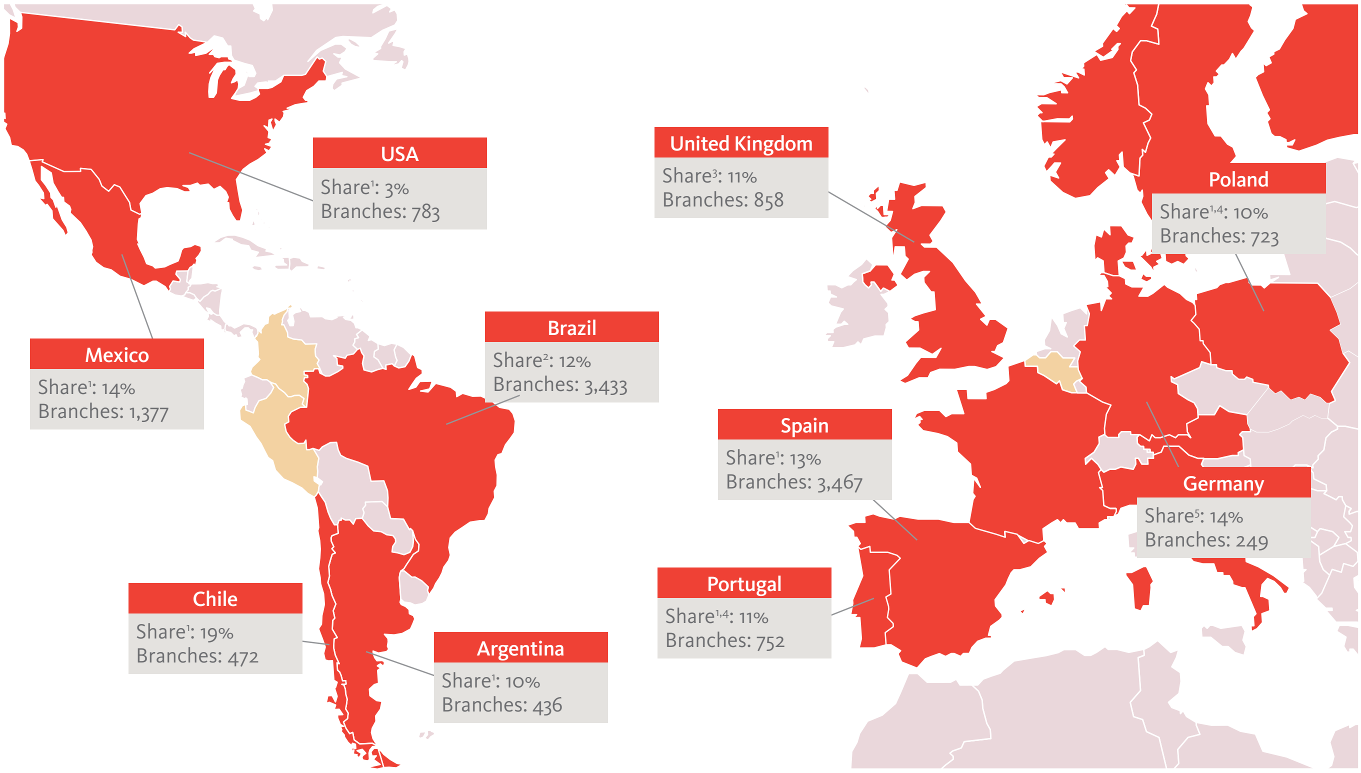
Santander has a medium-low risk profile and high quality assets, with a risk management and culture that it endeavours to improve day by day. It has sound capital that is appropriate for its business model, balance sheet structure, risk profile and regulatory requirements.

The corporate centre contributes value and maximises the competitiveness of the subsidiaries by helping them to be more efficient, supporting them in the generation of income and enforcing the highest standards in terms of corporate governance through frameworks for action, corporate policies and global control systems. This enables the Group to obtain better results and add more value than would be achieved by the sum of each of the local banks.

Innovation, digital transformation and best practices

Innovation has always been one of Santander Group's distinguishing features. On numerous occasions the Bank has revolutionised the financial sector with new products and services. The Group's size allows it to identify and quickly and efficiently transfer best practices between the various markets in which it is present, and to adapt them to local peculiarities.

Santander is engaged in a major process of digitization that affects not just the services it provides to customers but all of its operations, both internally and externally, as well as how it uses data to drive growth, the updating and modernisation of systems, and the simplification of processes and of the organisation in general.



1. Lending. 2. "free" lending. 3.Including total mortgage loans, UPLs&SME loans. 4. Includes Santander Consumer Finance (SCF) businesses. 5. Consumer loans
Branches do not include consumer business

The Group's vision
The Group's vision is to be the best commercial bank there is by winning the trust and loyalty of its employees, customers and shareholders and of society.

In order to be the best commercial and business banking bank for its customers the Group must start with its employees. If they feel proud to belong to Santander and more committed, they will be able to win the trust and loyalty of the Bank's customers.

- Santander's aim is to help its customers to prosper day by day with simple customised solutions that increase their engagement with the Bank; fair and equal treatment based on trust, and excellent service through the branch offices and digital channels.

- One of the priorities of Santander's strategy is to win the trust and loyalty of its shareholders and investors in a manner that is Simple, Personal and Fair.

- Banco Santander's business model is focused on helping people and businesses to prosper, and on generating active and sustainable profitability that benefits the development of the communities in which it operates.

1.3 Economic, regulatory and competitive context
The world economy slowed its rate of growth in 2015 (3.1% vs. 3.4% in 2014). The improved performance of the advanced economies was not sufficient to counter the slowdown of the emerging economies. The fall in commodity prices and the cooling of the Chinese economy had a greater relative impact on the emerging economies, although the degree of slowdown varied depending on their internal context.

As for the financial markets, their performance in 2015 can be divided into two parts. In the first half of the year there were rises across the board in stock market indices, and risk premiums on both government and private debt securities fell significantly, especially in the developed economies. Access to capital markets was more fluid and in the advanced economies the conditions on the supply of bank credit eased.

This performance was supported by the monetary policies of the central banks, which supplied abundant liquidity, and this facilitated investors' pursuit of returns. The quantitative easing of the European Central Bank (ECB) contained any contagion effect during the worst moments of the Greek bail-out negotiations.

During the summer there was an increase in volatility in the markets linked to the concerns about the slowdown of growth in China and the emerging economies. Although the start of monetary normalisation in the United States was delayed until December, equities underwent a major adjustment that significantly eroded the gains accumulated in the year.

The banking sector environment of the countries in which Banco Santander operates continued to be marked by the regulatory changes and the challenging economic environment, which presented a significant challenge for management to raise profitability.

Interest rates remained extraordinarily low; although business volumes gradually recovered they were still low; and there was a big increase in competitive pressure in most markets.

In the supervisory and regulatory context, there was once again an intensive regulatory agenda in 2015. While progress continued with the revision of the prudential framework and the development of crisis management frameworks, issues concerning consumer and investor protection were the focus of increased attention. The aim is to make all these matters compatible with driving economic growth.

Lastly, as regards banking supervision, the Single Supervisory Mechanism (SSM) launched in November 2014 enabled the ECB to assume the comprehensive supervision of banks in the euro area. In 2015 the SSM became fully operational and the 123 most important banking groups came under the direct supervision of the ECB. Each bank has a joint supervisory team made up of personnel from the ECB and the national authorities of the member states where the bank has a significant presence.

A summary of the macroeconomic performance of the main countries in which the Group operates is given in the comments made in this Report on the geographical units with which it operates.

2. Business performance and results

	2015	2014
Balance sheet (millions of euros)		
Total assets	1,340,260	1,266,296
Loans and advances to customers (net)	790,848	734,711
Customer deposits	683,122	647,628
Customer funds under management & marketed	1,075,565	1,023,437
Shareholders' equity	88,040	80,806
Total funds managed & marketed	1,506,520	1,428,083
Ordinary income statement (*) (millions of euros)		
Net interest income	32,189	29,548
Gross income	45,272	42,612
Pre-provision profit (net operating income)	23,702	22,574
Profit before tax	10,939	9,720
Profit attributable to the Group	6,566	5,816
EPS, net return and efficiency (%) (*)		
Attributable profit per share (euro)	0.45	0.48
RoE [1]	7.2	7.0
RoTE [1]	11.0	11.0
RoA	0.6	0.6
RoRWA	1.3	1.3
Efficiency (incl. depreciation and amortisation)	47.6	47.0
Solvency and non-performing loans (%)		
Fully-loaded CET1 [1]	10.05	9.65
Phase-in CET1 [1]	12.55	12.23
Non-performing loans ratio	4.36	5.19
Non-performing loans coverage ratio	73.1	67.2
Shares and capitalisation		
Number of shares (millions)	14,434	12,584
Market price (euro)	4.558	6.996
Market capitalisation (millions of euros)	65,792	88.041
Shareholders' equity per share (euro)	6.12	6.42
Price / Shareholders' equity per share (times)	0.75	1.09
PER (price / earnings per share) (times)	10.23	14.59
Other data		
Number of shareholders	3,573,277	3,240,395
Number of employees	193,863	185,405
Number of branches	13,030	12,951
Information on total profit (**)		
Profit attributable to the Group	5,966	5,816
Attributable profit per share (euro)	0.40	0.48
RoE [1]	6.6	7.0
RoTE [1]	10.0	11.0
RoA	0.5	0.6
RoRWA	1.2	1.3
PER (price / earnings per share) (times)	11.30	14.59

1. In 2014, pro forma figure including January 2015 capital increase.
* Excluding Non-recurring capital gains and write-downs, net
** Including Non-recurring capital gains and write-downs, net

2.1 Review of the year

Against this background, the review of the year for Santander Group is positive, since it succeeded in making the organisational changes and the implementation of the commercial transformation process in which it is engaged compatible with achieving the objectives that the Group had set itself at the beginning of the year: it grew in volumes, in profit, accumulated capital, and increased the dividend paid in cash.

The highlights of the Group's management in 2015 were:

- Strong earnings. Santander faces these challenges with a business model that has proved its strength in recent years and which it is adapting to the new environment in order to maximise the levels of profitability.

  The Santander model, which has demonstrated its validity during the crisis, rests on two main pillars:

  - Santander is a big bank, but it is uncomplicated. Its diversification is unique, it engages in commercial banking in nine core countries in addition to the different services it provides through Consumer Finance and in the United States with Santander Consumer USA. Its management approach is adapted to each market, and its subsidiaries, which are autonomous in capital and liquidity, have sufficient critical mass to be within the three top players in each market and generate value for the Group's shareholders.

  - The Bank has a corporate centre that enables it to attract talent, and to share best practices and "best-in-class" information and control systems. The corporate centre will continue to add value in the future and will do so even more efficiently.

  As a result, in 2015 Santander Group obtained ordinary attributable profit of EUR 6,566 million, which was 13% more than in 2014, based on:

  - consistent and recurring growth of commercial income quarter by quarter (disregarding the impact of exchange rates) resulting in net interest income and total income that were all-time records.

  - cost control and operating excellence that resulted in growth of 1% in real terms, disregarding the changes in the scope of consolidation.

  - a decrease in period provisions and a fall in the cost of lending, reflecting the strategy for growth and the appropriate risk management policy.

  Also, both positive and negative non-recurring results were booked in the year, with a net charge of EUR 600 million, taking the final profit to EUR 5,966 million, an increase of 3%.

- Commercial transformation process. 2015 saw further progress in the transformation of the Bank's commercial model to one that is increasingly simple, personal and fair. The focus is on the customers – both private individuals and businesses, and the Group's efforts are directed at developing specialised models, ranges of simple products and comprehensive proposals that cover all of their requirements, thereby anticipating their needs and winning their confidence.

  There was a significant improvement in customer engagement and long-term relations, supported heavily by differential value offerings and their expansion to all the geographical areas, with the sharing of best practices. Examples are:

  - The launch of the 1|2|3 strategy in Spain, after its success in the United Kingdom and Portugal, and similar products in Poland and Germany. A number of products and services were also launched in the high-income segment, such as *Select Premium Portfolios in Germany* or Select Expat in Mexico.

  - In SMEs and businesses, comprehensive proposals to strengthen our support for this segment, with the rollout of Santander Advance in 8 countries, Santander Trade now available in 12 countries with over 30,000 export and import users, *International Desk, Santander Passport* and the 1|2|3 current account in Spain.

  A major effort was also made to promote multichannel banking, with noteworthy developments in digital channels, which are playing a key role in this process of transformation. Innovation and technology development are one of the Group's strategic pillars, with the objective of responding to the new challenges arising out of the digital revolution, with the focus on operating excellence and customer experience.

  As a result, improvements were made to the commercial websites, and new applications and developments for mobile phones were launched, such as Cash Kitti and Spendlytics in the United Kingdom, and the new Deposit capture functionality for mobile phones in the United States. There were also some noteworthy initiatives in smartwatches such as the investment in the United Kingdom and Spain in the first group of Apple Pay issuers.

  No less important were the simplification of processes and products, the implementation of a new commercial front with 360° vision in many of the countries, latest generation ATMs and the opening of what are being called the branch offices of the future.

  Santander wishes to be a digital bank without losing the essence of what makes it a bank. The branch offices will continue to be an important channel for both customers and the Bank, and in the long term they will focus to a greater extent on the sale of more complex products and advisory services.

  These improvements as part of the commercial transformation process were reflected in increased engagement and digitization, enabling the Bank to reach the figure of 13.8 million engaged customers (an increase of 1.2 million (+10%) in the year); and 16.6 million digital customers (an increase of 2.5 million (+17%) in the year). These are improvements that will translate into an increased income base

- Growth of business activity. The commercial activity and the increased customer engagement were reflected in the growth of lending and customer funds.

  In lending, by geographical area, there was growth at nine of the ten main units, and by segment, private individuals, SMEs and large companies also all recorded growth. In customer funds, all the countries were up, while the Group continued to apply a strategy of reducing the cost of funding, which was reflected in the growth of demand accounts and investment funds, and the decrease in time deposits.

- Stronger solvency. The target set for capital in 2015 was achieved, in spite of negative extraordinary impacts. The fully-loaded CET1 ratio was 10.05% at year end, evidencing the Group's capacity for organic generation of capital of 10 basis points per quarter on average.

In addition, in regulatory terms, the Group ended the year with a CET1 ratio of 12.55%, which was 280 basis points above the minimum required by the European Central Bank for 2016. On 3 February 2016, the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil) S.A. The impact of the aforementioned authorisation on the Group's risk-weighted assets (EUR -7,836 million) and, in consequence, on its capital ratios, was not taken into account in the data published on 27 January 2016, which are those presented in this report.

- Improved credit quality. 2015 was a good year in terms of credit quality, with improvements in the Group's principal indicators. The non-performing loans ratio improved by 83 basis points, taking it to 4.36%; the coverage ratio rose by 6 percentage points to 73%, and the cost of lending fell to 1.25%.

  This positive performance was also recorded in practically all of the geographical areas, and is a reflection of the change in mix towards lower risk products in some countries, and an appropriate management policy that the Bank is strengthening with the launch of the advanced risk management (ARM) programme.

Creation of value for shareholders

Taking into account the ordinary profit, the Bank's RoTE in 2015 was 11%, which is higher than the sector average. There was also a slight improvement in the Group's RoRWA, which stood at 1.30%.

The tangible book value per share increased by 3% in the year, on a like-for-like basis, which was compatible with the distribution of dividends amounting to over EUR 2,200 million in cash in 2015.

The dividend yield was 4.4% based on the share price at year end.

2.2 Earnings

The 2015 earnings performance as compared with 2014 is shown below.

Condensed consolidated statements of income

Millions of euros

	2015	2014
Interest and similar income	57,198	54,656
Interest expense and similar charges	(24,386)	(25,109)
Net interest income	**32,812**	**29,547**
Income from equity instruments	455	435
Share of results of entities accounted for using the equity method	375	243
Fee and commission income	13,042	12,515
Fee and commission expense	(3,009)	(2,819)
Gains/(losses) on financial assets & liabilities, net	(770)	3,974
Exchange differences, net	3,156	(1,124)
Other operating income	3,067	5,214
Other operating expenses	(3,233)	(5,373)
Gross income	**45,895**	**42,612**
Administrative expenses	*(19,302)*	*(17,899)*
Staff costs	*(11,107)*	*(10,242)*
Other general administrative expenses	*(8,195)*	*(7,657)*
Depreciation & amortisation charge	*(2,418)*	*(2,287)*
Provisions, net	(3,106)	(3,009)
Impairment losses on financial assets, net	(10,652)	(10,710)
Profit from operations	**10,417**	**8,707**
Impairment losses on non-financial assets, net	(1,092)	(938)
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	112	3,136
Negative difference on business combinations	283	17
Gains/(Losses) on disposal of non-current assets held for sale not classified as discontinued operations	(173)	(243)
Profit before tax	**9,547**	**10,679**
Income tax	(2,213)	(3,718)
Profit for the year from continuing operations	**7,334**	**6,961**
Profit/(loss) from discontinued operations, net	—	(26)
Consolidated profit for the year	**7,334**	**6,935**
Profit attributable to the parent	5,966	5,816
Profit attributable to non-controlling interests	1,368	1,119

In the statement presented above, the capital gains and write-downs that are considered non-recurring are included in each of the income statement line items where they were recognised due to their nature.

To facilitate understanding of the changes between the two years, below is a condensed income statement that presents these non-recurring capital gains and write-downs for the net amount on a separate line just before the profit attributable to the Group (Extraordinary capital gains and write-downs, net).

The negative net impact of the non-recurring capital gains and write-downs in 2015 was EUR 600 million. Specifically, there were capital gains of EUR 1,118 million relating to the net result of the reversal of tax liabilities in Brazil (EUR 835 million), and the generation of badwill amounting to EUR 283 million as a result of the transaction to acquire the assets and liabilities of Banco Internacional do Funchal (Banif) in Portugal. There were also charges for an aggregate amount of EUR 1,718 million that related to the provisioning of an allowance to cover possible claims relating to payment protection insurance (PPI) products in the United Kingdom (EUR 600 million), the impairment and accelerated amortisation of intangible assets (EUR 683 million) and other write-downs (EUR 435 million).

In 2014 capital gains were booked for: the sale of Altamira Asset Management, S.L. (EUR 385 million, net), the flotation of Santander Consumer USA Holdings Inc. (EUR 730 million, net), the changes to pension commitments in the United Kingdom (EUR 224 million, net) and the insurance transaction with CNP (EUR 250 million, net). There were write-downs that related to restructuring costs, impairment of intangible assets and other write-downs for an aggregate amount, net of taxes, of EUR 1,589 million. The net impact of these amounts on the profit was therefore nil.

Condensed income statement - Directors' report

Millions of euros

	2015	2014
Net interest income	**32,189**	**29,548**
Net fees and commissions	10,033	9,696
Gains (losses) on financial assets & liabilities	2,386	2,850
Other income	665	519
Gross income	**45,272**	**42,612**
Operating expenses	(21,571)	(20,038)
General administrative expenses	(19,152)	(17,781)
Staff costs	*(11,107)*	*(10,213)*
Other general administrative expenses	*(8,045)*	*(7,568)*
Depreciation and amortisation charge	(2,419)	(2,257)
Net operating income	**23,702**	**22,574**
Provisions to the allowance for loan losses	(10,108)	(10,562)
Impairment losses on other assets	(462)	(375)
Other income and provisions	(2,192)	(1,917)
Ordinary profit before tax	**10,939**	**9,720**
Income Tax	(3,120)	(2,696)
Ordinary profit from continuing operations	**7,819**	**7,024**
Profit/(loss) from discontinued operations, net	-	(26)
Ordinary consolidated profit for the year	**7,819**	**6,998**
Profit attributable to non-controlling interests	1,253	1,182
Ordinary profit attributable to the Group	**6,566**	**5,816**
Extraordinary capital gains and write-downs, net	(600)	-
Profit attributable to the Group	**5,966**	**5,816**

In 2015 the Group obtained an attributable profit of EUR 5,966 million, which represents an increase of 3% on the profit for 2014. Excluding the effect of the net amount of non-recurring capital gains and write-downs, the ordinary attributable profit was EUR 6,566 million, an increase of 13% on 2014.

Before analysing the performance of the income statement lines, the details of some of the aspects that have affected the comparison between the two years are as follows:

- A macro environment in which the world economy slowed its rate of growth.
- Interest rates that remained at all-time lows in many of the economies.
- Strong competition in some of the markets in which the Group operates.
- A more demanding regulatory environment, with impacts in revenue limitation and increased costs.
- A positive effect on the scope of consolidation due to the transactions in consumer banking (mainly the agreements with PSA) and in Brazil (agreement with Bonsucesso, Getnet and the acquisition of non-controlling interests in the fourth quarter of 2014).
- The impact of the exchange rates of the various currencies in which the Group operates against the euro was less than one positive percentage point for the Group as a whole in the comparison of income and costs. By unit, the impacts were as follows: United States (+21 percentage points), United Kingdom (+12 percentage points), Argentina (+7 percentage points), Chile (+5 percentage points), Brazil (-16 percentage points). In Mexico and Poland the impact was less than one percentage point.

Exchange rates: Parity 1 euro=currency

	Av. exchange rate (income statement)	
	2015	**2014**
US dollar	1.109	1.326
Pound sterling	0.725	0.806
Brazilian real	3.645	3.118
Mexican peso	17.568	17.647
Chilean peso	724.014	756.718
Argentine peso	10.207	10.747
Polish zloty	4.182	4.185

Breakdown of the main lines of the income statement

The most noteworthy aspects of the performance of the income statement year on year were as follows.

Income totalled EUR 45,272 million, an increase of 6% on 2014. This was good quality growth, since it was based on increases in the most commercial levers of the income line (net interest income and fees and commissions), and the gains on financial assets and liabilities accounted for only 5% of the Group's income (7% in 2014). Broken down:

The increase in income was due mainly to the net interest income, which at EUR 32,189 million accounted for 71% of the total, and was up by 9% year on year, mainly as a result of the increase in lending and the decrease in the cost of liabilities.

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 obtaining the average of the daily balances. The distinction between domestic and international is based on the domicile of the customer.

Average balance sheet - assets and interest income

'(in millions of euros, except percentages)

	2015			2014		
ASSETS	**'Average balance**	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**
Cash and balances with central banks						
Domestic	*2,511*	*7*	*0.28%*	*1,737*	*13*	*0.75%*
International	*72,101*	*1,385*	*1.92%*	*75,567*	*2,025*	*2.68%*
	74,612	**1,392**	**1.87%**	**77,304**	**2,038**	**2.64%**
Loans and advances to credit institutions						
Domestic	*28,449*	*126*	*0.44%*	22,614	98	0.43%
International	*60,238*	*1,719*	*2.85%*	59,180	1,684	2.85%
	88,687	**1,845**	**2.08%**	**81,794**	**1,782**	**2.18%**
Loans and advances to customers						
Domestic	*159,897*	*4,134*	*2.59%*	*164,517*	*5,125*	*3.12%*
International	*625,763*	*41,311*	*6.60%*	*542,853*	*37,050*	*6.83%*
	785,660	**45,445**	**5.78%**	**707,370**	**42,175**	**5.96%**
Debt securities						
Domestic	*51,467*	*859*	*1.67%*	*44,797*	*1,582*	*3.53%*
International	*130,918*	*6,502*	*4.97%*	*110,741*	*5,665*	*5.12%*
	182,385	**7,361**	**4.04%**	**155,538**	**7,247**	**4.66%**
Income from hedging transactions						
Domestic		*83*			*95*	
International		*(350)*			*198*	
		(267)			**293**	
Other interest-earning assets						
Domestic		*658*			*689*	
International		*764*			*432*	
		1,422			**1,121**	
Total interest-earning assets						
Domestic	*242,324*	*5,867*	*2.42%*	*233,665*	*7,602*	*3.25%*
International	*889,020*	*51,331*	*5.77%*	*788,341*	*47,054*	*5.97%*
	1,131,344	**57,198**	**5.06%**	**1,022,006**	**54,656**	**5.35%**
Investments in Group companies						
Domestic	*1,366*		*0.00%*	*1,630*		*0.00%*
International	*2,086*		*0.00%*	*1,969*		*0.00%*
	3,452		**0.00%**	**3,599**		**0.00%**
Total earning assets						
Domestic	*243,690*	*5,867*	*2.41%*	*235,295*	*7,602*	*3.23%*
International	*891,106*	*51,331*	*5.76%*	*790,310*	*47,054*	*5.95%*
	1,134,796	**57,198**	**5.04%**	**1,025,605**	**54,656**	**5.33%**
Other assets	**210,861**			**177,655**		
Assets from discontinued operations	**-**			**-**		
Total average assets	**1,345,657**	**57,198**		**1,203,260**	**54,656**	

The average balance of earning assets in 2015 was EUR 1,135 thousand milion, which was 11% more than in 2014.

This increase occurred mainly in the international component, in which the biggest rises were in Loans and advances to customers and Debt securities, partially offset by the fall in Cash and balances with central banks.

The lower increase in the domestic component was due to the Loans and advances to credit institutions and Debt securities, that were partially offset by the lower balances of Loans and advances to customers, largely due to those booked at the real estate operations in Spain unit.

The average return on total earning assets fell by 29 basis points to 5.04%.

Average balance sheet - liabilities and interest expense

'(in millions of euros, except percentages)

	2015			2014		
LIABILITIES & SHAREHOLDERS' EQUITY	**Average balance**	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**
Deposits from credit institutions						
Domestic	*31,931*	*180*	*0.56%*	*16,211*	*225*	*1.39%*
International	*134,781*	*2,176*	*1.61%*	*116,761*	*1,980*	*1.70%*
	166,712	**2,356**	**1.41%**	**132,972**	**2,205**	**1.66%**
Customer deposits						
Domestic	*173,793*	*1,102*	*0.63%*	*170,327*	*1,629*	*0.96%*
International	*511,282*	*12,347*	*2.41%*	*459,133*	*11,787*	*2.57%*
	685,075	**13,449**	**1.96%**	**629,460**	**13,416**	**2.13%**
Marketable debt securities						
Domestic	*62,510*	*1,628*	*2,60%*	*68,571*	*2,242*	*3.27%*
International	*140,147*	*5,337*	*3.81%*	*122,029*	*4,602*	*3.77%*
	202,657	**6,965**	**3.44%**	**190,600**	**6,844**	**3.59%**
Subordinated liabilities						
Domestic	*7,045*	*250*	*3.55%*	*7,114*	*407*	*5.72%*
International	*8,296*	*684*	*8.24%*	*7,762*	*677*	*8.72%*
	15,341	**934**	**6.09%**	**14,876**	**1,084**	**7.29%**
Other interest-bearing liabilities						
Domestic	*6,896*	*137*	*1.99%*	*6,987*	*192*	*2.75%*
International	*2,160*	*133*	*6.16%*	*2,158*	*152*	*7.04%*
	9,056	**270**	**2.98%**	**9,145**	**344**	**3.76%**
Expenses from hedging transactions						
Domestic		*(307)*			*(388)*	
International		*(103)*			*(158)*	
		(410)			**(546)**	
Total interest-bearing liabilities						
Domestic	*282,175*	*3,751*	*1.33%*	*269,210*	*5,032*	*1.87%*
International	*796,666*	*21,258*	*2.67%*	*707,843*	*20,077*	*2.84%*
	1,078,841	**25,009**	**2.32%**	**977,053**	**25,109**	**2.57%**
Other liabilities	**166,313**			**141,352**		
Non-controlling interests	**10,283**			**9,808**		
Shareholders' equity	**90,220**			**75,047**		
Liabilities from discontinued operations	**-**			**-**		
Total average liabilities and shareholders' equity	**1,345,657**	**25,009**		**1,203,260**	**25,109**	

The average balance of interest-bearing liabilities in 2015 was EUR 1,079 thousand milion, which was 10% more than in 2014.

The increase in balances was largely due to the international component, in which Customer deposits was the most noteworthy heading. Most notable in the advance in the domestic component were the Deposits from credit institutions.

The average cost of the interest-bearing liabilities fell by 25 basis points to 2.32%. As in the case of assets, there were falls by heading across the board in both the domestic and international components.

The changes in income and expense shown in the table below are calculated and attributed mainly to:

- 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.

Distinguishing between interest income and interest expense reveals that:

- Interest income rose by EUR 2,542 million, as a result of the increased volume (up by EUR 6,292 million), since the lower rates resulted in a decrease of EUR 3,750 million. The net positive variation occurred in the international component; the domestic component fell.
- Interest expense was down by EUR 100 million due to the interest rate effect (EUR -2,213 million), mostly as a result of the lower cost of customer deposits, which offset the higher cost by volume (up by EUR 2,113 million). In this case, the decrease in the expense was due to the rate effect in the domestic component.

The net result is an increase of EUR 2,642 million, all due to the increased volumes.

Interest income

(In millions of euros)

	2015/2014 Increase (decrease) due to changes in:		
	Volume	**Rate**	**Net variation**
Cash and balances with central banks			
Domestic	4	(10)	(6)
International	(89)	(551)	(640)
	(85)	**(561)**	**(646)**
Loans and advances to credit institutions			
Domestic	26	2	28
International	30	5	35
	56	7	**63**
Loans and advances to customers			
Domestic	(140)	(851)	(991)
International	5,506	(1,245)	4,261
	5,366	**(2,096)**	**3,270**
Debt securities			**0**
Domestic	209	(932)	(723)
International	1,005	(168)	837
	1,214	**(1,100)**	114
Total interest-earning assets excl. hedging transactions			
Domestic	99	(1,791)	(1,692)
International	6,452	(1,959)	4,493
	6,551	**(3,750)**	**2,801**
Income from hedging transactions			
Domestic	(12)	0	(12)
International	(548)	0	(548)
	(560)	**0**	**(560)**
Other interest			
Domestic	(31)	0	(31)
International	332	0	332
	301	**0**	**301**
Total interest-earning assets			
Domestic	56	(1,791)	(1,735)
International	6,236	(1,959)	4,277
	6,292	**(3,750)**	**2,542**

Interest expense

(In millions of euros)

	2015/2014 Increase (decrease) due to changes in:		
	Volume	**Rate**	**Net variation**
Deposits from credit institutions			
Domestic	138	(183)	(45)
International	294	(98)	196
	432	**(281)**	**151**
Customer deposits			
Domestic	33	(560)	(527)
International	1,286	(726)	560
	1,319	**(1,286)**	**33**
Marketable debt securities			
Domestic	(186)	(428)	(614)
International	690	45	735
	504	**(383)**	121
Subordinated liabilities			
Domestic	(4)	(153)	(157)
International	45	(38)	7
	41	**(191)**	**(150)**
Other interest-bearing liabilities			
Domestic	(2)	(53)	(55)
International	0	(19)	(19)
	(2)	**(72)**	**(74)**
Total interest-bearing liabilities excl. hedging transactions			
Domestic	(21)	(1,377)	(1,398)
International	2,315	(836)	1,479
	2,294	**(2,213)**	**81**
Expenses from hedging transactions			
Domestic	81	-	81
International	55	-	55
	136	**-**	**136**
Other liabilities			
Domestic	36	-	36
International	(353)	-	(353)
	(317)	-	(317)
Total interest-bearing liabilities			
Domestic	96	(1,377)	(1,281)
International	2,017	(836)	1,181
	2,113	**(2,213)**	**(100)**

Excluding the impact of exchange rates, the net interest income was up by 8% year on year, with increases in most of the geographical areas, except for Poland (down by 6%), due to the fall in interest rates, Spain (down by 5%), in an environment of low interest rates and strong competition in lending, and Chile (down by 1%), due to the impact of the lower rate of variation in the UF unit of account and the regulation of the policy on maximum rates. There was noteworthy growth in Santander Consumer Finance (up by 31%), partly due to the change in the scope of consolidation, Mexico (up by 14%), due to the increase in lending, Brazil (up by 10%), after quarter-by-quarter improvements throughout the year, and the United States (up by 7%) due to the higher portfolio volume at Santander Consumer USA and Santander Bank.

Fees and commissions amounted to EUR 10,033 million, an increase of 4%. By unit, performance was very uneven due to the different economic and business cycles in each of the countries. In some cases regulatory changes that limited revenues, mainly in insurance and cards, also had an impact.

The aggregate net interest income and income from fees and commissions was up by 8% at EUR 42,222 million, and accounted for 93% of the total income (92% in 2014).

Gains on financial assets and liabilities were down by 16%, impacted by the higher income in 2014 from the management of interest rate hedging portfolios and the global corporate unit.

Other income increased by EUR 146 million, which was the net result of two opposite impacts. On the one hand, the positive impact of the income from leasing operations (mainly in the United States) and the higher results of companies accounted for using the equity method. On the other, the contribution to the deposit guarantee funds, which is also booked on this line, was more than EUR 750 million in the year for the whole Group, after rising by over 30%, mainly due to Poland (where the sector made extraordinary contributions due to the failure of a bank), Spain and Argentina.

Operating costs totalled EUR 21,571 million, and were up by 8% year on year (up by 7% disregarding the impact of exchange rates). This increase was due to a number of factors: the evolution of inflation in Latin America, the investments in programmes for innovation and improved future efficiency, the impact of the measures adopted by the Bank as a result of the new regulatory requirements (in particular in the United States) and the change in the scope of consolidation.

- Adjusted for the effects of the changes in the scope of consolidation and the average inflation for the period, costs increased by only 1%, which reflects the positive impact of the three-year efficiency and productivity plan launched at the end of 2013, which is making it possible to make the bigger investments mentioned earlier, and keep the real growth of costs close to zero.

- By country, noteworthy was the fall in real terms in Brazil (down by 6% disregarding changes in the scope of consolidation) and in Spain and Portugal (down by 1% in each case).

The efficiency ratio was 47.6%, compared with 47.0% in 2014. This increase was due to the performance of the results on financial assets and liabilities mentioned above, since without them, the efficiency ratio remained stable.

The period provisions to allowances for loan losses amounted to EUR 10.108 million, a decrease of 4% year on year. There were significant falls in the United Kingdom (down by 71%), Spain (down by 43%), Portugal (down by 42%) and the real estate operations in Spain unit (down by 26%). They were also down in Poland and Santander Consumer Finance. In contrast, the period provisions were higher in countries like Chile (up 4%), Brazil (up 5%), Mexico (up 15%) and the United States (up 16%), which all recorded significant growth in volumes. All these variations at the units are disregarding the effect of exchange rates.

- The lower provisions combined with the increase in lending made it possible for continued improvement of the cost of the Group's lending, which fell from 1.43% in December 2014 to 1.25% in December 2015. Excluding Santander Consumer USA, which has a high level of provisions due to its type of business, the cost of lending stood at 0.90%, compared with 1.15% in December 2014.

- This improvement in the cost of lending was recorded at all of the Group's units, with the exception of the United States. Noteworthy were Spain, Portugal, the United Kingdom and Brazil. This performance was due to the increased quality of the portfolios as a result of the active risk management, combined with a better macro situation in certain countries.

Accordingly, the net operating income after loan loss provisions was up by 13% (+12% excluding the exchange rate effect) driven by the double-digit growth of a large proportion of the units.

Together, Other income and write-downs were negative by an amount of EUR 2,654 million (EUR 2,292 million in 2014).

The ordinary profit before taxes, which equates with the performance of the business, was 13% higher in current euros (+10% in constant euros).

The increase in taxes was largely due to the greater tax burden at some units such as Portugal, Santander Consumer Finance, Mexico, Chile and the United States, mainly.

Non-controlling interests were up by 6%, since the increases in the United States (due to the improvement in Santander Consumer USA's earnings) and Santander Consumer Finance (implementation of the agreements with PSA), were partially cancelled out by the repurchase made in Brazil in the fourth quarter of 2014.

The ordinary attributable profit was EUR 6,566 million, an increase of 13% year on year (10% in constant euros). By geographical region, the biggest increases were in Portugal (up by 63%), Brazil (up by 33%, due in part to the repurchase of non-controlling interests), SCF (up by 18%, due in part to the changes in the scope of consolidation), Spain (up by 18%) and the United Kingdom (up by 14%). In all cases, in the respective currencies in which they operate.

Conversely, there were decreases in Poland (mainly due to the fall in interest rates and the extraordinary charge for the deposit guarantee fund), Chile (due to the lower UF inflation, the effect of which was not fully offset by the increased volumes and higher gains on financial assets and liabilities, combined with a higher tax rate) and the United States (where the setting up of the holding company, the improvement in the franchise of Santander Bank and the discontinuance of personal loans in order to focus more on vehicle finance, is having a temporary impact on income and costs).

The ordinary RoTE stood at 11.0%, while the ordinary earnings per share were EUR 0.45, which was 7% less year on year, impacted mainly by the increase in the number of shares in the period (capital increase in January 2015 and Santander Dividendo Elección scrip dividend scheme), as well as the increased financial cost as a result of the new issues of AT1 instruments.

After incorporating the net result of extraordinary capital gains and write-downs, the profit attributable to the Group was EUR 5,966 million in 2015, 3% more than in 2014.

The RoTE was 10.0% and the earnings per share EUR 0.40, down 16% on 2014.

2.3 Balance sheet

Below is the condensed balance sheet as at 31 December 2015, compared with that as at 31 December 2014.

Condensed balance sheet - Directors' report

Millions of euros

	2015	2014
Assets		
Cash and balances with central banks	81,329	69,428
Financial assets held for trading	147,287	148,888
Debt instruments	43,964	54,374
Loans and advances to customers	6,081	2,921
Equity instruments	18,225	12,920
Trading derivatives	76,724	76,858
Loans and advances to credit institutions	2,293	1,815
Other financial assets at fair value	45,043	42,673
Loans and advances to customers	14,293	8,971
Other (loans and advances to credit institutions, debt instruments and other equity instruments)	30,750	33,702
Available-for-sale financial assets	122,036	115,251
Debt instruments	117,187	110,249
Equity instruments	4,849	5,001
Loans and receivables	831,637	781,635
Loans and advances to credit institutions	50,256	51,306
Loans and advances to customers	770,474	722,819
Debt instruments	10,907	7,510
Held-to-maturity investments	4,355	—
Investments	3,251	3,471
Tangible and intangible assets	27,790	26,109
Goodwill	26,960	27,548
Other assets	50,572	51,293
Total assets	**1,340,260**	**1,266,296**

	2015	2014
Liabilities and equity		
Financial liabilities held for trading	105,218	109,792
Customer deposits	9,187	5,544
Marketable debt securities	—	—
Trading derivatives	76,414	79,048
Other	19,617	25,200
Other financial liabilities at fair value	54,768	62,318
Customer deposits	26,357	33,127
Marketable debt securities	3,373	3,830
Deposits from central banks and credit institutions	25,038	25,360
Financial liabilities at amortised cost	1,039,343	961,053
Deposits from central banks and credit institutions	148,079	122,437
Customer deposits	647,578	608,956
Marketable debt securities	201,656	193,059
Subordinated liabilities	21,153	17,132
Other financial liabilities	20,877	19,468
Liabilities under insurance contracts	627	713
Provisions	14,494	15,376
Other liabilities	27,057	27,331
Total liabilities	**1,241,507**	**1,176,581**
Shareholders' equity	102,402	91,664
Share capital	7,217	6,292
Reserves	90,765	80,026
Profit attributable to the Group	5,966	5,816
Less: dividends and remuneration	*(1,546)*	*(471)*
Valuation adjustments	(14,362)	(10,858)
Non-controlling interests	10,713	8,909
Total equity	**98,753**	**89,714**
Total liabilities and equity	**1,340,260**	**1,266,296**

At 31 December 2015, the total business managed and marketed was EUR 1,506,520 million. Of this amount EUR 1,340,260 million related to on-balance-sheet assets and the remainder to investment funds, pension funds and assets under management.

In the Group overall, the impact of exchange rates on the variation in lending to customers was zero, and just one negative percentage point on the variation in customer funds. However, by unit, the impact was significant in the United States (+13 percentage points), the United Kingdom (+6 percentage points), Chile (5 percentage points), Mexico (-6 percentage points), Brazil (-28 percentage points) and Argentina (-42 percentage points).

Exchange rates: Parity 1 euro=currency

	Final exchange rate (balance sheet))	
	2015	2014
US dollar	1.089	1.214
Pound sterling	0.734	0.779
Brazilian real	4.312	3.221
Mexican peso	18.915	17.868
Chilean peso	773.772	737.323
Argentine peso	14.140	10.277
Polish zloty	4.264	4.273

The change in the scope of consolidation had a slight positive effect on the year-on-year variation in lending, in the area of consumer finance (mainly due to the implementation of the agreement with PSA), and the addition at the end of December of the assets and liabilities acquired from Banco Internacional do Funchal (Banif) in Portugal.

The Group's gross lending to customers amounted to EUR 817,366 million at 31 December 2015, an increase of 7% year on year. Disregarding the effect of exchange rate variations and excluding reverse repos, the balances were up by 6%.

Loans and advances to customers

Millions of euros

	2015	2014
Loans to the Spanish public sector	13,993	17,465
Loans to other residents	153,863	154,905
Commercial credit	9,037	7,293
Secured loans	92,478	96,426
Other loans	52,348	51,187
Loans to the non-resident sector	649,509	589,557
Secured loans	409,136	369,266
Other loans	240,373	220,291
Loans and advances to customers (gross)	**817,366**	**761,928**
Allowance for loan losses	26,517	27,217
Loans and advances to customers (net)	**790,848**	**734,711**
Memorandum items: Non-performing assets	36,133	40,424
Public sector	145	167
Other resident sectors	16,301	19,951
Non-residents	19,686	20,306

At 2015 year end, of the total gross lending to customers maturing in over 1 year, 56% was linked to floating interest rates and the remaining 44% was linked to fixed rates. The geographical breakdown of these loans reveals that:

- In Spain, 76% of the loans were floating rate and 24% were fixed rate.
- 51% of loans granted outside Spain were floating rate and 49% were fixed rate.

The breakdown by activity of Loans and advances to customers can be found in Note 10.b of the notes to the accompanying consolidated financial statements.

The breakdown by geographical region of the variations in gross lending to customers, excluding reverse repos, in 2015 was as follows (disregarding the exchange rate effect):

- The biggest increases were at Santander Consumer Finance (up by 21%, assisted by the change in the scope of consolidation referred to above), the Latin American countries (Brazil: +9%; Mexico: +19%; Chile: +11%) and Poland (+11%). They were joined by Portugal, with an increase of 26% (+1%, disregarding the change in the scope of consolidation).
- There was also growth in the United States (+7%) with positive performance from Santander Bank and Santander Consumer USA, and in the United Kingdom (+5%). Noteworthy in the UK was the good performance of the businesses segment, where Santander achieved much higher growth than the market, and the progress in mortgages.
- Spain was down 3% in an environment of strong competition in prices, in which the growth of new lending, at double-digit rates, was still below that of loans repaid.
- Generally speaking, there was growth in the businesses segment, which was assisted by the launch or development, in those countries where it already existed, of the *Advance* strategy, as well as the 1|2|3 strategy.
- At the real estate operations in Spain unit, net lending was down by 33% year on year in response to the ongoing policy of divestment adopted in recent years.

As for the liability side of the balance sheet, the customer funds under management, including investment funds, pension funds and assets managed, totalled EUR 1,070,134 million, an increase on December 2014 of 5%. Disregarding the impact of exchange rates, the increase was 6%.

In 2015 the increase in customer funds overall (i.e. customer deposits excluding repos and investment funds) was 5%. At constant exchange rates, customer deposits excluding repos rose 6% and investment funds rose 14%, resulting in an aggregate increase of 7%.

Loans maturing in over one year at 31 December 2015

	Domestic		International		TOTAL	
	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total
Fixed rate	30,159	24%	244,073	49%	274,232	44%
Floating rate	93,460	76%	250,725	51%	344,185	56%
TOTAL	**123,619**	**100%**	**494,798**	**100%**	**618,417**	**100%**

Customer funds increased in all of the Group's geographical regions in the year; disregarding the impact of exchange rates the breakdown is as follows:

- Growth of 12% in Brazil, of 10% or close thereto in the United States, Mexico and Chile, while the United Kingdom was up by 6%, Portugal 5% (excluding the change in the scope of consolidation) and Poland by 4%.

- In Spain, there was an increase of just 1%, which was more in line with the variations in lending referred to above.

The general strategy of reducing time deposits and growing demand accounts and investment funds continued, with practically all of the regions achieving growth in both.

Customer funds under management & marketed
Millions of euros

	2015	2014
Resident public sector	11,737	9,349
Other resident sectors	157,611	163,340
Demand deposits	108,410	88,312
Time deposits	47,297	67,495
Other deposits	1,904	7,532
Non-resident sector	513,775	474,939
Demand deposits	313,175	273,889
Time deposits	146,317	151,113
Other deposits	54,283	49,937
Customer deposits	**683,122**	**647,628**
Marketable debt securities	205,029	196,890
Subordinated liabilities	21,153	17,132
On-balance sheet customer funds	**909,304**	**861,649**
Investment funds	129,077	124,708
Pension funds	11,376	11,481
Assets under management	25,808	25,599
Other customer funds under management & marketed	**166,260**	**161,788**
Customer funds under management & marketed	**1,075,565**	**1,023,437**

This performance of the business meant that at year end the loan-to-deposit ratio was 116%.

In addition to attracting customer deposits, the Group considers it to be strategic to maintain a selective policy of issuance on the international bond markets, and endeavours to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and the receptivity of each market.

In 2015, through different Group units there were:

- Medium- and long-term issues of senior debt amounting to EUR 36,986 million, subordinated debt amounting to EUR 4,217 million and covered mortgage bonds amounting to EUR 3,657 million.

- Securitisations placed on the market amounting to EUR 14,379 million.

In turn, there were medium- and long-term debt maturities totalling EUR 36,462 million.

Hybrid capital instruments were also issued..

Goodwill totalled EUR 26,960 million, which was EUR 588 million less than in 2014, since the increase from the change in the scope of consolidation was wholly cancelled out by the variation in the exchange rate of the Brazilian real against the euro.

The financial assets available for sale totalled EUR 122,036 million in December 2015, which was EUR 6,785 million (6%) more than at the end of 2014. This increase was located mainly in Spain, the United States and Mexico.

Available-for-sale financial assets
Millions of euros

	2015	2014
Debt instruments	117,187	110,249
Equity instruments	4,849	5,001
Total	**122,036**	**115,251**

Information about the valuation adjustments generated by the available-for-sale financial assets can be found in Note 29.a of the notes to the accompanying consolidated financial statements.

2.4 Business Areas Continental Europe

Continental Europe includes all of the business activities carried on in the region.

Environment and strategy

The growth of GDP in the euro area accelerated. However, it was still uneven country by country, with Spain being among the economies growing the most.

In the euro area, inflation of around 0% encouraged the ECB to continue with its expansive monetary policy: interest rates at record lows and quantitative easing.

Highlights of the year were the start of the implementation of the agreement between Santander Consumer Finance and PSA to establish joint ventures in a number of countries, as well as the acquisition of assets and liabilities of Banco Internacional do Funchal (Banif) in Portugal, which positioned the Group as the second private bank in the Portuguese market.

In addition, as part of the Group's strategic focus, the upward trend in engaged and digital customers continued, powered in many cases by the Mundo 1|2|3 strategy for private individuals, and the launch of the *Advance* strategy for businesses. .

Business activities and earnings

The business dynamics in Continental Europe were still moderate, with some countries still engaged in deleveraging. However, there were signs during the year of an acceleration in business activity, particularly in the arrangement of new loans.

Lending to customers increased by 5% year on year and customer funds by 4%, with growth rates of around 10% in demand accounts and investment funds.

In earnings, the attributable profit in Continental Europe amounted to EUR 2,218 million, an increase of 34% on 2014, driven by Santander Consumer Finance, Spain and Portugal.

This improvement is mainly due to the decrease in provisions to allowances for loan losses (-31%) that can be observed at all the units and resulted in improvements in non-performing loans ratios and the cost of lending.

Strict cost control also contributed to the income statement (-0.4% disregarding the effect of changes in the scope of consolidation).

Lastly, there was moderate growth in income (up by 3%) in an environment of strong competition that impacted loan spreads, interest rates at all-time lows, and higher charges for deposit guarantee and resolution funds.

Spain

Environment and strategy

Spain grew by around 3.2% in 2015 with a well-diversified base that made it possible to bring the unemployment rate down to around 21% by the end of the year. In addition, progress was made in correcting the imbalance in the public accounts while at the same time maintaining the foreign trade surplus.

Energy prices kept inflation rates negative for a large part of the year, although the underlying rate remained positive.

Against this background, activity in Spain is well placed to accelerate its growth and build long-term relationships with its customers, in addition to boosting its business with SMEs and businesses, and maintaining its lead in big companies.

Activity in Spain has set itself the objective of taking the lead in a new way of doing banking and for this purpose has defined a strategy based on five pillars:

1. Building long-term relationships with customers. To achieve this, 2015 saw the launch of the Cuenta 1|2|3 account, a new concept of relationship that rewards transactional engagement and increases the relationship with the Bank.

2. Being the bank of choice for businesses in Spain. With this aim, the Bank continued financing businesses and changed its model of segmentation so that the value offering is better tailored to customers' needs.

3. Attaining excellence in service quality, with greater customer satisfaction, the revision of all processes with a customer-focused view, the start of the conversion of the branch office network to a new model, and efforts focused on the digital transformation.

4. Developing advanced risk management to improve the comprehensive customer-based view of risk.

5. Generating sustainable profitability, based on the stability of earnings thanks to the "pay-for-value" model and the monetisation of the long-term customer relations strategy.

Business activities and earnings

The arrangement of new loans to SMEs, micro-businesses and private individuals increased in 2015. This is not yet reflected in the variation in the stock, which was down by 3% year-on-year as a result of the fall in institutions and the repayment of mortgages.

There was a 1% increase in customer funds, with the continuing strategy of growing demand deposits (up by 9%) and investment funds (up by 11%) and reducing time deposits (down by 20%), which is being reflected in the lower cost of deposits.

As regards earnings, the attributable profit amounted to EUR 977 million, an increase of 18% supported by the good performance of period provisions and the operating excellence.

Income was down 8% against a background of interest rates at all-time lows and strong competition in lending, combined with a regulatory environment that had a negative impact on fees and commissions, lower income from financial business activities and the increased charges to deposit guarantee and resolution funds.

There was a 2% reduction in costs as a result of the synergies achieved through the optimisation plans introduced.

Period provisions were 43% lower than in 2014 with the continuing process of normalisation in a more favourable economic cycle. Specifically, the non-performing loans ratio stood at 6.53%, 85 basis points lower year on year. The coverage ratio rose 3 percentage points to 48%.

The positive trend in the cost of lending continued: it fell to 0.62% from 1.06% in 2014.

Portugal

Environment and strategy

The Portuguese economy continued to recover in 2015. The growth of GDP accelerated to an estimated rate of 1.4% compared with 0.9% in 2014. The recovery benefited from the ECB's expansive monetary policy and the positive effect it had on spreads and the euro exchange rate. The country's economic fundamentals continue to improve, the rate of unemployment has fallen for the past three years and the current account balance remains positive.

In 2015 the Bank's strategy was closely focused on managing lending and borrowing rates, increasing market shares, particularly in the businesses segment, controlling non-performing loans and improving efficiency.

Noteworthy among the principal commercial actions was the launch of the Mundo 1|2|3 product with the objective of growing in the middle segment of the private individuals market. The product is having a major impact on the process of customer attraction and engagement. The Bank's efforts to attract new business customers are supported by the Santander Advance scheme, which has become an essential tool.

This strategy has resulted in an increase in the number of engaged customers, with a 14% rise in businesses and a 4% rise in private individuals. There was a 20% increase year on year in digital customers.

In addition to this organic performance, on 21 December 2015 the Bank of Portugal selected Santander Totta to acquire most of the assets and liabilities of Banco Internacional do Funchal (Banif) for EUR 150 million. With this transaction, which evidences the commitment to the economic development of Portugal, Santander became the second private bank in the country with a market share in loans and deposits of over 14%.

Business activities and earningss

Disregarding the addition of Banif, 2015 brought a slowdown in the fall of lending overall (-1% in 2015 compared with -5% the previous year) and a rise in lending to businesses, in contrast to the fall of the market. Noteworthy were the shares attained in new lending to businesses and in mortgages.

There was a 5% increase in customer funds as part of the strategy of growing demand accounts (up by 37% year on year) and investment funds (up by 18%), while time deposits were down by 7%. This led to the improvement in the cost of deposits. These increases via the business were reinforced by the acquisition of Banif liabilities.

In earnings, the attributable profit for 2015 was EUR 300 million, an increase of 63% on 2014 due to the good performance of the main lines of the income statement.

There was growth of 6% in income, with increases in net interest income due to the improvement in the cost of funding, and in gains on financial assets and liabilities (sales of government debt securities and the investment in Banco Caixa Geral Totta Angola).

Costs fell 1% due to the optimisation of the commercial network in line with the business environment.

Period provisions to allowances for loan losses were down by 42% due to the decrease in net additions to delinquent balances, and the cost of lending improved to 0.29% from 0.50% in 2014.

The non-performing loans ratio was 7.46% and the coverage ratio was 99%, in both cases an improvement on December 2014 (8.89% and 52%, respectively). Under local criteria, the non-performing loans and coverage ratios continued to be better than the system average.

Poland (changes in local currency)

Environment and strategy

Poland grew strongly in 2015 (3.6%) with inflation (-1%) well below the target of 2.5% set by the National Bank of Poland, which lowered the reference rates to 1.5% in March.

Noteworthy as the most positive factor was the significant improvement in the labour market, with steady creation of jobs and a substantial fall in unemployment to the lowest rate since 2008.

The Bank was awarded the prestigious 'Best Bank in Poland' award in the Euromoney Awards for Excellence 2015, and continued implementing its 'Next Generation Bank' strategic scheme to develop the Bank at all levels. Its main objective is to be the bank of choice for customers.

The Bank continued to lead in cards and mobile and internet banking, with its marketing of a variety of products and initiatives that make it a benchmark in innovation and electronic security.

In retail banking, 2015 was a good year in terms of growth of lending, with noteworthy performance in mortgage and cash loans. In the businesses segment, the focus continued to be on leasing and factoring transactions

Business activities and earnings

At the end of 2015, net lending in Poland amounted to EUR 18,977 million and deposits to EUR 21,640 million, enabling the Bank to maintain a sound funding structure, as is evidenced by the loan-to-deposit ratio of 88%. In 2015 lending was up by 11% and deposits by 6%.

In earnings, the profit does not reflect the good business performance, largely as a result of the fall in interest rates. Consequently, at EUR 300 million it was 15% lower than in 2014.

Income was down 7% year on year due to the net impact of the following effects:

- The decrease in net interest income and fees and commissions. The net interest income, as a result of the fall in interest rates, which particularly affected the consumer finance rates due to the ceiling set by the Lombard rate. The fees and commissions, due to increased regulation mainly affecting the card business.

- There was also the impact of the one-time charge to the Deposit Guarantee Fund as a result of the failure of SK Wołomin Bank.

This fall in income was partially offset with the control of costs and provisions to allowances that were down by 10% in contrast to the increase in lending. This led to an improvement in the non-performing loans ratio, which stood at 6.30% (112 basis points lower than in 2014).

Santander Consumer Finance

Environment and strategy

The main European markets in which this area does business presented growths in their economies ranging from 1.7% to 3.5% in 2015.

The Santander Consumer Finance units in Continental Europe operated in an environment of incipient recovery of both consumer spending and vehicle registrations (+9% year on year in the countries in which they operate).

In 2015, SCF continued to win market share, supported by a business model that has been strengthened during the crisis thanks to a high level of geographical diversification with critical mass in key projects, high levels of efficiency, and a shared risk control and recovery system that makes it possible to maintain a high level of credit quality.

In 2015 the management focuses were:

- The integration of the GE Nordics businesses acquired in the second half of 2014, which was optimally accomplished and enabled SCF to increase the proportion of direct business.

- The implementation of the agreements with PSA. By year end the operations in Spain, Portugal, the United Kingdom, France and Switzerland had been set up. France and Switzerland are two new markets without prior SCF presence. The remaining countries (Germany, Italy, Netherlands, Belgium, Poland and Austria) will be incorporated in 2016.

- Promoting new lending and cross-selling tailored to the situation in each market, supported by brand agreements.

Business activities and earnings

There was a 27% increase in new lending in 2015, assisted by the increase in the scope of consolidation and heavily supported by direct credit and cards (up by 20%) and vehicle loans (up by 35%). In the peripheral countries there was noteworthy growth in new business in Spain (up by 32%) and the Nordic countries (up by 30% in constant currency). Germany grew by 7% year on year.

Noteworthy on the liability side was the stability of customer deposits (around EUR 32,000 million, most of them in Germany) which set SCF apart from its competitors. SCF is also increasing its recourse to wholesale funding in order to optimise its funding structure.

In earnings, attributable profit of EUR 938 million was obtained in 2015, which was EUR 143 million more than in 2014, an increase of 18%.

This increase benefited from the impact on the scope of consolidation of the units incorporated, which brought growth in income that was higher than that of costs and period provisions.

As a result, the gross operating income was up by 23% (net interest income: up by 31%) year on year, which was more than the increase in costs (21%). This took the efficiency ratio to 44.7%, an improvement of 0.8 percentage points on the previous year.

Period provisions were 1% lower, thanks to the exceptional performance of the credit quality. As a result the cost of lending was 0.77%, an improvement on the 2014 figure of 0.90%. The non-performing loans ratio was 3.42%, an improvement of 140 basis points on the previous year, and the coverage ratio was 109%, 9 percentage points higher than in 2014.

In the breakdown of profit, the three main units were Germany with EUR 393 million, the Nordic countries with EUR 234 million and Spain with EUR 169 million.

Real estate operations in Spain
In addition to the above business units, there is a separate unit covering real estate operations in Spain, which includes the loans of customers whose main activity is property development that have a specialised management model, the investments in SAREB and Metrovacesa, the assets of the former real estate fund and the foreclosed assets.

The Group's strategy in recent years has been directed at reducing these assets, mainly loans and foreclosed assets. The net loans totalled EUR 2,794 million, which was 33% less than in 2014. They accounted for 0.4% of the Group's loans and less than 2% of those of Santander Spain.

The real estate operations in Spain ended the quarter with a non-performing loans ratio of 80.96% and a coverage ratio of 61%. The total credit coverage ratio, including the outstanding balance, was 56%. The coverage ratio for the foreclosed assets was 55%.

In earnings, a loss of EUR 420 million was booked in 2015, compared with the loss of EUR 652 million in the previous year, due mainly to the lower need for write-downs.

United Kingdom (changes in local currency)

Environment and strategy
The UK economy kept up its steady pace of growth (2.2%) of recent years, which has been accompanied by falls in the rate of unemployment to close to pre-crisis levels. Inflation was around 0% with no signs of wage stress, as a result of which the Bank of England kept the discount rate at 0.5%.

The Bank's focus was on boosting the loyalty and engagement of its private individual and business customers. The 1|2|3 range now has 4.6 million private individual customers, and Santander is the bank that has attracted the highest number of switchers since September 2013.

For business customers, regional centres were opened and the number of relationship managers was increased.

In 2015, as a new strategic priority, the Bank put greater focus on operational and digital excellence. A number of different digital solutions were launched in the year that were very well received by the market, and attracting new digital customers was set as a priority. By year end there were 3.7 million digital customers, an increase of 22% year on year.

The Bank also kept the focus on the profitability and strength of the balance sheet, while at the same time establishing a target ring-fencing structure to enable it to meet the distinct needs of its retail, business and institutional customers.

Business activities and earnings
The success of these strategies was reflected in increased growth of volumes year on year. Thus, there was a 5% increase in lending, mainly in the business segment, mortgages and consumer and vehicle finance. Also, February 2015 saw the completion of the joint venture agreement with PSA.

The Bank gave firm support to businesses in 2015, and this was reflected in the 10% growth in lending to businesses in a market in which the trend was downward. There was also a 2% rise in mortgages.

On the liability side, there was strong growth in deposits (up by 7% year on year) driven by current accounts for private individuals and, to a lesser extent current accounts for businesses.

As for earnings, the attributable profit for the year was GBP 1,430 million (up by 14% year on year) supported by the good performance of both period provisions and net interest income.

There was growth of 5% in net interest income, due mainly to the increase in volumes. The ratio of net interest income to average earning assets (1.83%) remained practically stable in 2015, in line with the announcements made during the year.

Costs rose due to investments in the growth of the business and improvements to the Bank's digital channels. This strategic transformation is providing the basis for improved efficiency in the future.

Lastly, the 71% decrease in period provisions was a reflection of the better balance sheet quality throughout the range of products, the conservative loan-to-value criterion, and the favourable economic environment.

Latin America (changes in constant currency)

Environment and strategy
In Latin America the regional GDP shrank 0.4% in 2015 after the growth of 1.2% in 2014, in a complex international environment faced with the prospect of a rise in interest rates in the United States, the downturn of international trade and the lower growth in China. There was very different performance country by country, with some in recession and others showing a gradual recovery. There was a slight upturn in inflation, mainly as a result of the effects of the depreciation of the Latin American currencies.

The Group continued to focus as a priority on strengthening customer relations by improving their experience and increasing their satisfaction. For this purpose, 2015 saw the launch in the principal geographical areas of the Mundo 1|2|3 range of products that is designed to attract and engage private individual customers, and the Advance programme, the aim of which is to strengthen the Bank's positioning in business customers.

As a result, the number of engaged and digital customers rose in all countries. In 2015, in the region's main countries the average growth was 11% in engaged customers and 17% in digital customers.

Business activities and earnings
The Group achieved significant rates of growth in the business. Specifically, lending and customer funds grew by 13%, principally in the Group's strategic segments.

The attributable profit obtained by the Group in the region in 2015 was EUR 3,193 million, and it was negatively affected by the exchange rate effect. As a result the increase was 17% in constant euros and 10% in current euros.

Excluding the exchange rate effect, income was up by 10%, driven by the growth of volumes and transactionality, which impacted both the net interest income and the fees and commissions.

Costs increased by 10% as a result of pay agreements against the background of high inflation in countries such as Brazil, Argentina and Uruguay, dollar-indexed costs, and investments to develop the commercial and digital networks. The growth was moderate when measured in real terms.

The change in the mix of lending towards products with a lower risk premium continued in 2015. The period provisions performed well as a result, rising 7%, which was below the rate of growth of lending.

Brazil (changes in local currency)

Environment and strategy
Brazil went into recession, with the contraction of consumer spending and private investment and rising unemployment. There was an upturn in inflation to over 10%. The central bank reinforced its commitment to control inflation by raising the Selic rate 250 basis points in the year, taking it to 14.25%.

In 2015, the Bank made progress in its process of transformation to simplify, modernise and improve the experience of customers, while agreements were also reached in order to increase the more transactional portion of the Bank's income.

The action taken as part of this process of transformation included most notably:

- The implementation of the CERTO model to increase commercial productivity and enable more time to be spent on contact with customers.
- The simplification of the procedures for attracting and activating new customers (with same-day account opening, delivery of cards and PIN number).
- A strong campaign for digitalising customers —*Vale a Pena Ser Digital*— (It's worth being digital) together with the offering of new digital channels that are simpler and more accessible.
- The launch of the new *Santander Negócios e Empresas* segment designed to create closer relationships in order to promote the development of SMEs.

In addition, the more commercial actions taken included: relaunching the Van Gogh (mass affluent) segment with products and specialised attention through remote account managers; launching *Autocompara* (a platform for pricing insurance from different companies at the same time); strengthening the merchant acquiring business (an operation with Getnet); boosting the payroll business (in partnership with Banco Bonsucesso S.A.) and expanding the business after the acquisition of Súper (a digital platform offering electronic bank accounts, prepaid cards and access to simplified financial services).

These strategies made it possible to achieve a 15% increase in digital customers, of whom there are now 4.4 million, and 12% in engaged businesses.

Business activities and earnings
Lending to customers was up by 9% year on year, partly due to the impact of the exchange rate on the dollar portfolios combined with the addition of Bonsucesso. The change in mix towards products with less risk continued in the year.

By line, the increase occurred mainly in businesses and large companies and mortgages for private individuals. Growth in lending to SMEs was lower, although it did reflect a change in trend as a result of the initiatives referred to above.

Customer funds were up by 12%, with the best performance in investment funds (up by 24%), since deposits remained practically flat.

As regards earnings, the profit was EUR 1,631 million, an increase of 33% year on year. The earnings confirmed the progress made during the year, particularly of the net interest income and fees and commissions.

There was a 10% increase in income, with good performance of the net interest income (up by 10%), which rose for the fifth consecutive quarter, and fees and commissions, which were up by 9%. Noteworthy were those from cards (merchant acquiring), foreign trade, cash and insurance. In contrast, the results on financial assets and liabilities were down due to the great volatility of the markets.

Costs were up by 5% (half of an inflation rate that topped 10% in December). In real terms and disregarding the changes in the scope of consolidation, they fell by 6% as a result of the efforts made in recent years to improve efficiency and productivity.

The credit quality variables performed very well against a background of increasing delinquency. Here, the change in mix made in the course of the last two years towards products with lower yields but also lower risk, was reflected in:

- Better performance in non-performing loans in the year than that recorded by private Brazilian banks as a whole.
- A 5% increase in provisions to allowances for loan losses, resulting in a reduction in the cost of lending of 41 basis points.

This resulted in a 20% increase in the profit before taxes.

Lastly, the decrease in non-controlling interests in the year led to a 33% increase in the attributable profit.

Mexico (changes in local currency)

Environment and strategy
Mexico gave clear signs of improvement in the second half of the year driven by the recovery of both domestic demand and exports. Although the inflation rate remained low, the central bank decided

to raise the official interest rate in response to the increase by the Federal Reserve, in order to prevent possible outbreaks of volatility given the country's strong commercial and financial connection with the United States.

The Group continued to pursue its objective of being the market leader in profitability and growth by attracting new customers and increasing the engagement of existing customers. To achieve this the Bank is focusing on multichannel banking and the transformation of the operating model with improvements in technology and infrastructure, talent, service quality, processes and innovation.

2015 saw the completion of the branch expansion plan, following the opening of 200 branch offices in the last three years. The increase in installed capacity was accompanied by improvements in customer segmentation and sales platforms.

Efforts continued to boost multichannel banking (new ATMs in the year and mobile and internet banking initiatives) and consolidate the strategic alliances with correspondents, enabling the Bank to expand its basic banking services through a network of over 17,000 retail outlets.

The most profitable businesses with private individuals were strengthened, achieving higher than market average rates of growth in consumer loans, cards and mortgages. In SMEs offers of simple credit were launched and there were campaigns for the reinstatement of credit lines to promote lending. In businesses and institutions work continued on new commercial initiatives designed to attract and penetrate the automobile sector and also reverse factoring.

All of these actions made it possible to increase the number of engaged customers by 14%, while the number of digital customers rose by 36% in the year to over 850,000.

Business activities and earnings
Lending to customers was up by 19% year on year, with strong advances in all the segments, reflecting the strategies referred to above. The growth of deposits was combined with an improved composition of them as part of a policy to improve the cost of deposits. Investment funds were up by 5%.

This growth in the business was assisted by the greater installed capacity, combined with better customer segmentation and improvements to the sales platforms.

As for earnings, the profit before taxes for the year as a whole increased by 8%. After taxes at an increased rate of 22% (19% in 2014), and non-controlling interests, the attributable profit amounted to EUR 629 million, an increase of 3%.

The growth in profit was basically driven by the income, which was up 9% year on year, mainly as a result of the 14% increase in net interest income, which reflected the growth in lending. There was a 4% increase in fees and commissions, the most notable being those of transactional banking, insurance and investment banking.

Costs were up by 6% as a result of the greater installed capacity and the new commercial ventures designed to increase the attraction and penetration of the customer base.

Period provisions to allowances for loan losses were 15% higher, mainly due to the increase in volumes, while the cost of lending recorded a slight improvement of seven basis points year on year.

There was a 46 basis-point improvement in the non-performing loans ratio, taking it to 3.38%, and the coverage ratio stood at 91%.

Chile (changes in local currency)

Environment and strategy
The Chilean economy recovered in 2015 as a result of the expansion of investment and private consumer spending, which led the central bank to begin to normalise its monetary policy by raising the official interest rate 50 basis points to 3.50%.

The Group continued to pursue its strategy of increasing long-term profitability in a climate of smaller margins and greater regulation. The focus of management in 2015 was on improving the quality of customer service and customer experience, transforming the commercial banking business, especially in the high- and medium-to-high-income private individuals segment and SMEs, and boosting the business with large and medium-sized companies.

In the individual customers segment this strategy was supported by the use of NEO CRM, and enhancements and new functionalities were introduced to the remote and digital customer service channels (telephone (VOX) and internet).

Progress was also made in opening branch offices and exclusive Select areas for high-income customers, as well as the new model of branch offices in the traditional network.

The Advance strategy, supported by Neo Advance, the CRM for SMEs, was launched in the SME segment, and in the businesses segment the new business centres generated greater proximity to customers, particularly in the regions.

There was a 2% increase in total customers year on year, with a noteworthy rise in high-income private individuals. The total number of engaged customers also rose, with notable growth in businesses and high-income individuals. Lastly, the number of digital customers rose to almost 900,000.

Earnings and business activities
In terms of the business, there was an 11% increase in lending year on year, with progress in the target segments. There was noteworthy growth in the high income and business segments. Deposits were up by 10% year on year.

In earnings, the attributable profit was EUR 455 million at the end of 2015, which was 13% less than in 2014. As detailed below, this fall was mainly due to the lower UF inflation, some regulatory impact, higher technology costs and a greater tax burden.

The 2% increase in income was the result of the 5% rise in fee and commission income and the higher gains on financial assets and liabilities. The net interest income fell by only 1% because the impact of the lower rate in the variation of the UF (4.1% compared with 5.7% in 2014) and the regulation of the policy on maximum rates was offset by higher volumes in asset transactions and the reduction in the cost of funding liabilities.

Costs rose by 11% because of increases due to the indexing to inflation of rents and wages, the impact of the exchange rate on contracts for technology services indexed to the dollar and the euro, as well as the increased in investment in technology developments.

The cost of lending fell from 1.75% to 1.65% because the period provisions to allowances for loan losses rose by 4%, which was well below the rise in lending. This was reflected in the improvement of the credit quality ratios, with a non-performing loans ratio that fell by 35 basis points in the year to 5.62%.

The profit before taxes was down by 6% year on year. After including taxes and non-controlling interests, the attributable profit was down by 13% year on year as a result of the increase in the tax rate due to the tax reforms implemented in 2014.

Argentina (changes in local currency)

Environment and strategy
Argentina ended the year with an economy that was still weak and inflation that was among the highest in the region. In mid-December the new government announced the liberalisation of capital movements and the exchange rate of the Argentine peso began to float freely.

The Group's strategy in 2015 focused on increasing its penetration through its branch office expansion plan, the transformation towards a digital bank with the focus on efficiency and customer experience, and the engagement of the customer segments of high-income private individuals and SMEs.

Forty new branch offices were opened in 2015, and the number of totally transformed branches reached 157, equivalent to 40% of the total network; the first completely digital branch was opened, with the focus on customer self-management, streamlined transactions and immediate access to products.

In the high-income segment the Select products were promoted and new specialised areas and corners were opened. In SMEs, the Santander Río Advance strategy was launched, offering them international reach for their businesses, among other services.

Business activities and earnings
The strategic measures (and the high rate of inflation) led to big increases in lending to customers and customer funds. Lending was up by 52% in 2015, with similar rates of growth in both business and consumer loans. Deposits were up by 58%, driven by time deposits, which increased 86%. Investment funds were up by 73%.

The profit attributable to the Group in 2015 was EUR 378 million, an increase of 22% on 2014. The commercial strategy resulted in a 27% increase in income, with noteworthy increases of 29% in the net interest income and 39% in fees and commissions.

Costs rose by 43% year on year due to the increase in the number of branch offices, the transformation and technology projects and the review of the pay agreement.

Period provisions to allowances for loan losses increased by 16% in 2015, below the rate of growth in lending. The credit quality remained among the best in the market: the cost of lending was 2.15%, the non-performing loans ratio was 1.15%, and the coverage ratio was 194%. All of these ratios improved in 2015.

Uruguay (changes in local currency)

Environment and strategy
Growth of GDP of around 1.2% is estimated for 2015. Inflation stood at over 9%, above the target of between 3% and -7% set by the central bank, which kept the interest rates on monetary regulation bills high in order to converge on that target.

The Group continued to apply a strategy aimed at growth in commercial banking and improvements in efficiency and service quality. With this aim, 2015 saw the launch of value added products and services: the Advance programme for SMEs, initiatives to reduce waiting times in branches (most notably a new version of the app with an innovative information service that indicates the nearest branch and how busy it is) and measures to reduce the time taken to deal with complaints.

The acquisition in July 2015 of Créditos de la Casa (Retop, S.A.), Uruguay's fourth largest financial institution, giving Santander a market share of 28% in finance companies and 25% in consumer credit in the private financial system.

This was all reflected in the variation in the number of customers: private individuals almost doubled and businesses increased by 10%. The number of digital customers rose by 32%.

Business activities and earnings
There was a 21% increase in lending, most notably consumer loans, cards and SMEs. Deposits were up by 32%.

The attributable profit was EUR 70 million, an increase of 38%, heavily supported by the net interest income which increased by 49% assisted by the measures of the efficiency plan.

Period provisions to allowances for loan losses were 46% higher, although the base was low, and credit quality continued to be excellent (non-performing loans ratio of 1.27% and coverage ratio of 205%).

Disregarding the effect of the addition of Créditos de la Casa (Retop, S.A.), which contributed profit of EUR 5 million, the increase would be 28%.

Peru (changes in local currency)

Environment and strategy
The Peruvian economy slowed in 2015 to a growth rate of 2.7% which was similar to that of domestic demand. Inflation ended the year at 4.4%. The central bank relaxed the reserve requirements and raised the reference rate from 3.25% to 3.75%.

The Bank's activities focus on corporate banking and the Group's global customers. Priority is given to close relationships with customers and high quality service by harnessing the synergies with other Group units.

2015 saw the ongoing consolidation of the business of a financial institution specialising in vehicle loans set up the previous year in collaboration with an international partner with long-standing experience in Latin America.

Business activities and earnings
Lending was up by 24% and deposits by 18% year on year, and they were complemented by the growth of stable medium-term funding.

The profit before taxes in 2015 was EUR 43 million, an increase of 52% year on year, heavily supported by the growth of the net operating income (up 56%), which in turn rose as a result of the improved efficiency (income: +46%; costs: +27%).

There was a 25% increase in period provisions to allowances for loan losses, and the cost of lending was 0.69%. The non-performing loans ratio was 0.52% and the coverage ratio a very high 402%.

The increase recorded in the profit before taxes was not fully reflected in the attributable profit (up by 37%) because of the increase in taxes.

Colombia

Banco Santander de Negocios Colombia S.A. began operating in January 2014. The new bank is licensed and has share capital of USD 100 million. It specialises in the corporate and business market, focusing particularly on global customers, the Group's International Desk programme customers, and local customers in the process of internationalisation.

The products on which it focuses are those of investment banking and capital markets, transactional banking, cash and risk hedging, foreign trade funding and products for funding working capital in local currency such as reverse factoring.

The Bank is close to reaching break-even between income and expenses.

United States (changes in local currency)

Environment and strategy

The United States is experiencing a phase of moderate but steady economic growth. In 2015, there was a 2.5% increase in GDP and the unemployment rate continued to fall to what are considered to be levels of full employment (5%). Inflation fell as a result of the decrease in oil prices, although the underlying rate of 1.3% remained below the target figure of 2%. The Federal Reserve raised its interest rates in December 2015 to 0.25%-0.5%.

Santander in the United States includes the holding entity (SHUSA), Santander Bank, National Association, Banco Santander Puerto Rico, Santander Consumer USA Inc., Banco Santander International (BSI), Santander Investment Securities Inc. and the Santander branch in New York.

Santander US continues focusing on several strategic priorities directed at enhancing its position and diversification, including: the implementation of a multi-year project to comply with regulatory requirements globally, the improvement of the governance structure, the setting up of local managerial team with wide experience in the management of large financial companies, the improvement of profitability at Santander Bank, National Association, and the optimisation of the vehicle finance business at Santander Consumer USA.

At Santander Bank, management is focused on improving customers' experience with the Bank in order to increase the customer base and cross-selling. The Bank launched initiatives in checking accounts and redesigned its website.

At Santander Consumer USA the strategy is focused on optimising the mix of assets retained as opposed to sold, increasing third-party servicing as a means of increasing income via fees and commissions, while at the same time realising the value of the relationship with Chrysler.

Business activities and earnings

At Santander Bank, lending was up by 6% and deposits by 7%. In lending, the biggest increase was in loans to businesses, both in the commercial and industrial segment and in the global corporate banking segment. As for customer funds, the growth was mainly located in the more core products, resulting in an improvement in the cost of funding. Investment funds rose by 9% year on year.

At Santander Consumer USA, lending was up by 11%, with a 10% increase in new loans.

In earnings, income from Santander Consumer USA performed well to rise by 9%, due both to the greater volume of portfolios, which boosted the net interest income, and to fees and commissions from servicing. At Santander Bank the net interest income was under pressure from lower than expected interest rates, which were offset by the net gains on financial assets and liabilities.

This good performance in income is not reflected in the profit, which at USD 752 million was 34% less than in 2014.

This decrease was the result of the rise in costs due to the development of the franchise, the setting up of the holding company and the regulatory requirements. There was also an increase in the period provisions to allowances for loan losses mainly due to the higher volumes and withholdings at Santander Consumer USA, which accounted for more than 95% of the provisions in the US. There was also a negative impact due to the heavier tax burden.

Corporate centre

The corporate centre recorded a loss in 2015 of EUR 2,093 million, which includes the net negative result of EUR 600 million booked under Extraordinary capital gains and write-downs.

Disregarding this amount, the ordinary attributed net result was negative by EUR 1,493 million compared with the negative figure of EUR 1,151 million in 2014.

These increased losses are due to the decrease in the results on financial assets associated with interest rate hedges.

Breakdown by 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 unit, the operations of which were broken down in the Continental Europe segment of the distribution by geographical area.

Commercial banking

In 2015 Santander continued to make very good progress with its programme for transforming commercial banking, as discussed above in the comments by area. It is summarised below.

In order to gain greater knowledge of customers, progress is being made in improving the analytical capabilities. A new commercial front has been developed for the branch offices in order to improve commercial productivity and customer satisfaction. In 2015, based on a best practice in Chile, this tool was introduced in Uruguay and its development is continuing in the United States, Chile and Brazil. It will be extended to the rest of the units in the course of 2016.

In order to increase customer engagement and long-term relations, progress was made in 2015 in the launching and consolidation of differential value offerings. These included most notably:

- The Mundo 1|2|3 strategy: after the success of this initiative in the United Kingdom, 2015 saw the launch of similar proposals in other geographical regions such as Portugal and Spain, where they proved popular with customers.

- Comprehensive offerings launched in Chile with proposals such as the Santander LANPASS Plans, which reward transactionality and increase customer benefits, or the Combined accounts in Brazil that offer new solutions which simplify the value offering for private individuals and make it easier for them to choose their accounts.

- The expansion of the Select value offering for high-income customers. Now available throughout the geographical regions, this value proposal was enhanced and expanded in 2015.

- The roll-out of the programme for SMEs that combines a very attractive financial offering with non-financial solutions. In 2015 this was extended to Uruguay, Argentina Brazil and Chile with the result that it is now available in eight countries.

The Bank made further progress with the development of its distribution models focused on digital channels, resulting in substantial improvements to the different channels, most notably with new apps, developments and functionalities for mobile phones in the various geographical areas and the new model of branch office in Spain and Brazil, which offers simpler procedures, more intuitive technology and differentiated areas within the branch.

The Bank supports the internationalisation of its business customers by harnessing the synergies and international capabilities of the Group, thereby:

- Ensuring consistent and uniform customer relations throughout all the local units by means of the *International Desk* (available in 12 countries, this is a service that provides support to businesses wanting to enter the markets where Santander operates), and Santander Passport (a model of specialised customer service for companies engaging in multinational business that offers global management and uniform service and is now available in 8 countries).

- Enabling our customers to connect with each other and capturing international trade flows with the Santander *Trade Portal* (information, tools and resources to help companies to grow their business abroad), now available in 12 countries, and the Santander Trade Club (an innovative platform that enables customers from different countries to make contact with each other and set up trade relations), available in 8 countries.

As regards earnings (in constant euros), the attributable profit in 2015 was EUR 6,854 million, an increase of 10% year on year.

This was the result of the good performance in income, which was up by 6% year on year due to the net interest income. Costs rose 7% (1% disregarding the changes in the scope in consolidation and in real terms), while period provisions were down by 5% year on year.

Santander global corporate banking (SGCB)

In 2015 SGCB maintained the key pillars of its business model, which is focused on the customer, on the division's global capabilities, and its interconnection with the local units, combined with active management of risk, capital and liquidity.

SGCB's results were underpinned by the strength and diversification of the income from customers, which accounted for 88% of the unit's total.

In the cumulative figure for the year, the area accounted for 12% of the income and 19% of the attributable profit of the Group's operating areas.

Income was up by 8% in 2015. By type of business, there was growth in all the products. In global transaction banking there was an increase of 5%, in a context of contained spreads and low interest rates. In financing solutions and advisory, the increase was 9%, reflecting the strength of the various businesses, and there was a 1% increase in global markets, with good performance from America and Iberia.

Costs rose due to the investments made in high-potential markets, in particular the United Kingdom and Poland. Period provisions to allowances for loan losses increased, mainly due to Brazil.

2.5 Issues relating to the environment

Banco Santander incorporates respect for and protection of the environment in the management of its financial business activities. To do this the Bank manages its operations efficiently, includes the environmental impact in the assessment of the risks of its financing transactions and develops and promotes financial products and services that contribute to the conservation of the environment and the fight against climate change, particularly in the sphere of renewable energies.

The Bank has a defined governance structure which governs the actions taken on sustainability.

The sustainability committee, chaired by the chief executive officer and composed of the executive vice presidents of the Bank's principal divisions, proposes and promotes the Group's principal sustainability initiatives. It meets at least once a year. There are also local sustainability committees in nearly all the countries in which the Group operates, chaired in each case by the relevant country head.

In 2015, a social, environmental and reputational risk working group was set up with the objective of evaluating the risk of large transactions in sensitive sectors and issuing the relevant recommendation to the risk committee responsible for approving them. The working group is chaired by the chief compliance officer and consists of the heads of commercial banking, wholesale banking, risks, compliance, legal counsel, sustainability and communication.

The Bank has conducted a review and update of its sustainability policies, including its social and environmental policy, now called sustainability policy, which is the framework of reference in corporate social responsibility and in the management of social and environmental risks throughout the Group.

In this same process, the Bank has reviewed the sectorial policies which establish the criteria to which the financial activities connected with the sectors of defence, energy and soft commodities must adhere. These policies prohibit the financing of certain activities and set limits on others (transactions requiring special attention in view of their social and environmental risk, which must comply with certain requirements in order to be approved). In addition to including new activities and sectors, the review of the policies extends the pre-2015 scope of application to include all wholesale banking transactions in the case of restricted transactions and all transactions in the case of the prohibitions.

Also noteworthy was the update of the policy on climate change to include the international framework after the Paris Agreement, the objective of which is to keep the rise in the average global temperature below 2°C in comparison with the preindustrial levels.

These policies were approved by the board of directors in December 2015 and will be reviewed annually.

The Group has signed up to a number of international commitments including some relating to the environment, including most notably: *UNEP Finance Initiative, Equator Principles, Carbon Disclosure Project, Banking Environment Initiative, Round Table on Responsible Soy, and the adoption of the Soft Commodities Compact promoted by the Banking Environment Initiative (BEI).* In 2015, Santander joined the *World Business Council for Sustainable Development* and signed the declaration of the European Financial Service Round Table in support of an international response to the fight against climate change.

The Bank's environmental actions focused on the following lines of work:

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 paper and cardboard generated, as well as a breakdown of the Bank's direct and indirect greenhouse gas emissions.

In 2015, both electricity consumption, at 1.2 thousand million Kwh, and CO_2 emissions arising from the consumption of electricity and fossil fuels, at 0.3 million tonnes of CO_2 equivalent, remained the same as in 2014. Green energy represents 40% of the Group's energy consumption.

Santander has drawn up an energy efficiency plan (the 2016-2018 plan) that includes targets for the reduction of energy consumption, waste generation, greenhouse gas emissions and also for raising the environmental awareness of the Group's employees.

Targets for 2016-2018:

- 9% reduction in electricity consumption

- 9% reduction in CO_2 emissions

- 4% reduction in paper consumption

The data processing centres (DPCs) are built to the highest standards of energy efficiency and security. Accordingly, they are able to assure uninterrupted service with minimum energy consumption, taking into account sustainability and reliability criteria. In 2015 the Campinas DPC in Brazil won the DPC Energy Efficiency Improvers Award at the DCD Converged Brasil conference in Sao Paulo, and the Querétaro DPC.

In Mexico won the Best Enterprise Data Centre Award at that same conference. The ICREA (International Computer Room Experts Association) also awarded the Mexico DPC the prize for the best certified DPC in the world.

The energy efficiency actions taken include: lighting (presence detectors and external perimeter regulation; more efficient lamps and lights, time switches); air conditioning (office automation, regulation of comfortable temperature band, replacement of appliances with more efficient systems); awareness raising; others (total switch-off of equipment, carbon offsetting, purchasing green power at corporate facilities in Spain, the United Kingdom and Germany).

In the United Kingdom a pioneering project was carried out involving the installation of more than 90,000 LED lights in over 791 branch offices and 13 corporate buildings. The project was designed to achieve a reduction in costs and energy consumption (over 50%).

The Group is also committed to maintaining the environmental certificates (ISO 14001 or LEED) at corporate centres in Brazil, Chile, Spain, Mexico and the United Kingdom.

b) Integrating social and environmental risks in credit extension
The Group considers social and environmental aspects to be a key part of the procedures for risk analysis and decision-making in its financing transactions subject to the Equator Principles and the Group's sustainability policies. The Bank has procedures in place to identify, analyse and assess the environmental and social risks associated with large credit transactions. It also identifies and implements the measures required for the appropriate management of such risks.

c) Development of financial solutions
The Group contributes to the global objective of combating climate change by providing financial solutions and taking the lead in matters relating to project finance for renewable energies and energy efficiency at an international level.

Noteworthy here are:

- The Group's participation in 2015 in the financing of new renewable energy projects: wind farms, hydroelectric and photovoltaic power plants in Brazil, the United States, Germany, Italy, Chile, Portugal, the United Kingdom and Uruguay, with a total installed capacity of 7,362 MW. This increased its participation in the financing of MW by 42% year-on-year (5,197 MW in 2014).

- Further credit lines were arranged with the European Investment Bank (EIB) for a total amount of EUR 361 million in Spain and the United Kingdom for energy efficiency and renewable energy projects.

Sustainability report and presence in sustainable indices

Information on the main steps taken in relation to the environment and the other sustainability actions performed by the Group is provided every year in the sustainability report. The report is checked by Deloitte.

The Group is also included in the main stock market indices that analyse and assess the sustainability actions taken by businesses. In 2015, the Bank was once again included in the Dow Jones Sustainability Index (DJSI), in which it has been included since 2000.

Accordingly, Santander maintains its position as one of the best financial institutions internationally in terms of sustainable management, with a total score of 84 points, making it the leading Spanish financial institution.

The Group has also been a signatory since 2007 of the Carbon Disclosure Project (CDP), the international benchmark initiative for business reporting on climate change, and since 2012 it has been filing the CDP Water Disclosure.

2.6. Issues relating to human resources

At 31 December 2015, Santander Group had 193,863 professionals worldwide with an average age of 37.8 years; 55% were women and 45% were men.

This team is the engine for being a Bank that is simple, personal and fair, for its employees, its customers, its shareholders and for society in general. Accordingly, the Bank's professionals have been placed at the heart of the strategy, and the strategic objective has been set of being in the top three best places to work by 2017 in the main geographical regions where the Group operates.

Therefore, a review is being undertaken of the human resources strategy to ensure that it responds to the needs of the new culture and contributes to the rest of the Group's strategic lines.

In order to have staff that are motivated, committed and excited about making Santander the best commercial bank, the human resources area has three lines of action: :

- Talent management: to promote a global model based on meritocracy, with mechanisms to identify and develop people's potential, with training and career plans, and succession plans to ensure the Group's leadership.

- To listen to staff and engage them: encouraging dialogue in the teams and a style of communication that is transparent and participatory in the organisation.

- To introduce new ways of working: creating a new style of doing things, in order to work in a way that is more flexible, and better adapted to today's world.

A process in which staff in the main countries have participated, has been carried out to define the actions that are required to make the Bank more simple, personal and fair, and these will form the basis of the human resources processes. Each country has identified the actions that are most closely adapted to their local situation and, in addition, eight corporate actions have been defined that summarise those of the entire Group.

The main initiatives include the following:

1. Talent management

- Talent Appraisal Committees (TAC): these committees meet on a regular basis to analyse the performance and potential of the professionals with the support and input of the senior management (country heads, members of the management committees and corporate function heads). Over 1,350 executives have been reviewed and 35% of them have an individual development plan.

- Performance appraisal: SPF behaviour has been included in the 180 degree appraisal for managers, including feedback from their staff. In order to adapt the process to the new culture, the "people management" objective has evolved into "SPF management" and it assesses the corporate behaviours that will facilitate the building of a new bank.

- ERM (Employee Relationship Management): a talent management tool has been developed that provides information on the performance and potential of the professionals.

- *Global Job Posting*: a corporate platform that gives all the Group's professionals the opportunity of finding out about and applying for vacancies in other countries, companies or divisions. In 2015, 381 job offers were finalised.

- Succession planning policy and process: this is intended to establish the guidelines for the appropriate management and monitoring of possible replacements and succession planning by following a shared structured methodology for key senior management positions and control functions.

- Policy on customer satisfaction metrics in the Group's local variable pay systems: this sets out the framework of rules, recommendations and other essential aspects that are used to measure and relate variable pay with customer satisfaction, with the purpose of supporting the achievement of the long-term targets set by the Group concerning customer engagement.

2. To listen to staff and engage them

In 2015, further progress was made in the process of ongoing listening and dialogue with staff.

- *Santander Ideas:* this internal social network enables the professionals in all the countries to share their ideas about issues that are strategic to the Bank, vote on them and comment on them. Its 27,850 users have contributed over 13,000 ideas since the platform was launched in 2014.

The initiatives implemented in response to the requests made through this channel, as well as flexiworking, include ideas such as Best4Us that enables employees throughout the group to make contact and share common interests (such as learning languages or cultural exchanges), Santander Benefits, a website that promotes offers and services for the Group's professionals in Spain, and ideas relating to the Branch of the Future, a new branch model that facilitates simpler processes, more intuitive technology and differentiated spaces depending on customers' needs.

In April a pulse survey of 12,000 Group employees was launched to measure their awareness of the new culture, and also to measure the evolution of the levels of commitment and organisational support.

On 1 October 2015 the annual commitment survey was distributed to all the Group's professionals. The high participation rate of 84% and the more than 76,000 comments made in response to the open questions firmly establish the survey as a listening tool for staff to express their opinions and build a better place to work.

The results indicated a 75% level of commitment. The survey also revealed that pride in belonging continues to be one of the bank's greatest strengths. 82% of the respondents are proud to be part of Santander.

3. New ways of working and simpler structures

2015 was the year that flexiworking came into being. The aim of this initiative is to promote new ways of working, simplify procedures, and adapt the management systems and the structures to the organisation.

The first milestone of this plan was the launch of the corporate flexibility policy.

This framework for action proposes:

- Better organisation and planning of work, by being more efficient, making a more rational use of technology, getting rid of bureaucracy, and making better use of meetings and email.

- New flexibility measures, giving line managers the autonomy to implement measures in their teams to help the Bank's professionals to achieve a greater and better work-life balance.

- Responsiveness to the commitment and dedication of the Bank's staff.

Work has begun on the other elements of the project, such as providing the best technologies and means for remote working.

The first flexiworking phase ended with 91% of the flexibility plans formalised at the corporate centre and 94% of individuals with flexibility measures assigned. In addition, it is the aspect that experienced the biggest variation in the commitment survey.

Significant flexiworking initiatives are being rolled out in the main countries where the Group operates, such as staggered working days in Mexico, working close to home in Argentina, and some of the Chilean initiatives: flexible timetables; free afternoons for birthdays; extra holidays, with three additional vacation days, and teleworking

Knowledge

Staff training is one of the areas to which the Group is committed in order to achieve this transformation and create a new bank. The Group spent EUR 104 million in 2015 on disseminating knowledge amongst its employees, which translated into 94% of professionals trained and an annual average of 39.4 hours of training per employee.

A number of different global initiatives were launched to establish the culture in the Bank. Examples are Listening and Sharing wor-kshops to train change drivers, and Santander Business Insights lectures where both external and internal good practices are shared. There were two in 2015: one on flexiworking and the other on digital transformation.

Approval was also given to the open offering policy, which seeks to increase the transparency in the training that is offered, increase the proactive involvement of the professionals in the design of their training plan, so that they can choose courses in accordance with their preferences and needs, and promote self-management of employees' professional development within the Group. It also helps to align the efficiency of the training and to have greater awareness of staff needs and priorities, thereby increasing efficiency and achieving a greater impact on the business.

We are Santander Week

In June the Group's employees celebrated Somos Santander [We are Santander] Week, which in 2015 was dedicated to the new corporate culture that is making Santander a more Simple, Personal and Fair bank. The corporate and local activities arranged during the week were designed to foster commitment, cooperation and listening in the teams, as well as the pride of belonging.

Corporate Volunteering Policy

The aim of this policy, approved by the sustainability committee and the board of directors, is to organise the volunteering initiatives there are in the Group and give them value.

It establishes education as the central pillar, impact measurement indicators and two occasions for volunteering together: the Somos Santander Week in June and International Volunteering Day in December, in addition to the activities and schemes that each country arranges.

Diversity

Work continued in 2015 to develop female leadership through schemes such as Sumando Talento [Adding Talent], Take the Lead and the Conectad@s [Connected] series of talks at the corporate centre to facilitate networking among women and enable the experiences of other women who are professional leaders both within and outside the Group to be heard first hand.

In order to broaden the scope of diversity to other groups, the Bank has signed up to the Generation and Talent Observatory. The purpose of this observatory is to promote the management of generational diversity in organisations, by helping to extract indicators and conclusions in terms of profitability and competitiveness.

Remuneration system

The principles guiding remuneration at the Group are as follows:

- To be aligned with the Group's values, culture and strategy, and with those of the countries and businesses.

- To support the attraction, development and retention of talent.

- To guide and focus conduct that supports the strategy and culture, by recognising individual and team contributions, offering incentives and rewards for achieving business targets, ensuring rigorous management of risks and promoting the creation of long-term value.

- To comply with labour, tax and pay legislation and regulations, as well as any others, which are applicable in the regions where the Group operates.

- To establish appropriate standards of internal equality, ensuring that the pay of Group employees is consistent with the level of responsibility of the positions they hold.

- To ensure adequate positioning and external competitiveness, by offering pay packages that are competitive with those offered in comparable markets.

- To offer performance incentives, ensuring that levels of pay are graded and consistent with employee performance.

- Not to discriminate against Group professionals on the grounds of sex, age, race, religion, nationality, marital status, or sexual orientation.

On the basis of these principles, the Group promotes a total compensation system, consisting of a fixed amount of pay that recognises and remunerates the role and level of responsibility of the position held by the employee; and a variable amount of short- and long-term pay, which rewards performance based on the achievement of Group, team or individual objectives, ensuring rigorous management of risks and alignment with long-term objectives.

Fixed compensation is determined essentially by the local markets. Compensation levels are determined according to local practice and rigorously respect the collective agreements applicable in each geographic area and society.

Corporate bonus and long-term incentive schemes recompense the achievement of the Group's strategic objectives. In corporate bonus schemes, in which more than 9,000 people from all the geographic areas participate, regard is had to the achievement of the net ordinary profit target, the return on risk-weighted assets and qualitative factors related to the proper management of risk, the quality and recurrence of profits, the level of customer satisfaction and the variation in profits compared with comparable entities.

In the 2015 long-term incentive, objectives directly aligned with the shareholder's interests are also measured: earnings per share, return on tangible equity, customer and employee satisfaction and the loyalty of individual, SME and company customers.

The compensation of the employees whose professional activities have an important impact on an entity's risk profile (Identified Staff) are subject to the deferral of a minimum of 40% of their variable remuneration and they receive at least 50% in the form of shares of Santander or of Group entities that are listed on their markets. The collection and delivery of deferred amounts and shares are subject to the non-concurrence of certain circumstances ("malus" clauses) such as the failure to comply with the internal regulations, in particular, those relating to risks, or significant changes in the Group's economic capital or risk profile as a result of actions that determined the assignment of the bonus or long-term incentive.

This total remuneration system includes a number of benefits for the protection of employees and their families, in accordance with the regulations applicable in each country and the conditions of the various labour markets.

These benefits include advantages in banking products and services, life insurance and health insurance. In some regions, these benefits are offered on a flexible basis for employees to choose.

There are also social welfare schemes set up according to local retirement conditions and local market practices. The social welfare systems bring together protection for employees with a low level of risk for the Group through defined contribution systems.

The Group has recognition programmes that contribute to increasing employee commitment and retention, and also boost motivation and enhance its image as an employer.

Health and the prevention of occupational hazards

The objective of the health and prevention of occupational hazards area of Banco Santander is to consolidate the corporate model of health and safety at work, placing the focus on people, based on uniform policies and standards on health, wellbeing and safety, sharing best practices and promoting diversity, based on a model that is:

- Simple, with a clear strategy and simple procedures.

- Personal, giving each employee quality service that benefits the health of all the staff.

- Fair, with the ultimate aim of contributing to the health and wellbeing of the Bank's employees in particular and society in general.

Basing its strategic lines in the prevention of occupational hazards on the following elements:

- The assessment of physical and psychosocial risks in the working environments, by identifying and evaluating the factors that influence healthy working atmospheres, eliminating potential health hazards and correcting any deviations that may be identified through corrective measures and action plans concerning, for example, road safety or antisocial behaviour.

- The management of emergencies and drills, with efficient protocols for action and trained personnel able to implement them in an emergency, always in collaboration with the business continuity plan. At all Santander workplaces there are instructions setting out the action and resources required in the event of an emergency and the procedure for evacuation, as well as staff trained to cope with emergencies.

- Cardiac protected areas, equipped with defibrillators and staff and security personnel trained in how to use them.

- Training and information on the subject available to all Group employees through the intranet, practical workshops, seminars and e-learning.

- Prevention management in the internationalisation process, providing training and information for travellers, personalised according to the risks attached to each of the destinations and the social and public health environment for those travelling or posted.

And a health strategy based on:

- Health check and health care models with standardised medical examination protocols adapted to positions/individuals and access to the most frequently required medical specialities at the Bank's own medical centres in Spain, Argentina and Brazil.

- Campaigns for training in promoting health and healthy habits, with programmes such as 'Improve your health' in Spain for the control of overweight and obesity, in which more than 550 employees took part. In Mexico the total wellbeing portal was redesigned. This portal is part of the balanced preventive medicine programme which seeks to identify the highest risk factors for employees and provide tools aimed at promoting a healthy lifestyle.

- Blood donor campaigns in Spain, Germany, Portugal, Puerto Rico, the United Kingdom, the United States, Brazil, Mexico and Argentina.

- Flu, human papillomavirus and shingles (herpes zoster) vaccination campaigns.

- Nutritional control policies in canteens and vending machines.

- Pregnancy protection, with initiatives in several countries, including the following. Specific risk assessments are made in the United Kingdom of jobs done by pregnant employees. Santander UK is also recognised by external UK organisations as a "Leader in the management of pregnancy at work and support for childbirth". In Spain, antenatal classes and pre- and postnatal pilates classes are available to all female staff in Madrid. In Brazil, specific job assessments are also carried out in the administrative buildings. In Chile there are educational and recreational classes for pregnant employees, their spouses and children. In Argentina, there is an online step-by-step "Healthy pregnancy" programme for all mothers, from the time of conception until the end of the first year. There are also breastfeeding rooms at workplaces in several countries.

- Research projects as an investment in our teams and a contribution to the community, such as the Santander por tu corazón [Santander for your heart] research study in Spain, carried out in coordination with the Centro Nacional de Investigaciones Cardiovasculares [National Centre for Cardiovascular Research], in which over 4,000 members of staff are taking part. The first conclusions of the study have already been published in Circulation, the journal of the American Heart Association, one of the world's most important publications in this field.

- Financial aid to cover healthcare expenses and for disabled employees or family members, through welfare programmes and funds in the various geographical regions.

	2015	2014
Workforce		
Number of employees	193,863	185,405
Average age of workforce	37.8	37.7
Average length of service	9.9	9.7
Managers	11.91%	11.82%
Recruitment		
CVs received	779,090	660,120
New hires	25,156	22,379
Turnover		
Annual turnover	12.10%	14.44%
Managerial turnover	7.35%	9.69%
Training		
Employees trained	97.7%	97.1%
Training hours per employee	39.4	44.6
Total investment in training (millions of euros)	103.7	103.2
% of e-learning training	42.23%	32.18%
% of hours with internal trainers	45.62%	35.11%
Management		
Employees promoted	10.11%	10.49%
Employees internationally mobile	954	1.103
Managers in country of origin*	88.50%	87.97%
Commitment		
Overall commitment rate	75%	70%
Remuneration		
Employees with variable remuneration	100%	100%
Diversity and equality		
% women	55%	55%
Occupational health and safety		
Rate of absence from work	3.9%	3.7%

* Top Red and Dir Red managers.

3. Liquidity and capital

3.1 Liquidity

- Santander has developed a funding model based on independent subsidiaries that are responsible for meeting their own liquidity requirements.

- This structure enables Santander to take advantage of its commercial banking business model to maintain comfortable liquidity positions at Group level and at its main units, even in situations of market stress.

- In recent years, as a result of the economic and regulatory changes arising from the global financial and economic crisis, it has been necessary to adapt the funding strategies to the new trends in the commercial business, to market conditions and to the new regulatory requirements.

- In 2015, the Group has continued to improve in certain specific aspects on a very comfortable liquidity position at Group and subsidiary level, without any material changes in the liquidity and funding management policies and practices. As a result it is able to face 2016 from a good starting position, with no restrictions on growth.

Liquidity and funding management has always been a basic element of Banco Santander's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests.

The Group relies on a decentralised funding model composed of subsidiaries that are autonomous and self-sufficient in terms of liquidity. Each subsidiary is responsible for covering the liquidity needs arising from its current and future activity, either by taking deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates, subject to management and supervision procedures coordinated at Group level.

This is a funding structure that has proven to be most effective in situations of high market stress as it prevents difficulties in one area from affecting funding capacity in other areas and, therefore, the Group as a whole, which could occur if a centralised funding model were used.

In addition, at Santander Group this funding structure also benefits from the advantages of having a commercial banking model with a significant presence in ten markets with great potential, with the focus on retail customers and a high level of efficiency. As a result, the subsidiaries have a considerable capacity to attract stable deposits, as well as a significant issue capacity in the wholesale markets of their respective countries, generally in local currency, bolstered by the strength of their franchise and their membership of a leading group.

Both the theory and the practice of the Group's management of liquidity and funding risk are detailed below:

- Liquidity management framework - Monitoring and control of liquidity risk.

- Funding strategy.

- Evolution of liquidity in 2014.

- Funding outlook for 2015.

3.1.1. Liquidity management framework - Monitoring and control of liquidity 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 Santander 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.

1. A sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy.

    - Part of the Group's risk appetite framework, this model establishes individual management metrics with specific levels for the structural funding ratio and minimum liquidity horizons under different stress scenarios.

    - Main units involved: global ALCO, local ALCO, financial management area (strategy and implementation), market risks area (monitoring and control).

2. An in-depth balance-sheet analysis and liquidity risk measurement to support the decision-making process and the control thereof.

    - By means of: monitoring balance sheet structure; short-term and medium-term liquidity projections; establishing basic metrics; and analysis of scenarios (potential additional liquidity requirements in response to severe events).

    - Three basic metrics: liquidity gap; net structural position; and analysis of stress scenarios (idiosyncratic crisis; local systemic crisis; global systemic crisis).

3. A management approach adapted in practice to the liquidity needs of each business.

    - By means of: drawing up a yearly liquidity plan; monitoring the actual balance sheet and adjusting requirements during the year; active, diversified presence in wholesale markets.

In 2015 the Internal Liquidity Adequacy Assessment Process (ILAAP) was conducted for the first time. The ILAAP must form an integral part of the Group's strategic and risk management processes.

A more detailed description of the Group liquidity management framework, its monitoring and control, methodology, metrics and scenarios, among other instruments, can be found in Note 54 (Risk Management; Liquidity and funding risk) to the financial statements .

3.1.2. Funding strategy

In the last few years Santander's funding activity has been underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions, and, above all, by the adaptation of the subsidiaries' strategies to the growing demands of both markets and regulators. These demands were not uniform across the markets and reached far higher levels of difficulty and pressure in certain areas, such as the peripheral regions of Europe.

In any case, it is possible to identify a series **of general trends in the policies implemented by Santander's subsidiaries in their funding and liquidity management strategies since the beginning of the crisis.**

Namely:

- **Maintenance of adequate, stable medium- and long-term wholesale funding levels at Group level.** At 2015 year-end, this funding represented 21% of the liquidity balance sheet, a similar level to that of recent years but well below 28% that of 2008 year-end when wholesale funding, which was more abundant and less expensive, had not yet suffered the pressures of the crisis.

  In general, this wholesale activity was modulated at each unit depending on regulatory requirements, the generation of internal funds from the business and the decisions regarding the availability of sufficient reserves of liquidity.

- **Holding a sufficient volume of assets eligible for discount at central banks** as part of the liquidity reserve to cater for episodes of stress on wholesale markets.

  In particular, in recent years the Group has raised its total discount capacity significantly, from close to EUR 85,000 million at 2008 year-end to the current level of more than EUR 195,000 million.

- **Strong generation of liquidity from the commercial business due to the lower growth of credit and greater emphasis on attracting customer funds.**

  In recent years, the performance of the Group's lending has been the result of combining the falls in the Spanish and Portuguese units, due to the severe deleveraging of their economies, with growth in the other geographical areas, either through the expansion of units and businesses that are in development (the US, Germany, Poland, UK companies), or through sustained business growth in emerging countries (Latin America). Taken as a whole, since December 2008 the Group's net loans increased by around EUR 146,000 million (up 26%).

  At the same time, the focus on liquidity during the crisis combined with the Group's capacity for attracting retail funds through the branch network led to an increase of EUR 262,495 million in customer deposits. This represents a 62% increase in the balance at December 2008 and more than double the increase in the balance of net loans in the same period. All the commercial units increased their deposits, both the units in economies involved in deleveraging and those in economies in growth areas where the performance of deposits matched that of loans.

  In 2015, as had already occurred in 2014, these loan and deposit trends were interrupted at Group level. The disparity between the balances of loans and deposits has ceased to narrow and has even widened moderately in the last two years due, on the one hand, to the lower deleveraging and the recovery of production in the economies most affected by the crisis, and on the other, to the focus on reducing the cost of deposits in mature countries with interest rates at record lows.

Thanks to all these market and business developments, based on a sound liquidity management model, Santander currently enjoys **a very robust funding structure, the main features of which are as follows:**

- **High proportion of customer deposits in a predominantly commercial balance sheet.** Customer deposits are the Group's major source of funding. These deposits represent around two thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and at the end of 2015 they accounted for 86% of net loans.

  These are also very stable funds because they mainly originate from the retail customer business (89% of the Group's deposits come from commercial and private banking; the remaining 11% come from large corporate and institutional clients).

- **Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term.** Medium- and long-term wholesale funding represents 21% of the Group's net liabilities and enables it to cater for the net loans not funded with customer deposits (the commercial gap).

  This funding is well-balanced by type of instrument (approximately 40% senior debt, 30% securitisations and structured instruments with collateral, 20% cédula-type covered bonds, with the remainder consisting of preference shares and subordinated debt) and by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

  Most of the medium - and long-term wholesale funding is composed of debt issues. The outstanding balance on the market at 2015 year-end stood at a nominal amount of EUR 149,393 million and offered an appropriate profile of maturities with an average term of 3.9 years.

  The table below gives the breakdown by instrument in the last three years and the profile of contractual maturities.

Medium- and long-term debt issues. Santander Group

Millions of euros

Evolution of outstanding balance in nominal value

	December 2015	December 2014	December 2013
Preference shares	8,491	7,340	4,376
Subordinated debt	12,262	8,360	10,030
Senior debt	83,630	68,457	60,195
Covered bonds	45,010	56,189	57,188
Total	**149,393**	**140,346**	**132,789**

Distribution by contractual maturity

	0-1 months	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	Over 5 years	Total
Preference shares	-	-	-	-	-	-	-	8,491	**8,491**
Subordinated debt	-	7	224	1,058	84	1,079	2,178	7,633	**12,262**
Senior debt	3,337	4,994	4,327	2,902	5,305	21,617	30,636	10,512	**83,630**
Covered bonds	2,627	1,444	1,458	1,477	1,669	8,714	10,170	17,452	**45,010**
Total	**5,964**	**6,444**	**6,008**	**5,438**	**7,058**	**31,410**	**42,984**	**44,087**	**149,393**

* In the case of issues with a put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity. Note: all of the senior debt issued by the Group's subsidiaries does not have additional guarantees.

In addition to the debt issues, medium- and long-term wholesale funding is also composed of securitisation bonds placed on the market and collateralised and other special financing for an aggregate amount of EUR 67,508 million with a maturity of less than two years.

The wholesale funding from the short-term issue programmes is a residual part of the Group's financial structure (it represents around 2% of net liabilities), which is connected with the cash activities and is more than covered by liquid financial assets.

At December 2015 the outstanding balance amounted to EUR 24,448 million and was raised mainly by the United Kingdom unit and the parent through the existing issue programmes: various certificate of deposit and commercial paper programmes in the United Kingdom, 39%; European commercial paper, US commercial paper and the parent's domestic programmes, 22%; and other programmes of other units, 39%.

In short, a sound funding structure based on an essentially commercial balance sheet that enables the Santander Group to comfortably cover its structural liquidity needs (loans and non-current assets) with structural capital funds (deposits, medium- and long-term funding and equity), which generates a high structural liquidity surplus.

3.1.3 Evolution of liquidity in 2015

The key aspects at Group level of the evolution of liquidity in 2015 were as follows:

- **Comfortable liquidity ratios**, underpinned by a balanced commercial activity and greater attraction of medium- and long-term wholesale funding which absorb the growth in lending.

- **Compliance with regulatory ratios.** Compliance with the Liquidity Coverage Ratio (LCR) came into force in 2015. At the end of 2015, the LCR at Group level stood at 146%, considerably above the required minimum (60% in 2015; this percentage must gradually increase until it reaches 100% in 2018).

- **High liquidity reserve,** reinforced with respect to 2014 in terms of quantity (EUR 257,740 million) and quality (52% of the total are high quality liquid assets).

- **Scant weighting of encumbered assets in medium- and long-term wholesale funding transactions:** around 14% of the Group's expanded balance sheet (European Banking Authority -EBA- criteria) at 2015 year-end.

Basic liquidity ratios at comfortable levels

This table shows the performance in recent years of the basic metrics of liquidity monitoring at Group level:

Monitoring metrics. Santander Group

	2008	2012	2013	2014	2015
Net loans/net assets	79%	75%	74%	74%	75%
Net loan-to-deposit ratio (LTD)	150%	113%	112%	113%	116%
Customer deposits and medium- and long-term funding/net loans	104%	117%	118%	116%	114%
Short-term wholesale funding/net liabilities	7%	2%	2%	2%	2%
Structural liquidity surplus (% net liabilities)	4%	16%	6%	15%	14%

At the end of 2015, in comparison with 2014, Santander Group reported:

- A stable ratio of loans to net assets (total assets less trading derivatives and interbank balances) at 75% due to the improvement in lending following the end of deleveraging in mature markets. The high level of this ratio in comparison with those of rival European banks reflects the commercial nature of Santander Group's balance sheet.

- Loan-to-deposit (LTD) ratio of 116%, within very comfortable levels (lower than 120%). This trend reflects the recovery of credit in mature markets, both organic and inorganic (acquisition of consumer finance businesses in Europe), and the increased focus on optimising the cost of retail deposits in countries with low interest rates.

- A decline in the ratio of customer deposits plus medium- and long-term funding to loans, for reasons similar to those for the trend in the LTD ratio, since the increase in the wholesale funds raised at the Group is also lower than that in loans. In 2015 this ratio stood at 114% (2014: 116%), in keeping with the average for recent years (2008-14: 112%).

- A continuing limited recourse to short-term wholesale funding at the Group. The ratio of this funding, at around 2%, was in line with previous years.

Lastly, an increase in the Group's structural surplus (i.e. the excess of structural funding resources -deposits, medium- and long-term funding, and capital- over structural liquidity requirements -non-current assets and loans), rose to an average balance of EUR 159,000 million in 2015, 4% up on the figure at the end of 2014. At 31 December 2015, the structural surplus stood at EUR 149,109 million on a consolidated basis. In relative terms, the total amount of the structural surplus is equal to 14% of the Group's net deposits, a similar level to that recognised in December 2014.

The following table shows the most frequently used liquidity ratios for Santander's main management units at December 2015:

Liquidity ratios for the main units

December 2015. Percentages

	LTD ratio	Deposits and medium- and long-term funding
Spain	89%	149%
Portugal	97%	121%
Santander Consumer Finance	226%	69%
Poland	88%	115%
United Kingdom	122%	107%
Brazil	106%	128%
Mexico	107%	101%
Chile	133%	98%
Argentina	78%	130%
United States	140%	115%
Total Group	**116%**	**114%**

In general, there are two keys to the 2015 performance of both the Group and the subsidiaries' liquidity positions:

1. The widening of the commercial gap, continuing the change of trend started in 2014 and reinforced by inorganic components (SCF).

2. Ongoing intense issuing activity, especially by the European and US units, in view of a more favourable wholesale market situation.

The total medium- and long-term funding raised by the Group as a whole amounted to around EUR 56,000 million in 2015.

By instrument, medium- and long-term fixed-income issues (senior debt, covered bonds, subordinated debt and preferred shares) recorded the largest increases, up 16% to more than EUR 42,000 million, with a higher proportion of senior debt to covered bonds. Spain was the biggest issuer followed by the United Kingdom and the Santander Consumer Finance units; together these three accounted for 87% of the issues.

The remaining EUR 14,400 million of medium- and long-term funding related to securitisation activities and secured funding, and they remained stable year-on-year. The units specialising in consumer finance in the US and Europe account for 85% of the total.

The following figure details the breakdown by instrument and geographical region:

Breakdown by instrument

December 2015. Percentages

	Dec. 15	%
Preference shares	886	2%
Subordinated debt	4,256	8%
Senior debt	34,134	60%
Covered bonds	2,954	5%
Securitisations and other	14,379	25%
Total	**56,609**	**100%**

Breakdown by geographic area
December 2015. Percentages

	Dec. 15	%
United Kingdom	13,653	24%
Spain	10,095	18%
United States	12,465	22%
Santander Consumer Finance	9,843	17%
Brazil	8,011	14%
Other European countries	890	2%
Rest of Latin America	1,652	3%
Total	**56,609**	**100%**

In short, Santander Group maintains an ample capacity to access the various markets in which it operates, which was strengthened by the incorporation of new issuer units. In 2015 it launched issues and securitisations in 14 currencies, in which 18 significant issuers in 15 countries participated, with an average maturity of approximately 4 years, slightly more than in 2013.

Early compliance with regulatory ratios
As part of its liquidity management model, in recent years Santander Group has been managing the implementation and monitoring of, as well as early compliance with, the new liquidity requirements set by international financial legislation. Noteworthy in 2015 was the entry into force of the LCR, which the Group exceeded by a comfortable margin.

LCR (Liquidity Coverage Ratio)
In 2014, following the approval by the Basel Committee of the final definition of the short-term liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, within the scope of the CRD IV, defines the criteria for calculating and implementing this metric in the European Union. The implementation has been delayed until October 2015, although the level of initial compliance remains at 60%, which should gradually increase to 100% by 2018.

The good starting position in short-term liquidity, coupled with the autonomous management of the ratio in all major units, has enabled compliance levels exceeding 100% to be maintained throughout 2014, at both consolidated and individual level in all of these units. In December 2015, the Group's LCR stood at 146%, comfortably exceeding the regulatory requirement. Although the requirement is only established at Group level, the other subsidiaries also comfortably exceed the requirement.

NSFR (Net Stable Funding Ratio)
The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and it has still to be transposed into local legislation.

In relation to this ratio, Santander benefits from a high weighting of customer deposits, which are more stable, from long-term liquidity needs arising from the commercial activity funded by medium- and long-term instruments, and from limited recourse to short term. All of this enables the Group to maintain a balanced liquidity structure, which is reflected in NSFR levels, both at Group level and for most of the subsidiaries, exceeding 100% at 2015 year-end, although compliance will not be required until 2018.

In short, the liquidity model and management enable Santander to bring forward compliance with both regulatory metrics by the Group and by its main subsidiaries, well ahead of the legal requirements.

High liquidity reserve
This is the third key feature reflecting the Group's comfortable liquidity position in 2015.

The liquidity reserve is the collection of highly liquid assets held by the Group and its subsidiaries to serve as a last resort in situations of maximum market stress, when it is not possible to obtain funding for adequate terms at adequate prices.

Consequently, this reserve includes the balances with central banks and cash, uncommitted government debt securities, the discounting capacity at central banks, as well as financeable assets and lines available at official bodies (e.g. the US Federal Home Loans Banks).

This all strengthens the sound liquidity position that Santander's business model (diversification, focus on commercial banking, autonomous subsidiaries, etc.) affords the Group and its subsidiaries.

At 31 December 2015, Santander Group's liquidity reserve stood at EUR 257,740 million, i.e. 12% more than at December 2014 and 3% more than the average for 2015. The following table gives the breakdown of this volume by type of asset according to its effective value (net of haircuts):

Liquidity reserve
Effective value (net of haircuts) in millions of euros

	2015	2015 average	2014
Cash and balances with central banks	48,051	46,703	47,654
Available public debt	85,454	75,035	52,884
Discount available at central banks	110,033	112,725	115,105
Financeable assets and undrawn credit lines	14,202	15,703	14,314
Liquidity reserve	**257,740**	**250,165**	**229,957**

This increase in volume was accompanied by a qualitative increase in the Group's liquidity reserve, resulting from the varying performance of its assets. Accordingly, the first two categories (cash and balances with central banks + available public debt), the most liquid (or "high-quality liquid assets" in Basel terminology, as "first liquidity line") posted above-average growth. In 2015 they rose by EUR 32,967 million, increasing their weighting to 52% of total reserves at year-end (as compared with 44% in 2014).

As part of the autonomy conferred by the funding model, each subsidiary keeps a mix of assets in its liquidity reserve that is appropriate to the conditions of its business and market (e.g. capacity to mobilise their assets or recourse to additional discounting lines such as in the US).

Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use, although in most geographical areas there are regulatory restrictions that limit activities between related entities.

Asset encumbrance
Lastly, 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 detail of these assets is included in Note 54 to the accompanying financial statements.

3.1.4 Funding outlook for 2016

Santander Group begins 2016 with a comfortable initial position and a positive funding outlook for the coming year. However, the environment is not free of risks: instability in the financial markets, adjustment of the Chinese economy and changes in the monetary policies of the main central banks.

With maturities that are assumable in the coming quarters, due to the reduced weighting of short-term and the crucial dynamism of medium- and long-term issues similar to the year-ago period, the Group will manage these needs in each geographical area together with the specific needs of each business, including the projected inclusion of new portfolios and businesses, especially consumer banking in Europe.

The foreseeable scenario of higher growth and new additions will generate moderate liquidity needs at the Group's units, in both mature and emerging countries.

To cover these commercial needs, in most cases the units will have the surplus positions they enjoyed at 2015 year-end. In addition there is substantial access to wholesale markets, especially in Europe thanks to the European Central Bank's quantitative easing. All of this will enable the Group's subsidiaries to maintain liquidity structures appropriate to their balance sheets.

With the volume of deposits exceeding loans, a moderate recovery in lending is envisaged in Spain after a long period of deleveraging, while the focus on optimising the cost of funds will continue. Liquidity ratios will be strengthened, with an eye on forthcoming repayments of TLTROs.

Of note in the other European units will be Santander Consumer Finance's increasing activity in issues and securitisations, underpinned by the strength of its business and the quality of its assets. As has already been discussed, in 2016 the consolidation of new portfolios will continue to require a certain dependence of the rest of the Group in the short term.

In the UK, the good performance of commercial activity and the attraction of customers will enable the deposit base to be strengthened as a basic source of credit growth. The projected favourable situation of wholesale markets will make it possible to optimise the unit's sources of medium- and long-term funding.

The United States, also with balanced growth in loans and deposits, will focus its activity on diversifying its wholesale funding sources, both at Santander Bank and at Santander Consumer USA, which will contribute to reducing its degree of leveraging with respect to the deposits guaranteed.

In Latin America, as in 2015, the emphasis will remain on deposits to fund commercial activities while strengthening issues in wholesale markets open to the Group's big units.

Additionally, at Group level, Santander maintains its long-term plan to issue liabilities that are eligible to be included in capital. The plan, the purpose of which is to efficiently strengthen current regulatory ratios, also takes into account future regulatory requirements. In particular, compliance with the total loss-absorbing capacity (TLAC) requirement that comes into force in 2019 for global systemically important financial institutions. Although it is still only an agreement at international level and has not yet been transposed into European legislation, the Group is already including it in its future issue plans in order to cover potential needs. It is considered that the issue rates of recent years will be sufficient to cover future needs.

Within this general framework, various Group units have taken advantage of the good market conditions at the start of 2016 to launch issues and securitisations with very narrow spreads, raising over EUR 4,000 million in January.

3.2 Capital

Capital management at the Group seeks to ensure the capital adequacy 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.

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

Regulatory capital management is based on 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 securitisations, asset sales, issuance of equity instruments (preferred shares and subordinated debt) and equity hybrids.

From an economic standpoint, capital management seeks to optimise value creation at the Group and at its constituent units. To this end, the economic capital, RORAC and value creation data for each business unit are generated, analysed and reported to the management committee on a quarterly basis. Within the framework of the internal capital adequacy assessment process, 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.

Capital stress tests have gained particular significance as a tool for the dynamic evaluation of banks' risk exposure and capital adequacy. A new forward-looking assessment model is becoming a key component of capital adequacy analysis.

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 have a bearing on the adequacy of a bank's capital.

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.

During the recent economic crisis, Santander Group has undergone five stress tests in which it has demonstrated its strength and capital adequacy in the face of more extreme and severe macroeconomic scenarios. All the tests showed that, due mainly to the existing business model and geographical diversification, Santander Group would continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In the stress test carried out by the ECB in 2014, in cooperation with the European Banking Authority, Santander Group was the bank least affected by the adverse scenario among its international competitors with a capital cushion of approximately EUR 20,000 million over the minimum requirement. These results show, once again, that Santander Group's business model enables it to face the most severe international crisis scenarios with greater robustness.

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 aim of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in adverse 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 "normal" macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The process implemented 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.

The Group's total on-balance-sheet equity amounted to EUR 88,040 million, up 9% year on year. This performance was due to the capital increase of EUR 7,500 million that took place in January and to the profit for the year, the effect of which was reduced in part by the adverse change in valuation adjustments.

In regulatory terms, phase-in eligible capital stood at EUR 84,346 million, equivalent to a total capital ratio of 14.40% and a Common Equity Tier 1 (CET1) ratio of 12.55%. This ratio stands 280 basis points above the 9.75% minimum that the European Central Bank (as part of its Supervisory Review and Evaluation Process (SREP)) set for Santander Group on a consolidated basis (including the 0.25% resulting from its status as a global systemically important financial institution) for 2016.

In fully-loaded terms, the CET1 ratio was 10.05% at 2015 year-end. This represents a 40 basis points increase in the year (disregarding the capital increase).

The fully-loaded total capital ratio was 13.05%, up 130 basis points in the year, adding the aforementioned increase in CET1 ratio to the positive impact of the eligibility of the hybrid securities issues launched.

Further information on capital, capital requirements and capital adequacy ratios, as well as the Group's management policies and criteria, can be found in Notes 1.e and 54 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 some businesses, market, liquidity and operational risk, losses due to litigation and regulatory and other proceedings, which 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.

The Group's risk policy focuses on maintaining a predictable medium-low risk profile for all its risks, and its risk management model is a key factor in achieving the Group's strategic objectives.

Santander Group aims to construct the future through the early management of all risks and the protection of the present using a robust control environment. Thus, the Group has calculated that the risk function should be based on the following cornerstones, which are in line with Santander Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

- The business strategy is defined by the risk appetite. Santander Group's board calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and its deployment in objective verifiable limits that are consistent with the risk appetite for each significant activity.

- All risks must be managed by the units that generate them using advanced models and tools and integrated in the various businesses. Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

- A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

- The independence of the risk function encompasses all risks and appropriately separates the risk generating units from those responsible for risk control. This involves having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.

- The best processes and infrastructure must be used for risk management. Santander Group aims to be the benchmark model for the development of infrastructure and processes to support risk management.

- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. Santander Group understands that advanced risk management cannot be attained without a strong, constant risk culture that is present in each and every one of its activities.

The main risks that the Group faces and the policies and methodologies used to control, manage and mitigate them are described in the notes to the accompanying consolidated financial statements, mainly 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 period

No significant events occurred from 1 January 2016 to the date on which these consolidated financial statements were authorised for issue.

6. Information on the outlook for the entity

The directors' report contains certain prospective information that reflects the plans, forecasts and estimates of the Bank's directors which are based on assumptions that they consider to be reasonable. However, users of this report should bear in mind that prospective information should not be viewed as a guarantee of the Bank's future performance, since these plans, forecasts and estimates are subject to numerous risks and uncertainties which mean that the future performance of the Bank need not necessarily match that initially anticipated. These risks and uncertainties are described in the Risks section of this directors' report and in Note 54 to the financial statements.

According to the International Monetary Fund, the outlook for the world economy in 2016 is for growth of somewhat in excess of 3%, underpinned by a slight improvement in the advanced economies and stability in the emerging economies.

The advanced economies have recorded a clear, albeit gradual improvement in recent years, which will continue in 2016. Easier financial conditions, fiscal policy that is no longer contracting, balance-sheet adjustments and the price of commodities are the reasons for this improvement. However, not all these economies are in the same position.

The United States and the United Kingdom are in a relatively advanced phase of the cycle, with projected growth rates of around 2%, which is similar to or somewhat above their potential, and their unemployment rates are practically at levels of full employment. Despite this, so far there is no apparent pressure on prices.

The euro area is at a more incipient stage of recovery with a trend of accelerating growth (expected growth of 1.7% in 2016) although the unemployment rate is still high, and both current inflation and the medium-term forecasts are still off target.

In addition, various different situations coexist within the euro area. For example, Germany is working at full capacity (its cyclical position is closer to those of the US or the UK) and will grow at a rate of at least 1.5%, somewhat above potential. Spain will continue to show notable dynamism, with projected growth rates of close to 3%.

The emerging economies as a whole will maintain growth of around 4%, according to the IMF's latest projections. Various factors explain these developments: the gradual slowdown in China, where the sustainable growth rate has fallen, low commodity prices and a certain tightening of financial conditions tied to the beginning of the Fed's rate rise process.

This situation varies considerably depending on each country's sensitivity to the factors outlined above, the accumulated imbalances of recent years and the ability to apply the appropriate policies.

Latin America could again post zero or slightly negative growth in 2016, though this conceals different situations. Brazil will continue to be in recession, Argentina will undertake profound reforms and Chile and Mexico expect to see growth of around 2-3%, relatively modest rates due to the adverse international environment -especially for Mexico-. Growth in Poland is expected to once again exceed 3%, with a new executive considering more expansive policies.

The expansionary impact of the fall in commodity prices in advanced countries and the monetary and fiscal policy stimulus -or weaker adjustment- measures in China, the US, Japan and the euro area enable the risk to growth and the risk of deflation to be mitigated.

However, as in recent years, the risk balance continues to be downward, albeit less steep, and economic policies allow limited room for manoeuvre.

The risks are fundamentally related to how events unfold in (i) China, with its ability to sustain growth rates above 6% at the same time as it adjusts its imbalances, (ii) the Fed's success in gradually progressing in the normalisation of its monetary policy, (iii) the stabilisation of commodities prices, (iv) the provision of liquidity to avoid sharp adjustments in the markets, (v) the ECB's determination to handle potential shocks and other more local events that might have international repercussions.

The emerging economies are more sensitive to most of these risks than the advanced economies, which started to correct their imbalances earlier.

Interest will in general remain at very low levels. However, the process of raising interest rates that started in the US at the end of 2015 is expected to gradually continue and to have a drag-along effect on other economies, particularly in Latin America. The UK could also increase official interest rates slightly in the second half of 2016. Conversely, the euro area, Japan and other Asian countries will maintain or extend the expansionary bias of their monetary policies in order to foster growth in a context of zero or very low inflation.

Bank lending as a whole will continue to show moderate growth rates although in general rates should be higher than in previous years in the advanced economies. In the Latin American economies, the outlook is more varied, although the growth rates are more moderate than in previous years. Lending in Chile and Mexico could achieve rates similar to those of 2015, while the banking system in Brazil will be more cautious.

The Group is facing this environment after a year that ended with increases in engaged customers, in volume in most countries, and in profit. In 2015 Santander improved loan quality and attained the capital target set at the beginning of the year.

The Bank's ultimate commitment is to become the best bank for individuals and companies, earning the confidence of and long-lasting relationships with its employees, customers, shareholders and society. The Group's commercial transformation will continue with the aim of improving the return on capital employed.

In order to achieve this the focus was placed on the following strategic priorities:

1. In relation to the businesses, the Group seeks to improve the commercial franchises and customer service. In particular, it is already undertaking the transformation of commercial banking, growing in SMEs and companies and in consumer finance. In general, there is an opportunity to gain business share in many of the markets in which the Group operates.

2. Continuing to have one of the best efficiency ratios in the industry. With lower interest rates and moderate growth in certain countries, it is essential to do more at a lower cost in order to improve returns. To this end, on Investor Day it was announced that the savings under the efficiency plan, which was expected to end in 2016 and will now end in 2018, would be increased from EUR 2,000 million to EUR 3,000 million.

3. Best in class efficiency must go hand in hand with operational excellence which implies the digital transformation of the Bank: a simplification of internal processes that help the Group to be more efficient and to provide better customer service.

4. The more efficient use of capital has been a growing priority in recent years. In view of the higher capital requirements for banking, it is essential to optimise the use of risk-weighted assets.

5. The reinforcement of risk management, a traditional priority in well-managed entities, has also become more important in the current environment. Significant measures have been launched in the last two years on which work will continue. The most notable of these measures is the fostering of local implementation of the risk appetite at the Group units and the launch of the Advanced Risk Management Programme (ARM), with which Santander's aims to construct its future through the timely management of all risks.

6. In order to implement all these strategies it is necessary to have employees who are qualified, motivated and aligned with the Bank's policies. The improvement of human resources management is fundamental, and the Group is carrying this out through a new talent management model to enable it to identify and harness employees' potential, thus pursuing Santander's objective of being a better place to work.

7. And finally, as a result of all these strategic actions, Santander expects to achieve higher returns for shareholders. As has already been announced to the market, the Group aims to position the return on tangible equity at 13% by 2018, improve the efficiency ratio, increase dividends in line with the Group's profits and pay them largely in cash. All of which is compatible with an increase in capital ratios. Specifically, at the latest Investor Day, Santander announced its objective of achieving a fully-loaded CET1 capital ratio of 11% in 2018.

Following is a brief description of the management priorities of the main units in 2016, starting with the main units in Europe, followed by those in America:

Europe

United Kingdom. The economy will continue to grow at a good clip although this growth will be supported to a lesser extent by consumption. There will be a moderate recovery in credit, but loan balances to companies will continue to be weak.

Against this backdrop, the Bank will continue to seek excellence by prioritising customers' needs. To this end, the following strategic lines of action have been set:

- Increasing lending to companies at better than market rates and growing mortgages in line with the market.

- In deposits, the Bank will continue to build on its primacy through a differentiated service proposal, leading technology and a complete service offering for UK companies.

- Improving operational activity while optimising Santander's simplified and innovative product range, obtaining greater benefits from digitization and a platform that adapts to growth, and the commercial network capacity already installed.

- Maintaining good loan quality in all portfolios and continuing the Bank's ongoing efforts to maintain the strength of the balance sheet.

Spain. EGDP growth will continue to be among the highest in Europe. A gradual recovery in credit should begin to be discernible, especially in lending to consumers and companies, although overall growth will be slight, still held back by mortgages.

In this connection, Santander seeks to have a larger presence and to offer better service quality, to which end the following priorities were set:

- To continue to focus on the creation of long-term relationships with customers, supported by the 123 account.

- To improve customer satisfaction.

- To gain market share in SMEs.

- To continue to improve the cost of credit.
- To make progress in the Bank's digital transformation.

The real estate operations segment in Spain will maintain its strategy of reducing assets, mainly reducing exposure to credits.

Santander Consumer Finance. Taking advantage of its positioning in the European consumer finance market, this area aims to complete the scheduled joint venture processes and take advantage of their growth potential. Its priorities will be centred on:

- Increasing and improving the vehicle financing business through agreements with brands, increasing its presence and customer loyalty.
- Completing the integration agreement with Banque PSA Finance, which encompasses eleven geographical areas overall and will add a portfolio of more than EUR 20,000 million to the Group.
- Strengthening the consumer business through pan-European agreements and increasing its presence through digital channels.

Portugal. With the economy returning to a higher rate of growth, underpinned by domestic demand and a banking sector still undergoing deleveraging, in 2016 Santander will focus on:

- Managing the integration of the customers and volumes acquired from Banco Internacional do Funchal (Banif).
- Increasing the number of loyal digital customers, boosting multichannel banking.
- Improving efficiency levels and maintaining the process of normalisation of funding costs and the cost of credit.

Poland. The leadership position in profitability and digital services allows the following targets to be set for the year:

- Making progress in the digital transformation of the distribution network while maintaining the leadership of the digital channels in Poland.
- Improving efficiency and profitability in order to attain the long-term targets set.
- Increasing market share in a way that is compatible with a reduction in the non-performing loans ratios.
- Boosting growth in companies through a renewed value proposition.
- Continuing to focus on customer satisfaction and on increasing the loyalty of retail customers.

Americas

Brazil. Against a backdrop of macroeconomic recession, Santander is consolidating its leadership in the Corporate Global Banking, companies and consumer banking segments in the Brazilian market. Following the change in the portfolio mix towards lower-risk products, the bank is facing the following challenges in 2016:

- Continuing with the controlled costs and strict management of the entire risk cycle, from approval to recovery.
- Growing selectively, harnessing greater digitization and multichannel banking.
- Simplifying processes optimising quality in customer relations.

Mexico. In a market of moderate growth and good commercial dynamic, Santander should harness its market-share gains in key segments (SMEs, companies and mortgages) to consolidate its position. The key management matters in 2016 will be:

- To continue to strengthen its businesses in the target segments: SMEs, companies and mortgages.
- To attract customers with high potential and increase their loyalty.
- To boost innovation and multichannel banking through the development of digital platforms.

Chile. In a recovering economy in a less favourable external environment, the bank's strategy will focus on:

- Improving the quality of customer service, which will lead to an improvement in loyalty.
- Continuing with the transformation of commercial banking, refurbishing the branches and making a commitment to multichannel banking.
- Gaining market share in target segments, focusing on those that use digital channels.

Argentina. Banco Santander Río S.A., the leading private bank in the country in terms of volumes, will consolidate its leadership position in an environment characterised by the arrival of the new government and the execution of macroeconomic adjustments. Management priorities will centre on growing brokerage volumes with companies and families with low debt levels, continuing with the expansion plan and reaping the rewards of greater banking penetration, and developing the digital bank, offering new, better solutions for customers, increasing loyalty, digital customers and overall satisfaction.

United States. In 2016 Santander will continue to strengthen governance structures with a view to improving the management of the business and making progress vis-à-vis compliance with the regulator's requirements. The commercial management priorities by unit will be as follows:

- To improve the loyalty of Santander Bank customers and the experience provided to them by increasing multichannel banking capacity and offering more, simpler products.

- At Santander Consumer USA, to harness the potential of the agreement with Chrysler, to increase the penetration rate and to continue to optimise the mix of the assets retained and those sold.

In Puerto Rico, the priority will be the integration of the Puerto Rican entities in SHUSA. The Group will look to generate business by giving priority to target markets and always maintaining loan quality. In deposits, the strategy of retaining cheap deposits and holding appropriate levels of liquidity will be maintained.

7. Research, development and innovation activities

Innovation and technological development constitute a strategic cornerstone for Santander Group, the aim being to respond to the new challenges posed by the digital revolution with a focus on operational excellence and the customer experience.

Also, Santander, as a global systemic institution, and its individual subsidiaries are subject to increasing regulatory requirements that impact on the systems model and the underlying technology, and oblige them to make additional investment to guarantee compliance and legal security.

As a result of all of the foregoing, as in prior editions, the ranking prepared by the European Commission (The 2015 EU Industrial R&D Investment Scoreboard, with figures from 2014) recognises the entity's efforts in technology, making Santander Group the top Spanish company and the top bank worldwide by investment of capital in R&D. In 2015, technology investment in R&D+I totalled EUR 1,345 million, which represents 3% of gross income, in line with previous years.

The investment made in 2015 amounted to EUR 1,481 million (3% of gross income).

Technology strategy

Santander Group starts from a sound, robust technological position that is recognised as one of the best among banks with a global presence, the most noteworthy aspect being its global infrastructure with latest generation data processing centres (DPCs), common Partenon & Altair core banking and the powerful shared services model that facilitates knowledge specialisation and the exploitation of efficiencies in all locations.

Santander Group's technology strategy has continued to evolve, including the deployment of a latest generation technology platform to facilitate the transition to Banco Santander Digital, implementing new, more flexible and innovative ways of working and simplifying, standardising and automating the operating model. In addition, enabling the capability to act in real time and cyber security are key to the strategy.

Development of the technology platform for the digital transformation

The new technology platform will facilitate the introduction of new digital capabilities at the Group and the optimisation of technology investments, and it is characterised by:

- Design of the user experience with an omnichannel view.
- Development of capabilities for mobility and integration with social networks.
- Cloud services: IaaS, PaaS, etc.
- Open Source / Standard technologies.
- Real time analysis & Big Data.
- Focus on security (security industry standards & frameworks).
- Greater automation and agile approach.

Infrastructure

In 2015 the strategy of concentrating the Group's infrastructure in a small number of high quality, strategically located data processing centres (DPCs) was completed. There are five pairs of world class or tier IV DPCs (according to the standards of the Uptime Institute) which are close to the Group's biggest business volumes: Boadilla and Cantabria in Spain, Campinas in Brazil, Carlton Park in the United Kingdom, and Querétaro in Mexico.

This common global infrastructure (which is connected through a proprietary communications system -GSNET-), enables not only the business and customer service to be provided with high standards of quality and efficiency, but also ensures compliance with regulatory requirements and minimises operational risk.

Also, work is continuing on the development of cloud infrastructure to complement on-line services with the new technology strategy.

Cyber security

To continue the efforts made in previous years, and to strengthen the organisation's focus on cyber security, in 2015 Santander Group rolled out the Santander Cyber Security Program (SCSP), which is aimed at both deploying more controls, tools and best practices to protect the Group's IT assets (cyber security) and developing advanced capabilities to detect and react to attacks (cyber resilience) on the Group. The Program focuses on the following.

- Cyber resilience in infrastructure.
- Internal control of cyber risks.
- Awareness and specific cyber training for the whole organisation.
- Security in the software development life cycle.
- Definition of security architecture and framework.
- Assessment and independent challenge of cyber resilience.
- Cyber security project PMOs.
- Response to cyber incidents.
- Assessment of cyber risks in projects and at suppliers.
- Cyber intelligence.

The Group's subsidiaries have also participated in various local cyber exercises led and supported by government agencies in various countries. These exercises simulate cyber attacks as they would be carried out by a third party in order to check the organisation's ability to detect them and react and to strengthen the efficiency of the cooperation between entities to ensure a coordinated response to attacks.

Pillars of digitization

In addition to the aforementioned new technology platform, infrastructure development and cyber security initiatives, Santander Group fostered its digital transformation through the following pillars:

- Improving the customer experience by simplifying and reducing manual processes, the design of customer journeys and boosting Front Office investments (mobile banking, internet, new ATMs, etc.).
- Improving data quality and their exploitation (Risk Data Aggregation -RDA-, new CRM platforms, Big Data, etc.).
- Cultural change: new ways of working with a focus on innovation.

Specifically, the **most noteworthy areas of progress** in 2015, by geographical area, were as follows:

- Improve the customer experience in the channels:
  - Simplification and reduction of manual processes:
    - New customer on *boarding* processes in Mexico (digital), Portugal and the United States (account opening through tablets), Brazil (accounts become operational the same day).
    - Improvements to the sales and service processes in Spain, with the roll-out of the credit card opening process.
    - Reformulation of the customer communication processes in Portugal.
    - Biometric vein recognition technology in Poland.
  - Mobile banking: one of the plans promoted by the Group is the development of applications specifically designed for smartphone and tablet devices (MobileFirst). The objective is for the Group's customers to have access to the services offered by the bank from wherever they are. Additionally, important agreements were established with mobile providers to promote the use of mobile devices for both the Group's employees and its customers.

    The main projects include the following:

    - *Digital Advance* Manager at Santander Spain: a telephone, a tablet and an app so that company managers can perform their functions more easily and professionally.
    - New mobile app for individuals in Portugal, Brazil and Uruguay, which is simpler to use and has more functionality, and a new app aimed at business customers, SMEs and institutions in Spain.
    - Group money management app at Santander UK called cash Kitti.
    - Also in 2015 Santander Spain launched Santander Watch, an app that lets customers consult their accounts and cards from their smartwatches.
    - Improvement of the existing mobile banking payments and services offering, the most noteworthy of which is Apple pay (payment by mobile phone) in the UK, and Santander Wallet in Spain, a mobile app that will gradually allow its customers, inter alia, to make payments to traders, withdraw money at ATMs and make transfers between mobile numbers. In addition, Santander Advance and Santander Elavon have launched an innovative on-line payment solution in Spain: the Virtual Advance POS terminal is a solution that lets traders make sales over the internet from any device: computer, telephone, mobile or tablet.
    - Lastly, the Group has developed several apps for employees, with various functionalities, the most noteworthy of which is the management of expenses and incidents implemented at the Corporate Centre.
  - New website in Brazil based on widgets and new internet developments in Mexico, the highlight being the development of internet banking for SMEs.
  - New ATMs in the US and the UK: the launch of Alhambra Device Handler as a new ATM solution. .
  - New Digital Branch concept in Argentina: the first fully automated branch was opened in Buenos Aires; this maintains the entity's technology leadership in Argentina.
- Improve the quality of data and their use, not only in order to comply with regulatory requirements but also to improve knowledge of customers and detect their needs.
  - New technologies are basic elements for coping with the new requirements imposed by regulators that lead to greater legal security and greater transparency for customers and operators. A good example are the new Risk Data Aggregation (RDA) standards that require greater control and traceability of the information reported to competent bodies. For this purpose, the Group has already defined and deployed a new global architecture.
  - In 2015 new commercial platforms for managers were also deployed. These provide increased simplicity and intelligence, with 360º customer vision and, accordingly, improve commercial productivity. Most notable are the new commercial platforms in Brazil (Portal CERTO and Gerente Remoto), Argentina (CRM + Che), Spain (ADN), Poland (Neo CRM+), Chile (Neo CRM), and Mexico (Neo Júpiter), among others.
  - Highlights among the projects that use Big Data technology are the deployment of Spendlytics (personal expense management tool) in the UK, the ARCA (Automated Root Cause Analysis) project to optimise the identification of the origin of claims at the Group and comply with legislation, and Santander Spain's digital Command Centre, which enables to Bank's customers' digital behaviour to be monitored on line (transaction volume, impact of advertising in digital channels, etc.).

- In addition, the Group is rolling out new work models based on AGILE principles, which involve close cooperation between business and technology, with multidisciplinary teams seeking new customer experience designs. The first countries to implement these models were Argentina, the United Kingdom, Mexico, Poland and Spain.

- Lastly, Banco Santander is positioning itself in the Fintech (Financial Technology) space as an innovative bank that is a benchmark in the industry. As a result of this positioning, in June 2015 a presentation was given at the MoneyConf in Belfast on the Santander Manifiesto, which stated that the best way to overcome the challenges posed by the new digital economy is cooperation between banks and fintech, called "Fintech 2.0".

In order to develop this strategy, which goes beyond the digitization of daily operations, the Bank is working on more innovative and disruptive aspects through the global innovation unit, which has the rank of executive vice president, reports directly to the Chair and has a venture capital arm (Santander Innoventures) that invests in start-ups.

Santander InnoVentures is Santander's corporate venture capital fund. It was launched in July 2014 with USD 100 million with the aim of putting Santander in the middle of the wave of disruptive innovation in the FinTech space.

Santander InnoVentures aims to be part of the digital revolution and enable Santander customers around the world to benefit from the latest know-how and innovations in the financial services industry.

The Fund takes non-controlling interests in the share capital of start-ups in the financial services industry, helping them to grow and, at the same time, attempting to learn about the developing new technologies in order to make them useful for the Group and its customers. In addition, the Fund is part of the Santander Group's innovation agenda, since it enables bi-directional synergies to be obtained.

8. Acquisitions and disposals of treasury shares

The Bank amended its policy on treasury shares in a board resolution adopted on 23 October 2014, taking into account the criteria recommended by the CNMV. Transactions involving the purchase and sale of treasury stock by the Company or other companies controlled by it will conform to the provisions of current legislation and the relevant resolutions of the general meeting.

Treasury stock trading will be used to:

- Provide liquidity or a supply of securities, as appropriate, in markets where the Bank's shares are traded, giving depth to that 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 expectations of medium-term performance.

Treasury stock trading will be undertaken by the department of investments and holdings, as a separate area isolated from the rest of the bank's activities and protected by the respective Chinese walls, to prevent any insider or material information being available to it. The head of the department will be responsible for treasury stock management.

Treasury stock trading will be subject to the following general rules:

- Its purpose will not be to intervene in the free formation of prices.

- It may not take place if the unit responsible for executing the trade is in possession of insider or material information.

- Where applicable, share repurchase and acquisition programmes to cover Bank or Group obligations will be permitted.

At 31 December 2015, the Group held 40,291,209 of its own shares, representing 0.279% of the share capital at year-end; at 31 December 2014 the figure was 1,465,371 shares, 0.012% of the Bank's share capital at that date.

The transactions with treasury shares performed in the Group's interest by the consolidated companies in 2015 involved the acquisition of 537,314,450 shares, at an average purchase price of EUR 6.00 per share, signifying an effective amount of EUR 3,224.9 million.

498,488,612 shares were sold at an average sale price of EUR 6.12 per share, giving an effective amount of EUR 3,048.3 million.

The effect on equity, net of tax, of transactions performed in 2014 involving shares issued by the Bank, was a gain of EUR 16 million, which was recognised in the Group's equity under Shareholders' equity - Reserves. The effect on earnings per share was immaterial.

Note 34 to the accompanying consolidated financial statements and sections A.8 and A.9 of the corporate governance report provide further information about the policy on treasury stock and the acquisition and disposal of treasury shares.

9. Other salient information

9.1 Stock market information

Santander shares are listed on the electronic market of the Spanish stock exchanges, and on the stock exchanges of New York, London, Milan, Lisbon, Warsaw, Sao Paulo, Mexico and Buenos Aires.

At 31 December 2015, the shares of Banco Santander Río S.A.; Banco Santander (México), 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 (Brasil) S.A.; Bank Zachodni WBK S.A.; and Santander Consumer USA Holdings Inc. were listed on official stock markets.

The total number of shareholders at 31 December 2015 was 3,573,277, of which 3,345,889 were European shareholders controlling 82.4% of the share capital, 210,940 were American shareholders with 17.1% of the share capital and 16,448 shareholders in the rest of the world with 0.5% of the share capital.

At 2015 year-end, Banco Santander occupied first place in the euro area and 19th place in the world by market value, with a capitalisation of EUR 65,792 million.

It should be noted that Banco Santander is the most liquid entity in the EuroStoxx index, with 26,556 million shares traded in the year for an effective value of EUR 158,084 million, with a liquidity ratio of 187%. A daily average of 103.7 million shares were traded for an effective amount of EUR 617.5 million.

The performance of Santander's share price was clearly different in the first and second halves of the year.

In the first half of the year, and more specifically in April, a record market capitalisation of EUR 100,000 million was set. This amount is 16% above the market capitalisation before the capital increase. However, in the second half of the year, the performance of the share price was heavily affected by the macroeconomic situation in the emerging markets, especially Brazil.

The total shareholder return since the capital increase, taking into account the change in the share price and the shareholder pay-out (with dividend reinvestment), was -18%. In the same period, the total return on the main global banking index, MSCI World Banks, was -5%.

Santander shares

	2015	2014
Shareholders and shares		
Shareholders (number)	3,573,277	3,240,395
Number of shares (millions)	14,434.5	12,584.4
Market price (euros)		
Closing price	4.558	6.996
Variation in price	-34.8%	+7.5%
Period high	7.169	7.960
Date of period high	07-04-15	04-09-14
Period low	4.445	6.201
Date of period low	14-12-15	04-02-14
Period average	5.947	7.121
Market capitalisation at period end (millions)	65,792.4	88,040.6
Trading		
Total volume of securities traded (millions)	26,556	19,722
Daily average volume of securities traded (millions)	103.7	77.3
Effective total traded (millions of euros)	158,084	139,782
Daily effective average traded (millions of euros)	617.5	548.2
Ratios		
PER (price / earnings per share) (times)	10.23	14.59
Price / Shareholders' equity per share (times)	0.75	1.09
Shareholders' equity per share (euro)	6.12	6.42
Ordinary RoE (attributable profit / average shareholders' equity)	7.2	7.0

9.2 Dividend policy

Under the Bank's Bylaws, the policy on shareholder remuneration is submitted to the general meeting for approval each year. Pursuant to this policy, the Bank habitually remunerates the shareholders on a quarterly basis.

In 2014 the Bank paid its shareholders approximately EUR 0.60 per share through a remuneration scheme called Santander Dividendo Elección whereby shareholders could choose either to receive the dividend amount in cash or in Santander shares. The average percentage accepting payment of the four dividends in shares was 85.21%.

Together with the aforementioned capital increase carried out in early 2015, Banco Santander decided to reformulate its dividend policy. Thus, in view of the improvement in the economic growth scenario and the change in the tax legislation in Spain, the board of directors intend the remuneration out of the profit for 2015 to be EUR 0.20 per share, which would be paid, as always, in four payments, of which three would be received in cash and the other in shares or cash at the shareholder's discretion. At year-end prices, this dividend represents a return of 4.4%.

With respect to 2015, EUR 0.05 per share have already been paid on the dates when the first three interim dividends are usually paid (July/August, October/November and January/February). The Santander Dividendo Elección scrip dividend scheme was applied to the second interim dividend, and the percentage accepting payment in shares was 84.79%. The remaining EUR 0.05 per share will foreseeably be paid in April/May.

Therefore, the total amount for 2015 to be paid in cash will be EUR 2,268 million, compared to EUR 1,143 million for 2014.

In the coming years, changes in the dividend will be commensurate with growth in earnings, with the objective of the cash pay-out representing between 30% and 40% of recurring profit, instead of 20% at present.

The system of shareholder remuneration is described in Note 4 to the accompanying consolidated financial statements.

9.3 Credit rating management

The Group's access to the wholesale financing markets and the cost of the issues depends partly on credit ratings awarded by rating agencies.

The rating agencies regularly review the Group's ratings. The classification of debt depends on a series of internal factors (the Bank's solvency, business model, capacity to generate profits, etc.) and other external factors related to the general economic environment, the situation in the industry and the sovereign risk of the countries where the Bank operates.

In 2015:

- Moody's raised the long-term senior debt rating from Baa1 to A3 and changed the outlook from stable to positive.

- Standard & Poor's upgraded the long-term senior debt rating from BBB+ to A-.

- GBB raised the rating from A+ to AA- with positive outlook.
- The Scope agency also upgraded the long-term senior debt rating to A+.
- DBRS confirmed its ratings with stable outlook.

Rating agency. Santander Group

	Long-term	Short-term
DBRS	A	R1 (low)
Fitch Ratings	A-	F2
GBB Rating	AA-	
Moody's	A3	P-2
Standard & Poor's	A-	A-2
Scope	A+	S-1

9.4 Branch network

The Group has a network of 13,030 branch offices, making it the international bank with the largest commercial network. Most of these are non-specialised branches, although the Group also has branches that offer specialised services to certain customer segments.

These branches include most notably the 800-plus branches dedicated to consumer credit business, both those of Santander Consumer Finance in Europe and the specialised entities in Latin American countries. There are also branches dedicated to SMEs in various countries, which have been reinforced by the roll out in the Group's main geographical areas over the last two years of the Advance programme, together with own branches or specific areas in universal branches for the Select high income segment. The Group also has specialised offices for private banking, or for particular sectors of the population, such as universities.

In 2015 the network recorded an increase of 79 branches, mainly due to the addition of 158 in Portugal as a result of the integration in December of Banco Internacional do Funchal (Banif). In general, there were increases in the Latin American countries (except Chile) resulting from the expansion plans implemented (Mexico and Argentina), organic growth (Brazil) or inorganic growth processes (Uruguay). Conversely, there were falls in Spain, Poland and the United States, in general related to efficiency improvement and digitization processes. These changes are in line with the remodelling and specialisation of branches to provide a better customer service, as mentioned above.

The Group is making progress in digitization, but without losing the essence of a bank. The branches will continue to be an important channel for customers, and will engage in sales of more complex products and counselling.

Annual Corporate Governance Report

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
4/11/2015	7,217,246,289.50	14,434,492,579	14,434,492,579

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

Yes **No** X

At 31 December 2015, the Bank's share capital is represented by 14,434,492,579 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 2015, the only shareholders on record in the Bank's register of shareholders who held an interest in excess of 3% were State Street Bank and Trust Company (12.62%); The Bank of New York Mellon Corporation (6.05%); Chase Nominees Limited (4.84%); EC Nominees Limited,(3.99%); Société Générale (3.81%), Clearstream Banking S.A. (3.50%) and Guaranty Nominees Limited (3.23%).[1]

However, the Bank believes that those interests are held in custody on behalf of third parties, none of whom, as far as the Bank is aware, holds an interest in excess of 3%[2] in capital or voting rights.

At 31 December 2015 there was no record in the Bank's register of shareholders of owners of shares who were resident in tax havens with an interest in excess of 1% of share capital.

Indicate the most significant movements in the shareholder structure during the year:

In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November, with the issuance of 1,213,592,234, 262,578,993, 256,046,919 and 117,859,774 new shares, representing 9.64%, 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014. The first increase arose through the accelerated bookbuilding and the last three within the framework of the Santander Scrip Dividend programme. All this entailed a total increase in share capital equal to 14.7% in comparison with share capital at year-end 2014.

	No. of shares	% of share capital*
9 January	1,213,592,234	9.64
29 January	262,578,993	2.09
29 April	256,046,919	2.03
4 November	117,859,774	0.94
Total	**1,850,077,920**	**14.70**

* Share capital at year-end 2014.

The Bank's share capital at 31 December 2015 was represented by 14,434,492,579 shares.

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 2015.

1. Although it thus appears in the information available on Banco Santander on the CNMV website (www.cnmv.es), it is to be noted that Blackrock Inc was not as at 31 December 2015 on record in the Bank's register of shareholders as holding an interest in excess of 3% of voting rights.
2. The threshold set out in Royal Decree 1362/2007 of 19 October to define the concept of a significant interest.

		Indirect voting rights		
Name or corporate name of director	**Number of direct voting rights**	**Direct shareholder***	**Number of voting rights**	**% of total voting rights**
Ms. Ana Botín-Sanz de Sautuola y O'Shea	219,828[1]	N/A	17,502,582[1]	0.123%
Mr. José Antonio Álvarez Álvarez	438,930	N/A	1,287	0.003%
Mr Bruce Carnegie-Brown	10,099	N/A	-	0.000%
Mr. Rodrigo Echenique Gordillo	665,153	N/A	14,023	0.005%
Mr. Matías Rodríguez Inciarte	1,327,697	N/A	306,729	0.011%
Mr. Guillermo de la Dehesa Romero	143	N/A	-	0.000%
Mr. Ignacio Benjumea Cabeza de Vaca[2]	2,926,372	N/A	-	0.020%
Mr. Javier Botín-Sanz de Sautuola y O'Shea	4,793,481[1]	N/A	68,139,712[1]	0.505%
Ms. Sol Daurella Comadrán	949	N/A	412,521	0.003%
Mr. Carlos Fernández González	15,839,714	N/A	-	0.110%
Ms. Esther Giménez-Salinas i Colomer	5,344	N/A	-	0.000%
Mr. Ángel Jado Becerro de Bengoa	2,200,000	N/A	5,100,000	0.051%
Ms. Belén Romana García[2]	149	N/A	-	0.000%
Ms. Isabel Tocino Biscarolasaga	207,511	N/A	-	0.001%
Mr. Juan Miguel Villar Mir	1,186	N/A	-	0.000%
% total voting rights held by the board of directors				**0.709%**

* The "Direct shareholder" box does not apply, since at year-end 2015 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.

1. Syndicated shares.

2. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively.

Complete the following tables on share options held by directors:

The Bank's shareholders, at their general meetings of 17 June 2011, 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, respectively, adopted the five cycles of the deferred and conditional variable pay scheme in which executive directors participate up until 2015.

An overview of these schemes is set out below. For further information, see notes 5 and 47 of the notes to the Group's accounts.

a) Deferred conditional variable remuneration plan (bonuses)

At the general meeting of 17 June 2011, the shareholders adopted the first cycle of the deferred conditional variable remuneration plan in relation to bonuses for 2011 for executive directors and certain executives (including senior management) and employees who take risks, exercise control functions or receive all-in pay in amounts that include them within the same pay scale as that of senior managers and risk-taking employees (all of whom are termed as "identified staff" in accordance with the Guidelines on Remuneration Policies and Practices adopted by the Committee of European Banking Supervisors on 10 December 2010 for 2013; in 2014, in accordance with Article 92(2) of Directive 2013/36/EU of 26 June 2013 and its implementing legislation; and, in 2015, in accordance with article 32(1) of the Spanish Banking Law [Ley 10/2014] and its implementing legislation.)

The purpose of these cycles is to defer a portion of the bonus of the plan beneficiaries over a period of three to five years 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. For further information, see note 5 to the Group's accounts.

2011 bonus receivable in Santander shares	Immediate payment	Deferred *	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.002%
Mr. José Antonio Álvarez Álvarez	96,116	96,116	192,232	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	125,756	188,634	314,390	0.002%
Mr. Juan Rodríguez Inciarte	73,380	110,070	183,450	0.001%
Mr. Javier Marín Romano**	77,882	77,882	155,764	0.007%
Total	**467,136**	**613,704**	**1,080,840**	

* Over 3 years, 2013, 2014 and 2015, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the first cycle. The immediate payment and the tranches for 2013, 2014 and 2015 were paid on the scheduled dates.

** Stepped down as a director with effect on 12 January 2015.

The first cycle has already delivered all shares as at 31 December 2015. Hence none of the above amounts represents a right over shares as at that date.

2012 bonus receivable in Santander shares	Immediate payment	Deferred*	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.001%
Mr. José Antonio Álvarez Álvarez	72,140	72,140	144,280	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	83,059	124,589	207,648	0.001%
Mr. Juan Rodríguez Inciarte	48,466	72,699	121,165	0.001%
Mr. Javier Marín Romano**	58,454	58,454	116,908	0.001%
Total	**332,035**	**432,756**	**764,791**	**0.005%**

* Over 3 years, 2014, 2015 and 2016, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the second cycle. The immediate payment and the tranches for 2014 and 2015 were paid on the scheduled dates.
** Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the second cycle as at 31 December 2015. Only a third of the shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

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%
Mr. Matías Rodríguez Inciarte	69,092	103,639	172,731	0.001%
Mr. Juan Rodríguez Inciarte	44,299	66,448	110,747	0.001%
Mr. Javier Marín Romano**	74,850	112,275	187,125	0.001%
Total	**313,163**	**440,405**	**753,568**	**0.005%**

* Over 3 years, 2015, 2016 and 2017, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the third cycle. The immediate payment and the tranche for 2015 were paid on the scheduled dates.
** Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the third cycle as at 31 December 2015. Two thirds of the shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as 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%
Mr. Matías Rodríguez Inciarte	92,726	139,088	231,814	0.002%
Mr. Juan Rodríguez Inciarte	71,872	107,808	179,680	0.001%
Mr. Javier Marín Romano**	128,225	192,338	320,563	0.002%
Total	**493,178**	**700,404**	**1,193,582**	**0.008%**

* Over 3 years, 2016, 2017 and 2018, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the fourth cycle. The immediate payment tranche (2015) was paid on the scheduled date.
** Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the fourth cycle as at 31 December 2015. The shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

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	0.004%
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%
Mr. Matías Rodríguez Inciarte	144,447	216,671	361,118	0.003%
Mr. Juan Rodríguez Inciarte***	55,402	83,103	138,505	0.001%
Mr. Javier Marín Romano**	0	0	0	0.000%
Total	**656,147**	**984,221**	**1,640,368**	**0.011%**

* Over 5 years, 2017, 2018, 2019 and 2020, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the fifth cycle. None of the tranches had been paid out as at 31 December 2015.
** Stepped down as a director with effect on 12 January 2015.
*** Ceased to be a member of the board on 30 June 2015 and senior executive vice president on 1 January 2016. The number of shares stated is that owed to him as executive director.

All the rights relating to the 2015 bonuses were pending delivery as at 31 December 2015.

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.

The board, upon a proposal laid before it by the appointments and remuneration committee (now the remuneration committee), based on the extent of fulfilment of those conditions, will from time to time determine the specific amount to be paid of deferred remuneration.

If the above circumstances are not present on each anniversary, the beneficiaries will be paid the cash and the shares in thirds, within the thirty days following the first, second and third anniversary.

On the occasion of each payment of shares and cash, each beneficiary will be paid a cash amount equal to the dividends earned by those shares and interest earned on the cash amount, in both cases as from the initial date to the date of payment of the shares and cash in each applicable event. 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.

Beneficiaries receiving shares may not transfer them or hedge them directly or indirectly for one year from each delivery of shares. Neither may they give effect to direct or indirect hedges of the shares before they are delivered.

b) Performance share plan (ILP) 2014
From 2014 onwards the variable remuneration to identified staff includes a long-term incentive. At the general meeting of 28 March 2014 the shareholders adopted the first cycle of the performance share plan, the purpose of which is to give shape to the variable remuneration element for identified staff, consisting of that long-term incentive, to be received, if appropriate, fully in the form of shares and based on the Bank's performance over a period of several years. This performance shares plan cycle encompasses 2014, 2015, 2016 and 2017 as the reference period for determining fulfilment of the targets to which the ILP is subject, without prejudice to deferral on the terms set out below.

The board, in response to a proposal laid before it by the remuneration committee, has set the maximum number of shares which executive directors of the Bank may receive under the ILP for 2014 in each of the years indicated, based on a percentage of 15% of their reference bonus as at the date of adoption of the first cycle of the scheme. These amounts have been determined by applying to that 15% of the reference bonus a percentage of 100%, by reason of the total shareholder return for the Bank in 2014 having placed in fourth position in relation to a benchmark group of 15 competing banks.

2014 ILP	Max No. 2016	Max No. 2017	Max No. 2018	Max. % of total voting rights*
Ms. Ana Botín-Sanz de Sautuola y O'Shea	20,798	20,798	20,799	0.000%
Mr. José Antonio Álvarez Álvarez	16,327	16,327	16,328	0.000%
Mr. Rodrigo Echenique Gordillo	-	-	-	0.000%
Mr. Matías Rodríguez Inciarte	25,218	25,218	25,219	0.001%
Mr. Juan Rodríguez Inciarte	17,782	17,782	17,782	0.000%
Mr. Javier Marín Romano**	21,823	21,823	21,824	0.000%
Total	**101,948**	**101,948**	**101,952**	**0.002%**

* Maximum percentage of shares that may be received in 3 years (2016, 2017 and 2018) with respect to the Bank's share capital at 31 December 2015, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for each annual amount of the ILP for this first cycle of the scheme.

** Stepped down as a director with effect on 12 January 2015.

As shown in the table, the maximum number of shares for each director thus determined is deferred by thirds over a period of 3 years, and paid, if appropriate, within the month of June 2016, 2017 and 2018, based on the position of the Bank's total return to shareholders with respect to the benchmark group referred to above. That position will determine the number of shares to be received, as the case may be, in each of those years, subject to the maximum amount indicated earlier.

c) Performance share plan (ILP) 2015
At the general meeting of 27 March 2015 the shareholders adopted the second cycle of the performance shares plan. The maximum reference value of the ILP for executive directors was set by the board, in response to a proposal laid before it by the remuneration committee, at an amount equal to 20% of the benchmark bonus for 2015. Based on that figure there was determined for each director an ILP amount (the "Agreed ILP Amount") having regard to the performance of two indicators (earnings per share, EPS, and return on tangible equity, RoTE) during 2015, as set out in the following table:

2015 ILP	Maximum number of shares*	Max. % of total voting rights
Ms. Ana Botín-Sanz de Sautaola y O`Shea	184,337	0.001%
Mr. José Antonio Álvarez Álvarez	124,427	0.001%
Mr. Rodrigo Echenique Gordillo	92,168	0.001%
Mr. Matías Rodríguez Inciarte	143,782	0.001%
Mr. Juan Rodríguez Inciarte**	50,693	0.000%
Mr. Javier Marín Romano	-	0.000%
Total	**595,407**	**0.004%**

* Agreed ILP Amount in shares = 91.50% (fulfilment of RoTE and EPS) x ILP benchmark value / 3.971 (reference share price resulting from the 15 stock exchange sessions prior to 26 January 2016, the date on which the board decided on the bonus for executive directors for 2015).

** Ceased to be a member of the board on 30 June 2015 and senior executive vice president on 1 January 2016. The number of shares stated is that owed to him as executive director.

The Agreed ILP Amount for each beneficiary is deferred over a period of three years and will be paid, if appropriate, in early 2019 on the basis of the extent of fulfilment of the multi-annual targets and the rest of terms of the scheme. For further information, see note 47 to the accounts of Grupo Santander for 2015.

The delivery of shares to be made on each payment date in respect of the performance shares plan for 2014 and for 2015 is subject, in addition to the requirement that the beneficiary remains in Santander Group's employ, to the absence, in the view of the board, following a proposal from the remuneration committee, of any of the following circumstances during the period prior to each of the deliveries as a result of actions carried out in 2014 or 2015, as the case may be: (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, when thus recommended by the external auditors, 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.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar 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, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/ or its group, 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.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital* or LSC). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes X **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.

The agreement was signed by Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Mr. 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, and contemplates syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The syndication agreement and the introduction of restrictions on free transferability of the shares and of rules on the exercise of voting rights carried by those shares are intended to ensure that the representation and actions of the syndicate members as Bank shareholders are at all times concerted, so as to implement a durable and stable policy and preserve an effective and united presence and representation in the Bank's corporate bodies.

The chairmanship of the syndicate rests with such person as at the time is the chairman of the Fundación Botín, who is now Francisco Javier Botín-Sanz de Sautuola y O´Shea.

Syndicate members undertake to syndicate and pool their voting rights and other political rights inherent in the syndicated shares such that the exercise of those rights and, in general, the actions of syndicate members facing the Bank are concerted and consistent with the instructions, indications, principles and voting directions, which must necessarily be unified, emanating from the syndicate, and for that purpose the representation of those shares is attributed to the chairman of the syndicate as the common representative of the syndicate members.

Other than for transfers for the benefit of other syndicate members or for the benefit of the Fundación Botín, there will be required the prior authorisation of the syndicate assembly, which may freely authorise or prohibit the intended 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.

The Bank filed a material fact with the CNMV on 3 October 2014 updating the holders and the distribution of the shares included 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 Botín Foundation, completing this information through a material fact filed on 6 February 2015.

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 held by one of the parties to the agreement along with the voting rights arising therefrom, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

In all other respects the aforementioned syndication agreement remains unchanged.

The aforementioned material facts, sent to the CNMV with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 can be found on the Group's website (www.santander.com).

As at the signature of the agreement the syndication encompassed a total of 44,396,513 Bank shares (0.3075% of capital at year-end 2015). In addition, in accordance with stipulation 1 of the shareholder agreement, the syndication, with respect only to the exercise of voting rights, extends to other Bank shares which in future may be under the direct or indirect ownership of the signatories or in respect of which the signatories have had voting rights attributed to them, such that, at 31 December 2015, a further 28,536,680 shares (0.1977% of the Bank's share capital at that date) are also included in the syndicate.

Shares included in the syndication

At 31 December 2015, the agreement encompassed a total of 72,933,193 Bank shares (0.505% of its share capital), broken down as follows:

Parties to the shareholder agreement	Number of shares	% of share capital
Ms. Ana Botín-Sanz de Sautuola O'Shea[1]	8,294,091	0.0575%
Mr. Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709	0.1169%
Mr. Francisco Javier Botín-Sanz de Sautuola O'Shea[3]	16,290,053	0.1129%
Ms. Paloma Botín-Sanz de Sautuola O'Shea[4]	7,835,293	0.0543%
Ms. Carmen Botín-Sanz de Sautuola O'Shea	8,636,449	0.0598%
PUENTEPUMAR, S.L.	-	
LATIMER INVERSIONES, S.L.	-	
CRONJE, S.L., Unipersonal[5]	9,428,319	0.0653%
NUEVA AZIL, S.L.[6]	5,575,279	0.0386%
TOTAL	**72,933,193**	**0.5053%**

1. 8,074,263 shares held indirectly through Bafimar, S.L.
2. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares held indirectly through Inversiones Zulú, S.L. and 6,794,391. shares indirectly through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares held indirectly through Bright Sky 2012, S.L.
5. Controlled by Ana Botín-Sanz de Sautiuola O´Shea.
6. Controlled by Carolina Botín-Sanz de Sautuola 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 X **No**

Described above.

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Described above.

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities Market Act (*Ley del Mercado de Valores*). If so, identify:

Yes **No** X

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
16,209	40,275,000	0.279%

* Through:

Name or corporate name of direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	40,275,000
Total:	**40,275,000**

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[1]
22/01/2015	100,446,608	37,720,742	1.002%
21/04/2015	137,947,982	41,832,664	1.274%
14/09/2015	96,313,441	47,665,925	1.002%
30/11/2015	109,791,017	34,584,608	1.001%

1. Percentage calculated based on current share capital on the date of notification.

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 annual general meeting of 27 March 2015, under article 297 (1) (b) of the LSC [Ley de Sociedades de Capital] resolved to delegate to the board the power to increase share capital on one or more occasions by means of monetary contributions up to a maximum nominal amount of 3,515,146,471.50 euros (one half of the capital existing at the date of that general meeting), on such terms as the directors might think fit, while the unused portion of the earlier authorisation granted under resolution Nine (II) of the annual general meeting of 28 March 2014 was left without effect. The general meeting further authorised the board, under article 506 of the LSC, to disapply pre-emptive subscription rights in relation to share issues conducted under these delegated powers. However, this power of disapplication is limited to 20% of the Bank's existing capital as at the date of the general meeting, 27 March 2015 (1,406,058,588.50 euros). In accordance with the resolutions of the board, the time available to the directors to conduct and give effect to capital increases under these delegated powers is a period of three years, i.e., up until 27 March 2018.

Moreover, in reliance on article 297(1) (a) of the LSC, the annual general meeting of 27 March 2015 further resolved to increase the capital of the Bank by a nominal amount of 500 million euros, and delegated to the board the broadest powers to determine, within one year of the date of the general meeting, the date and terms of that increase. If within the term appointed by the general meeting for the performance of this resolution the board omits to use the powers delegated to it, those powers will be without effect.

In addition, the general meeting of 27 March 2015 resolved to delegate to the board the power to issue bonds, debentures, preference shares and other fixed income securities and analogous debt instruments (including warrants) that are convertible into and/or exchangeable for Bank shares, up to a maximum amount of one or more issues totalling 10,000 million euros or the equivalent in another currency. The time available to the Bank directors to perform this resolution ends on 27 March 2020.

At the date of this document these authorisations remained unused.

Treasury share policy

At its meeting of 23 October 2014, the board approved the current treasury share policy[1] taking into account the criteria recommended by the CNMV for security issuers and financial intermediaries. The treasury share policy was specified as follows:

1. *Transactions involving the purchase and sale of treasury shares by the company or other companies dominated thereby must first conform to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.*

2. *Treasury share transactions have the following objectives, abiding by the terms here indicated and by the recommendations on discretionary treasury share transactions published by the CNMV in July 2013:*

a) *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.*

b) *Take advantage, in benefit of shareholders as a whole, of situations of weakness in the price of the shares in relation to prospects of changes in the medium term.*

3. *Transactions with treasury shares are carried out 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 such department is responsible for the management of treasury shares, as notified to the CNMV.*

   To ascertain the market situation of Bank shares that department made collect data from such market members as it thinks fit, but ordinary transactions on the continuing exchange must be executed through a single market member, with notice to the CNMV.

   No other unit of the Group may carry out treasury share transactions except as indicated in section 10 below.

1. The treasury share policy is published on the Bank's corporate website (www.santander.com).

4. *Treasury share transactions are subject to the following general guidelines:*

   - *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.*

5. *Buy orders must be formulated at a price not exceeding the greater of the following two values:*

   - *The price of the latest transaction concluded on the market by independent parties.*

   - *The highest price contained in buy order in the order book.*

Sell orders must be formulated at a price not lower than the lesser of the following two values:

   - *The price of the latest transaction concluded on the market by independent parties.*

   - *The lowest price contained in sell order in the order book.*

In addition, ask and bid prices must not generate a trend in the share price.

6. *As a rule, treasury share transactions, including buy and sell orders, may not exceed 15% of daily average trading volume of purchases of Bank shares over the 30 previous market sessions of continuing exchange orders.*

   That limit will be 25% if treasury shares are to be used as consideration for the acquisition of another company or for delivery in an exchange in the context of a merger process.

7. *Treasury share transactions are subject to the following time limits:*

   a) *Buy and sell orders may not be placed during opening or closing auctions except on justified grounds and on a basis of extreme caution to prevent such orders from decisively influencing the behaviour of the auction price. In these exceptional events: (i) the cumulative volume of buy and sell orders placed may not exceed 10% of the notional volume resulting from the auction at the time of placing the orders; and (ii) orders may not be put in on a "market" or "best price" basis other than in exceptional and properly justified circumstances.*

   b) *Treasury share transactions may not be entered into if the Bank has decided to delay the publication and disclosure of material information in accordance with article 82.4 of the Securities Market Law [Ley del Mercado de Valores], until such information is disclosed. The compliance area must accordingly inform the investments and holdings department if this circumstance arises.*

   c) *Orders may not be put in during the auction period prior to the lifting of a suspension of trading of Bank shares that might have arisen, and must wait until trades in Bank shares have resumed. Orders that remained unfilled at the time of suspension being declared must be withdrawn.*

   d) *Treasury share transactions may not be entered into for a period of 15 calendar days prior to the disclosure of the Bank's financial information required by Royal Decree 1362/2007 of 19 October.*

   e) *All treasury share transactions must be concluded within normal trading hours, other than exceptional transactions relating to one of the reasons where provision is made for special transactions.*

8. *In exceptional circumstances, such as, inter alia, those causing significant alterations in the volatility or supply or demand of shares, and on justified grounds, the limit stated in the first paragraph of section 6 may be exceeded, or the rule stated in section 7.d above may be disapplied. In either event the investments and holdings department must immediately report such situation to the compliance area.*

9. *The rules set out in sections 3 (second paragraph), 5, 6 and 7 above will not apply to treasury share transactions conducted in the block trade market, unless the Bank is aware that its counterparty is unwinding a position previously built up by means of transactions on the orders market.*

10. *In accordance with section 3, Group units other than the investments and holdings department may acquire treasury shares in the course of market risk hedging activities or provision of intermediation or hedging for clients. Such activities will not be subject to the rules set out in sections 2, 4 (subsection (c)), 5, 6 and 7 above.*

11. *The executive committee will receive regular information on treasury share activities.*

    At each board meeting directors must ensure that the requirements have been satisfied for the acquisition of treasury shares under article 146.3 of the LSC.

12. *The head of compliance must on a monthly basis report to the risk supervision, regulation and compliance committee on treasury share trades concluded in that month and on the operation of the controls implemented in that same period.*

Treasury share transactions

The current authorisation for transactions with treasury shares concluded in 2015 arises from resolution Five adopted by the shareholders at the general shareholders' meeting held on 28 March 2014, item II) of which reads as follows:

"To expressly authorise the Bank and the subsidiaries making up 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 can only be exercised within five years from the date on which the general shareholders' meeting is held. The authorisation includes the acquisition of shares, if any, that must be delivered directly to employees and directors of the Company or as a result of the exercise of the options they hold."

A.9 bis Estimated free float:

	%
Estimated floating capital	100%*

* The Bank's estimated floating capital is 99.01% after deduction of the percentage of capital which at 31 December 2015 was held by directors and by the Company itself as treasury shares in accordance with the instructions given in CNMV Circular 5/2013 of 12 June, as amended by Circular 7/2015 of 22 December.

A.10 Give details of any restriction on the transfer of securities 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 X

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 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.

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 Bank's Bylaws 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: *"The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent."*

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 agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes No X

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 X 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.

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 X

	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 LSC.

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** X

Describe how they differ from the rules established under 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 rules on the adoption of corporate resolutions are set forth in article 35 of the Bylaws and in article 23 of the rules and regulations of the general meeting. Those rules are one and the same as the regime under the LSC.

Articles 159 and 201 of the LSC apply.

Furthermore, industry-specific laws and regulations applicable to credit institutions in some respects supplement the LSC as to the required quorum and majority for adopting certain resolutions, on the terms set out 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 en bloc of assets and liabilities or transfer 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.

Elsewhere, as required by article 10 of Royal Decree 84/2015, the amendment of credit institutions' Bylaws requires authorisation from the Bank of Spain. 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 27 March 2015:

	Attendance data				
			% remote voting		
Date of general meeting	% attending in person	% by proxy	Electronic means	Other[3]	Total
27/03/2015	0.35%[1]	43.44%[2]	0.22%	15.93%	59.72%

1. Of the percentage specified (0.35%), 0.003% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.903%.
3. The percentage specified corresponds to postal votes.

Extraordinary general shareholders' meeting of 15 September 2014:

	Attendance data				
			% remote voting		
Date of general meeting	% attending in person	% by proxy	Electronic means	Other[3]	Total
15/09/2014	0.13%[1]	37.93%[2]	0.06%	14.06%	52.18%

1. Of the percentage specified (0.13%), 0.001% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.30%.
3. This percentage corresponds to postal voting.

General shareholders' meeting of 28 March 2014:

	Attendance data				
			% remote voting		
Date of general meeting	% attending in person	% by proxy	Electronic means	Other[3]	Total
28/03/2014	0.27%[1]	42.71%[2]	0.06%	15.78%	58.82%

1. Of the percentage specified (0.27%), 0.002% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.223%.
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** X

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, in the "Shareholders and investors" section of the main menu, all information required under applicable law (currently, the LSC, 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, and 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).

The content of the "Shareholders and investors" section can be accessed from the link on the home page of the Group's website (www.santander.com).

Information on corporate governance and general shareholders' meetings can be found in this section ("Shareholders and investors") under the heading "Corporate Governance" and information on general shareholders' meetings can subsequently be found within this section under the heading *"General shareholders' meeting"*.

This information can also be accessed from the home page under the heading *"Information for shareholders and investors"*, which redirects visitors once again to the *"Corporate governance" section"*.

This information is therefore available at both:

- Home/Information for shareholders and investors/Corporate governance/General shareholders' meeting.
- Home/Shareholders and investors/Corporate governance/General shareholders' meeting.

The information available on the corporate website, in Spanish, English and Portuguese, includes:

- The Bylaws
- The Rules and Regulations of the General Shareholders' Meeting
- The Rules and Regulations of the Board of Directors
- The composition of the board and its committees
- Professional biographies and other information on the directors
- The Annual Report
- The Annual Corporate Governance Report
- The reports of the board committees
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The Sustainability Report

From the date of its publication, the call notice for the 2016 general shareholders' meeting will be available on the website. The meeting information provided will include the resolutions for ratification and the 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 corporate website, from the publication of the notice of meeting to the holding of the general meeting.

The annual general meeting called for 17 or 18 March 2016, at the original date and time or at the adjourned date and time, respectively, will be presented with a motion to alter article 6 of the rules and regulations of the general meeting to bring its content into alignment with recommendation 10 of the Code of Good Governance for Listed Companies [*Código de buen gobierno de sociedades cotizadas*], adopted by the board of the Spanish securities market regulator [Comisión Nacional del Mercado de Valores] on 18 February 2015.

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

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	28.03.2014	Vote in general shareholders' meeting
Mr. José Antonio Álvarez Álvarez	N/A	Executive	Chief executive officer	25.11.2014[1]	27.03.2015[6]	Vote in general shareholders' meeting
Mr. Bruce Carnegie-Brown	N/A	Non-executive independent	Vice chairman	25.11.2014[2]	27.03.2015[6]	Vote in general shareholders' meeting
Mr. Rodrigo Echenique Gordillo	N/A	Executive	Vice chairman	07.10.1988	28.03.2014	Vote in general shareholders' meeting
Mr. Matías Rodríguez Inciarte	N/A	Executive	Vice chairman	07.10.1988	27.03.2015	Vote in general shareholders' meeting
Mr. Guillermo de la Dehesa Romero	N/A	Non-executive (neither independent nor proprietary)	Vice chairman	24.06.2002	27.03.2015	Vote in general shareholders' meeting
Mr. Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent nor proprietary)	Member	30.06.2015[3]	30.06.2015	Appointment by co-option[5]
Mr. Javier Botín-Sanz de Sautuola y O'Shea	N/A	Proprietary	Member	25.07.2004	22.03.2013	Vote in general shareholders' meeting
Ms. Sol Daurella Comadrán	N/A	Non-executive independent	Member	25.11.2014[4]	27.03.2015[6]	Vote in general shareholders' meeting
Mr. Carlos Fernández González	N/A	Non-executive independent	Member	25.11.2014[2]	27.03.2015[6]	Vote in general shareholders' meeting
Ms. Esther Giménez-Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	28.03.2014	Vote in general shareholders' meeting
Mr. Ángel Jado Becerro de Bengoa	N/A	Non-executive independent	Member	11.06.2010	22.03.2013	Vote in general shareholders' meeting
Ms. Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	22.12.2015	Appointment by co-option[5]
Ms. Isabel Tocino Biscarolasaga	N/A	Non-executive independent	Member	26.03.2007	22.03.2013	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

Pursuant to the provisions of article 55 of the Bylaws and article 22 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.

1. Effective 13 January 2015.
2. Effective 12 February 2015.
3. Effective 21 September 2015.
4. Effective 18 February 2015.
5. To be put to the next general shareholders' meeting for ratification.
6. Ratification by the general shareholders' meeting of their appointment by co-option.

Total number of directors	15

Indicate any board members who left during the period:

Name or corporate name of director	Status of the director at the time	Leaving date
Mr. Javier Marín Romano	Executive	12/01/2015
Mr. Fernando de Asúa Álvarez	Non-executive (neither independent nor proprietary)	12/02/2015
Mr. Abel Matutes Juan	Non-executive independent	18/02/2015
Mr. Juan Rodríguez Inciarte	Executive	30/06/2015
Ms. Sheila C. Bair	Non-executive independent	1/10/2015

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer to replace Mr. Javier Marín Romano, subject to prior government authorisation. As a result, Mr. Javier Marín Romano resigned from his post as a director, effective as of 12 January 2015, when he ceased to be chief executive officer.

At the board meeting of 25 November 2014, Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan tendered their resignations as directors for personal reasons, in both cases subject to the candidates to replace them, Mr. Bruce Carnegie-Brown and Ms. Sol Daurella Comadrán, obtaining the pertinent government authorisation. Their resignations were made effective as of 12 and 18 February 2015, respectively.

At the board meeting of 30 June 2015, Mr. Juan Rodríguez Inciarte announced his voluntary resignation as a director for personal reasons.

Finally, Ms. Sheila C. Bair resigned from her role as a director, effective as of 1 October 2015, after she was appointed president of Washington College.

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 of Directors establishes that those who perform management functions within the Company or the Group shall be considered executive directors, irrespective of their legal relationship with them. For clarification purposes, the following directors shall be included in this category: the 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, the following are executive directors of the Bank at 31 December 2015:

Name or corporate name of director	Position held in the company
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive chairman
Mr. José Antonio Álvarez Álvarez	Chief executive officer
Mr. Rodrigo Echenique Gordillo	Vice chairman
Mr. Matías Rodríguez Inciarte	Vice chairman

Total number of executive directors	4
% of the board	26.67%

External proprietary directors

Article 6.2.b) of the Rules and Regulations of the Board of Directors 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.

Since 2002, the appointments committee and the board of directors have stipulated that having or representing at least 1% of the Bank's share capital is a necessary condition, though not the only condition, to be appointed a non-executive proprietary director. This percentage was established by the Bank in accordance with its self-regulatory powers and is less than that deemed significant by law, although the Bank believes it is sufficient so as to enable the board to classify directors that hold or represent a shareholding equal to or greater than such percentage as proprietary directors.

The board of directors, taking into consideration the circumstances of each case, and following a report from the appointments committee, considers the following director to be a non-executive proprietary director:

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment[1]
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ms. Ana Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own interest. The voting rights of the aforementioned shareholders corresponded to 1.041% of the Bank's share capital at year-end 2015.

Total number of proprietary directors	1
% of the board	6.67%

1. Significant shareholder: As indicated in section A.2, there are no significant shareholders.

Independent external directors

The board of directors deems that all directors are independent directors, a classification that is based on the solvency, integrity and professionalism of each director and not on compliance with certain requirements.

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

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

"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 there be a classification as independent directors of those who:

(i) Have been employees or executive directors of the Group's companies, except after the passage of three or five years, respectively, since the cessation of such relationship.

(ii) Receive from the Company, or from another Group company, any amount or benefit for something other than director compensation, unless it is immaterial for the director.

For purposes of the provisions of this sub-section, 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 suspend, modify or revoke the accrual thereof without breaching its obligations.

(iii) Are, or have been during the preceding three years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such a period.

(iv) Are executive directors or senior managers of another company in which an executive director or senior manager 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 manager of an entity that maintains or has maintained such relationship.

Business relationships shall be considered the relationships of a provider of goods or services, including financial services, and those of an advisor or consultant.

(vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding three 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 manager of the Company.

(viii) Have not been proposed, whether for appointment or for renewal, by the appointments committee.

(ix) Have been directors for a continued 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 sub-section 2(c). In the event of a kinship relationship set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the related proprietary directors thereof in the affiliated company.

Proprietary directors who lose such status as a result of the sale of their 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 article 6.2 (c) of the Rules and Regulations of the Board of Directors and, in addition, the shareholding thereof is not significant.

Taking into consideration the circumstances of each case and following a report from the appointments committee, the board considers the following board members to be non-executive independent directors at 31 December 2015:

Name or corporate name of director	Profile
Mr. Bruce Carnegie-Brown	Born in 1959 in Freetown, Sierra Leone. Joined the board in 2015. MA degree in English Language and Literature from the University of Oxford. Other relevant positions: He was the non-executive chairman of Aon UK Ltd, founder and managing partner of the quoted private equity division of 3i Group Plc., chairman and chief executive officer of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group Plc (2008-2014) and Catlin Group Ltd (2010-2014). He is currently the non-executive chairman of Moneysupermarket.com Group Plc and a non-executive director of Santander UK Plc.
Ms. Sol Daurella Comadrán	Born in 1966 in Barcelona, Spain. Joined the board in 2015. Graduate in Business and MBA in Business Administration. She is executive chairman of Olive Partners, S.A. and holds several positions in companies of the Cobega Group. Other relevant positions: She has served as a member of the governing board of the Círculo de Economía and an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A.
Mr. Carlos Fernández González	Born in 1966 in Mexico City, Mexico. Joined the board in 2015. An 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 relevant positions: He is currently a member of the advisory board of the Modelo Group.
Ms. Esther Giménez-Salinas i Colomer	Born in 1949 in Barcelona, Spain. Joined the board in 2012. Doctor in Law. She is emeritus professor at the Universidad Ramon Llull and serves on the boards of Unibasq and Aqu (quality agencies of the Basque and Catalan university system) and of Gawa Capital Partners, S.L. and is a member of the advisory committee of Endesa-Catalunya. Other relevant positions: Previously she served as rector at Ramon Llull University, member of the General Council of the Spanish Judiciary, member of the permanent committee of the Conference of Spanish University Rectors (CRUE) and managing director of the Centre of Legal Studies in the Law Department of the Catalan regional government.
Mr. Ángel Jado Becerro de Bengoa	Born in Santander in 1945. Joined the board in 2010. Graduate in Law and degree in Business Administration. Other relevant positions: He was director of Banco Santander, S.A. from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. He currently holds various positions in investment trusts.
Ms. Belén Romana García	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. She is a non-executive director of Aviva Plc, London. Other relevant positions: She was 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 Securities Market Commission. 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).
Ms. Isabel Tocino Biscarolasaga	Born in 1949 in Santander, Spain. Joined the board in 2007. Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School. She is a professor at Universidad Complutense de Madrid. Other relevant positions: She is a former Spanish Minister for the Environment, former chairman of the European Affairs Commission and of the Foreign Affairs Committee of the Spanish Congress and former chairman for Spain and Portugal and vice-chairman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A., Naturhouse Health, S.A. and Enagas, S.A.
Mr. Juan Miguel Villar Mir	Born in Madrid in 1931. Joined the board in 2013. Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation. He is chairman of Grupo OHL and of the Grupo Villar Mir, and represents these entities as vice-chairman and director in Abertis Infraestructuras, S.A. and in Inmobiliaria Colonial, S.A., respectively. Other relevant positions: He was Minister of Finance and vice president of the Government for Economic Affairs from 1975 to 1976, and chairman of 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, the 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 full 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	53.33%

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.

Grupo Santander holds risk positions with companies in which some of the independent directors are or have been significant shareholders or directors, through various instruments, such as syndicated loans, long-term bilateral loans, bilateral loans for the financing of working capital, leases or guarantee 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.

In the assessment of those directors' suitability to perform the duties of independent director, the appointments committee first, and the board of directors subsequently, took into consideration the existence of the financing by Grupo Santander for the benefit of companies where they are or were significant shareholders or directors and concluded that in all cases such financing did not constitute a significant business relationship (as defined in the article 529.duodecies.4.e) of the LSC) for the purpose of those directors' classification as independent; among other reasons, because no situation of financial dependence had been created in the respective companies owing to the replaceability of such financing with other sources of bank or non-bank financing.

At its meeting of 12 February 2016, the board adopted a proposal put forward by the appointments commission at its meeting of 11 February 2016 on the classification of the Bank's directors, whereby the independent directors may continue to be treated as such insofar as they satisfy the requirements of article 529duodecies. 4 of the LSC.

Other external directors

Identify all other external 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 the relationship is maintained
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	For having been employed less than three years since the cessation of that relationship	Banco Santander, S.A.

Total number of other external directors	2
% of the board	13.33%

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. Rodrigo Echenique Gordillo	16 January 2015	Non-executive director (neither independent nor proprietary)	Executive director
Mr. Guillermo de la Dehesa	27 March 2015	Non-executive independent director	Non-executive director (neither independent nor proprietary)

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 type			
	2015	2014	2013	2012	2015	2014	2013	2012
Executive	1	1	1	1	6.67%	7.14%	6.25%	6.25%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	4	3	2	2	26.67%	21.43%	12.50%	12.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	**5***	**4**	**3**	**3**	**33.33%**	**28.57%**	**18.75%**	**18.75%**

** No reference is made in the column for 2015 to Ms. Sheila C. Bair, as she left her post as director with effect on 1 October 2015. Ms. Belén Romana García, appointed on 22 December 2015, is included.*

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 LSC), at its meeting held on 21 October 2014, the appointments committee set an objective of 25% representation of the less well-represented gender on the Bank's board of directors, and at its meeting on 25 January 2016, it resolved to increase this target to 30% of board members. According to a study carried out by the European Commission with data from April 2015, the percentage of female directors at major European listed companies was an average of 21.2% for all 28 countries in the European Union and 16.8% for Spain.

The current composition of the board (33.3% female directors) exceeds the objective set by the Bank in 2014 and 2016 and the aforementioned European average.

The percentage of women represented on board committees at year-end 2015 was as follows:

	No. of members	No. of female directors	% of female directors
Executive committee	8	2	25
Audit committee	5	2	40
Appointments committee	6	1	16.7
Remuneration committee	6	2	33.3
Risk supervision, regulation and compliance committee	7	1*	14.3
International committee	6	2	33.3
Innovation and technology committee	8	2	25

* Ms. Sheila C. Bair was also a member of the risk supervision, regulation and compliance committee, until her resignation as a director on 1 October 2015.

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:

Explanation of the measures

In accordance with our policy on directors and with article 42.4 of the Bylaws and article 6.1 of the board rules and regulations, the board – and consequently the appointments committee – must ensure that the procedures for selection of members guarantee the individual and collective qualifications of directors, encourage diversity in terms of gender, experience and knowledge, and do not carry any implicit bias that might entail any form of discrimination. In particular, the selection of female directors is to be supported.

Under article 17 (4) (a) of the board rules and regulations, the appointments committee assesses the balance of expertise, skills, ability, diversity and experience that are necessary and existing on the board and draws up a competency matrix and description of the necessary functions and aptitudes for each specific appointment, while determining the time and dedication needed for the proper performance of the office.

In accordance with those rules, at the beginning of the process of selecting a new director the appointments committee analyses the skills and diversity of board members to determine the skills that are needed for the job, and may for this purpose enlist the assistance of an external adviser. The outcome of this analysis is borne in mind when assessing the various shortlisted candidates and evaluating their skills and suitability to be Bank directors, so as to propose to the board the appointment of the candidate thought to be most suitable.

The director selection policy also embraces the selection principles described in section C.1.19 of this report.

The process of filling board vacancies has no implicit bias against women candidates. Article 42.4 of the Bylaws and article 6.1 of the board rules and regulations, referred to above, require that the procedures for selection of directors encourage gender diversity and do not carry any implicit bias that might entail any form of discrimination. In particular, the selection of female directors is to be supported. Furthermore, at its meeting of 28 September 2015 the appointments committee discussed the succession plan for non-executive directors, on which the board was briefed the following day. This plan requires that director selection processes include women.

At the date of writing, there are five women on the board of directors, including the chairman, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Ms. Sol Daurella Comadrán, Ms. Esther Giménez-Salinas, Ms. Isabel Tocino Biscarolasaga and Ms. Belén Romana García. Ms Ana Botín is an executive director, while the other four persons named are independent directors.

For further information on the measures put in place by the appointments committee as to the selection of female directors, see sections C.1.5 and C.1.6 bis of this report.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of the reasons
This does not apply since there are several female directors sitting on the board of directors. 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.

As explained in section C.1.6 above, in director selection processes the committee assesses the balance of expertise, skills, ability, diversity and experience that are necessary and existing on the board and draws up a competency matrix and description of the necessary functions and aptitudes for each specific appointment. At the beginning of the process of selecting a new director the committee analyses the skills of board members to determine the skills that are needed for the job. The outcome of this analysis is borne in mind when assessing the various candidates, so as to propose to the board the appointment of the candidate thought to be most suitable.

The committee produces an annual report summarising its activities over the year and an assessment of its performance, including a description of the director selection processes that have been conducted in the year. This assessment consequently addresses the application of director selection policy.

In relation to the director selection policy, the Bank has promoted the effective application of the principle of equal opportunities for men and women in relation to appointments 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 disposition to exercise good governance of the company.

At its meeting on 25 January 2016, the appointments committee verified that, as the percentage of women on the board of the Bank is 33.3%, the Bank had exceeded its target for representation of the less well-represented gender of 25%, set by the appointments and remuneration committee on 21 October 2014. At the meeting of 26 January, the committee decided to raise the target to 30% representation of the less well-represented gender on the board of directors, and set guidelines on how to maintain compliance with this objective, which were:

1. Continue applying the principle of equal opportunities for men and women when appointing Bank directors.
2. Ensure that director selection processes are not subject to implicit bias that would make it difficult to select candidates of the less well-represented gender.
3. Include among the potential candidates a person of the less well-represented gender that meets the required professional profile, notwithstanding that the proposed appointment be made considering the commercial and professional integrity, knowledge, experience and the disposition to exercise good governance of the candidates.
4. Include in the Bank's rules and regulations explicit references designed to promote the participation of the less well-represented gender on the board.
5. Continue to include the number and percentage of the less well-represented gender on the board and its committees in the Bank's published information, allowing comparison with the average of other large listed companies.
6. Include in the Bank's director training programmes, activities relating to equal opportunities for men and women in accessing director posts in the company.

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

No shareholders hold significant holdings. Refer to 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
Mr. Javier Botín-Sanz de Sautuola y O'Shea	The criteria for appointing non-executive proprietary directors representing shareholders who hold less than 3% of the capital are described in section C.1.3.

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** X

This does not apply as there have been no 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.

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 their reasons and through which channel. If made in writing, list below the reasons given by that director:

Name of director	Reasons for resignation
Mr. Javier Marín Romano	Voluntary resignation after ceasing to be chief executive officer
Mr. Fernando de Asúa Álvarez	Voluntary resignation for personal reasons
Mr. Abel Matutes Juan	Voluntary resignation for personal reasons
Mr. Juan Rodríguez Inciarte	Voluntary resignation for personal reasons
Ms. Sheila C. Blair	Voluntary resignation for personal reasons

In every case, the director informed the board in person of the reasons for their resignation.

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	Executive chairman
Mr. José Antonio Álvarez Álvarez	Chief executive officer

The 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 ordinary 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 in article 3 of the Rules and Regulations of the Board of Directors. These powers are as follows:

(a) Approval of the general policies and strategies of the Company, 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 share policy.
- (vi) Risk management and control policy, including tax risks.
- (vii) Policy on corporate governance and internal governance of the Company and its Group.
- (viii) Remuneration policies for personnel of the Company and its Group.
- (ix) Corporate social responsibility policy.
- (x) Regulatory compliance policy, including the approval of codes of conduct, 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).

(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 shares.

(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 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.

(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) 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.

(g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

(h) Definition of the structure of the Group of companies of which the Company is the controlling entity.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) Design and supervision of the director selection policy and of the 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 24 of the Rules and Regulations.

(n) Selection, appointment by co-option and continuous evaluation of directors.

(o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

(p) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

(q) 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.

(r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board of Directors, 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 30 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(t) 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.

(u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.

(v) And those specifically provided for in the Rules and Regulations of the Board of Directors themselves.

There is a clear separation of duties between the executive chairman, the chief executive officer, the board of directors and its committees, and sufficient measures to ensure the Bank's corporate governance structure is duly balanced. These include:

- The board and its committees exercise duties of supervision and control over the actions of both the executive chairman and the chief executive officer.

- The lead independent director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.

- The audit committee is also chaired by an independent director.

- 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 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 2015, the directors who are managers or directors of other Group companies are:

Name or corporate name of director	Corporate 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*
	SAM Investment Holdings Limited	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. Bruce Carnegie-Brown	Santander UK plc.	Director*
	Santander UK Group Holdings plc	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*
	Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Director*
	Banco Santander (México), 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*
	Metrovacesa, S.A	Chairman*
Mr. Matías Rodríguez Inciarte	Unión de Créditos Inmobiliarios, S.A., E.F.C.	Chairman*
	U.C.I., S.A.	Chairman*
	Financiera El Corte Inglés E.F.C., S.A.	Director*
Mr. Ángel Jado Becerro de Bengoa	Cartera Mobiliaria, S.A., SICAV.	Director*

* Non-executive.
For the purpose of this table, the concept of Group under 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 in Spain, insofar as these have been disclosed to the company:

Details of the positions held by the Bank's directors at year-end 2015 are as follows.

Name or corporate name of director	Name of listed company	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	The Coca – Cola Company	Non-executive independent
Mr. Rodrigo Echenique Gordillo	Inditex, S.A.	Non-executive director
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	Non-executive director
Mr. Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	Non-executive vice chairman
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	Non-executive independent
	Enagás, S.A.	Non-executive independent
	Naturhouse Health, S.A.	Non-executive independent
Mr. Juan Miguel Villar Mir	Obrascón Huarte Laín, S.A. (OHL)	Chairman (proprietary)
	Abertis Infraestructuras, S.A.	Representative of OHL (proprietary vice chairman)
	Inmobiliaria Colonial, S.A	Representative of Grupo Villar Mir (proprietary vice chairman)
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 X **No**

Explanation of rules

The maximum number of company boards to which directors may belong, as stipulated in article 30 of the Rules and Regulations of the Board of Directors, 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 statutory provision is further implemented by articles 29 et seq of Royal Decree 84/2015 of 13 February and rules 30 et seq of Bank of Spain Circular 2/2016 of 2 February.

In accordance with these laws and regulations, Directors of the Bank may not at the same time occupy more than: (a) one executive directorship plus two non-executive directorships or (b) four non-executive directorships. Positions held within a single group are considered as a single position, while positions held in non-profit or charitable organisations are not taken into account for the purpose of applying this limit. The Bank of Spain 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:

thousands of euros	
Board remuneration (thousands of euros)[1]	29,689[2]
Amount of accumulated pension rights of current directors (thousands of euros)	139,350
Amount of accumulated pension rights of former directors (thousands of euros)	88,880

1. Not including 6,312 thousand euros in respect of a contribution to the savings scheme during the year.
2. Not including the agreed ILP amount for executive directors for 2015. This is because under the instructions set out in CNMV Circular 4/2013 the ILP amount is not treated as having accrued, and hence ought not to be included in the tables of section D of the annual directors' remuneration report; this further means that in accordance with Circular 5/2013 neither should it be included in section C.1.15. However, applying those instructions, there is included the maximum amount of the first third of the ILP for 2014, regardless of its arising in respect of services provided in 2014 and of the fact that such shares have not yet been delivered.

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
Alliances	Mr. Juan Andrés Yanes Luciani*
Asia and Strategy	Mr. Juan Rodríguez Inciarte***
Group chief audit executive	Mr. Juan Guitard Marín
Retail and commercial banking	Mr. Ángel Rivera Congosto
Retail and commercial banking	Mr. Francisco Javier San Félix García
Retail and commercial banking (private banking, asset management and insurance)	Mr. Luis Moreno García*
Global banking and markets	Mr. Jaques Ripoll
Brazil	Mr. Jesús M.ª Zabalza Lotina
Communication, corporate marketing and research	Mr. Juan Manuel Cendoya Méndez de Vigo
Costs	Mr. Javier Maldonado Trinchant
Group chief compliance officer	Ms. Mónica López-Monís Gallego
Corporate development	Mr. José Luis de Mora Gil-Gallardo
Spain	Mr. Rami Aboukhair Hurtado
Spain	Mr. Enrique García Candelas*
Consumer finance	Ms. Magda Salarich Fernández de Valderrama
Group chief financial officer	Mr. José García Cantera
Innovation	Mr. José María Fuster Van Bendegem
Group chief accounting officier	Mr. José Manuel Tejon Borrajo*
Group chief accounting officier	Mr. José Francisco Doncel Razola
Chairman's office and strategy	Mr. Víctor Matarranz Sanz de Madrid
Human resources, organisation and costs	Mr. Jesús Cepeda Caro*
Risks	Mr. José María Espí Martínez*
Group chief risk officer	Mr. José María Nus Badía
Risks (recoveries and asset write-downs)	Mr. Remigio Iglesias Surribas*
General secretary's office	Mr. Ignacio Benjumea Cabeza de Vaca*
General secretary's office and human resources	Mr. Jaime Pérez-Renovales**
General secretary's office and human resources	Mr. César Ortega Gómez
Technology and operations	Mr. Andreu Plaza
Universities	Mr. José Antonio Villasante Cerro
Other	Mr. Juan Manuel San Roman López

Total remuneration received by senior management (thousands of euros)	77,523****

* Senior executive vice presidents who departed from their senior management positions in the course of the year: Ignacio Benjumea Cabeza de Vaca on 31/08/2015 (appointed a director); Enrique García Candelas on 31/08/2015 (appointed vice chairman of Santander Totta), José María Espí Martínez on 31/03/2015, José Manuel Tejón Borrajo on 01/05/2015, Juan Andrés Yanes Luciani on 01/10/2015, Jesús Cepeda Caro on 01/10/2015, Luis Moreno García on 01/07/2015, and Remigio Iglesias Surribas on 01/10/2015.

** Senior executive vice presidents who joined senior management in the course of the year: Mónica López-Monís Gallego on 09/02/2015 and Jaime Pérez Renovales on 01/07/2015 (rejoining after unpaid leave).

*** Stepped down as a director on 30 June 2015 and as a senior executive vice president on 1 January 2016. The above data include remuneration received as a senior executive vice president.

**** Does not include the pension contributions made in 2015 by the Bank for the benefit of senior executive vice presidents (21,434 thousand euros), or the amount agreed for senior executive vice presidents for the ILP for 2015 for the same reasons as those set out in section C.1.15 above. Does include the maximum amount of the first third of ILP for 2014.

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:

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:

Name or corporate name of director	Name or corporate name of related-party significant shareholder [1]	Description of the relationship
Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ana Botín-Sanz de Sautuola y O'Shea, Emilio Botín-Sanz de Sautuola y O'Shea, Carmen Botín-Sanz de Sautuola y O'Shea, Paloma Botín-Sanz de Sautuola y O'Shea, Jorge Botín-Sanz de Sautuola Ríos, Francisco Javier Botín-Sanz de Sautuola Ríos, Marta Botín-Sanz de Sautuola Ríos and his own	Representation on the Bank board of the persons listed in the previous column

1. As indicated in section A.2 above, there are no significant shareholders.

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

Yes X **No**

Description of changes

At its meeting of 23 February 2015, the board approved the modification of article 13.3 of the Rules and Regulations of the Board of Directors, changing the name of the technology, productivity and quality committee to the innovation and technology committee. This amendment was filed with the Cantabria Mercantile Registry on 4 March 2015.

At its meeting of 29 July 2015, the board subsequently approved a change to the Rules and Regulations of the Board of Directors, which was filed with the Cantabria Mercantile Registry on 14 August 2015. The following is a summary of the main changes:

- Complete the changes to the Bylaws approved at the annual general meeting on 27 March 2015, adapting the Rules and Regulations of the Board of Directors to the new aspects of the LSC pursuant to Corporate Governance Law 31/2014, of 3 December.
- Review and adapt the Bank's corporate governance regulations to the recommendations applicable thereto in its dual position as a listed company and credit institution. This was done, taking into account: (i) the new good governance code for listed companies issued by the CNMV in February 2015; (ii) the Guide to Internal Governance issued by the European Banking Authority; and (iii) the new Basel corporate governance principles for banks, published on 8 July 2015.

- Review the functions of the board committees in view of recent regulatory changes.
- Bring the operating rules for the board and its committees (scheduling and calling of meetings, etc.) into line with current Banco Santander practices. Introduce separate regulation of the appointments and the remuneration committees and introduce new articles aimed at regulating the international and the innovation and technology committees.
- Include certain internal rules regarding the Bank's criminal risk prevention model, bearing in mind the changes to article 31.bis of Spain's Penal Code; the responsibilities of the board in relation to the above-mentioned model and the functions that the risk supervision, regulation and compliance committee assumes as a supervisory body for the operation of and compliance with the criminal risk prevention model.
- Introduce technical improvements or enhancements to the wording or explain certain rules of the Bank's internal governance.

The amendment to the Rules and Regulations of the Board of Directors, approved by the board at its meeting of 29 September, was therefore filed with the Cantabria Mercantile Registry on 13 October 2015, increasing the maximum number of directors that form part of the innovation and technology committee from seven to eight.

Finally, and now moving into 2016, the board, at its meeting on 26 January 2016, agreed to amend article 17.quinquies.3 of the Rules and Regulations of the Board of Directors, for the purpose of broadening the functions of the innovation and technology committee, to include those related to the new digital environment in which the banking business will be carried out. This amendment to Rules and Regulations of the Board of Directors was filed with the Cantabria Mercantile Registry on 4 February 2016.

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 of Directors (articles 6, 7, 17 and 21 to 25). All regulations applicable to credit institutions also apply, especially Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, and Royal Decree 84/2015, of 13 February.

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 2015, the Bank's board of directors was composed of 15 directors, a number the institution considers suitable for ensuring proper representation and effective operation of the board, thus fulfilling the provisions of article 7.2 of the Rules and Regulations of the Board of Directors.

Accordingly, article 42.1 of the Bylaws stipulates that the shareholders at 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.

Power to appoint directors.
The appointment and re-election of directors corresponds to the board of directors and is regulated by articles 41.2 of the Bylaws and 21.1 of the Rules and Regulations of the Board of Directors.

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 21.1 of the Rules and Regulations of the Board of Directors 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 Corporate Enterprises Act (LSC), the Bylaws, the director selection 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 until the shareholders, at the earliest subsequent general shareholders' meeting, either confirm or revoke this appointment.

Appointment requisites and restrictions.
In accordance with article 21.4 of the Rules and Regulations of the Board of Directors, 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 of Directors. In this regard, the provisions of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, regarding the honourability requirements for directors, is applicable.

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 by firm ruling for crimes against personal freedom, property or against the social and economic order, collective security or the administration of justice, or any type of forgery or misrepresentation, 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, competence and solvency, 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.

Once the candidate's suitability has been assessed, the appointment will become effective once the related regulatory authorisations have been obtained.

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 interim appointment (co-option) to fill vacancies may be ratified in their position at the first general shareholders' meeting that is held following such designation, in which case they 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 article 56 of the Bylaws and article 23 of the Rules and Regulations of the Board of Directors. 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.

Directors must place their office at the disposal of the board and tender their 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 credibility and reputation and, in particular, (i) when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office, or (ii) or in the event of the emergence of any blemishes in terms of their honourability, knowledge or adequate experience or capacity to exercise good governance.

Under (i) and (ii), temporary suspension or definitive removal may be decided by the European Central Bank in accordance with the procedure envisaged in Chapter V of Title II of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and by virtue of the exclusive powers to ensure compliance with the rules and regulations of the European Union or of Spanish law, as the case may be, which require that credit institutions implement sound governance structures, including suitability requirements for the persons responsible for managing credit institutions.

Furthermore, the directors must, at their earliest convenience, notify the board of any circumstances that might jeopardise the Bank's credibility and reputation and, in particular, of any criminal lawsuits in which they are involved as accused parties.

Lastly, the Rules and Regulations of the Board of Directors specifically provide that non-executive proprietary 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 their category, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting, as well as the decisions adopted by the board regarding appointments by co-option must be preceded by the corresponding report and proposal of the appointments committee.

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

Pursuant to article 25 of the Rules and Regulations of the Board of Directors, 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 of the committees thereof 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 have been applying 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 euro zone.

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 of Directors, to this end:

   (i) A broad majority of external or non-executive directors is sought, but leaving room for an adequate number of executive directors. At year-end 2015, 4 of the 15 directors were executive directors.

   (ii) A significant participation of independent directors is sought among the external directors (at year-end 2015, 8 out of 11 external directors), but at the same time, a board of directors representing a significant percentage of the Company's capital is sought, (at 31 December 2015, the board directly or indirectly held 0.709% of the Company's share capital; with one of the proprietary directors representing 1.041% of the share capital, as explained in section C.1.3.).

   Article 21.2 of the Rules and Regulations of the Board of Directors establishes that it is the responsibility of the appointments committee to prepare a reasoned report on and proposal for such appointments, re-elections or ratifications of directors, regardless of their classification. In the event of re-election or ratification, such proposal made by the committee shall contain an assessment of work performed and actual dedication to the position during the last period of time in which the proposed director held office. In addition, such proposals from the appointments committee must in all cases be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate, which shall be attached to the minutes of the general shareholders' meeting or of the board meeting, as applicable. 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 the minutes.

   In all cases, and in accordance with the Bylaws (article 42.1) and the Rules and Regulations of the Board of Directors (article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a reasonable number of independent directors. This is currently the case, with external directors representing 73.33% of the board members and independent directors 53.33% of the board at 31 December 2015.

   (iii) In addition, special importance is also given to the experience of board members in different public and private professional arenas (in particular, considering the skills map, which is updated with 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.

c. Together with the aforementioned general criteria, an assessment of the director's work and effective dedication during the director's term in office is specifically taken into account in the re-election or ratification thereof.

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes

As a consequence of the self-assessment by the members of the board of directors in the last few years, the following measures have been adopted:

- A more detailed procedure for the succession of positions on the board (particularly the Group executive chairman and chief executive officer) has been included in the Rules and Regulations of the Board of Directors.
- Annual board meetings are held dedicated specifically to the Group's strategy.
- An ongoing training programme for directors, which has been in place continuously since its proposal in the 2005 self-assessment process.
- Directors have immediate access, via electronic devices, to all the information pertaining to the board and committees (calendar, agendas, presentations and minutes).
- Review of the board's composition, incorporating new directors with a more international profile and strengthening diversity.
- The Group executive chairman encourages debate at board meetings, inviting directors to ask questions and present queries.
- Greater involvement of the appointments committee in the process to appoint new directors.
- Review of the Bylaws and the Rules and Regulations of the Board of Directors for the purpose of adapting the duties of some committees to applicable regulations and to best corporate governance practices.
- Improve the relationship between directors outside of board meetings.
- Inclusion of corporate social responsibility in the functions of the risk supervision, regulation and compliance committee.
- Expand the functions of the innovation and technology committee.

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 officer and the performance and contribution of individual directors.

Article 19 (7) of the board regulations provides 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, must be assessed annually. At least every three years, that assessment must be conducted with the assistance of an independent external consultant, the independence of which will be examined by the appointments committee.

The board undertakes an ongoing process of self-assessment and assessment of its members and committees with the assistance of an independent external adviser. The self-assessment process is reported on by the appointments committee.

The self-assessment exercise includes a specific section for the individual assessment of directors, the Group executive chairman, the chief executive officer and the rest of directors. The Group executive chairman led the assessment of the lead director, who in turn led that of the Group executive chairman and also the process of individual cross-assessments between directors.

This exercise was based on a questionnaire and personal interviews with the directors and on international best corporate governance practices, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The latest self-assessment focused on the following areas: organisation, internal trend and culture, roles and contribution of directors; composition and content of the board and its committees; benchmarking with other international banks; and open questions regarding the future (strategy and internal and external factors that might affect the Group's performance) and other matters of interest.

For the independent assessment, the external adviser compared the Bank with 23 top tier international financial institutions with regard to the composition and dedication of the board and the committees, remuneration and other aspects of corporate governance, with the Bank ranking very highly.

The findings were presented at the board meeting of 29 September 2015.

C.1.20 ter Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

None.

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 Law 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 of Directors (article 23.2) 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 with holding such office.

As such, the Rules and Regulations of the Board of Directors (article 23.3) stipulates that proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes **No** X

If applicable, describe the differences.

Not applicable

C.1.24 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed chairman.

Yes **No** X

C.1.25 Indicate whether the chairman has the casting vote:

Yes X **No**

Matters where the chairman has the casting vote
According to article 47.5 of the Bylaws and article 20.6 of the Rules and Regulations of the Board of Directors, the chairman has the casting vote to settle any ties.

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

Yes **No** X

Age limit for 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:

Yes **No** X

Maximum number of years in office	There are none

Article 529.duodecies.4.i) of the LSC establishes that a director in a post for over 12 years can no longer be considered independent.

The board of directors attaches great value to the experience of its directors, for which reason it does not deem it advisable to limit the terms of office of non-executive independent directors other than by this legal requirement. This decision must be left in each case to the shareholders at the general shareholders' meeting.

At year-end 2015, the average length of service on the board for non-executive independent directors was 3 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 detail.

Article 47.1 and 2 of the Bylaws stipulates the following:

"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."*

Furthermore, article 20.1 and 2 of the Rules and Regulations of the Board of Directors states 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. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.*

2. *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."*

Likewise, and with regard to delegating votes of committee members, in accordance with articles 14.6, 16.8, 17.9, 17.bis 9, 17.ter.6, 17.quater.6 and 17.quinquies.6 of the Rules and Regulations of the Board of Directors, members of the executive, the audit, the appointments, the remuneration, the risk supervision, regulation and compliance, the international and the innovation and technology committees, respectively, may grant proxy to another member, provided that non-executive directors only represent another non-executive director.

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	21
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	59
Number of meetings of the audit committee	13
Number of meetings of the appointments committee	12
Number of meetings of the remuneration committee	10
Number of meetings of the delegate risks committee	81*
Number of meetings of the risk supervision, regulation and compliance committee	13

* The delegated risks committee was disbanded by resolution of the board on 1 December 2015. For more information see section C.2.1.

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	11
% of attendances of the total votes cast during the year	92.83%

The percentage shown in the second box (92.83%) 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.

Committees

		Decision-making		Advisory				Reporting [a]	
Directors	**Board**	**Executive**	**Delegate risk [b]**	**Audit**	**Appointments**	**Remuneration**	**Risk supervision, regulation and compliance**	**Innovation and technology**	**International**
Average attendance	**92.83%**	**90.89%**	**78.44%**	**97.96%**	**92.86%**	**90.57%**	**96.39%**	-	-
Individual attendance									
Ms. Ana Botín-Sanz de Sautuola y O´Shea	21/21	52/59							
Mr. José Antonio Álvarez Álvarez[1]	19/19	52/56	23/67						
Mr Bruce Carnegie-Brown[2]	17/17	40/51			9/9	9/9	12/12		
Mr. Rodrigo Echenique Gordillo	20/21	53/59	50/81		2/2	1/1	0/0		
Mr. Matías Rodríguez Iniciarte	21/21	57/59	81/81						
Mr. Guillermo de la Dehesa Romero	21/21	54/59		4/4	11/12	9/10	11/11		
Mr. Ignacio Benjumea Cabeza de Vaca[3]	4/4	16/16	11/11		3/3	4/4	3/3		
Mr. Javier Botín-Sanz de Sautuola y O´Shea	14/21								
Ms. Sol Daurella Comadrán[4]	15/17				6/8	6/9			
Mr. Carlos Fernández González[2]	15/17			11/11	7/8		10/11		
Ms. Esther Giménez-Salinas i Colomer	19/21								
Mr. Ángel Jado Becerro de Bengoa	21/21		62/67	10/11	8/8	8/9	13/13		
Ms. Belén Romana García[5]	1/1			0/0					
Ms. Isabel Tocino Biscarolasaga	21/21	57/59	79/81	11/11		10/10	11/11		
Mr. Juan Miguel Villar Mir	19/21			10/10			10/11		
Mr. Javier Marín Romano[6]	0/2	1/2							
Mr. Fernando de Asúa Álvarez[7]	4/4	7/8	11/11	1/1	3/3	1/1	1/1		
Mr. Abel Matutes Juan[8]	3/4			1/1	3/3				
Mr. Juan Rodríguez Inciarte[9]	15/15		36/51						
Ms. Sheila C. Bair[10]	15/18						9/10		

a. No meetings were held in 2015.
b. Disbanded by resolution of the board on 1 December 2015 and held its last meeting on 29 October.
1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Director since 21 September 2015.
4. Director since 18 February 2015.
5. Director since 22 December 2015.
6. Resigned as director on 12 January 2015.
7. Resigned as director on 12 February 2015.
8. Resigned as director on 18 February 2015.
9. Resigned as director on 30 June 2015.
10. Resigned as director on 1 October 2015.

On average, each of the directors has dedicated approximately 100 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 295 hours; members of the delegate risk committee 243 hours; members of the audit committee approximately 52 hours; members of the risk supervision, regulation and compliance committee 52 hours; members of the appointments committee 36 hours; members of the committee hours; and members of the remuneration committee 30 hours.

In accordance with the Rules and Regulations of the Board of Directors, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board. In addition, 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 chair.

In 2015, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, 9 directors who were not members of the executive committee each attended an average of 7 of the committee's meetings.

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes X **No**

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for 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 16.1, 2, 3 and 4 b), c), d), e), f), g), h), and i), and 35.5 of the Rules and Regulations of the Board of Directors) 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 comprises solely 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 2015, which will be submitted at the annual general meeting to be held on either 17 or 18 March 2016, on first or second call, respectively, the audit committee, at its meeting held on 10 February 2016, 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 12 February 2016 following certification by the general auditor of the Group.

In meetings held on 21 April, 22 July and 21 October 2015 and on 26 January 2016, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2015, 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 2015 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 2015. 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 have been held with the external auditor, both by the board of directors (twice in 2015) and by the audit committee. In 2015, the external auditor attended 12 of the 13 meetings held by the committee, providing sufficient time to unearth any possible discrepancies with respect to the accounting criteria employed.

In the case of a discrepancy, 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 fiscal years.

C.1.33 Is the secretary of the board also a director?

Yes **No** X

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

Deloitte, S.L. audited Grupo Santander's individual and consolidated financial statements in 2015.

In accordance with article 529.quaterdecies of the LSC and articles 16.4.c) and 35 of the Rules and Regulations of the Board of Directors, the relationship with the external auditor is channelled through the audit committee, which ensures the independence of the external auditor.

In this regard, article 35 of the Rules and Regulations of the Board of Directors, states the following:

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 twice a year in order to submit its report and permit all the directors to 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 audit firms in 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, which might risk the independence of such firm.*

4. *The board of directors shall make public the overall amount of fees paid by the Company to the audit firm for 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 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."*

In accordance with article 35 of the Rules and Regulations of the Board of Directors, the Bank may not contract any other non-audit services, that may put the auditor's independence at risk, whereby the board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing.

The fees received in 2015 by the Deloitte worldwide organisation for services provided to the various Group companies were as follows:

Millions of euros	
Audits	49.6
Audit-related services	46.9
Tax advisory services	9.1
Other services	12.6
Total	**118.2**

The main audit expenses were as follows:

Millions of euros	
Audits of the companies analysed by Deloitte	32.1
Of which, for:	
Santander UK Plc	*6.6*
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	*6.7*
Banco Santander (Brasil), S.A.	*1.4*
Audit of the Bank's individual and consolidated financial statements	*2.4*
Other audit work	17.5
Internal control audit (SOX) and capital computation audit (Basel)	*7.9*
Half-yearly audit of the Group	*6.5*
Issuance of comfort letters	*3.1*
Audit expenses	**49.6**

The main expenses relating to audit services were as follows:

Millions of euros	
Other recurrent work and reports required by the various national supervisory bodies in the countries where the Group operates	10.9
Limited reviews and others required by the Group's listing in Brazil	3.8
Non-recurring reviews required by regulators	0.4
Audit and other reviews of acquisitions (due diligence)	2.2
Issuance of security reports	5.2
Review of procedures, data and controls and other auditing services	24.4
Expenses for audit-related services	**46.9**

The audit committee believes that there are no objective grounds for doubting the independence of the Group's external auditor. In accordance with current legislation and the criteria set down in relevant international documents intended to ensure the effectiveness of external auditing services, the committee:

1. Has reviewed all the services rendered by the auditor for the audit and related services, tax services and other services described above, finding that the services arranged with the Group's auditors comply with the independence requirements set out in the Audit Act, as well as US Securities and Exchange Commission (SEC) and Public Accounting Oversight Board (PCAOB) regulations in the US, and the Rules and Regulations of the Board of Directors.

2. Has examined the relationship between the fees received by the auditor during the year for services other than audit and related services as a proportion of the total fees received by the auditor for all of its services, with the ratio being 18.4%.

   By way of reference, and in accordance with available information on leading financial institutions whose shares are listed on official markets, the average fees paid by such institutions to their auditors in 2015 for non-audit services were 21% of the total fees.

3. Has examined the percentage that the fees paid for all items represent compared to the total fees generated by the audit firm. The Deloitte worldwide organisation billed the Group for less than 0.3% of its total revenue.

Therefore, the audit committee, at the meeting of 10 February 2016, issued a favourable report on the independence of the auditors, stating its position on matters including the performance of additional services by the auditor.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by article 529.quaterdecies.4.f) of the LSC.

b. Financial analysts

The Shareholder and Investor Relations department channels communication with the institutional shareholders and financial analysts that cover Santander's activities. Every care is taken, in accordance with Article 32.2 of the Rules and Regulations of the Board of Directors, that institutional shareholders do not receive any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.

In addition, in accordance with article 31.1 of its rules and regulations, the board has drawn up and implemented a policy of communication by the Bank 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 34 of the board regulations governs the board's relationship with the market.

c. Investment banks and rating agencies

The Bank is compliant with the "Guidelines for transmission of insider information to third parties" published by the CNMV on 9 March 2009 (which expressly includes financial institutions and rating agencies as recipients of information) and with the "Recommendations on informational meetings with analysts, institutional investors and other securities market professionals" published by the CNMV 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 function, 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. Such entities should 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** X

At its meeting on 6 July 2015, as announced in a "material fact" filing, the board of directors chose PricewaterhouseCoopers Auditores, S.L. as the external auditor of Banco Santander and its consolidated Group to audit the financial statements for 2016, 2017 and 2018. This decision was taken in accordance with the corporate governance recommendations regarding the rotation of the external auditor, at the proposal of the audit committee, and as a result of a fully transparent selection process. The board is submitting this appointment for approval at the 2016 general shareholders' meeting.

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes **No** X

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 X **No**

	Company	Group	Total
Amount of non-audit work (thousands of euros)	6,139	15,558	21,697
Amount of non-audit work as a % of the total amount billed by the audit firm	17.5%	18.7%	18.4%

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** X

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	14	14

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	41.2%	42.4%

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

Yes X **No**

Procedures
The Rules and Regulations of the Board of Directors (article 27) expressly recognise that directors and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology, and the international committees 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 advisors (legal, accounting, financial and technology experts, recruiting specialists and other experts), 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.

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 X **No**

Procedures

According to the first paragraph of article 19.2 of the board regulations, the calendar of board meetings is prepared annually, along with a proposed draft agenda for such meetings and, if any changes are made thereto, each director must be duly notified. The board keeps a formal list of matters reserved for discussion by it and formulates a plan for the distribution of such matters between the ordinary meetings planned in the calendar approved by the board (article 19.6 of the board regulations).

The second and third paragraphs of article 19.2 prescribe that the call notice for meetings shall be sent 15 days in advance, by the secretary of the board. The relevant documentation for each meeting (draft agenda, presentations, minutes from previous meetings) is sent to the directors 4 business days prior to the date on which the board meeting is to be held via a secure electronic device.

The board committees also adopt an annual calendar of their meetings and the documentation relevant to each meeting (draft agenda, presentations, minutes of earlier meetings) is generally supplied to committee members 3 business days in advance of each meeting (article 16.6, 17.7, 17.bis.7, 17.ter.4 and 17.quinquies.4 of the board regulations).

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

In addition, article 26 of the Rules and Regulations of the Board of Directors expressly vest 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 such 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 19.4 of the board regulations).

Lastly, under articles 14.7 and 26.3 of the board regulations, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of 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 X **No**

Details of rules

As part of the duty of loyalty of the directors, article 30 of the Rules and Regulations of the Board of Directors establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the Bank and, in particular, any criminal lawsuits.

In addition, when these circumstances arise and, in particular, when they are subject to any incompatibility or prohibition provided for by law, as stipulated in article 56.2 of the Bylaws and article 23.2 of the Rules and Regulations of the Board of Directors, the affected directors must tender their resignation to the board and formally resign from their position if the board, following a report from the appointments committee, deems this appropriate.

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 LSC:

Yes No X

Name of director	Criminal charges	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.

Number of beneficiaries*	19
Senior executive vice presidents	In 2013, all remaining indemnity clauses for senior management members were eliminated
Other employees	In addition, for the purposes of statutory indemnities in the event of severance, some employees are entitled to length of service indemnities that include services provided prior to their engagement by the Bank, which would thus lead to their collecting a larger indemnity than what would correspond to their actual length of service with the Bank.

* Data at 31 December 2015.

If the contract of employment with Rodrigo Echenique Gordillo were terminated before 1 January 2018 – unless this were through his own free will, his death or permanent disability, or a serious breach of his obligations – he would be entitled to an indemnity of two times his fixed pay.

Mr. Echenique was appointed an executive director on 16 January 2014. The entitlement referred to above is set out in the contract entered into on the occasion of his appointment as an executive director.

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, proprietary, independent and other external directors:

The membership of board committees described in the tables of this section corresponds to the situation at year-end 2015.

Executive committee

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. Bruce Carnegie-Brown	Member	Non-executive independent director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	25%
% of other external directors	25%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year. Rules and Regulations of the Board of Directors:

The executive committee is regulated by article 51 of the Bylaws and article 14 of the Rules and Regulations of the Board of Directors, as follows:

Article 51 of the Bylaws:

"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 favourable 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 that may not be delegated under the law 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 in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board."*

Article 14 of the Rules and Regulations of the Board of Directors:

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 before the beginning of each month. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 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.*

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, provided, however, that 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 deliver a copy of the minutes of such meetings to the members of the board."*

The permanent delegation of powers by the board of directors to the executive committee shall include all of the board's powers, except for those that may not be delegated by law or which may not be delegated pursuant to the provisions of the Bylaws, or those that are exclusively reserved for the board itself and listed in article 3 of the Rules and Regulations of the Board of Directors, that is:

(a) Approval of the general policies and strategies of the Company, 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 share policy.

(vi) Risk management and control policy, including tax risks.

(vii) Policy on corporate governance and internal governance of the Company and its Group.

(viii) Remuneration policies for personnel of the Company and its Group.

(ix) Corporate social responsibility policy.

(x) Regulatory compliance policy, including the approval of codes of conduct, 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.

(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 shares.

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 financial statements and submission thereof to the 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) 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.

g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

h) Definition of the structure of the Group of companies of which the Company is the controlling entity.

i) 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.

j) 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.

k) 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.

l) 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.

m) Design and supervision of the director selection policy and of the 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 24 of the Rules and Regulations.

n) Selection, appointment by co-option and continuous evaluation of directors.

o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

p) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

q) 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.

r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board of Directors, 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 30 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

t) 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.

u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.

v) And those specifically provided for in the Rules and Regulations of the Board of Directors themselves.

The powers set forth in paragraphs (c), (h) (only where related to transactions that do not need a report from the audit committee pursuant to article 16.4.(h) of the Rules and Regulations of the Board of Directors), (j), (q), (r) and (u) 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.

Over the course of 2015 the executive committee has carried out activities related to the different areas of the Bank and its Group, with special attention being placed on the risk function; discussing and dealing with, in the 59 meetings held in the year (see section C.1.29 of the current report), matters relating to, among others, the following:

- **Reports by the Group executive chairman:** the Group executive chairman of the board of directors, who also chairs the executive committee, regularly reported on certain aspects relating to Group management.
- **Corporate transactions:** the committee approved investments and divestments undertaken by the Group.
- **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 thereby due to their amount or relevance.
- **Subsidiaries:** the committee received reports on the performance of the various units and, in line with current internal procedures, authorised transactions and appointments of directors of subsidiaries.
- **Capital:** the committee has received frequent information on the performance of capital ratios and of the measures being used to optimise them.
- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators.
- **Earnings:** the committee has been regularly 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 submitted thereto regarding, inter alia, the economic environment, liquidity (parent and Group), medium- and long-term wholesale funding, intra-group positions, and technology.

Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:

Yes X **No**

Given the nature of the executive committee, that has powers delegated from the board of directors, the board considers it sufficient to use the efficiency criteria set out in article 14.2 of the Rules and Regulations of the Board of Directors. This committee has four executive directors at year-end 2015, without discounting the participation of external directors, and particularly, independent directors, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

The board believes that the composition of the executive committee is well balanced, given that it was made up of the following at year-end 2015: 8 directors, 4 executive and 4 external. Of the external directors, 2 are independent and 2 are neither proprietary nor independent.

In addition, according to the Bylaws (articles 45.1 and 45.5) and the Rules and Regulations of the Board of Directors (articles 11.1 and 11.4), the secretary of the board must serve as the general secretary and the secretary of all board committees.

Audit committee

Name	Position	Type
Mr. Juan Miguel Villar Mir	Chairman	Non-executive independent director
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Belén Romana García	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	100%
% of other external 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 audit committee is regulated by article 53 of the Bylaws and article 16 of the Rules and Regulations of the Board of Directors.

Article 53 of the Bylaws:

"1. *The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*

2. *The members of the audit committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.*

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 after the passage of one year from the end of his preceding term.*

4. *The audit and compliance committee shall have at least the following powers and duties:*

    (i) *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.*

    (ii) *Supervise the effectiveness of the Bank's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit.*

(iii) *Supervise the process of preparing and presenting the required financial information.*

(iv) *Propose to the board of directors the selection, appointment, re-election and replacement of the external auditor, 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 jeopardize its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process, as well as maintain such other communication as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. 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 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 auditing of accounts.*

(vi) *Issue, on an annual basis and prior to the issuance of the auditor's report, a report stating an opinion on the independence of the external auditor. Such report shall, in all cases, contain the evaluation regarding the provision 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 auditing of accounts..*

(vii) *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 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 his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the external auditor attend such meetings. One of its meetings shall be devoted to preparing the information 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 the 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 each set of 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 16 of the Rules and Regulations of the Board of Directors:

"1. *The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*

2. *The members of the audit committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.*

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 after the passage of one year from the end of his preceding term.*

4. *The audit committee shall have the following duties, and any other provided for in 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, and periodically obtain from the external auditor information regarding the audit plan and the implementation thereof. 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 risk the independence thereof, 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 statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.*

(2) *Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.*

(3) *Ensure that the external auditor annually attends the meeting of the board of directors provided for in article 35.1 in fine of these rules and regulations.*

(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 independence of the external auditor. 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 and independence thereof, 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 length of service of the partner who leads the audit team in the provision of such services to the Company.*

In addition, a favourable report from 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 of the external auditor and of the safeguards applied as provided by such regulations.

The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

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) *Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report;*

(iii) *Ensure the independence and effectiveness of the internal audit function;*

(iv) *Propose the budget for this service, including the physical and human resources needed for the performance of its duties;*

(v) *Receive periodic information regarding the activities 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 system 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, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;*

(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 duties 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 same principles and practices applicable to the annual accounts.*

(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 33.

(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.

(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.

(h) 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.

(i) 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.

(j) Evaluate its operation and the quality of its work at least once per year.

(k) And the other duties 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, will periodically report to the board of directors and, in any event, at least two times per year, and will 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. 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, past meeting minutes) shall be provided to the committee members 3 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.

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 and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor. One of its meetings shall be devoted to preparing the information that the board is to approve and include in the annual public documents.

8. 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.

9. 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, a copy of the minutes of the meetings of the committee shall be delivered to all directors".

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, to amend article 53 of the Bylaws, for the purpose of increasing the maximum number of members on the audit committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time, and to adapt this provision to the changes made to article 529 *quaterdecies* of the LSC by final provision four of the Audit Law, which will become effective on 17 June 2016.

The audit committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the main activities carried out by the committee in 2015 (see section C.2.5 below).

In 2015 the audit committee carried out, among others, the following actions: (i) reviewed the financial statements of the Bank and its consolidated Group, as well as the quarterly financial statements and other financial information disclosed to the market or to supervisory bodies in 2015, (ii) was informed of the Group's Pillar III disclosures report, annual report, annual corporate governance report, share registration document and Form 20-F, (iii) proposed the re-election of Deloitte, S.L. as external auditor for verification of the financial statements and management reports of the Bank and the Group for 2015, (iv) analysed the audit reports for the 2014 individual and consolidated financial statements, (v) reported on the independence of the external auditor and state its position, among other matters, on the provision of additional services thereby, (vi) actively participated in designing and conducting the process for selecting the Bank's new auditor, (vii) supervised the Group's internal audit function, revising and approving the 2015 internal audit plan and assessing the adequacy and effectiveness of the function to carry out its mission, and (viii) was informed by the heads of compliance on the Group's status with regard to the prevention of money-laundry and of the financing of terrorism.

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	Mr. Juan Miguel Villar Mir
Number of years as chairman	9 months

Appointments committee

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent 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	Non-executive independent director
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	66.67%
% of other external 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. Rules and Regulations of the Board of Directors

The appointments committee is regulated by article 54 of the Bylaws and article 17 of the Rules and Regulations of the Board of Directors.

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 and a maximum of seven directors, 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, qualifications and experience and the responsibilities of the committee.*

4. *The appointments committee shall in any case 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 17 of the Rules and Regulations of the Board of Directors:

"1. *The appointments committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive directors, 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 must in all events be presided over by an independent director.*

4. *The appointments committee shall have the following duties:*

(a) *Propose and review the director selection 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 24 of these rules and regulations.*

(c) *Prepare, by following standards of objectiveness and conformance to the corporate interest, taking into account the succession plan and assessing the fitness and properness of the potential candidates and, in particular, the existence of possible conflicts of interest, the reasoned proposals for appointment, re-election and ratification of directors provided for in section 2 of article 21 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 senior executive vice presidents or similar officers 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 30 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 19.7 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 duties 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 the performance of its other duties, pursuant to the provisions of article 27 of these rules and regulations.*

7. *The appointments committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. 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, past meeting minutes) shall be provided to the committee members 3 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.*

8. *The appointments committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

9. *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".*

During 2015, no members of the appointments committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the appointments committee on 21 September 2015, the date on which his appointment as director took effect.

The board submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March, on first or second call, respectively, to amend article 54 of the Bylaws, for the purpose of increasing the maximum number of members on the appointments committee, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The appointments committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5).

In 2015 the appointments committee carried out, among others, the following actions: (i) proposed the appointment of directors that were designated in 2015, leading the selection process thereof, (ii) proposed the appointment of new members of the board's committees, (iii) verified the status of each director, bringing the related proposal to the board, (iv) assessed the suitability of the board members, the senior executive vice presidents, the heads of the internal control functions and those responsible for key positions for the day-to-day conduct of the Group's banking activities, (v) reported on the self-evaluation process of the board and its members, as well as its committees, (vi) proposed to the board a succession planning policy for the Group, which establishes the structured succession for key positions, including executive directors, and (viii) reported the appointments of members of senior management that took place in 2015.

Remuneration committee

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent 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	Director Non-executive independent
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	66.67%
% of other external 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 remuneration committee is regulated by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board of Directors.

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 seven, all of whom shall be external or non-executive directors, with independent directors having majority representation.*

3. *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.*

4. *The remuneration committee shall in any case 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 17.bis of the Rules and Regulations of the Board:

1. *"The remuneration committee shall be composed of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive directors, 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 duties:*

(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 28.bis of these rules and regulations as well as the annual remuneration report provided for in article 29.*

(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 the senior executive vice presidents and other 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 remuneration of those other officers who, while not members of senior management, are assigned to the Company's internal control functions (internal audit, risk management or compliance) or receive significant remuneration, particularly variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.*

(b) *Ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company.*

(c) *Periodically review the 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, 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 of directors and, for such purposes, submit to the board any and all information that may be appropriate.*

(e) *And such other duties 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 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.

6. *Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, shall attend the meetings of the remuneration committee, provide 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.*

7. *The remuneration committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. 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, past meeting minutes) shall be provided to the committee members 3 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.*

8. *The remuneration committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

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 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. *When the remuneration committee seeks the external assistance provided for in article 27 of these rules and regulations, it shall ensure that any possible conflicts of interest do not prejudice the independent judgement of those giving advice."*

During 2015, no members of the remuneration committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the remuneration committee on 21 September 2015, the date on which his appointment as director took effect.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, to amend article 54.bis of the Bylaws, for the purpose of increasing the maximum number of members on the remuneration committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The committee issued a report on its operations, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5 below).

In 2015, the remuneration committee carried out, among others, the following actions: (i) proposed to the board the director remuneration policy, preparing the related report on this policy and the annual remuneration report, (ii) proposed to the board the individual remuneration of directors, (iii) proposed to the board the remuneration policy for senior executives vice presidents and other members of senior management and ensure the observance there of, and (iv) proposed to the board the remuneration of other executives who, although not belonging to senior management, are assigned internal control functions in the Company (internal audit, risk management and compliance) or receive significant remuneration, particularly variable remuneration, and whose activities may have a significant impact on the Group's assumption of risks.

Risk supervision, regulation and compliance committee

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent 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. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Juan Miguel Villar Mir	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	71.43%
% of other external 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 risk supervision, regulation and compliance committee is regulated by article 54.ter of the Bylaws and article 17.ter of the Rules and Regulations of the Board of Directors, which reads as follows:

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 seven 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, qualifications and experience and the responsibilities of this 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 17.ter 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 seven 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 must in all events be presided over by an independent director.

4. The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:

(a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the current and future risk appetite and the strategy in this area.

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 that the Company deems acceptable;

(iii) The planned measures to mitigate the impact of identified risks, in the event that they materialize; 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 and the alignment thereof with the strategic commercial plans.

(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 and liabilities 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, without prejudice to the direct access of the latter to the board of directors.

(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) Determination, together with the board of directors, of the nature, amount, format and frequency of the risk-related information that is to be received by the committee itself and by the board of directors. In particular, the risk supervision, regulation and compliance committee shall receive periodic information from the chief risk officer (CRO).

(k) Cooperation 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.

(l) Supervision and regular evaluation of the operation of the Company's compliance programme, of the governance rules and the compliance function, and making such proposals as may be required for the improvement thereof. For such purpose, the risk supervision, regulation and compliance committee:

(i) Shall supervise compliance with the general code of conduct, manual and procedures to prevent money laundering and terrorist financing and any other codes and regulations that apply to the industry.

(ii) Shall receive information and, if applicable, shall issue reports on disciplinary measures for members of senior management.

(iii) Shall 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.

(iv) Shall supervise the operation of and compliance with the criminal risk prevention model approved by the board of directors pursuant to article 3.2 of these rules and regulations.

For the performance of this task, the committee shall have its own powers of initiative and control. This includes, without limitation, the power to obtain any information it deems appropriate and to call any officer or employee of the Group, including, in particular, the heads of the compliance function and of the various committees related to this area that may exist in order to assess their performance, as well as the power to commence and direct such internal inquiries as it deems necessary into events related to any possible noncompliance with the criminal risk prevention model.

Furthermore, the committee shall periodically evaluate the operation of the prevention model and the effectiveness thereof *in preventing or mitigating the commission of crimes, for which purpose it may rely on external advice when it deems it appropriate, and shall propose to the board of directors any changes to the criminal risk prevention model and, in general, to the compliance programme that it deems fit in view of such evaluation.*

(m) *Review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitoring of the strategy and practices in this field, evaluating the level of adherence thereto.*

(n) *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.*

(o) *Coordination of the process of communication of non-financial and diversity information, in accordance with applicable regulations and leading international standards.*

(p) *Periodic evaluation of the appropriateness of the Company's corporate governance system, in order to ensure that it fulfils its mission of promoting the corporate interest and that it takes into account, where applicable, the legitimate interests of the other stakeholders.*

(q) *Support and advice to the board regarding relations with supervisors and regulators in the various countries where the Group operates.*

(r) *Tracking and evaluation of rule-making proposals and regulatory changes that may be applicable and of any possible consequences for the Group.*

(s) *Reporting on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.*

5. *The risk supervision, regulation and compliance committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. 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, and any member of the Company's management team or personnel shall, when so required, attend its meetings and cooperate and provide access to the information available to them. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 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.*

6. *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.*

7. *In order to ensure effective communication and coordination, the risk supervision, regulation and compliance committee may periodically call joint meetings with the audit committee (or with other committees with relevant powers in the area of risks) in order to ensure an effective exchange of information and the coverage of all risks.*

8. *The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, a copy of the minutes of the meetings of the committee shall be delivered to all directors."*

During 2015, no members of the risk supervision, regulation and compliance committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the appointments committee on 21 September 2015, the date on which his appointment as the director took effect.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March, on first or second call, respectively, to amend article 54.ter of the Bylaws, for the purpose of increasing the maximum number of members on the risk supervision, regulation and compliance committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The risk supervision, regulation and compliance committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5 below).

In 2015 the risk supervision, regulation and compliance committee carried out, among others, the following actions: (i) advised the board on risk matters that it has been informed of by the risk division of the Group's risk outlook, (ii) reported on the proposal for the new risk governance model approved by the board on 29 September 2015, (iii) reported on the annual capital self-evaluation report and the liquidity plan, (iv) was briefed on the new target operating model (TOM) of the compliance function, (v) was informed of the application of and compliance with the Group's codes of conduct, the implementation of whistle-blowing channels in its units and the Group's corporate system for the prevention of money-laundering and of the financing of terrorism and the Group's policies with regard to sensitive industries, (vi) became familiar with the most relevant reports issued by Spanish supervisory authorities and those of other countries in which the Group operates, periodically receiving reports monitoring the main issues, (vii) reported on proposals for amending the Rules and Regulations of the Board of Directors that were adopted in 2015, and (viii) was informed by heads of the research and public policy services regarding the macroeconomic environment and the economic and political performance and outlook in various countries, as well as in regard to the main regulatory principles, new regulations and matters being debated in the financial sector.

International 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. 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)
Ms. Esther Giménez-Salinas i Colomer	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	16.67%
% of other external 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 international committee is regulated by article 17.quater of the Rules and Regulations of the Board of Directors, which reads as follows:

Article 17 quater of the board regulations:

1. *The international committee shall be composed of a minimum of three and a maximum of seven directors. The chairman of the board of directors shall also be the chairman of the international committee.*

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

2. *The members of the international committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience in the areas for which the committee is responsible.*

3. *The international committee shall have the following duties:*

(a) *Monitor the development of the Group's strategy and of the activities, markets and countries in which the Group wishes to operate by means of direct investments or specific transactions, for which purpose it shall be informed of the commercial initiatives and strategies pursued by the various units of the Group and of any new projects that may arise; and*

(b) *Review the performance of financial investments and of the business, as well as the international economic situation, in order to submit, if applicable, any proposals required to adjust the limits on country risk, the structure and profitability thereof and the assignment of such risk by business and/or unit.*

4. *The international committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the international 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, past meeting minutes) shall be provided to the committee members 3 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.*

5. *The international committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

6. *Meetings of the international 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, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the international committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

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	Non-executive independent director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms. Esther Giménez-Salinas i Colomer	Member	Non-executive independent
Mr. Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	25%
% of other external directors	25%

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 17.quinquies of the Rules and Regulations of the Board of Directors[2]:

Article 17 quinquies of the board regulations:

"1. The innovation and technology committee shall be composed of a minimum of three and a maximum of eight 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 complying with its supervisory responsibilities with respect to the role of technology in the activities and strategies of the Group's business and to advise it in matters related to the Group's innovation strategies and plans, along with the trends resulting from new business models, technology and products.

To fulfil its role, the innovation and technology committee shall have the following duties:

(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 innovation and technology.

(b) Review and report on plans and activities relating to innovation:

(i) tests and adoption of new business models, technology, systems and platforms;

(ii) associations, 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 by making recommendations relating to the Group's innovation agenda.

(f) Assist the board in the identification of the major threats to the status quo which may result as a consequence of new business models, technology, 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 capacity and conditions for innovation at both 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, past meeting minutes) shall be provided to the committee members 3 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.

5. The innovation and technology committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.

6. 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, provided, however, that 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."

The rules of operation of the board set out in paragraphs 1 to 6 of the board regulations also apply to its committees (article 20.7 of the board regulations).

On 1 December 2015 the delegated risk committee, which had powers relating to risk management, was disbanded. At that date, this committee was made up of 6 members: 3 executive directors, 2 independent directors and 1 non-executive director that was neither proprietary nor independent. The composition, operation and functions of the committee is governed by article 52 of the Bylaws and article 15 of the Rules and Regulations of the Board. This committee was disbanded as a result of the Group's new risk governance model, approved by the board of directors on 29 September 2015, at the proposal of the risk supervision, regulation and compliance committee. This new risk model includes the creation of two non-statutory internal risk committees: the executive risk committee, which replaces the delegated risk committee, and the risk control committee.

2. After the amendment approved by the board of directors at its meeting of 26 January 2016, following report by the risk supervision, regulation and compliance committee.

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							
	2015		2014		2013		2012	
	Número	%	Número	%	Número	%	Número	%
Executive committee	2	25%	2	28.57%	1	25%	2	25.00%
Delegate risk committee	1*	20%	1	20%	1	20%	1	20.00%
Audit committee	1	25%	-	-	-	-	-	-
Appointments and remuneration committee	-	-	-	-	1	25%	1	25.00%
Appointments committee	1	20%	-	0%	-	-	-	-
Remuneration committee	2	33.3%	1	25%	-	-	-	-
Risk supervision, regulation and compliance committee	1**	14.2%	1	25%	-	-	-	-
International committee	2	33.3%	2	33.33%	1	28.57%	2	28.57%
Innovation and technology committee (formerly the technology, productivity and quality committee)	2	25%	1	33.33%	1	25%	1	25.00%

* The director, Ms. Isabel Tocino, was a member of this committee until it was disbanded by resolution of the board on 1 December 2015.

** Ms. Sheila C. Bair was a member of this committee until her resignation from the board on 1 October 2015.

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 specific regulations on board committees, are contained in the Bylaws and the Rules and Regulations of the Board of Directors; both documents are available on the Group's corporate website (www.santander.com).

Along with the call notice for the 2016 annual general shareholders' meeting, the 2015 annual reports of the audit committee (including the reports on the auditor's independence and related-party transactions), the appointments committee, the remuneration committee (including the directors' remuneration policy submitted to the general shareholders' meeting for approval) and the risk supervision, regulation and compliance committee, which include a summary of the committees' activities during 2015, have all been made available on the Company's website (www.santander.com).

In 2015 the articles of the Bylaws and of the board rules and regulations that govern board committees were partly altered.

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 approving related-party transactions

Related-party transactions are governed by articles 16.4 (f), 30 and 33 of the board regulations.

Under article 16.4 (f), it rests with the audit committee to report to the board, prior to the board's adoption of the relevant decisions, on the approval of the related-party transactions referred to in article 33.

Article 30 determines that the duty to avoid conflicts of interest binds a director to abstain from entering into transactions with the Company except in the events set out in article 33 of the board regulations.

Finally, article 33 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 30 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 carried out under contracts with basically standard terms that customarily apply to the customers contracting for the type of product or service in question*

   2.nd *They are performed at prices or rates generally established by the party acting as supplier of the goods or service in question or, if the transactions concern goods or services for which no rates are established, they are performed under arm's length conditions, similar to those applied to commercial relationships with customers having similar characteristics.*

   3.rd *The amount thereof 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."*

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, as well is the procedure for granting such loans. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

Likewise, pursuant to article 35 of Royal Decree 84/2015, the granting of loans, guarantees and sureties to members of the board of directors, senior executive vice presidents or similar officers requires authorisation from the Bank of Spain; except where these transactions are covered by collective agreements undertaken by the Company, or they are carried out under standard terms and conditions that are usually applied across-the-board to a large number of people and where the amount granted to the same person (including certain people related thereto) does not exceed EUR 200,000. In any event, there is a duty to inform the Bank of Spain of these transactions.

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 2015 and through the date of publication of this report, to the best of the Bank's knowledge, 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 carried out any significant transaction or any transaction under non-customary market conditions with the Bank, in accordance with Order EHA/3050/2004 of 15 September on the information on related-party transactions that must be supplied in the half-yearly reporting of security-issuing companies listed on organised exchanges.

The audit committee verified that related-party transactions concluded in the year were compliant with the terms of the board rules and regulations for exemption from authorisation from the governing bodies, or had in fact obtained such authorisation after a favourable report from the committee itself to the effect that it had ascertained that the agreed consideration and rest of terms were at arm's length.

The audit committee's report contains a report on related-party transactions, which 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 2015 are shown below. The conditions of these transactions are equivalent to those carried out under market conditions or the related compensation in kind was charged.

All these transactions are part of the ordinary course of business of the Bank or the Group company with which the transaction was carried out and are reported in note 5.f to the Group's consolidated financial statements for 2015.

Name or corporate name of director or senior manager	Name or corporate name of 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	46
Mr. José Antonio Álvarez Álvarez	Banco Santander, S.A.	Director	Financing	11
Mr. Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	13
Mr. Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	24
Mr. Javier Botín-Sanz de Sautuola y O´Shea	Banco Santander, S.A.	Director	Financing	6
Mr. Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Director	Financing	2

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 2015 with Group entities resident in countries or territories that were considered tax havens at this date are detailed below. These results were eliminated in the consolidation process.

These jurisdictions are not considered tax havens by the OECD, as they have successfully passed the evaluations of the Global Forum on Transparency and Exchange of Information for Tax Purposes. They are also not considered offshore centres according to the European Commission.

See note 3.c) to the 2015 consolidated financial statements of Grupo Santander for more information on offshore entities.

Corporate name of the group company	Brief description of the transaction	Amount*
SCH Issuances Ltd. (In liquidation) (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (a):	
	Deposits (liability)	(11,166)
	Subordinated debt (asset)	3,893
Totta & Açores Financing Ltd. (Islas Cay Totta & Açores Financing Ltd. (Cayman Islands tman)	In relation to issuance of preference shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A. (b)	17,913
Banco Santander (Brasil), S.A. (Cayman Islands Branch)	Contracting of derivatives with the New York branch of Banco Santander, S.A. (c)	47,086
	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (d)	(7,714)
	Credit risk hedging contracts (e)	4,120
	Debt instruments (asset) (f)	112

* Profit/(loss) for 2015 in thousand euros earned by the company on the activities described.

Details of these transactions and the current balances of these at 31 December 2015 are given below: these were eliminated in the consolidation process:

(a) Issue in 1995 of USD 200 million, fully amortised as of 1 November 2015. The company is in the process of liquidation and its final dissolution is expected in March 2016.

(b) Issue in 2005 of EUR 300 million, 100% subscribed by Banco Santander, S.A., which was amortised as of 30 December 2015. The company is expected to be liquidated in 2016.

(c) Derivatives with a net positive market value of EUR 36.3 million in the company, as follows:

- 116 Non Delivery Forward.
- 17 Options.
- 49 Swaps.
- 36 Cross Currency Swaps.
- 13 Forex

(d) Nominal overnight deposits of EUR 4,336 million.

(e) Hedging transactions on asset positions of the Cayman branch of Banco Santander (Brasil), S.A. No open position at 31/12/2015.

(f) Debt instruments issued by the Cayman branch of Banco Santander (Brasil), S.A. and acquired by the Company for EUR 4.4 million.

D.5 Indicate the amount from related-party transactions.

The Group's transactions with related parties, including associates and jointly controlled 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, where applicable, the related compensation in kind was charged.

At year-end 2015, the Group's related-party transactions were as follows: with associates and jointly controlled entities, assets, liabilities, earnings and other positions (off-balance-sheet positions) of EUR 6,542 million, EUR 1,122 million, EUR 802 million and EUR 4,123 million, respectively; with members of the board of directors, assets, liabilities and other positions (off-balance-sheet positions) of EUR 0.1 million, EUR 25 million and EUR 2 million, respectively; with senior executive vice presidents, assets, liabilities and other positions (off-balance-sheet positions) of EUR 28 million, EUR 16 million and EUR 4 million, respectively; and with other related parties, assets, liabilities, earnings and other positions (off-balance-sheet positions) of EUR 573 million, EUR 103 million, EUR 24 million and EUR 2,682 million, respectively.

In addition to the above, there were also insurance contracts linked to pensions amounting to EUR 299 million at 31 December 2015.

See note 53 (Related parties) to the Group's 2014 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

Article 30 of the board regulations determines that directors must take the necessary steps to avoid situations in which their interests, whether their own or on behalf of others, might conflict with the interests of the Company or the duties that they owe to the Company. The duty to avoid conflicts of interest imposes on a director certain obligations, such as abstaining from using the name of the Company or invoking his or her capacity as a director to improperly influence the conclusion of private transactions.

Directors must notify the board of any direct or indirect conflict that they or persons related thereto may have with the interests of the Bank.

If the conflict of interest arises from a transaction, under article 33 of the board regulations the director shall not be allowed to conduct it unless the board, following a favourable report from the audit committee, approves such transaction, unless under the law such approval rests with the shareholders at general meeting. Transactions must be examined from the standpoint of equality of treatment and arm's length terms, and must be disclosed in the annual corporate governance report and in regular public reporting on the terms set out in applicable laws and regulations.

However, the board's authorisation will not be required for transactions that simultaneously satisfy the following three conditions:

1. They are given effect under contracts the terms of which are essentially standardised and are customarily applied to clients contracting for the type of product or service in question.

2. They are concluded at prices or rates set in a general manner by the person acting as supplier of the goods or services in question or, if the transaction relates to goods or services for which no set rates exist, on arm's length terms similar to those applied to commercial relations with similar clients.

3. The amount of the transaction does not exceed 1% of the annual revenue of the Company.

If these conditions are satisfied, the directors concerned are not under a duty to report such transactions or to seek pre-emptive authorisation for them from the board.

The rules on related-party transactions also govern transactions which the Company or a company within its Group concludes with shareholders who, whether individually or in an arrangement with others, own a significant interest, including shareholders represented on the board of the Company or of another company within the Group or their related parties.

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 1, chapter III, letter A (www.santander.com). 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 1, 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 avoidance of conflicts of interest. 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 provides that the following shall be borne in mind:

"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."

Decision-making bodies that regulate and resolve conflicts of interest:

- Directors

The board of directors.

- Senior management

The provisions contained in title I, chapter III, letter B (Conduct in the event of a conflict of interest), section 15, establish the following decision-making bodies:

"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."

D.7 Is more than one group company listed in Spain?

Yes No X

Identify the listed subsidiaries in Spain:

Listed subsidiaries

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 X

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies
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 fiscal risks.

The scope of the risk management system in place at Grupo Santander 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 in an integrated, continuous and consolidated manner for 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 Group'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.

Adequate management and control of all risks resulting from the Group's activities is guaranteed through:

1) Risk maps

Identifying and assessing all risks is a cornerstone of risk management and control. The risk map covers the main risk categories in which Banco Santander has its most significant actual and/or potential exposure, facilitating their identification.

This risk map is described in the general risk framework approved by the board of directors and, at its initial level, identifies the following risk types:

Financial risks

- Credit risk: deriving from failure to comply with agreed contractual obligations for financial transactions.
- Market risk: arising from possible changes in market factors affecting the value of positions in trading portfolios.
- Liquidity risk: risk of not complying with payment obligations in due time, or doing so at excessive cost.
- Structural risks: arising from management of different balance sheet items, including capital adequacy and insurance and pension activities.

Non-financial risks

- Operational risk: risk of losses due to inadequacies or failures in processes, people and internal systems, or external events.
- Conduct risk: arising from inadequate practices in the Bank's relationship with, treatment of, and product offer to its customers, and their suitability for each specific customer.
- Compliance and legal risk: arising from failure to comply with the legal framework, including tax matters, with regard to that not classified is operational risk, as well as internal regulations or the requirements of regulators and supervisors.

Transversal risks

- Model risk: losses arising from decisions based mainly on the results of models, due to errors in their concept, application or use.
- Reputational risk: risk of damage to the perception of the Bank among customers, investors, public opinion and other stakeholders.
- Strategic risk: the risk that results might diverge significantly from the firm's business strategy or plan, due to changes in general business conditions and risks relating to strategic decisions. This includes the risk of poor implementation of decisions and lack of capacity to react to changes in the business environment.

2) Risk appetite and limits structure

Risk appetite is defined as the maximum level and type of risk it is prepared to assume, within its risk capacity, in order to achieve its strategic objectives and roll out its business plan. The risk appetite framework, approved by the board of directors, establishes the roles, processes and responsibilities for its development and control. 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 Group's risk appetite and updating this annually; it is also responsible for monitoring its effective risk profile and ensuring that the two are consistent. The risk appetite is formulated for the Group as a whole, and for each of its business units, based on a corporate methodology adapted to the nature of each business and unit. Locally, the boards of subsidiaries are responsible for approving their own risk appetite proposals, once these have been validated by the Group as being suitable.

In addition, in the annual and tri-annual strategic planning process, limits are established to determine the risk appetite for each of the related portfolios or risks, setting all of the operating limits that facilitate the day-to-day management process of the business and its close monitoring. The risk profile and compliance with limits are continuously monitored, adopting, where applicable, the measures necessary to ensure they are suitable.

3) 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. In this way it allows the Bank to test its robustness in the face of stress environments and scenarios and to put in place measures to reduce its risk profile or mitigate the potential impact of such scenarios.

4) Risk identification and assessment (RIA)

As part of its routine activity, Banco Santander identifies and assesses the financial and non-financial risks inherent to its activities to which it is exposed in the markets where it operates.

With the aim of increasing the solidity of and systematic approach to the Group's risk profile assessment, a corporate risk identification & assessment project was launched at the end of 2014 and continued to be rolled out.

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.

5) Measurement models

The measurement and monitoring of risks is based on the existence of metrics and models that allow the different risks to be quantified and modelled under a robust and standardised structure.

One of the Bank's continued strengths is therefore its ability to develop internal models and, at the same time, it has rolled out an independent risk control structure model that regularly validates and revises the suitability of the models to the risks it is trying to measure, to the environment and in the necessary detail.

6) Reporting

The risk information framework is one of the key elements in the management model. It sets standards that ensure a comprehensive overview of all risks faced, based on complete, precise and regular data, enabling the Group's senior management to assess and take action.

This framework is constantly evolving to incorporate best practice in the market. Santander is committed to complying with the highest standards in this respect, as defined by the Basel Committee on Banking Supervision's "Principles for effective risk data aggregation and risk reporting".

7) Enterprise Risk Management (ERM)

ERM ensures identification, assessment, adequate management and control of all risks, from a comprehensive and integrated perspective at all levels of the organisation. The coordinated implementation and management of its elements ensures on-going assessment and comprehensive management of the Group's risk profile, improving risk management at all levels of the organization.

The Group has implemented the Santander Advanced Risk Management programme to accelerate implementation of its strategic improvement projects to improve its risk management and control capacity, seeking to position Grupo Santander at the forefront of best practices in today's financial services market.

The programme seeks to achieve excellence in risk management at both the corporate and local levels, maintaining a commitment to doing "more and better" business.

8) Internal controls

Risk management features an internal control environment ensuring a comprehensive overview and adequate control of all risks faced. This control is carried out in all Group units and for every risk type, ensuring that the Group's global risk profile and exposure remains within the limits set by the board of directors and regulators.

The main elements involved in guaranteeing effective risk control are:

1. The clear assignment of responsibilities in those areas which generate risks, through internal decision making and control of activities.

2. The specialised control of each risk factor.

3. Aggregated consolidation and supervision for all risks.

4. Assessment of internal control mechanisms.

5. Independent assessment by internal audit.

9) Risk culture

A solid risk culture is one of the key factors that has enabled the Group to respond to the changes in the economic cycle; the latest demands of customers, supervisors and regulators; and the increase in competition, and position itself as a bank in which employees, customers, shareholders and society trust.

This risk culture is defined through five principles, which form part of the ordinary management of all the Group's employees:

- Responsibility: because all units and employees (regardless of the function they carry out) must know and understand the risks they incur in their daily activities and are responsible for identifying, assessing, managing and reporting such risks.

- Resilience: understood as the sum of prudence and flexibility. All employees must be prudent and avoid those risks that are unfamiliar or that exceed the established risk appetite; the main objective of Grupo Santander is sustainability. They also have to be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.

- Challenge: because continuous debate is encouraged within the organisation. Pro-active, positive and open discussion on the best way to manage risks, so as to always have an outlook that enables future challenges to be anticipated.

- Simplicity: because universal risk management requires clear processes and decisions, documented and understandable for employees and customers.

- Customer oriented. All risk actions taken are oriented towards customers in defence of their long-term interests

In order to do this, the Bank undertakes various projects which seek to reinforce the risk culture and involve training mechanisms at all levels of the organisation.

10) Recovery and resolution plans

As one of its instruments in risk management, the Bank continues to constantly update its corporate viability plan, the most relevant part of which covers the measures that the Bank would have available to overcome a severe crisis situation without external help.

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 strategy for resolution. Given its legal and business structure, the Bank applies a multiple point of entry (MPE) approach. The corresponding resolution cooperation agreement (COAG) has been signed and the operational resolution plans have been drawn up for our main geographical areas. The Group is working continuously with the competent authorities, providing the detailed information they need to prepare the resolution plans, which they are, in general, responsible for preparing.

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

Risk governance must ensure adequate and efficient risk decision making, the effective control of risks and their management in accordance with the level of risk appetite defined by the boards of the Group and its business units.

In relation to this final point, risk governance is based on the following principles: (i) sufficient separation of risk decision making and control, (ii) increased responsibility of the functions that assume risks in decision making, (iii) ensure that all decisions have a formal approval process, (iv) ensure there is an overall vision of all types of risks, (v) strengthen the role of risk control committees and (vi) ensure a simple committee structure.

On the basis of these aforementioned principles, the Group follows a risk management and control model based on three lines of defence. In this way, the business lines or activities that take or generate exposure to risk, as well as the support functions, form the first line of defence against risk. The generation of risk by the first line of defence should be adjusted to the risk appetite and its defined limits.

The second line of defence is formed by the risk and compliance functions. This second line ensures effective risk control and ensures that risks are managed in accordance with the risk appetite and its defined limits.

Finally, internal audit, as the third line of defence, and in its role as the final layer of control, regularly monitors that the policies, methods and procedures used are adequate and tests their effective implementation.

There is a sufficient degree of separation and independence between the risk control function, the compliance function and the internal audit function themselves, and with regard to those other functions they control or supervise, to enable them to carry out their functions, and they have access to the board of directors and/or its committees through their heads.

- Risk governance bodies and their duties:
The ultimate responsibility for risk control and management matters, and especially, in the setting of the Group's risk appetite, belongs to the board of directors.

In particular, the board is responsible for the approval of the Bank's general policies and strategies and, especially, for the general risk control and management policy, including tax risks, and the supervision of the internal information and control systems. On 12 February 2016, the board, having seen a report issued by the audit committee on 10 February 2016, adopted the general policy on the control and management of tax risks.

The board is supported in this mission by the risk supervision, regulation and compliance committee. In addition, the Group's executive committee, which is chaired by the executive chairman, meets weekly and pays special attention to the management and control of the Group's risks.

a) Risk supervision, regulation and compliance committee (RSRCC)
This committee was established to support the board of directors in its risk control and supervisory duties and, in particular, in the definition and assessment of the Group's risk policies, the determination of risk propensity and strategy in this area, in relations with supervisory authorities, and in regulatory and compliance matters. The committee members are external or non-executive directors, with a majority of independent directors. The committee is chaired by the lead independent director.

Section C.2.1 of this report describes the duties, composition and members of the risk supervision, regulation and compliance committee.

b) Risk committee (RC)
Up until 1 December 2015, the delegate risk committee had powers delegated thereto by the board of directors to manage risk and make decisions within the scope of these powers. In exercising these responsibilities, and among others, the RC approved risk operations, established risk policies and monitored the global risk profile, ensuring that the Group has the structure, resources and systems needed for adequate risk control and management.

c) Other committees
Without prejudice to the abovementioned powers of the board of directors and its committees, with the aim of strengthening the Group's risk governance and ensuring compliance with the principles on which it is based, and, in particular, the separation between the decision making and control functions and the responsibility of the business lines that generate exposure to risk, or form the first line of defence, the Group has the set up the following internal committees.

Executive Risk Committee (ERC)
Since 1 November 2015 and following approval of the new risk governance model, this committee has been delegated the following powers by the board to manage global risk: (i) propose to the board, at least annually, the Group's risk appetite, following a report from the risk supervision, regulation and compliance committee, (ii) assess its development and the risk identification & assessment (RIA) of subsidiaries; (iii) manage exposures to different customers, economic sectors of activity, geographic areas and types of risk, which shall include, among other functions, to approve and, where

appropriate, validate the global limits by risk type within the risk appetite approved by the board of directors and make decisions on risk proposals, within the quantitative and qualitative limits established by the board; (iv) approve the creation, modification and termination of other lower-level risk committees or decision-making bodies and their regulations; (v) analyse and recommend Group corporate transactions; (vi) approve risk regulations; (vii) authorise the risk management tools necessary to monitor projects; and (viii) adopt the necessary measures in matters of risk to comply with the recommendations and indicators formulated by supervisory bodies and Group internal audit. The committee is chaired by one of the executive vice-chairmen of the board of directors, and is composed of the chief executive officer, another executive vice-chairman, and the Bank's chief risk officer (CRO), chief financial officer (CFO), chief compliance officer (CCO) and general secretary. The Group's CRO has the right of veto the committee's decisions.

Risk Control Committee (RCC)
This committee is responsible for the supervision and control of Group's global risk and has been delegated the following powers by the board: (i) assist the risk supervision, regulation and compliance committee in carrying out its support and assessment functions to the board; (ii) supervise risk identification & assessment (RIA); (iii) carry out full and regular monitoring of all risks, both actual and potential, checking whether their profile fits within the Group's risk appetite as approved by the board; (iv) undertake periodic independent monitoring of risk management activities; (v) determine the information on risks that must be submitted to the risk supervision, regulation and compliance committee or the board of directors and (vi) supervise the measures adopted in risk matters to comply with the recommendations and indicators formulated by supervisory bodies and internal audit. This committee is chaired by the GCRO and is composed of the following Bank executives: the CFO (finance function), the CAO (financial accounting and control function), and the CCO (compliance function).

The risk governance function is supplemented with delegate decision-making committees and others specialising in the control of certain risks.

- Risk management relationship between parent and subsidiaries

  - With respect to the alignment of these 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 the best practices developed in each of the Group's units and markets. The corporate risk divisions act as a central focus and channel for these practices.

  - With respect to the structure of committees

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

  The boards of directors of subsidiaries, in accordance with the internal governance framework established by the Group, have their own risk models (quantitative and qualitative), although these must follow the principles contained in the models and reference frameworks developed at 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 in the various business units, in so far as it affects the Group's risk profile.

  Likewise, to ensure the control of risks in the Group, the Group Subsidiary Governance Model and good governance practices for Grupo Santander's subsidiaries require regular communication with and functional reporting to the Group CRO from each local CRO, and the Group's involvement in the appointment, objective setting, assessment and remuneration of these local CROs.

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

Note 54 (risk management) to Grupo Santander's 2015 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 Banco Santander.

The concept of economic capital has traditionally been contrasted with that of regulatory capital, the latter being the measure required by capital adequacy regulations. The Basel capital framework brings these two concepts together. While Pillar I determines the minimum regulatory capital requirements, Pillar II quantifies, through economic capital, the Group's overall capital adequacy position.

As of 31 December 2015, the Group's main risks, measured in terms of economic capital, were: credit (38%), market (11%), business (4%), operational (4%) and interest (4%).

No risks of a fiscal nature were identified that could affect the business achieving its objectives.

By operating area, Continental Europe accounted for 42%; Latin America, including Brazil, 23%; the UK 18% and the US 17%.

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 poor conditions in particular markets and portfolios or for particular customers or risks. Despite the significant scale of globalisation in today's world, economic cycles are not the same and differ in degree in different geographic areas. This gives groups with a global presence greater business stability and enhanced capacity to resist a crisis in a particular market or portfolio, which contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is less than that risk and capital would be if its parts were considered separately.

E.4 Identify if the entity has a risk tolerance level, including fiscal.

As explained in section E.1, risk appetite is one of the cornerstones of Grupo Santander's risk management and control.

The Group's risk appetite is defined and established consistently with its risk culture, and its banking business model is consistent from the risk perspective. The main elements defining this business model and providing the foundations for Grupo Santander'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 ensure 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 ensuring an adequate return on capital.

- A management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, all geographical areas.

- A business model built around products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).

- A model of conduct that seeks to protect the interests of customers, shareholders and other stakeholders, including the various tax authorities.

- Adequate and sufficient 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 actual and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions Santander's senior management seeks to adopt or maintain in developing 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.

- Qualitative aspects and complementary metrics.

For more information, see note 54 (risk management) to the Santander Group's 2015 financial statements.

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and expresses 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 governance 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, where appropriate, for corrective actions.

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.

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 the Group'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 control functions then monitor 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 is exposed to the risks identified in the risk map in section E.1. The most important of these, in terms of economic capital, is credit risk.

Gross exposure (customer loans, financial institutions, fixed income, derivatives and repos) to credit risk in 2015, was EUR 1,310,192 million. Loans to customers and financial institutions predominated, accounting for 86% of the total exposure.

Risk diversification in the main areas where the Group operates, was as follows: Continental Europe (41%); the UK (29%); Latin America (19%) and the US (11%).

Credit risk exposure increased by 7.5% in 2015, largely due to the joint effects of an increase in lending in the UK, the US, Spain and Portugal.

Grupo Santander's profile is largely one of a retail bank, with 84% of total credit risk being generated by commercial banking.

With current lending standing at EUR 850,909 million, and a drop in non-performing loans of EUR 37,094 million (-11% compared to 2014), the Group's non-performing loans ratio fell to 4.36% (-83 b.p. compared to 2014).

In order to provide for this, the Group has made insolvency provisions EUR 10,108 million (-4% compared to 2014), having deducted recoveries. This decrease is reflected in a 1.25% reduction in the cost of credit, 18 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 27,121 million, with a coverage ratio for the Group of 73%. It should be noted that this ratio is reduced by the weight of mortgage portfolios (particularly in the UK and Spain), which, as they are backed by collateral, require lower balance sheet provisions.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Note 54 (risk management) to the Santander Group's 2015 consolidated financial statements provides detailed information on the Group's plans for responding to the main risks to which it is exposed: credit, market, liquidity and financing, operational and compliance and reputational risk.

As set out in section E.1, in general terms, a range of mechanisms are in place to respond to and monitor the entity's risk, such as risk assessment, scenario analysis, the risk appetite, recovery & resolution plans and the risk control framework.

From a structural point of view, the chief risk officer (CRO) is responsible for the risk function and reports to one of the Bank's executive vice-chairmen.

The CRO who advises and challenges the executive branch, reports independently to the risk supervision, regulation and compliance committee and the board.

The risk control and management model, including fiscal risk, is based on:

- Coordination of the relationship between the countries and corporation, valuing the effective implementation of the management and control framework in each unit and ensuring alignment in the achievement of strategic risk objectives.
- Enterprise Wide Management (EWM) entails a consolidated view of all risks to the Group's senior management and governing bodies, as well as the development of risk appetite and the identification and evaluation of all risks. It also helps develop relationships with risk supervisory and regulatory bodies
- Control of financial, non-financial and transversal risks (refer to the risk map in section E.1.), verifying that they are managed correctly and exposure is appropriate for each risk type, as established by senior management.
- With regard to risks, implement rules and regulations, methodologies, scenario analysis and stress tests, and an information infrastructure, along with robust risk governance.

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 Grupo Santander 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 accordance with article 16.4.e) of the Rules and Regulations of the Board of Directors, this function is entrusted to the audit committee, which must:

"(e) *Supervise the financial reporting system 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, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;*

(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."*

In addition, article 34.2 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.

Moreover, the financial accounting and control units in each of the countries in which the Group operates (each of which is headed by a controller) and the corporate internal control department, which reports to the operational risk control area, are responsible for the existence, maintenance and implementation of an appropriate ICFR structure. Section F.1.2 below provides further information on the roles of the controllers and the corporate internal control department.

The general code of conduct[3] 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 35) 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 36.

These sections state.

35. Accounting obligations

1. *Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:*

   i. *The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*

   ii. *The information reflects all transactions, facts and other events in which the institution is an affected party.*

   iii. *Transactions, facts and other events are recorded and valued according to applicable regulations.*

   iv. *Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*

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

2. *The financial information includes all information of an accounting and economic nature which the Group presents to securities markets and files with supervisory bodies. It therefore includes the annual financial report, the half-yearly financial report and intermediate statements, both individual and consolidated, and the prospectuses drawn up by the Group for the issuances of financial instruments.*

36. 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 areas of the Group responsible for each activity, process and sub-process shall 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 and risk management systems.*

The general code of conduct allocates responsibility for these obligations to management and other employees at their corresponding levels.

3. The complete text of Grupo Santander's general code of conduct can be found on the corporate website (www.santander.com).

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 entity.**

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of expertise of the 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.

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 encourage the existence of adequate documentation in the Group's internal control model, there is a corporate internal control department, that reports to the corporate operational risk control area, which is committed to spreading a common methodology of internal control model documentation and the criteria for assessing control and processes. To ensure that the documentation is kept up-to-date, to adapt it to organisational and legislative changes and provide the audit committee with the conclusions on the internal control model assessment process. Likewise, internal control departments exist in every business unit that reports to this 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 board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters[4].

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A. and Grupo Santander companies, 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.

4. The complete text of Grupo Santander'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 57 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 16.4.g of the Rules and Regulations of the Board of Directors stipulates that the audit committee is responsible for *"becoming apprised of and, if applicable, responding 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 procedure for communicating such claims to the audit committee is regulated by internal regulations that establish that such communications, whether from employees or others, must be sent in writing to the Bank's registered office.

The following measures are in place to ensure the confidentiality of communications prior to their examination by the audit committee:

- The personal details and the sender and their contact details are not required in such communications.
- Only certain persons from the office of the general secretary and human resources may review the communication, so as to determine whether it deals with accounting or audit matters and forward it to the accounting committee or the head of the relevant area or department as appropriate, who will report to the committee.

- **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 financial accounting and control division itself and are designed and overseen together with the corporate learning and career development unit which is in turn part of the general secretary's office and human resources division 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 received concerning financial information preparation and reviews, the secretary's office and human resources division, in coordination with the financial accounting and control division, among others, has 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 2015, 56,561 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 351,000 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.**

Grupo Santander's internal control over financial reporting model (hereinafter, the ICFR model) encompasses all of the processes and procedures put in place to ensure reasonable assurance that the control targets set at the corporate level will be met.

The Group's ICFR model 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 corporate strategy, operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICFR 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 ICFR 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, for each risk event identified, the model assigns 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 ICFR 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 ICFR documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the corporate internal 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 ICFR model.

All of the Group companies' ICFR 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 Grupo Santander'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, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards"* (article 16.4.(e) (i) of the Rules and Regulations of the Board of Directors).

The process of generating, reviewing and authorising financial information and the description of the ICFR is documented in a corporate tool that includes a description of the activities, processes, risks and controls associated with all transactions that could have a material impact 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 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 same principles and practices applicable to the annual accounts"* (article 16.4. (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:

- the impairment losses on certain assets;
- the assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;
- the useful lives of property, plant and equipment and intangible assets;
- the measurement of goodwill;
- provisions and contingent consideration liabilities;
- the fair value of certain unlisted securities; and
- the recoverability of deferred tax assets.

The Group's chief accounting officer 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 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 ICFR model is working properly and check the effectiveness of the established controls, processes and activities, 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 sub-processes, processes and activities related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the controller can rule on the effectiveness of the ICFR model.

In 2015, the Group performed two evaluation processes:

- Evaluation of the effectiveness of the controls during the first half of the year in order to identify any potential incidents and remedy them before year end.
- Annual evaluation of the effectiveness of the controls and processes.

The corporate internal control department 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 ICFR model design and operation tests performed by those responsible for its maintenance and/or independent experts.

This report also itemises any incidents unearthed throughout the certification process by any of the parties involved, indicating whether these incidents have been properly resolved or, to the contrary, the plans in place to bring them to a satisfactory conclusion.

The conclusions of these evaluation processes are presented to the audit committee by the Operational Risk Control division, following a presentation in the risk control committee.

Lastly, on the basis of this report, the Group's chief accounting officer (CAO), chief financial officer (CFO) and chief executive officer (CEO) rule on the effectiveness of the ICFR model 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 Bank 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, 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 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 (mainly the management of foreclosed property and management of non-performing loans).

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.

The accounting policies are set out in the Grupo Santander accounting principles and policies and applicable measurement bases manual. In addition, any new accounting developments and the most relevant interpretations of the accounting standards in force prepared in the financial regulation and accounting processes area are reported on a monthly basis. These documents are stored in the accounting regulation library (IAS-KEY) and are 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 financial accounting and control division.

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 in a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers' supplying 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.

At its meeting on 28 October 2015, the board approved the current version of the corporate internal audit framework for Grupo Santander, defining the global internal audit function and how this is 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. The internal audit function will report to the audit committee and, periodically, to the board of directors, and has direct access to the board when it thinks fit.

Internal audit therefore assesses:

- 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; and
- all entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder.

Article 16.5 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 16.4.(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) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report; (iii) Ensure the independence and effectiveness of the internal audit function; (iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties; (v) Receive periodic information regarding the activities 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 2015, internal audit employed 1,059 people, all dedicated exclusively to this service. Of these, 241 were based in the Corporate Centre and 818 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 of 19 February 2015, the audit committee considered and ratified the proposed audit plan for 2015 for submission to the board of directors. This plan was subsequently approved by the board at its meeting of 23 February 2015.

In 2015, 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 2015, 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 out of the 13 meetings of the audit committee and 2 of the 21 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 20 January 2016, the audit committee reviewed and approved the internal audit plan for this year and favourably assessed the adequacy and effectiveness of the function in implementing its mission. At its meeting of 26 January 2016, the board was informed regarding the internal audit activities conducted in 2015 and the aforementioned audit plan, which it approved

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 the 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 16.4.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 16.4.d) 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, "(v) receive periodic information regarding the activities 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's 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 Grupo Santander 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 system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2015.

The auditor's report on the ICFR system is included as an appendix to this report and the 2015 consolidated financial statements.

G. Degree of compliance with corporate governance recommendations

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of 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 X Explain

In accordance with articles 26.1 (paragraph one) and 35.4 of the Bylaws, there are no bylaw-stipulated limits or restrictions on voting right or on the acquisition or transfer of the Bank's shares.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of 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 X

Does not apply as the Bank has no listed subsidiaries in Spain.

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.

See section C.1.10

Compliant X Partially compliant Explain

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, which will be the first general shareholders' meeting called since the publication of the new good governance code for listed companies, adopted by a resolution of the board of the CNMV, the executive chairman of the board will verbally inform shareholders of the most relevant aspects regarding 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 advisors 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 X **Partially compliant** **Explain**

Article 31.1 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 entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders."

Accordingly, article 32.1 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 shall also establish appropriate mechanisms for the regular exchange of information with those institutional investors that are holders of shares of the Company and with proxy advisers"*, and article 32.2 adds that *"in no event shall the relations between the board of directors and such groups entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders."*

Likewise, article 17.ter 4 (n) of the Rules and Regulations of the Board of Directors entrusts the risk supervision, regulation and compliance committee with 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 that regime, the board of directors established a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. This policy contains the rules and practices that the Company had already been applying with regard to communication with shareholders, investors and proxy advisors, respecting all market abuse regulations and equitable treatment to all shareholders. The treasury share policy is published on the Bank's corporate website (www.santander.com).

In addition, since 2004 the Bank's corporate website (www.santander.com) has disclosed, in the "Shareholders and investors" section of the main menu, all information required by applicable regulations in relation to shareholders and investors, as well as other information to facilitate the rights of shareholders to attend, be informed about and participate in the general shareholders' meeting.

In accordance with article 12.bis of the Rules and Regulations of the Board of Directors, the lead director is especially authorised to maintain contact with investors and shareholders and, for such purpose, in 2015 and 2016 a corporate governance road show aimed at these stakeholders was developed. Other activities facing investors were carried out in 2015, such as Investor Day and the International Banking Conference.

The Bank's relations with shareholders and investors area also undertook a number of initiatives in 2015, aimed at improving transparency with shareholders and helping them to exercise their rights, both in terms of communication (through the channels chosen by shareholders to inform them of material facts, the general shareholders' meeting, dividends, the share price, the Group's results, events; and with the launch of new channels of communication with shareholders based on new technologies -the new corporate and commercial websites, and the Santander shareholders and investors app-), and service (answering emails and telephone queries).

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 X **Partially compliant** **Explain**

In 2015 the board of directors did not submit any proposal to the general shareholders' meeting for the delegation of powers to issue shares or convertible securities without pre-emptive rights for an amount exceeding 20% of capital at the time of such delegation, and it will not do so at the next general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively.

In this regard, the annual general shareholders' meeting of 27 March 2015, delegated to the board the power to carry out certain share capital increases and to exclude, in full or in part, shareholders' pre-emptive rights, but always complying with the limit of 20% of the Bank's share capital at the time of such delegation.

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 appointments 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, C.2.5

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

Report on the auditor's independence
The audit committee's report for 2015 contains its report on the independence of the Bank's external auditor, which was issued at its meeting on 10 February 2016, with its content as envisaged in article 529 quaterdecies.4.f) of the LSC and in article 16.4.c) (iii) of the Rules and Regulations of the Board of Directors, whereby the committee expressed a favourable opinion on the independence of the Bank's external auditor.

The audit committee's report for 2015 is published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Reviews of the operation of the audit, appointments and remuneration committees
Each year the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees issue a report on their operations, which are submitted to the board of directors by the chairmen of these committees, in accordance with articles 16, 17, 17.bis and 17.ter. of the Rules and Regulations of the Board of Directors, respectively, and are published on the Company's website (www.santander.com) of the Rules and Regulations of the Board of Directors, respectively, and are published on the Company's website.

The activity reports of the aforementioned committees for 2015 are published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Audit committee report on related-party transactions
The audit committee's report for 2015 also contains its report on related-party transactions carried out in 2015, which was drawn up at its meeting on 10 February 2016. The committee verified that related-party transactions concluded in the year were compliant with the terms of the board rules and regulations for exemption from authorisation from the governing bodies, or had in fact obtained such authorisation after a favourable report from the committee itself to the effect that it had ascertained that the agreed consideration and rest of terms were at arm's length.

The audit committee's report for 2015 is published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Report on corporate social responsibility policy
At its meeting of 12 February 2016, the board of directors approved the sustainability report for 2015, which was prepared in accordance with the Global Reporting Initiative Sustainability Reporting Guidelines and which includes general aspects relating to the Bank's corporate social responsibility policy. This report is published in the Sustainability section on the Company's website (www.santander.com).

7. The company should broadcast its general meetings live on the corporate website.

See section B.7

Compliant X **Explain**

The Company will broadcast live the annual general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively. To promote broader dissemination of its meetings and the resolutions adopted, the media will be given access to the general shareholders' meeting.

Article 6 of the Rules and Regulations of the General Shareholders' Meeting specifies the information available on the corporate website (www.santander.com) from the date of the call notice.

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 X **Partially compliant** **Explain**

There were no reservations or qualifications in the audit reports of either the individual or consolidated financial statements of the Bank.

This matter is governed by article 62.3 of the Bylaws and article 35.5 of the Rules and Regulations of the Board of Directors. These provisions expressly state that *"the board of directors shall use its best efforts to prepare the accounts such that there is no room for 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 16.4.c), (ii) (1) of the Rules and Regulations of the Board of Directors also stipulates that the audit committee *"shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report"*.

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, B.7 and C.1.23

Compliant X Partially compliant Explain

The Bank's Bylaws and the Rules and Regulations for the General Shareholders' Meeting establish the requirements and procedures for evidencing ownership of the shares and for exercising the shareholders' voting rights on occasion of the call to and holding of the general shareholders' meeting.

The Bylaws and the Rules and Regulations for the General Shareholders' Meeting are published on the Company's website (www.santander.com). This information facilitates the informed participation of shareholders in the Bank's 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 a model attendance, proxy-granting and distance voting card and the rest of the documentation relating to this meeting.

The aforementioned regulations facilitate attendance of the shareholders at the general meeting and the exercise of their rights, and thus ensure equal treatment among shareholders, as stipulated in the following provisions:

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

"1. *In addition to what is required by provisions of Law or the Bylaws, beginning on the date of publication of the announcement of the call and until the general shareholders' meeting is held, the Bank shall maintain the following information continuously published on its website:*

(...)

(i) *the forms of the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If they cannot be published on the website for technical reasons, the Bank shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them.*

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 the shareholders at the general shareholders' meeting and their participation therein shall also be contained in 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 listening in on the meeting, such as means for simultaneous interpretation, broadcast using audiovisual media, 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 also allows shareholders to exercise their attendance, delegation and voting rights through remote communication systems, which facilitates shareholder participation at general meetings.

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 model of 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 X Partially compliant Explain Not applicable

Article 5 of the Rules and Regulations for the General Shareholders' Meeting states that "*shareholders representing at least three (3%) per cent of the share capital may request the publication of a supplement to the call to meeting including one or more items in the agenda, so long as such new items are accompanied by a rationale or, if appropriate, by a substantiated proposal for a resolution. (...). Such supplement shall be disseminated in the same manner as the original call notice*", and section 5 adds that "*moreover, shareholders representing at least three (3%) per cent 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 in the agenda for the General Shareholders' Meeting called.*"

The last paragraph of article 6.1 (iv) of the Rules and Regulations for the General Shareholders' Meeting states that from the publication of the call notice until the general meeting is held, the Company will continuously publish on its website *"...(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, with relation to merely informative items, a report prepared by the competent bodies, containing a discussion of such items. As they are received, where applicable, the proposals for resolutions submitted by shareholders will be included..."*, and that, *"furthermore, when there is a supplement to the call to meeting, the Company shall, starting on the date of publication thereof, also publish on its website the text of the proposals and rationales provided to the Company and to which such supplement refers"*.

Article 6.bis of the Rules and Regulations for the General Shareholders' Meeting governing the electronic shareholders' forum, also stipulates that *"both individual shareholders and any voluntary associations that they may create as provided by 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."*

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal will be submitted to amend article 6 of the Rules and Regulations for the General Shareholders' Meeting, so as to make clear that the attendance, proxy-granting and distance voting card will also be amended in case of a supplement to the call notice or new proposals being submitted, within the terms of these recommendations.

In addition, there will be laid before the shareholders at general meeting a proposal to alter the board regulations to clarify that all validly presented motions must be put to the vote, with the chairman having the power to decide on the order of voting if there are alternative proposals or motions not listed on the agenda; and, secondly, by way of a supplement to the foregoing, it will be the rule that, when such vote is taken, a vote in favour by the shareholders at general meeting for the proposed resolution implies a vote against any alternative proposal that is inconsistent with it.

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** X

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.

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 X **Partially compliant** **Explain**

The Company's board of directors acts in accordance with the principles set out in this recommendation, as envisaged in article 40.1 of the Bylaws and in article 5 of the Rules and Regulations of the Board of Directors. The latter provision expressly states that the board shall perform its duties in furtherance *"of the corporate interest, understood as the achievement of a business that is profitable and sustainable over the long term and that promotes the continuity thereof and the maximisation of the Company's 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)(ix) of the Rules and Regulations of the Board of Directors, the board is responsible for approving the corporate social responsibility policy, thereby guaranteeing the board's monitoring and supervision of the Bank's socially responsible behaviour. To this effect, the board is supported by the risk supervision, regulation and compliance committee, which, in accordance with article 17.ter.4 (m) and (n) of the Rules and Regulations of the Board of Directors, *"review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitors "the strategy and practices in this field, evaluating the level of adherence thereto."*

In addition, articles 31, 32, 32.bis, 34 and 35 of the Rules and Regulations of the Board of Directors governs the board of directors relationship with shareholders, institutional investors, proxy advisors, 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 X **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.

Since 2010, the size of the board has decreased by 25%, from 20 to 15 members at the time of writing.

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, in which it has delegated executive, supervisory, advisory, reporting and proposal-making duties, guarantees the effective and due participation by all its members, and an efficient and participatory board.

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 appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should 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 X Partially compliant Explain

The procedures and criteria for selecting directors are included mainly in articles 20, 41, 42, 55 and 56 of the Bylaws and articles 3, 6, 7, 17 and 21 of the Rules and Regulations of the Board of Directors.

In accordance with articles 3.2 (m), 6.1 and 17.4.(a) (i) of the Rules and Regulations of the Board of Directors, the committee must ensure that the procedures for selecting board members guarantee the individual and collective training of directors and foster diversity of gender, experience and knowledge on the board. The appointments committee will evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board and prepare the related skills map and the description of duties and qualifications required for each specific appointment.

In accordance with these regulations, in 2015 an external consultant was commissioned to conduct an analysis of the skills and diversity of the members of the board of directors, which was updated each time a director was appointed in 2015, the results of which can be found in a skills map presented to the appointments committee, and which highlights the skills in the board which need improving, and in such a way as to favour diversity of knowledge, experience and gender. These skills were taken into account when selecting the directors appointed in 2015, as explained in the appointments committee's 2015 report, which is published on the Company's website (www.santander.com).

The report of the board of directors and the proposal put forward by the appointments committee supporting the proposal for ratification and re-election of the Bank's directors, which was submitted for approval at the general meeting, evaluating for such purpose the skills, experience and merits of those persons who were proposed for ratification or re-election at the general meeting, were published along with the call this for the general shareholders' meeting held on 27 March 2015.

The appointments committee, at its meeting on 21 October 2014, set a target for representation of women on the board of 25%, and at its meeting on 25 January 2016, this target was raised to 30% of board members. At the date of this document, the percentage of women on the Bank's board was 33.3%, which exceeds the target established by the Bank.

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 X Partially compliant Explain

Article 42.1 of the Bylaws and article 6.1 of the Rules and Regulations of the Board of Directors stipulate that the board of directors should be 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 year-end 2015, the board had a large majority of external directors. Of the 15 directors then sitting on the board of directors, 4 were executive and 11 were external. Of the 11 external directors, 8 were independent, 1 was proprietary and 2 were, 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 X **Explain**

The Bank believes that it complies with this recommendation, as the circumstances for relaxing the strict proportional criterion contemplated in the good governance code for listed companies, apply in full.

Banco Santander is a large cap company (EUR 65,792.4 million as listed on the Spanish Stock Exchanges at 31 December 2015) where there are no shareholder interests legally considered significant, but there is a shareholder with a shareholding of a high absolute value.

Since 2002, the criterion that the appointments and remuneration committee[5] and the board of directors at Banco Santander have followed, as a necessary but not sufficient condition, is that the percentage of capital that a shareholder must hold in order to be considered an external proprietary director is 1% of the capital of the Bank. Current article 529.duodecies of the LSC is consistent with this criterion, as it expressly establishes that proprietary directors are *"those holding a shareholding equal to or greater than that legally considered significant, or who have been appointed because they are shareholders, even if their shareholding is below this amount, and the representatives of such shareholders".*

In the case of Banco Santander, there is one director, who in the view of the appointments committee and the board of directors, should be classified as external proprietary, namely Mr. Javier Botín-Sanz de Sautuola y O'Shea, who represents the interests of Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ms. Ana Botín-Sanz de Sautuola y O'Shea Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms. Marta Botín-Sanz de Sautuola Ríos, as well as his own (in total, 1.041% of the Bank's share capital at 31 December 2015).

The new good governance code for listed companies (principle 11), in line with the 2006 Report of the special working group on the good governance of listed companies, specifies that this recommendation is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is out of step with their capital ownership; subsequently Recommendation 16 incorporates an extenuating circumstance for large cap companies. This is consistent with article 529.duodecies of the LSC, which allows directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

The fact that proprietary directors constitute 9.09% of external directors in the Bank at year-end 2015, while representing 1.041% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of this recommendation.

A distortion or slant on the proportional make-up of the board is inevitable if two circumstances are taken into account, which are in both the spirit and the letter of this recommendation, as follows:

(i) The minimum overweighting possible is that which allows a significant shareholder to be attributed a proprietary director; and

(ii) In the case of a shareholder with a percentage interest of less than 3% but of a high absolute value (in the Company's case the shareholding represented by the proprietary director exceeded EUR 685 million at 31 December 2015) it must be possible, in agreement with the recommendation, for the Company to designate this person as a proprietary director. The recommendation states just this (in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested).

Given the sums involved, it is undeniable that strict application of this recommendation will always give rise to disproportions of some scale between the different categories of director, although without implying as a result that this goes beyond or exceeds the requirements of strict proportionality provided for in the recommendation, so that it applies in spirit.

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 per cent of capital, independent directors should occupy, at least, a third of board places.

See section C.1.3

Compliant X **Explain**

At year-end 2015, of the 11 external directors, 8 were independent (72.72%), representing 53.33% of the total board members.

5. Presently, appointments committee.

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 X Partially compliant Explain

In accordance with article 61.1 of the Bylaws and article 34.4 of the Rules and Regulations of the Board of Directors, the Bank publishes and maintains up to date information on directors referred to in this recommendation on the Group's website (www.santander.com).

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 per cent 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 X Partially compliant Explain Not applicable

In accordance with articles 6.3 and 17.4. (d) of the Roles and Regulations of the Board of Directors, at its meeting of 11 February 2016, the status of each director was verified after its proposal was approved by the board of directors at its meeting of 12 February 2016. Likewise, the board shall specify at the next annual general meeting, which will be held on 17 or 18 March 2016, on first or second call, respectively, the status of the directors whose appointment, re-election or ratification is to be proposed thereat, including the Bank's proprietary directors, the re-election which is submitted at the general shareholders' meeting.

Section C.1.3 of this report describes the criteria followed by the board to appoint an external proprietary director, who represents an ownership interest in the Bank's share capital greater than 1% and less than 3%, which is the percentage corresponding to a significant interest.

The Bank has not received any formal requests for board representation from shareholders whose equity interest is equal to or greater than that of the Bank's proprietary directors.

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 latters' number should be reduced accordingly.

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

Compliant X Partially compliant Explain Not applicable

None of the circumstances described in this recommendation arose in 2015 with regard to the sole proprietary director of the Company, Mr. Javier Botín-Sanz de Sautuola y O'Shea.

Article 23.3 of the Rules and Regulations of the Board stipulates that proprietary directors must submit their resignations when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

21.The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

See sections C.1.2, C.1.9, C.1.19 and C.1.27

Compliant X Explain

The Bank's practice is to maintain directors in 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 position and withdrawal of directors is regulated by articles 55 and 56 of the Bylaws and articles 22 and 23 of the Rules and Regulations of the Board of Directors.

The board of directors has not proposed the removal of any independent director before the expiry of their tenure as mandated by the Bylaws. All withdrawals in 2015, were due to voluntary resignations of the respective directors.

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, C1.42 and C.1.43.

Compliant X Partially compliant Explain

The rules subject to this recommendation are included in article 56.2 of the Bylaws and articles 23.2 and 30 of the Rules and Regulations of the Board of Directors.

In 2015 the Company was not informed by any director of any circumstance, nor has it ever been aware of any circumstance, that, in the opinion of the board, would have justified his resignation as a member of the Bank's 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 X Partially compliant Explain Not applicable

In 2015, no director, or the board secretary, expressed any opposition to 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 X Partially compliant Explain Not applicable

Article 23.4 of the Rules and Regulations of the Board of Directors 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 therefor 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 such report is recorded in the minutes. Disclosure thereof shall also be made in the annual corporate governance report".*

At the board meeting of 30 June 2015, Mr. Juan Rodríguez Inciarte announced his voluntary resignation as a director for personal reasons, and at the board meeting of 29 July 2015, Ms. Sheila C. Bair also resigned from the board for personal reasons, as a consequence of being appointed president of Washington College.

Being present at the respective meetings and having explained the reasons for their resignations, which were personal, the objective of the recommendation, that the other directors should be aware of the reasons for the resignations, is considered to have been fulfilled.

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of director's regulations should lay down the maximum number of company boards on which directors can serve.

See sections C.1.13 and C.2.1

Compliant X Partially compliant Explain

Pursuant to article 17.4.g) of the Rules and Regulations of the Board of Directors, at its meeting of 11 February 2016, the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate whether these may detract from the dedication needed for the directors to carry out their duties.

Based on this information, the appointments committee has decided that the other 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 stated in article 30 of the Rules and Regulations of the Board of Directors.

Among the obligations and duties of the board, article 30 of the Rules and Regulations of the Board of Directors 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 X Partially compliant Explain

The Bank's board of directors meets as often as necessary to effectively perform its duties, holding a minimum of nine meetings per year, and approves the annual calendar of meetings which includes a draft agenda for such meetings.

Article 47 of the Bylaws and articles 19 and 20 of the Rules and Regulations of the Board of Directors govern the operations of the board of directors, whereby articles 19.1, 2 and 3 of the aforementioned Rules and 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 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".*

The lead 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 12.bis.1 (i) of the Rules and Regulations of the Board of Directors).

The board of directors met 21 times in 2015.

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 X Partially compliant Explain

In accordance with article 47.1 of the Bylaws and articles 20.1 and 2 of the Rules and Regulations of the Board of Directors, the directors must seek to reduce absences to a bare minimum, and if absent they must delegate their vote with instructions.

Average attendance in terms of total votes cast in 2015 was 92.83%, as set out in section C.1.30 of this report.

The number of meetings held in 2015 by the board of directors and its committees, and individual (in-person) attendance of directors at these meetings, as well as an estimate of the time dedicated to these meetings in terms of preparation and participation by the directors are detailed 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 X Partially compliant Explain Not applicable

The secretary of the board keeps custody of the documentation of the board of directors, records the proceedings of meetings in minute books and attests to the content thereof and to the resolutions adopted (article 11.2 (a) of the Rules and Regulations of the Board of Directors). The minutes of the board meetings and those of its committees also include statements for which a request has been made to reflect them in the minutes. Directors are independent in exercising their position and the chairman must safeguard their freedom to take positions and express their opinion (article 20.5 of the Rules and Regulations of the Board of Directors).

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 X Partially compliant Explain

Article 27 of the Rules and Regulations of the Board of Directors recognises the right of the board members and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology and the international committees to employ external advisors to help in fulfilling their duties. A request may be made to the board, through the general secretary, to hire external advisors (legal, accounting, financial and technology experts, recruiting specialists and other experts), at the Bank's cost, to deal with specific issues of special significance or complexity that arise. The board may only reject such requests with good reason.

In addition, the last word directors are authorised to request information on any aspect of the Bank (articles 19.4 and 26 of the Rules and Regulations of the Board of Directors) and to attend meetings of committees of which they are not a member under those cases envisaged in the Bylaws (articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors).

In 2015 the board and certain of its committees were aided by external advisors to carry out, among others, the following activities: (i) develop the board's continuous self-evaluation process, (ii) prepare the remuneration committee's 2015 activities report, (iii) design the Group's remuneration policy, and (iv) prepare the report on the director remuneration policy and the annual remuneration report.

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

See section C.1.20.

Compliant X Partially compliant Explain

The continuous training and updating programme for directors and the induction programmes for new directors are covered by article 21.7 of the Rules and Regulations of the Board of Directors *"the board shall establish a programme of information for new directors which gives them quick and sufficient information regarding the Company and its Group, including the governance rules thereof"* and that *"the board shall also maintain a programme of continuous training and updating directed to the directors"*.

Within the framework of the ongoing director training programme that was launched in 2005 as a result of the board's self-assessment process, in 2015 nine meetings were held with an average attendance of eight directors, who devoted approximately two hours to each session.

The directors appointed in 2015 participated in an information programme for the Bank's new directors.

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 X Partially compliant Explain

In accordance with article 19.2 of the Rules and Regulations of the Board of Directors, the board approves an annual calendar of the meetings to be held, which includes a proposed draft agenda and, if any changes are made thereto, each director must be notified. The board also keeps a formal list of matters reserved for discussion by it and formulates a plan for the distribution of such matters between the ordinary meetings contemplated in the calendar approved by the board. The agenda is approved by the board at its meeting, and 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.

The draft agenda for the board meetings will expressly specified whether the items included on the agenda are for information purposes, discussion or approval by the board.

In addition, the draft agenda and the potential inclusion of new items on the agenda is approved by the board at the beginning of the meeting and placed on record in the minutes.

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 X Partially compliant Explain

The board and the appropriate committees inform the directors of the following matters, inter alia:

(i) distribution of the Bank's share capital, changes in shareholder structure, performance of treasury shares and communications received at the Bank on the acquisition of significant shares of the Company;

(ii) actions carried out with shareholders, investors and proxy advisors to inform them of the Bank's performance and other aspects related thereto and to be aware of their points of view for the purpose of forming an opinion about their concerns, such as Investor day, the international banking conference, road shows and the presentations of results made by investors and analysts and

(iii) the rating agencies activities, the endogenous and exogenous factors that can impact on ratings classifications and the outlook on the Bank's rating.

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 X Partially compliant Explain

The Bank's chairman of the board of directors exercises all functions contained in this recommendation, which are included in article 4 3.2 of the Bylaws and articles 8.2, 8.3, 8.4 and 19 of the Rules and Regulations of the Board of Directors.

Article 47 of the Bylaws and articles 19 and 20 of the Rules and Regulations of the Board of Directors govern the operations of the board and its committees.

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts 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 coordinate the chairman's succession plan.

See section C.1.10

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

The Bank has a lead director, who has been attributed all powers under this recommendation, in accordance with article 49.bis of the Bylaws and article 12.bis of the Rules and Regulations of the Board of Directors. Specifically, article 12.bis of the Rules and Regulations of the Board of Directors states that *"the board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to (i) 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; (ii) coordinate and organise meetings of non-executive directors and reflect their concerns; (iii) direct the periodic evaluation of the chairman of the board of directors and coordinate the plan for succession thereof; (iv) maintain contact with investors and shareholders as provided by article 31 of these rules and regulations; and (v) replace the chairman in the event of absence thereof as provided by article 9.bis of these rules and regulation."*

At its meeting of 25 November, 2014, the board of directors appointed Mr. Bruce Carnegie-Brown executive vice-chairman and lead director, replacing Mr. Fernando de Asúa Álvarez, the appointment being effective from 12 February 2015. The appointment of the lead director has been made for an indefinite period of time and with the abstention of the executive directors.

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 X **Explain**

Article 45.2.d) of the Bylaws grants the secretary of the board the duty to "ensure observance of the good governance recommendations adopted by the company", and article 11.2.d) of the Rules and Regulations of the Board of Directors stipulates that the secretary must "ensure that the board of directors carries out its activities and adopts its decisions being mindful of the good governance recommendations applicable to the Company". At the annual general shareholders' meeting scheduled for 17 March 2016, on first call, and on 18 March 2016, on second call, a proposal was put forward to amend article 45.2 of the Bylaws for the purpose of bringing its content into line with recommendation 35 of the new code of good governance for listed companies approved by resolution of the Spanish Securities Market Commission on 18 February 2015, which replaces recommendation 17 of the unified good governance code for listed companies approved by resolution of the Spanish Securities Market Commission on 22 May 2006, with reference to the fact that the secretary of the board will strive to ensure that the board of directors' actions and decisions take into account the recommendations on good governance applicable to the company, in line with that already included in article 11 of the Rules and Regulations of the Board of Directors.

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 competences.

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 appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

See sections C.1.19, C.1.20 , C.1.20 bis, C.1.20 ter and C.2.1

Compliant X **Explain** **Not applicable**

Article 19.7 of the Rules and Regulations of the Board of Directors establishes that the operation of the board and of its committees, 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. Such 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. Based on the results of such evaluation, the board shall prepare, if applicable, an action plan for correction of the deficiencies detected. The results of the evaluation shall be recorded in the minutes of the meeting or shall be included as an attachment thereto.

Likewise, articles 16.4.j) and 17.4.i) of the Rules and Regulations of the Board of Directors stipulate, respectively, that at least once a year the audit committee and the appointments committee will evaluate their operations and the quality of their work. The appointments committee also reports on the board and board members' self-evaluation process and assesses the independence of the external consultant hired pursuant to articles 17.4.j) and 19.7 of the Rules and Regulations of the Board of Directors. In accordance with articles 16.9, 17.8, 17.bis.8, 17.ter.8, 17.quater.5 and 17.quiniquies.5, the audit, the appointments, the remuneration, the risk supervision, regulation compliance, the international and the innovation and technology committees, through their respective chairmen, report their activities to the board. The board considers the activities reports prepared by the committees, when assessing their performance.

In 2015 the ongoing self-evaluation process was carried out for the board and its committees with the assistance of an external consultant, who does not have a business relationship with the Company. The self-evaluation process includes a special section for evaluating the chairman of the board, the chief executive officer and the other directors on an individual basis. The Group executive chairman led the evaluation of the lead director, who in turn led to that of the Group executive chairman. The appointments committee's findings were presented at the board meeting of 29 September 2015.

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 X Partially compliant Explain Not applicable

Pursuant to article 14.2 of the Rules and Regulations of the Board of Directors, , *"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 of the Bank and its Group and, given the nature of the executive committee and its delegated powers, the board considers it sufficient to use the efficiency criteria set out in article 14.2. of the Rules and Regulations of the Board of Directors. This committee had executive directors at year-end 2015, without discounting the participation of external directors, and particularly, independent directors, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

The board believes that the composition of the executive committee is well balanced, given that it is made up of the following at year-end 2015: eight directors, four executive and four external or non-executives. Of the external directors, 2 are independent and 2 are neither proprietary nor independent.

In addition, according to the Bylaws (articles 45. 1 and 5) and the Rules and Regulations of the Board of Directors (articles 11. 1 and 11.4) the secretary of the board will be the general secretary and the secretary of all the board committees.

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 X Partially compliant Explain Not applicable

Article 51.5 of the Bylaws expressly states 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", ", and, similarly, article 14.8 of the Rules and Regulations of the Board of Directors establishes 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

Complaint X Partially compliant Explain

Pursuant to article 20.2.(i), 42.4 and 53.2 of the Bylaws and articles 6.1, 16.2, 17 and 21 of the Rules and Regulations of the Board of Directors, the members of the audit committee were appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management. The chairman of the committee is considered to be a financial expert, in accordance with that stipulated in the Sarbanes Oxley Act.

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal will be submitted to amend article 53.2 of the Bylaws to incorporate the requirement that the members of the audit committee, as a whole, must have the relevant technical knowledge in relation to the activity sector to which the Company belongs, as required in article 529.quaterdecies of the LSC, following the amendment introduced by final provision four of Audit Law 22/2015, of 20 July. The Bank believes that the members of the audit committee taken as a whole are already compliant with that requirement.

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 X Partially compliant Not applicable

Pursuant to article 53 of the Bylaws and article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual internal audit working plan submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report.. On 19 February 2015, the head of the internal audit division submitted to the audit committee the internal audit working plan for 2015, and the board of directors, at its meeting on 23 February 2015, approved the aforementioned plan and was informed of the internal audit division's activities in 2014.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which strives to contribute both to the proper governance of the organisation and to the proper management and control of risks.

The head of internal audit customarily attends audit committee meetings. At the committee meeting of 16 December 2015, it was ratified that the internal audit function acted with complete independence and objectivity when carrying out its activities in 2015.

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 X **Partially compliant** **Explain** **Not applicable**

Pursuant to article 53 of the Bylaws and article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual internal audit working plan submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report.

On 19 February 2015, the head of the internal audit division submitted to the audit committee the internal audit working plan for 2015, and the board of directors, at its meeting on 23 February 2015, approved the aforementioned plan and was informed of the internal audit division's activities in 2014.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which strives to contribute both to the proper governance of the organisation and to the proper management and control of risks.

Similarly, at its meeting of 20 January 2016, the committee reviewed and approved the annual internal audit working plan for 2016 and assessed the adequacy and effectiveness of the function to carry out its activities. At its meeting of 26 January 2016, the board was informed regarding the internal audit activities conducted in 2015 and said audit plan for 2016.

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 X **Partially compliant** **Explain**

The audit committee's functions are governed mainly by article 53.1 of the Bylaws and article 16 of the Rules and Regulations of the Board of Directors, including those listed in this recommendation.

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal was submitted to amend article 53 of the Bylaws with the following dual purpose: (i) increase the maximum number of members of the audit committee from seven to a maximum of nine directors , in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time, and (ii) adapt its content to the amendments introduced by article 529.quaterdecies of the LSC by final provision four of Audit Law 22/2015, of 20 July.

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

Complaint X **Explain**

The audit committee's power is included in article 53.5 of the Bylaws, which stipulates that *"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 his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the external auditor attend such meetings"*. Similarly, article 16.7 of the Rules and Regulations of the Board of Directors 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 X **Partially compliant** **Explain** **Not applicable**

This function is set forth in article 16.4. (h) of the Rules and Regulations of the Board of Directors, in accordance with 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 X **Partially compliant** **Explain**

The scope of the risk management system in place at the Bank 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, that is: *"the risk management system works in an integrated, continuous and consolidated manner for 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.

Adequate management and control of risks arising from the Company's activities is carried out through the following: risk maps; risk appetite and limits structure; scenario analysis; risk identification and assessment (RIA); measurement models, reporting; enterprise risk management (ERM); internal control; risk culture; and recovery and resolution plans.

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 X Partially compliant Explain

The Company's risk division is attributed the risk management and control functions set forth in this recommendation. The Bank has two non-statutory corporate risk committees: the executive risk committee, as the body in charge of global risk management, and the risk control committee, as the body in charge of global risk supervision and management.

The risk function acts under the supervision of the risk supervision, regulation and compliance committee, without prejudice to this function's direct access to the board of directors. This is a specialised committee of the board with general powers to support and advise the board on the risk supervision and control function and on defining the Group's risk policies (article 54.ter of the Bylaws and article 17.ter.4.(g) of the Rules and Regulations of the Board of Directors).

In 2015, the Bank's risk division reported to the risk supervision, regulation compliance committee on the various aspects related to risk, such as the Group's overall vision of risks, by units and types of risk, risk appetite and other matters and projects relating to risk management and control in the Group.

47. Appointees to the appointments and remuneration committee - or of the appointments 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 X Partially compliant Explain

Pursuant to article 20.2 (i), 42.4, 54.3 and 54.bis.3 of the Bylaws, and articles 6.1, 17.2 and 17.bis.2 of the Rules and Regulations of the Board of Directors, the members of the appointments and the remuneration committees were appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience and the goals of the committee.

The members of both the appointments and remuneration committees are currently external or non-executive directors, with a majority of independent directors. The chairman of the respective committees is an independent director.

48. Large cap companies should operate separately constituted appointments and remuneration committees.

See section C.2.1

Compliant X Explain Not applicable

At its meeting of 23 October 2014, the board of directors resolved two separate the appointments and remuneration committee. The appointments committee is entrusted with general proposal-making and reporting powers on matters relating to director appointments and withdrawals under the terms established by law, and is governed mainly by article 54 of the Bylaws and article 17 of the Rules and Regulations of the Board of Directors. The remuneration committee is entrusted with general proposal-making and reporting powers on matters relating to director remuneration under the terms established by law, and is governed mainly by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board of Directors.

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

See sections C.1.19 and C.2.1

Compliant X Partially compliant Explain

The content of this recommendation forms part of the Bank's consolidated practice and is included in articles 17.4. (a) (ii) and 6 of the Rules and Regulations of the Board of Directors, which state that the appointments committee will *"receive for consideration proposals from directors of potential candidates to cover vacancies"* and *"consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors."*

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 X Partially compliant Explain

The remuneration committee exercises its functions with independence. In the performance of its duties, the committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest (article 17.bis.4 of the Rules and Regulations of the Board of Directors). Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, shall attend this committee's meetings, provide 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 (article 17.bis.6 of the Rules and Regulations of the Board of Directors). The remuneration committee, through its chairman, shall report to the board of directors on its activities and work (article 17.bis.8 of the Rules and Regulations of the Board of Directors).

Article 17.bis of the Rules and Regulations of the Board of Directors attributes the functions referred to in this recommendation to the remuneration committee Therefore, the following functions, among others, are attributed to the committee: (i) propose to the board the basic terms of the contracts and the remuneration of the members of senior management (article 17.bis.4 (a) (v) of the Rules and Regulations of the Board of Directors), (ii) ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company (article 17.bis.4 (b) of the Rules and Regulations of the Board of Directors), (iii) periodically review the 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 17.bis.4 (c) of the Rules and Regulations of the Board of Directors), (iv) when the remuneration committee engages any external expert, as expressly provided for in article 27 of the Rules and Regulations of the Board of Directors, it will ensure that the independence of their advice is not undermined by any possible conflict of interest (article 17.bis.10 of the Rules and Regulations of the Board of Directors) and (v) 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 of directors and, for such purposes, submit to the board any and all information that may be appropriate (article 17.bis.4 (d) of the Rules and Regulations of the Board of Directors).

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 X Partially compliant Explain

The content of this recommendation also forms part of the Bank's consolidated practice and is included in article 17.bis.5 of the Rules and Regulations of the Board of Directors, which states that *"the remuneration committee shall consult with the chairman and the chief executive officer on matters relating to the executive directors and senior officers"*. This article also 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 board of director's regulations 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 X Partially compliant Explain Not applicable

The Company's board committees with supervisory and control powers are the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees. All of these are mandatory and the rules on the composition and operation of the committees appear in the Rules and Regulations of the Board of Directors, in accordance with applicable legislation and best practices regarding corporate governance included in the recommendations of the new good governance code for listed companies.

In accordance with articles 53, 54, 54.bis and 54.ter of the Bylaws and articles 16, 17, 17.bis, 17.ter and 27 of the Rules and Regulations of the Board of Directors, the aforementioned committees are subject to all rules on the composition and operation thereof contained in this recommendation.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a 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 remaining 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 their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

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 X   Partially compliant   Explain

Article 17.ter.4 of the Rules and Regulations of the Board of Directors attributes all functions contained in this recommendation to 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 relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

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 X   Partially compliant   Explain

The Bank has a well-defined governance structure in sustainability matters, both corporate and local, which facilitates the involvement of all business areas and the Bank's support in the various countries in which the Group operates.

The board is responsible for approving its social responsibility policy (article 3.2 (a) (ix) of the Rules and Regulations of the Board of Directors), and the risk supervision, regulation and compliance committee is responsible for reviewing this policy, ensuring that it is focused on creating value for the Company, and for monitoring the strategy and practices in this regard, evaluating their degree of compliance (article 17.ter.4 (m) of the Rules and Regulations of the Board of Directors).

The Bank has a sustainability committee chaired by the chief executive officer and composed of senior executive vice presidents and/or heads of the Bank's various different divisions. This committee proposes the sustainability strategy and general policies and submits them for approval by the board of directors.

The Company's corporate social responsibility policy include the principles and commitments voluntarily assumed by the Bank in relation to its various stakeholders and all aspects mentioned by the recommendation.

The corporate social responsibility policy is published in the "Sustainability" section of the Group's website (www.santander.com), with the rest of policies adopted by the board in this domain.

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 X **Explain**

The Bank publishes an annual sustainability report, which is prepared in accordance with the Global Reporting Initiative G4 Sustainability Reporting Guidelines. The report sets out the Bank's corporate social responsibility activities, and can be found in the section on "Sustainability" on the Bank's 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 X **Explain**

Articles 58.1, 2 and 6 of the Bylaws and articles 28.1, 2 and 6 of the Rules and Regulations of the Board of Directors govern the remuneration of directors acting as such. This remuneration consists of a fixed annual amount determined by the shareholders at the general meeting, although the board may reduce such amount in those years it considers such reduction appropriate. The remuneration consists of two components: an annual emolument and attendance fees.

The board of directors shall determine the remuneration that corresponds to each director acting as such based on the positions held thereby on the board itself, their membership on and attendance at the meetings of the various committees and, where applicable, other objective circumstances valued by the board.

Article 28.6 of the Rules and Regulations of the Board of Directors, states 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 X **Partially compliant** **Explain**

In accordance with the Bank's remuneration policy, of the members of the board of directors 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 2015.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

i. **Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**

ii. **Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**

iii. **Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

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

The director remuneration policy of the Bank includes limits and technical safeguards to ensure that variable remuneration of the directors reflects the professional performance and not simply the general progress of the markets or the company's activity sector.

The essential characteristics of the 2015 director remuneration policy, which was approved by the shareholders at the annual general meeting of 27 March 2015, are as follows:

- Fixed remuneration represented a significant proportion of total compensation.
- Variable remuneration was adjusted to the limit of 200% of fixed remuneration.
- Variable remuneration was composed of short- and long-term incentives, for the purpose of bringing the remuneration more in line with the long-term interests of shareholders.
- Variable remuneration was established based on certain quantitative metrics and qualitative factors, some of which were not financial in nature, which are related to risk management, capital performance, earnings performance, relationship with customers and the degree of satisfaction of customers and employees.
- At least 50% of their remuneration is paid in shares, which may not be transferred until one year has elapsed since delivery, and the accrual of at least 60% of bonuses is deferred over a period of five years.
- Variable remuneration is conditional upon none of the circumstances set forth in malus clauses taking place.
- If the Group's net ordinary profit for 2015 had been negative, the bonus for executive directors would be zero.

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 X **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 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 accrual of bonuses for the Bank's directors for 2015 was deferred for a period of five years. 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 one year has elapsed since the delivery thereof.

Directors' variable remuneration for 2016 will be subject to similar rules.

The remuneration committee's report for 2015, which contains the policy applied to executive directors in 2015, is published on the Group's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 September 2016, on first or second call, respectively.

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

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

No reservations or qualifications have been made to the 2015 individual financial statements of the Bank or its consolidated Group.

If any qualifications arise in the external auditor's report that reduce the Bank's earnings, the committee assessing risks regarding the Bank's remuneration, which is 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 the process of establishing the remuneration of executive directors, and may propose adjustments to this from remuneration to the appointments committee.

Director remuneration is subject to the following circumstances, among others, not taking place: (i) poor financial performance of the Group; (ii) violation by the beneficiary of internal regulations, particularly those relating to risks; (iii) material restatement of the Group's financial statements, when required by the external auditors.

In addition, the director remuneration policy for 2016, which was prepared by the board at its meeting of 12 February 2016 and which will be submitted at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, expressly envisages the possibility that the variable remuneration of executive directors in 2016 may be adjusted as a result of deficiencies in control or negative results of the evaluations by the Bank's supervisors.

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 X **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 requires 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 in 2015 was made up of a bonus, to be partially received in cash and partially in shares, and a long-term incentive which, if applicable, will be received wholly in shares. Specifically, at least 50% of total variable remuneration for 2015 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 X Partially compliant Explain Not applicable

Variable remuneration for the Bank's executive directors in 2015 consisted of a bonus, to be partially received in cash and partially in shares, and a long-term incentive which, if applicable, will be received wholly in shares. Specifically, at least 50% of total variable remuneration for 2015 will be paid in shares. All shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until one year has elapsed since the delivery thereof.

In addition, at the proposal of the remuneration committee, the board approved a share holding policy aimed at bringing executive directors' commitment into line even more with the long-term interests of shareholders and which reflects the commitment of directors to maintain a significant individual investment in the Bank's shares while carrying out their executive functions in the Group. According to this policy, which enters into force in 2016, each executive director active on 1 January 2016 must hold, for as long as he/she is active, an investment in the Bank's shares equivalent to twice the amount of his/her fixed annual salary, on the terms set out in the recommendation, at the effective date of the policy, or the date of his/her appointment, if it were later. The specific amount of the investment will be determined on an after-tax basis. A period of 5 years has been stipulated for this investment to be made.

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 X Explain Not applicable

Deferred variable remuneration of executive directors for 2015 becomes payable only if the beneficiary remains an employee of the Group and if (in the opinion of the board of directors, at the proposal of the remuneration committee) none of the following events occur as a result of actions taken in 2015:

(i) Poor financial performance of the Group;

(ii) Violation by the beneficiary of internal regulations, particularly those relating to risks;

(iii) Material restatement of the Group's financial statements, when so considered by the external auditors, except when appropriate pursuant to a change in accounting standards; or

(iv) Significant changes in the financial capital or risk profile of the Group.

The board of directors, at the proposal of the remuneration committee and based on the level of achievement of such conditions, will determine the specific amount of the deferred portion of the variable remuneration.

64. In addition, the Bank has adopted a policy on the application of malus clauses in the field of remuneration. 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 X 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 those that may be required by law.

If Mr. Rodrigo Echenique Gordillo's contract is terminated before 1 January 2018 for reasons other than his own decision, death or permanent disability or to a serious breach of his obligations, he shall be entitled to receive a severance payment amounting to twice his gross annual salary.

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 from 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.

Upon the listing of Bank shares on the Warsaw Stock Exchange, a document was disclosed on 3 December 2014, analysing the corporate governance of the Bank from the perspective of the Polish government's good governance recommendations. This document is updated each year upon publication of the Bank's annual corporate governance report ("Statement on corporate governance in relation to the Code of Best Practices for WSE Listed Companies"). These documents can be found on the corporate website www.santander.com.

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

On 3 November 2015, at the plenary session of the Tax Forum of Large Companies, the introduction of an appendix to the Code of Best Tax Practices was agreed to strengthen the cooperation between the Spanish tax agency and those companies that adhere to this instrument of good tax governance, through a series of actions promoting transparency and legal security in compliance with tax obligations.

Likewise, Banco Santander is also signatory to a number of international sustainability initiatives, such as the United Nations Global Compact Principles (since 2002), the Ecuador 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 Carbon Disclosure Project (since 2002).

This Annual corporate governance report was adopted by the company's board of directors at its meeting held on 12 February 2016.

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

Yes **No X**

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstained, non-attendance)	Explain the reasons

Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
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Tel.: +34 915 14 50 00
Fax: +34 915 14 51 80
www.deloitte.es

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON INDEPENDENT REVIEW OF THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Shareholders of Banco Santander, S.A.,

Scope of the Work

We have examined the information relating to the system of internal control over financial reporting ("ICFR" or "System") of Banco Santander, S.A. ("the Bank") and Subsidiaries ("the Group") contained in Section F of the Annual Corporate Governance Report for the year ended 31 December 2015.

The objective of this System is to contribute to the transactions performed being presented fairly under the aforementioned accounting framework and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements.

The aforementioned System is based on the rules and policies defined by Group management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework (2013)".

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are performed only in accordance with the authorisations established; (iii) 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 (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, uses or sales of Group assets which could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud may not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

Directors' Responsibility

The Bank's board of directors is responsible for maintaining the system of Internal Control over the Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness.

Our Responsibility

Our responsibility is to express an opinion on the effectiveness of the system of Internal Control over the Financial Reporting (ICFR), based on the work performed by us.

Our work includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the Group's consolidated financial statements as at 31 December 2015, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Santander Group as at 31 December 2015, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Banco Santander, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Ignacio Gutiérrez

12 February 2016

Banco Santander's balance sheet and income statement

Balance sheet at 31 december 2015 with distribution of income

Euros

ASSETS	December 2015
1. Cash and balances with central banks	**12,423,923,169**
2. Financial assets held for trading	**79,474,289,586**
2.1. Loans and advances to credit institutions	-
2.2. Loans and advances to customers	35,117,768
2.3. Debt instruments	19,595,351,089
2.4. Equity instruments	8,300,400,357
2.5. Trading derivatives	51,543,420,371
Memorandum item: Loaned or advanced as collateral	11,114,494,171
3. Other financial assets at fair value through profit or loss	**39,439,404,590**
3.1. Loans and advances to credit institutions	21,370,019,850
3.2. Loans and advances to customers	18,069,384,741
3.3. Debt instruments	-
3.4. Equity instruments	-
Memorandum item: Loaned or advanced as collateral	10,625,497,853
4. Available-for-sale financial assets	**35,966,877,804**
4.1. Debt instruments	34,462,145,372
4.2. Equity instruments	1,504,732,433
Memorandum item: Loaned or advanced as collateral	16,275,944,562
5. Loans and receivables	**228,800,204,091**
5.1. Loans and advances to credit institutions	29,996,061,575
5.2. Loans and advances to customers	181,977,350,030
5.3. Debt instruments	16,826,792,486
Memorandum item: Loaned or advanced as collateral	3,232,636,852
6. Held-to-maturity investments	**2,013,262,983**
Memorandum item: Loaned or advanced as collateral	-
7. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**95,246,334**
8. Hedging derivatives	**3,146,056,581**
9. Non-current assets held for sale	**1,838,350,865**
10. Investments	**80,822,213,917**
10.1. Associates	722,436,117
10.2. Jointly controlled entities	356,217,541
10.3. Subsidiaries	79,743,560,259
11. Insurance contracts linked to pensions	**1,924,037,785**
13. Tangible assets	**1,780,649,314**
13.1. Property, plant and equipment	1,570,199,555
13.1.1. For own use	1,273,527,163
13.1.2. Leased out under an operating lease	296,672,391
13.1.3. Assigned to welfare projects	-
13.2. Investment property	210,449,759
Memorandum item: Acquired under a finance lease	528,396,126
14. Intangible assets	**85,262,898**
14.1. Goodwill	-
14.2. Other intangible assets	85,262,898
15. Tax assets	**7,390,783,902**
15.1. Current	1,509,095,299
15.2. Deferred	5,881,688,603
16. Other assets	**1,121,833,111**
Total assets	**496,322,396,931**

Balance sheet at 31 december 2015 with distribution of income

Euros

LIABILITIES		December 2015
1.	**Financial liabilities held for trading**	**58,497,441,755**
1.1.	Deposits from central banks	-
1.2.	Deposits from credit institutions	-
1.3.	Customer deposits	-
1.4.	Marketable debt securities	-
1.5.	Trading derivatives	51,498,090,635
1.6.	Short positions	6,999,351,121
1.7.	Other financial liabilities	-
2.	**Other financial liabilities at fair value through profit or loss**	**24,122,409,535**
2.1.	Deposits from central banks	8,811,602,556
2.2.	Deposits from credit institutions	9,493,906,091
2.3.	Customer deposits	5,816,900,889
2.4.	Marketable debt securities	-
2.5.	Subordinated liabilities	-
2.6.	Other financial liabilities	-
3.	**Financial liabilities at amortised cost**	**341,982,165,731**
3.1.	Deposits from central banks	25,834,850,044
3.2.	Deposits from credit institutions	59,642,749,570
3.3.	Customer deposits	203,748,320,928
3.4.	Marketable debt securities	22,243,679,418
3.5.	Subordinated liabilities	19,045,136,687
3.6.	Other financial liabilities	11,467,429,084
4.	**Changes in the fair value of hedged items in portfolio hedges of interest rate risk**	**14,350,524**
5.	**Hedging derivatives**	**3,391,903,136**
6.	**Liabilities associated with non-current assets held for sale**	**-**
8.	**Provisions**	**7,634,957,051**
8.1.	Provision for pensions and similar obligations	6,483,849,412
8.2.	Provisions for taxes and other legal contingencies	276,574,364
8.3.	Provisions for contingent liabilities and commitments	291,430,531
8.4.	Other provisions	583,102,744
9.	**Tax liabilities**	**635,583,813**
9.1.	Current	-
9.2.	Deferred	635,583,813
10.	**Welfare fund**	**-**
11.	**Other liabilities**	**1,921,403,936**
12.	**Equity refundable on demand**	
Total liabilities		**438,200,215,482**

Balance sheet at 31 december 2015 with distribution of income

Euros

EQUITY			December 2015
1.	**Shareholders' equity**		**58,280,445,885**
	1.1.	Share capital (a)	7,217,246,290
		1.1.1. Registered	7,217,246,290
		1.1.2. Less: Uncalled capital	-
	1.2.	Share premium	45,001,191,101
	1.3.	Reserves	5,947,261,889
	1.4.	Other equity instruments	114,830,082
		1.4.1. Equity component of compound financial instruments	-
		1.4.2. Non-voting equity units and associated funds (savings banks)	-
		1.4.3. Other	114,830,082
	1.5.	*Less: Treasury shares*	(83,476)
	1.6.	Profit for the year attributable to the Parent	
	1.7.	*Dividends and remuneration*	
2.	**Valuation adjustments**		**(158,264,437)**
	2.1.	Available-for-sale financial assets	845,466,621
	2.2.	Cash flow hedges	1,801,721
	2.3.	Hedges of net investments in foreign operations	21
	2.4.	Exchange differences	-
	2.5.	Non-current assets held for sale	-
	2.7.	Other valuation adjustments	(1,005,532,800)
Total equity			**58,122,181,449**
Total liabilities and equity			**496,322,396,931**
MEMORANDUM ITEMS TOTAL			
Contingent liabilities			**62,061,068,682**
Contingent commitments			**81,093,717,355**

Balance sheet at 31 december 2015 before distribution of income

Euros

ASSETS	December 2015
1. Cash and balances with central banks	**12,423,923,169**
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Memorandum item: Loaned or advanced as collateral	-
7. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**95,246,334**
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10.2. Jointly controlled entities	356,217,541
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14. Intangible assets	**85,262,898**
14.1. Goodwill	-
14.2. Other intangible assets	85,262,898
15. Tax assets	**7,390,783,902**
15.1. Current	1,509,095,299
15.2. Deferred	5,881,688,603
16. Other assets	**1,121,833,111**
Total assets	**496,322,396,931**

Balance sheet at 31 december 2015 before distribution of income

Euros

LIABILITIES		December 2015
1.	**Financial liabilities held for trading**	**58,497,441,755**
1.1.	Deposits from central banks	**-**
1.2.	Deposits from credit institutions	-
1.3.	Customer deposits	-
1.4.	Marketable debt securities	-
1.5.	Trading derivatives	51,498,090,635
1.6.	Short positions	6,999,351,121
1.7.	Other financial liabilities	-
2.	**Other financial liabilities at fair value through profit or loss**	**24,122,409,535**
2.1.	Deposits from central banks	8,811,602,556
2.2.	Deposits from credit institutions	9,493,906,091
2.3.	Customer deposits	5,816,900,889
2.4.	Marketable debt securities	-
2.5.	Subordinated liabilities	-
2.6.	Other financial liabilities	**-**
3.	**Financial liabilities at amortised cost**	341,260,441,102
3.1.	Deposits from central banks	25,834,850,044
3.2.	Deposits from credit institutions	59,642,749,570
3.3.	Customer deposits	**203,748,320,928**
3.4.	Marketable debt securities	22,243,679,418
3.5.	Subordinated liabilities	19,045,136,687
3.6.	Other financial liabilities	10,745,704,455
4.	**Changes in the fair value of hedged items in portfolio hedges of interest rate risk**	14,350,524
5.	**Hedging derivatives**	**3,391,903,136**
6.	**Liabilities associated with non-current assets held for sale**	-
8.	**Provisions**	**7,634,957,051**
8.1.	Provision for pensions and similar obligations	**6,483,849,412**
8.2.	Provisions for taxes and other legal contingencies	**276,574,364**
8.3.	Provisions for contingent liabilities and commitments	**291,430,531**
8.4.	Other provisions	583,102,744
9.	**Tax liabilities**	635,583,813
9.1.	Current	-
9.2.	Deferred	**635,583,813**
10.	**Welfare fund**	**-**
11.	**Other liabilities**	1,921,403,936
12.	**Equity refundable on demand**	-
Total liabilities		**437,478,490,853**

Balance sheet at 31 december 2015 before distribution of income

Euros

EQUITY	December 2015
1. Shareholders' equity	**59,002,170,514**
1.1. Share capital (a)	7,217,246,290
1.1.1. Registered	7,217,246,290
1.1.2. Less: Uncalled capital	-
1.2. Share premium	45,001,191,101
1.3. Reserves	5,938,751,359
1.4. Other equity instruments	114,830,082
1.4.1. Equity component of compound financial instruments	-
1.4.2. Non-voting equity units and associated funds (savings banks)	-
1.4.3. Other	114,830,082
1.5. Less: Treasury shares	(83,476)
1.6. Profit for the year attributable to the Parent	2,276,645,232
1.7. Dividends and remuneration	(1,546,410,073)
2. Valuation adjustments	**(158,264,437)**
2.1. Available-for-sale financial assets	845,466,621
2.2. Cash flow hedges	1,801,721
2.3. Hedges of net investments in foreign operations	-
2.4. Exchange differences	-
2.5. Non-current assets held for sale	-
2.7. Other valuation adjustments	(1,005,532,800)
Total equity	**58,843,906,078**
Total liabilities and equity	**496,322,396,931**
MEMORANDUM ITEMS TOTAL	
Contingent liabilities	**62,061,068,682**
Contingent commitments	**81,093,717,355**

Income statement for the year ended 31 december 2015

Euros

1. Interest and similar income	**6,642,810,456**
2. Interest expense and similar charges	**(3,581,751,951)**
3. Remuneration of repayable capital on demand (only credit unions)	**-**
A) Net interest income	**3,061,058,505**
4. Income from equity instruments	**3,539,656,020**
6. Fee and commission income	**2,002,197,048**
7. Fee and commission expense	**(353,881,389)**
8. Gains/losses on financial assets and liabilities (net)	**980,203,413**
8.1. Held for trading	168,489,911.12
8.2. Other financial instruments at fair value through profit or loss	205,545,927.87
8.3. Financial instruments not measured at fair value through profit or loss	639,764,053.25
8.4 Other	(33,596,478.90)
9. Exchange differences (net)	**(312,368,825)**
10. Other operating income	**241,384,237**
11. Other operating expenses	**(468,008,966)**
B) Gross margin	**8,690,240,043**
12. Administrative expenses	**(4,365,330,384)**
12.1. Staff costs	(2,140,946,993.88)
12.2. Other general administrative expenses	(2,224,383,390.21)
13. Depreciation and amortisation charge	**(201,664,383)**
14. Provisions (net)	**(220,974,889)**
15. Impairment losses on financial assets (net)	**(1,107,742,751)**
15.1. Loans and receivables	(1,001,892,081.81)
15.2. Other financial instruments not measured at fair value through profit or loss	(105,850,669.06)
C) Profit from operations	**2,794,527,636**
16. Impairment losses on non-financial assets (net)	**(646,476,328)**
16.1. Goodwill and other intangible assets	(191,225,506.09)
16.2. Other assets	(455,250,822.39)
17. Gains/(losses) on disposal of assets not classified as non-current assets held for sale	**11,018,237**
18. Negative goodwill on business combinations	**-**
19. Gains/(losses) on non-current assets and disposal groups held for sale not classified as discontinued operations	**(127,604,288)**
D) Profit before tax	**2,031,465,257**
20. Income tax	**245,179,975**
21. Mandatory allocation to social projects and funds	**-**
E) Profit for the year from continuing operations	**2,276,645,232**
22. Profit (Loss) from discontinued operations (net)	**-**
F) Profit for the year	**2,276,645,232**

Proposed distribution of income as of 31 December 2015

Euros

Profit before tax	2,031,465,257
Income tax	245,179,975
Profit for the year from continuing operations	2,276,645,232
Distribution	
Legal reserve	-
Voluntary reserves	8,510,530
Dividends	2,268,134,702

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

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Ombudsman

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