2015

Report of the committees

Santander

Report of the committees 2015

Report of the audit committee 2015

1. Introduction

Regulation

The Bank's audit committee —created in 1986— is regulated by articles 53 of the Bylaws and 16 of the Rules and Regulations of the Board[1]. Articles 27, 33 and 35 of the Regulations also contain specific provisions regarding certain aspects of its activity.

Duties

The competencies of the audit committee may be classified into the following main categories:

1. Annual financial statements

- Report, at the general shareholders' meeting, through the committee chairman and/or secretary, in regard to questions posed by shareholders concerning the committee's sphere of competency and, in particular, concerning the result of the audit, explaining how the audit has contributed to comprehensive financial reporting and the role played by the committee in this process.

- Review the financial statements of the company and the Group, ensure compliance with legal requirements and the proper application of generally accepted accounting principles, and report on proposed changes to accounting principles and criteria suggested by management.

2. Internal audit

- Supervise the Internal Audit function and, in particular:

  i. Propose the selection, appointment and removal of the Group's chief audit executive.

  ii. Approve the annual internal audit work schedule to be submitted to the board, and to review the annual report on activities.

  iii. Ensure the independence and efficacy of the Internal Audit function.

  iv. Propose the budget for this service, including the necessary material and human resources.

  v. Receive periodic information on its activities.

  vi. Ensure that senior management takes into account the conclusions and recommendations set forth in its reports.

1. The Bylaws and Rules and Regulations of the Board of Banco Santander are published under Information for "shareholders and investors" on the Group's corporate website (www.santander.com).

3. Internal control and financial information

- Supervise the financial information process and internal control systems. In particular, the committee shall:

  i. Supervise the preparation and presentation of relevant financial information concerning the company and the Group, as well as ensuring that such information is complete, reviewing compliance with regulatory requirements, the proper demarcation of the consolidation scope and the correct application of accounting criteria.

  ii. Monitor the efficacy of internal control systems, periodically reviewing these, so as to adequately identify, manage and divulge risks.

  iii. Discuss with the external auditor any significant weaknesses in the internal control system uncovered in the course of the audit.

  iv. Inform the board with regard to the financial information the Group is required to disclose on a regular basis, prior to the board taking any decisions in this regard, ensuring that such information is prepared using the same principles and practices as for the financial statements.

4. External auditor

- With respect to the appointment of the accounts auditor, the committee shall:

  i. Submit to the board proposals for the selection, appointment, reelection and replacement of the external auditor —being responsible for the selection process— and the latter's contract conditions, and regularly compile from the external auditor information regarding the audit plan and the execution thereof. The committee will favour the Group's external auditor's also undertaking the responsibility for auditing the financial statements of companies belonging to the Group.

  ii. Ensure that the company publicly announces a change of external auditor, and releases a statement in regard to any potential disagreements with the outgoing external auditor and, in the event, the content of such disagreements, and, should the external auditor resign, the committee will examine the circumstances leading to that decision.

- With regard to the auditing of the financial statements and the independence of the external auditor, the committee shall:

  i. Establish proper relations with the external auditor so as to receive information regarding matters that might jeopardise its independence, in order to examine such information, and any other information relating to the auditing process, as well as all other communications pursuant to legislation on the auditing of financial statements and audit standards, and serve as a communication channel between the board and the external auditor, evaluating the results of each audit and the management team's response to its the recommendations contained therein, mediating in cases of discrepancy with the auditor and the board in regard to the principles and criteria applicable in preparing the financial statements. Specifically, the committee shall seek to ensure that the financial statements prepared by the board be presented at the general shareholders' meeting without reserve or qualification.

  ii. Supervise compliance with the audit contract, seeking to ensure that the opinion regarding the annual financial statements and the main content of the audit report is written clearly and accurately.

  iii. Ensure that the external auditor annually attends a meeting of the board of directors to provide information in regard to the work carried out by the auditor and any developments in the Bank's accounting and risk situation.

  iv. Ensure that the company and the external auditor uphold the applicable rules regarding the provision of various audit services, the concentration limits pertaining to the external auditor's business, and, in general, any other rules regarding the independence of the external auditor. For this purpose, the committee shall examine any circumstances or matters that might jeopardise the independence of the external auditor, and any other matters relating to the process of auditing the financial statements. Specifically, the committee shall seek to ensure that the external auditor's compensation does not compromise the quality of its work or its independence, and shall check the percentage of fees paid for all items over the total revenues of the audit firm, and the length of service of the partner who leads the audit team providing such services to the company. Likewise, the committee must previously endorse any decision to hire services other than audit services, not prohibited by applicable regulations, having first properly assessed any threats to the auditor's independence and the safeguard measures applied in accordance with said regulations.

  The annual report shall include the fees paid to the audit firm, including information relating to fees paid for professional services other than auditing.

  In any event, the committee must receive from the external auditor, on an annual basis, written confirmation of the latter's independence in respect of the company or parties directly or indirectly related thereto, as well as detailed information regarding any additional services provided to these companies by said auditor or by persons or companies related thereto, and all fees received from these firms in accordance with the provisions of regulatory standards concerning accounts auditing.

  The committee shall issue an annual report prior to publication of the audit report, expressing an opinion on the independence of the external auditors. This report must, in any event, express an opinion regarding the provision of any non-audit services.

5. Related-party transactions and other transactions

- Report to the board, before the latter makes the relevant decisions, in regard to:

  i. The creation and acquisition of shareholdings in special-purpose vehicles or entities with registered headquarters in countries or territories that are considered to be tax havens.

  ii. Approval of related-party transactions.

- Receive information concerning operations involving structural or corporate modifications planned by the company, for analysis and reporting to the board of directors in relation to the economic conditions of such activities and their accounting impact and, in particular, where relevant, the proposed swap equation. The above shall not apply to simple transactions that are not significant for the Group's activities, including, in the event, intra-group restructuring.

6. Tax

Receive information from the company's head of tax matters in regard to the tax policies applied, at least prior to the preparation of the annual financial statements and the filing of corporate income tax returns and, where relevant, regarding the tax-related consequences of operations or matters subject to the approval of the board of directors or the executive committee, unless these bodies have been directly informed, in which case the committee shall be notified at the next meeting it holds. The audit committee shall convey all information received to the board of directors.

7. Complaints

- Know and, in the event, respond to the initiatives, suggestions and complaints filed by shareholders in respect of this committee's duties and submitted by the company's general secretary.
- Receive, process and keep a record of complaints received by the Bank in regard to issues relating to the process of generating financial information, auditing and internal controls.
- Establish and supervise a mechanism allowing Group employees to submit, confidentially and anonymously, their concerns about potentially questionable practices within its sphere of competency and, in particular, financial and accounting matters.

8. Other

- Assess, at least once a year, the performance and quality of the committee's work.
- And the remaining functions attributed to it pursuant to the Rules and Regulations of the Board and applicable legislation.

Composition of the committee and attendance to its meetings in 2015

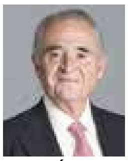
At the time of preparing this document, the composition of the audit committee is as follows:

Chairman

Mr Juan Miguel Villar Mir

Members

Mr Carlos Fernández González



Mr Ángel Jado Becerro de Bengoa

Ms Belén Romana García

Ms Isabel Tocino Biscarolasaga

Secretary

Mr Jaime Pérez Renovales

In 2015, the committee's composition changed as follows:

Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan ceased to be directors and, accordingly, members of the committee, on 12 and 18 February 2015, respectively.

At its meeting of 23 February 2015, the board of directors, at the recommendation of the appointments committee, appointed Mr Carlos Fernández González, Mr Ángel Jado Becerro de Bengoa, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir as members of the committee.

Mr Guillermo de la Dehesa Romero ceased to be a member and chairman of the committee on 27 March 2015, when re-elected at the ordinary general shareholders' meeting of 2015 as an external, non-proprietary, non-independent director, since, having served as a director for more than 12 years, he was no longer considered to be independent. On that date, Mr Juan Miguel Villar Mir became chairman of the committee.

Lastly, at its meeting on 22 December 2015, the board of directors, at the behest of the appointments committee, agreed to appoint Ms Belén Romana García as a director and member of the audit committee, effective as of that date.

The Bylaws and the Rules and Regulations of the Board set out that the audit committee should consist entirely of external directors, and that the committee chairman should be an independent director. The five directors sitting on the audit committee are external and independent.

All the members of the committee have proven capacity to discharge their duties in said committee, based on their experience in banking, finance and accounting, and their knowledge of the matters that are handled by the committee.

The board of directors has appointed the members of the audit committee, bearing in mind their knowledge, attitudes and experience in accounting, auditing or risk management, so that, overall, the members of the committee are in possession of all the relevant technical knowledge in relation to the sector of activity to which the Bank belongs. Moreover, the chairman of the committee, Mr Juan Manuel Villar Mir, is considered to be a financial expert.

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

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. In 2015, the audit committee held 13 meetings.

Members' attendance to meetings of the audit committee in 2015 was as follows:

Number of meetings and attendance*

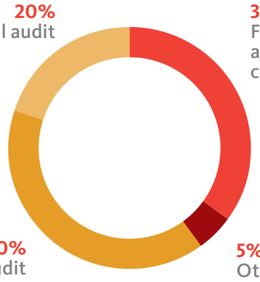
Mr Juan Miguel Villar Mir	10/10
Mr Carlos Fernández González	11/11
Mr Ángel Jado Becerro de Bengoa	10/11
Ms Belén Romana García	0/0
Ms Isabel Tocino Biscarolasaga	11/11
Mr Fernando de Asúa Álvarez	1/1
Mr Guillermo de la Dehesa Romero	4/4
Mr Abel Matutes Juan	1/1

* The first figure is the number of meetings attended by the director, and the second the number of sessions held in the period of the year since the director has or had been a member of the committee.

In 2015, the estimated time devoted by each member of the audit committee to preparing and taking part in these meetings was approximately four hours per meeting.

The chart below shows a breakdown of the approximate time dedicated to each task at the meetings held by the committee in 2015.

Approximate time used for each task



How the committee works

The rules governing the committee, set forth in article 16 of the Rules and Regulations of the Board, establish the valid constitution thereof, with the attendance, either present or represented, of at least half of its members, and the adoption of agreements by the majority of those attending, it being possible to designate another member as proxy (no members may hold more than two proxies).

The necessary documentation for each meeting (draft agenda, presentations, minutes of previous meetings) is provided to committee members three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Minutes are taken of all meetings of the audit committee, and copies of these are delivered to all members of the board.

The committee is empowered to require the attendance at its meetings of the Bank's senior executives or any of its employees, and of the external auditor; it may also harness the help of experts, pursuant to article 27 of the Rules and Regulations of the Board.

As stated in the summary of activities in 2015 set out in the following section of this report, the audit committee is in fluent and constant contact with the external auditor, and the Group chief accounting officer and Group chief audit executive regularly attend its meetings; the committee has been able to verify the quality and transparency of the Group's periodic financial reporting and the efficacy of its internal control systems.

Self-assessment

Pursuant to article 16.4.j) of the Rules and Regulations of the Board, at its meeting of 10 February 2016 members of the audit committee assessed the quality of the committee's work and its performance of the tasks assigned to it in the bank's Bylaws and the Rules and Regulations of the Board.

As a result of this self-assessment, the committee expressed its conviction that it satisfactorily performed all of its functions, having held an appropriate number of meetings, with agendas that encompass all the areas it is expected to review, and having been offered presentations on the various topics discussed at the meeting.

Moreover, the self-assessment process of the board, its members and its committees, conducted by the board with the support of the independent firm Spencer Stuart, welcomed the autonomy and independence of the committee, as well as the high standard of knowledge and involvement of its members, and, in general, scoring it highly in all aspects. Nevertheless, it was suggested that the committee be strengthened by members with more experience in the financial sector, for which purpose, the board of directors, at the behest of the appointments committee, agreed to appoint Ms Belén Romana García, who has a notable track record in this area, as a member of the audit committee.

For the purposes of the board's assessment of the committee's performance, the former took into account the committee's report for the previous year, as well as other information concerning its activities and operation supplied to the board.

2. Activities in 2015

This paragraph contains a summary of the activities of the audit committee in 2015, grouped according to exposure to its current basic functions.

2.1 Financial information

The committee has focused especially on reviewing, prior to the board of director's review and their publication, the annual 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 during the year.

Head of the General Auditing and Management Control division of the Group attended 12 of the 13 meetings held by the committee in 2015, enabling the committee to be informed, with sufficient time, in regard to the process of preparation and consolidation of the individual and consolidated quarterly, half-yearly and annual financial statements, check that they comply with applicable accounting regulations and principles, and ensure, therefore, that these statements properly reflect the equity, changes to equity, financial situation and results for the period of both the Bank and its Group.

At its meetings of 21 April, 22 July and 21 October 2015 and at the meeting of 20 January 2016, the committee endorsed the financial statements dated 31 March, 30 June, 30 September and 31 December 2015, respectively, prior to their approval by the board and their disclosure to the markets and to supervisory bodies. The Group's quarterly financial statements expressly state that the committee has worked to ensure that the financial information has been prepared in accordance with the same principles and practices as applied to the annual financial statements.

With regard to the annual financial statements and the management report for 2015, which shall be presented for approval to the ordinary general meeting scheduled for either 17 or 18 of March 2016, at first or second call, respectively, the committee, at its meeting of 10 February 2016, having reviewed the financial statements and management report, endorsed their content prior to their approval by the board at its meeting of 12 February 2016, following their certification by the Group's auditor general.

In compliance with the Code of Good Tax Practice to which the Bank has subscribed since 2010, the committee at its meeting of 10 February 2016— was informed by the Group's tax advisory service, prior to approval by the board of the annual financial statements, in regard to the tax policies applied thereto.

At its meeting of 10 February 2016, the committee also endorsed the prudentially significant report document prepared in compliance with the disclosure requirements set forth in article 85 of Law 10/2014, dated 26 June, on the restructuring, supervision and solvency of credit institutions, transposing into Spanish law Basel III's Pillar III on market discipline ("A global regulatory framework for more resilient banks and banking systems") and the CRD IV ("Directive 2013/36/EU, of the European Parliament and the Council, of 26 June 2013, on access to the activity of credit institutions and investment firms").

In 2015, the committee endorsed the Group's annual report, annual good governance report, share registration document and Form 20-F, filed with the US Securities and Exchange Commission.

At the committee's meetings of 18 March and 21 April of 2015, the external auditor reported in regard to the process to review Form 20-F, in reference to 2014, and the findings of that process. This review was conducted in accordance with the regulations of the Public Company Accounting Oversight Board (PCAOB); the external auditor's opinions were unqualified in regard to the Group's financial statements and internal control model. Said Form 20-F was filed with the SEC on 29 April 2015.

2.2 External auditor

External auditor for 2015

At its meeting of 19 February 2015, the committee unanimously agreed to propose to the Bank's board of directors the inclusion in the agenda of the ordinary general meeting of 2015 the re-election of Deloitte, S.L. as external auditor for verification of the annual financial statements and management reports of the Bank and the Group, corresponding to the financial year 2015. The board of directors presented the proposal for approval at said meeting, and it was approved by 94.287% of the voting capital present and represented.

Deloitte, S.L. audited the Santander Group's individual and consolidated financial statements in 2015.

The Rules and Regulations of the Board provides that the external auditor should also be the auditor of the various subsidiaries (article 16.4.c)(i)(1)) provided there is no specific reason why this should not be advised, in order to achieve proper coordination and a more efficient audit process.

The external auditor attended 12 of the 13 meetings held by the committee in 2015, enabling the latter to properly discharge its duties, pursuant to the Rules and Regulations of the Board, of serving as a channel of communication between the board and the external auditor. The external auditor also reported to the board in plenary session on two occasions.

At the committee meetings held in 2015, the external auditor provided detailed information regarding the planning and progress of its work. With the assistance of the auditor, the committee analysed the audit reports for the individual and consolidated financial statements of 2014, as well as the audit report for the financial statements referring to the first half of 2015.

In the committee's view, the annual financial statements for the year ended 31 December 2015 were drawn up in accordance with a prudent criterion and express, in all material aspects, a true and fair view of the equity and financial situation of the Bank and the consolidated Group on that date, and a true and fair view of their results, changes in net equity and cash flows in the financial year 2015, containing the information necessary for their proper interpretation and understanding. Said individual and consolidated financial statements were audited by the external auditor. Similarly, in the committee's view, the individual and consolidated management reports for 2015 include an analysis of the performance and results of the corporate earnings, and the position of the Bank and Group, along with a description of the main risks and uncertainties they face. The committee obtained the external auditor's confirmation that it has had full access to all the necessary information, having received adequate cooperation from the Group's teams to conduct its activity.

Details of the fees paid for services rendered by the global firm Deloitte to the various Group companies in 2015 are as follows:

Million euros	
Audit fees	49.6
Audit-related fees	46.9
Tax advisory fees	9.1
Other services	12.6
Total	**118.2**

Details of the main items included in audit fees are as follows:

Million euros	
Audit of the financial statements of the companies audited by Deloitte	32.1
Of which:	
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 separate and consolidated financial statements	2.4
Other audit engagements	17.5
Internal control audit (SOX) and capital audit (Basel)	7.9
Audit of Group's half-yearly financial statements	6.5
Issue of comfort letters	3.1
Audit fees	**49.6**

Details of the main items included in audit-related fees are as follows:

Million euros	
Other recurring engagements and reports required by the various national supervisory bodies of the countries in which the Group operates	10.9
Limited reviews and other reports required by the Group due to its listing in Brazil	3.8
Non-recurring reviews required by regulators	0.4
Due diligence audits and other reviews	2.2
Issuance of other attest reports	5.2
Reviews of procedures, data and controls and other checks	24.4
Audit-related fees	**46.9**

The audit committee understands that there are no objective reasons for doubting the independence of the external auditor. To that end and in accordance with prevailing regulations and the criteria set out in relevant international documents for assessing the effectiveness of the external audit function, the audit committee:

1. Has revised all services rendered by the auditor, including audit and audit-related services, tax advisory services and the other aforementioned services, verifying that services provided by the Group's auditor meet the independence requirements set out in the Audit Law (Ley de Auditoría de Cuentas), the US Securities and Exchange Commission (SEC) rules, the Public Accounting Oversight Board (PCAOB) rules and the Rules and Regulations of the Board.

2. Has verified the ratio of fees received by the auditor during the year for non-audit, audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio standing at 18.4%.

   As a benchmark and according to available information on the leading listed companies, average fees paid to auditors in 2015 for non-audit and related services account for 21% of total fees paid.

3. Has verified the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by the audit firm. The Group's total fees paid account for less than 0.3% of the global firm Deloitte's total revenues.

2.3 Report on the external auditor's independence

Accordingly, at its meeting of 10 February 2016, the audit committee issued a report expressing a favourable view of the independence of the external auditors, referring, among other matters, to the provision of additional services mentioned in section 2.2.

Said report, issued prior to the auditor's report on the financial statements, includes the content required under article 529-14 of the Corporate Enterprise Act, and article 16.4.c)(iii) of the Rules and Regulations of the Board.

The external auditor also issued the pertinent report concerning the protection of customers' assets, and on the proper measures and controls in respect of the custody of customers' financial instruments and funds.

2.4 Proposal for new external auditor

At its meeting of 6 July 2015, the board of directors chose PricewaterhouseCoopers Auditores, S.L. (PwC) as the external auditor of Banco Santander S.A. and its consolidated Group, to verify 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 selection process conducted with full transparency, independence and objectivity, involving the leading audit firms present in the markets where the Group operates. The audit committee was actively involved in designing and conducting this process and was notified of its progress on a regular basis, as well as the plans to ensure that PwC complied with applicable regulatory requirements with regard to independence and incompatibility and to ensure a smooth transition between the two audit firms with the least possible impact on the Group's daily activities and on the quality of the financial information that must be published.

The board is submitting the appointment of PwC as the new external auditor approval at the ordinary general meeting scheduled for 17 or 18 March, at first or second call, respectively.

2.5 Internal audit

In accordance with the provisions of articles 53.4 (ii) of the Bylaws and 16.4.d) of the Rules and Regulations of the Board, the audit committee supervises the Group's Internal Audit function.

Representatives of the Internal Audit division attended 11 of the 13 meetings held by the audit committee in 2015, in which, among other matters, the committee was informed in regard to the internal quality control process for this function and the evaluation thereof, and also proposed, subject to the board's approval (forthcoming at its meeting of 28 October), the modification of the corporate framework governing this function.

At its meeting of 20 January 2016, the audit committee reviewed and approved the internal audit plan for this year and 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.

Periodically, the committee was informed with regard to the progress of this plan and the reports issued by Internal Audit, and global information was provided regarding the degree of implementation of and compliance with the Internal Audit recommendations.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which seeks to contribute both to the proper governance of the organisation, and, as a third line of defence, to the proper management and control of risks. The plan is intended to constantly adapt the function to the Group's strategic priorities and transformation plans and to ensure ongoing improvement and adaptation to new regulatory, technical and supervisory requirements. The plan takes into account the applicable regulations in this connection and also international best practices.

At its meeting of 7 October, the committee approved the new criteria for information and the raising of Internal Audit recommendations to the committee.

With the assistance of an external firm, the sufficiency of resources available to the Internal Audit function were evaluated, concluding that, at present, these resources are proportional to the audit function's needs and sufficient for adequate performance of its functions.

The head of Internal Audit in the Group, at the committee meeting of 16 December 2015, ratified that the function operated with the utmost independence and objectivity in conducting its activities in 2015.

2.6 The Group's internal control systems

Evaluation and certification of the internal control model

The committee was presented with the report on the evaluation and certification of the Group's internal control model (ICM) for 2015, in which connection no material weaknesses were detected in this model.

Sarbanes-Oxley Act — Internal control model

Within the framework of auditing internal controls on financial information as required by the Sarbanes-Oxley Act, the external auditor reviewed the effectiveness of the Bank's internal controls on the generation of financial information contained in the Group's consolidated financial statements filed in the United States (Form 20-F) for the year ended on 31 December 2014, concluding, as the auditor explained in the committee meeting of 21 April 2015, that, in its opinion, the Group maintained effective internal control over said financial information, in all material aspects.

Receipt of complaints and allegations of questionable accounting or auditing practices

The committee is responsible for the receipt, processing and filing on record of complaints received by the Bank in regard to matters relating to the process of generating financial information, auditing and internal controls, as well as the receipt of confidential and anonymous communications from employees of the Group expressing concerns about potentially questionable accounting or auditing practices.

No complaints of this kind were received in 2015.

2.7 Capital plan (ICAAP)

At its meeting of 22 April, the committee endorsed the annual capital self-assessment report for 2014, which was then approved by the board at its meeting of 23 April.

The report was prepared by the RIsk and Financial Management divisions and has been developed in the context of the Group's business model and new culture —Simple, Personal and Fair—.

Once the report was issued, the mandatory annual capital self-assessment process at Group level concluded. This process identifies the main sources of risk to the Group, analyses the capital resources in relation thereto, conducts stress tests in order to confirm that in all the scenarios envisaged there is sufficient capital and ensures the processes, strategies and systems used for accepting and managing risk are adequate. Moreover, a capital plan is drawn up in accordance with the scenarios envisaged over a three-year time frame.

2.8 Changes in consolidation scope

A report was presented to the committee regarding the number of companies in the Santander Group over recent years. These companies are listed in the annual financial statements.

2.9 Basic documentation regarding the audit committee (2015)

The chairman of the committee presented to it the document *Basic documentation regarding the audit committee* (2015), including the committee's basic regulations and goals in 2015 in respect of the Internal Audit function, the financial statements, relations with the external auditor and other relevant information.

2.10 Work by audit and consultancy firms

The committee approved work commissioned by the Group to leading audit or consultancy firms.

2.11 Prevention of money-laundering and terrorist financing

Without prejudice to the competencies of the risk supervisory, regulation and compliance committee, at its meeting of 22 July, the audit committee was informed by the heads of compliance in regard to the status of the prevention of money-laundering and terrorist financing in the Group.

2.12 Report on related-party transactions

This section of report includes the report on related transactions referred to in recommendation six of the new code of good governance for listed companies approved by the board of the Spanish National Securities Market Commission (CNMV) on 18 February 2015.

In accordance with that stipulated by Law, article 53 of the Bylaws and articles 3, 16 and 33 of the Rules and Regulations of the Board, the board of directors of the entity will be aware of any transactions that the company or companies of its Group carry out with directors, under the terms envisaged by Law and in the Rules and Regulations of the Board; with shareholders, either individually or in concert with other shareholders, holding a significant ownership interest, including shareholders represented on the board of directors of the company or of other Group companies; or with persons related thereto.

These transactions require board authorisation, based on a favourable report from the audit committee except for those cases where shareholder approval is required. All affected directors, those representing shareholders affected or who are related parties must abstain from the deliberation and voting on the resolution in question.

Such transactions will be evaluated from the point of view of equality of treatment and of market conditions, and will be included in the annual corporate governance report and in the periodic public information under the terms envisaged in applicable regulations.

In accordance with applicable legislation authorisation from the board will not be necessary if such transactions simultaneously comply with the following three conditions:

1. They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.

2. They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.

3. The amount does not exceed 1% of the company's annual income.

If these conditions are met, the directors in question are not required to report these transactions or obtain prior authorisation from the board.

By way of exception, when advisable for reasons of urgency, related transactions may be authorised by the executive committee and subsequently ratified by the board.

During 2015 and up until the date of publication of this report, the audit committee, in exercising its functions, deemed that to the best of its knowledge no member of the board of directors, no person represented by a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has carried out any significant transactions or any transaction under non-customary market conditions with the Bank in the year.

The audit committee has verified that the transactions carried out with related parties during the year were compliant with all conditions set out in the Rules and Regulations of the Board of Directors and thus did not require approval from governance bodies; or obtained such approval following a positive report issued by the audit commission once the agreed terms and rest of considerations were verified to be within market parameters.

The committee has examined the information regarding related-party transactions in the financial statements and its consistency with the figures in this report.

2.13 Information for the general shareholders' meeting and corporate documentation for 2015

Information for the general shareholders' meeting

At the annual general shareholders' meeting of 27 March 2015, Mr Guillermo de la Dehesa Romero, chairman of the audit committee on that date, reported on the matters within the purview of the audit committee, making reference to the document that the committee had prepared on its activities in 2014. Said document had been approved by the committee at its meeting of 19 February 2015.

Corporate documentation for 2015

At its meeting of 10 February 2016, in accordance with the provisions of article 16.4.(f)(i) of the Rules and Regulations of the Board, the committee reviewed the information to be approved by the board and included in the annual public documentation for 2015.

This documentation includes this report on the activities of the audit committee in 2015, which was prepared by the committee at its meeting of 10 February 2016, and approved by the Bank's board of directors at its meeting of 12 February 2016.

In accordance with the provisions of the Code of Good Tax Practices approved by the Foro de Grandes Empresas (Forum of Large Companies), Banco Santander's annual report on corporate governance for 2015 reflects effective compliance by the Bank with said code.

Likewise, the Group's annual report for 2015 was reviewed by the committee at its meeting of 10 February 2016, and approved by the board at its meeting of 12 February 2016.

3. Challenges for 2016

The main challenges for the committee in 2016 are as follows:

- To supervise the transition to the new external auditor in order to ensure an orderly handover, with no risks for the Group.
- Coordination with the audit committees at other Group companies should increase.
- To foster the relationship between the audit committee and the risk supervision, regulation and compliance committee.
- To adapt the work of the audit committee to Law 22/2015, of 20 July, on Accounts Auditing, which, broadly speaking, will enter into force on 17 June 2016, and will apply for the first time to the annual financial statements for the year 2017, without prejudice to certain provisions of said law entering into force on 1 January 2016.

4. Conclusion

Throughout 2015, the audit committee has properly discharged the responsibilities assigned to it in the Bylaws and the Rules and Regulations of the Board.

The committee has expressed its satisfaction with the work conducted by Internal Auditing, and considers this service to be adequate and effective to provide the board and senior management 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 committee's proposed appointment of the external auditor, monitoring of its work, review of its findings and evaluation of its independence were compliant with the established policies. The external auditor's positive conclusions on the financial statements of the Group and the parent Bank ratify the quality of the aforementioned financial reporting and internal control systems.

Report of the appointments committee 2015

> "With a fully **committed board** and **team** of **professionals,** and, above all, with the **support and trust** of all of you, our **shareholders,** I am convinced that the **best is yet to come**"

Ana Botín, Group executive chairman
General shareholders' meeting
27 March 2015

1. Introduction

Regulation

The Bylaws contain the basic rules and regulations for the appointments committee, which are supplemented and further developed by the Rules and Regulations of the Board[1] and which define the committee's composition, operation and powers.

Duties

At its meeting of 29 July 2015 and at the proposal of the risk supervision, regulation and compliance committee, the board agreed to amend article 17.4 of the Rules and Regulations of the Board, governing the duties of the committee, in order to bring them into line with the latest regulatory changes and recommendations regarding corporate governance. The competencies of the appointments committee may be classified into the following main categories:

1. **Appointment and removal of directors and designation of positions on the board and its committees**
   - Propose and review the selection policy for directors and the internal procedures to be followed to select persons to be put forward as directors, as well as for the ongoing assessment of directors, and report on said ongoing assessment. In particular, the committee shall: i) assess the balance of knowledge, skills, capacity, diversity and experience necessary and existent in the board of directors, and prepare a skills matrix and a description of the tasks and aptitudes necessary for each specific appointment, taking into account the time and dedication necessary to properly discharge the duties inherent to the position; ii) receive for consideration proposals from directors of potential candidates to cover vacancies; and iii) establish a target for the representation of the least represented gender on the board of directors, and provide guidelines as to how to increase the representation of persons of that gender with a view to achieving that target.
   - Prepare reasoned proposals for the appointment, re-election and ratification of directors, proposals for the removal of directors, and proposals for the designation of members of the board of directors' committees and positions on the board and its committees. The chairman and any other director may submit suggestions to the committee in relation to the matters within its sphere of competencies. Likewise, the committee shall consult the chairman and the chief executive officer, especially in regard to matters relating to executive directors.
   - In cases of re-election or ratification of directors, it shall draft a proposal containing an assessment of the work and effective dedication to the position during the final period in which the proposed director has occupied the post.
   - Report to the board, previously, in cases where the board believes it is advisable for directors to offer their resignation and formally resign as a result of circumstances that might negatively affect the proper functioning of the board or the Bank's credit and reputation and, in particular, when they are involved in any of the legally applicable scenarios of incompatibility or ban.
   - Notify, prior to their being submitted to the board, proposed appointments or removals of the board's secretary and, in the event, deputy secretary.

1. The committee is regulated by articles 54 of the Bylaws and 17 of the Rules and Regulations of the Board. Articles 21, 23, 24, 27 and 30 of the Regulations also contain specific provisions regarding certain aspects of its activity. The Bylaws and Rules and Regulations of the Board of Banco Santander are published on the Group's corporate website (www.santander.com).

2. Succession plan

- Propose, review, apply and supervise the directors' succession plan approved by the board, in coordination with the chairman of the board or, in respect thereto, with the lead director, examining and organising the succession of the chairman and chief executive officer.

- Propose and review the succession plan of senior executive vice presidents and other similar positions and other employees responsible for the internal control functions or occupying key posts for the daily course of the banking business.

- Report on and supervise implementation of the Group's policy for planning succession, and modifications thereto.

3. Annual verification of the status of directors

- Annually verify the status of directors, for presentation by the board to the shareholders at the general shareholders' meeting and for publication in the annual corporate governance report.

4. Annual verification of the status of directors

- Periodically (at least once a year) report in regard to the structure, size, composition and action of the board of directors, the operation of and compliance with the policy for selecting directors, and the succession plan, presenting recommendations to the board for potential changes.

- Periodically (at least once a year) assess the suitability of the various members of the board of directors and the board as a whole, and report findings to the board of directors.

- Inform in regard to the self-assessment process of the board and its members, and gauge the independence of the external consultant hired for that process.

- Assess (at least once a year) the performance and quality of the committee's work.

5. Directors' obligations

- Seek to ensure compliance with the obligations of diligent administration, loyalty and inactivity provided for the directors in the Rules and Regulations of the Board.

- Examine the information submitted by directors concerning their other professional obligations and assess whether or not these might interfere with the dedication required of the directors for the efficient performance of their work.

6. Appointment and removal of senior executive vice presidents or persons occupying similar and other key positions

- Propose and review the internal policies and procedures for the ongoing assessment of senior executive vice presidents and persons in similar posts, and of other employees in charge of internal control functions or occupying key positions for the daily conduct of the banking business, as well as notifying their appointment and removal, and conducting the ongoing assessment of their performance, and presenting any recommendations the committee deems appropriate.

The committee may hire external firms to help in the process of selecting candidates and in its other duties.

Composition of the committee and attendance to its meetings in 2015

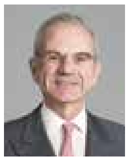
At the time of preparing this document, the composition of the appointments committee is as follows:

Chairman

Mr Bruce Carnegie-Brown

Members

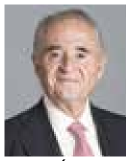
Mr Guillermo de la Dehesa Romero



Mr Ignacio Benjumea Cabeza de Vaca

Ms Sol Daurella Comadrán

Mr Carlos Fernández González



Mr Ángel Jado Becerro de Bengoa

Secretary

Mr Jaime Pérez Renovales

In 2015, the committee's composition changed as follows:

Mr Bruce Carnegie-Brown has been a member and chairman of the committee since 12 February 2015, when he was appointed a director of the Bank, replacing Mr Fernando de Asúa Álvarez as both chairman and member of the committee.

Ms Sol Daurella Comadrán, Mr Carlos Fernández González and Mr Ángel Jado Becerro de Bengoa have been members of the committee since 23 February 2015.

Mr Ignacio Benjumea Cabeza de Vaca has been a member since 21 September 2015, when his appointment as a director of the Bank became effective, having obtained the pertinent regulatory clearance.

Mr Rodrigo Echenique Gordillo ceased to be a member of this committee on 16 January 2015, as a result of his appointment as executive director of the Bank, and Mr Abel Matutes Juan ceased to be a member on 18 February, when he ceased to be a director of the Bank.

The Bylaws and the Rules and Regulations of the Board provide that the appointments committee comprise solely external directors, have a majority of independent directors, and that it be chaired by an independent director. All members of the committee are external directors and four of them are independent.

2. The composition of the appointments committee is regulated by articles 54 of the Bylaws and 17 of the Rules and Regulations of the Board.

All the members of the committee have proven capacity to discharge their duties in said committee, based on their experience and their knowledge of the matters that are handled by the committee.

The duties of the secretary to the committee correspond, in a non-voting capacity, to the secretary to the board of directors, who is also the Bank's Secretary General, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.

The committee, in accordance with its regulations, approves an annual meeting schedule with at least four meetings.

Members' attendance to meetings of the appointments committee in 2015 was as follows:

Number of meetings and attendance*

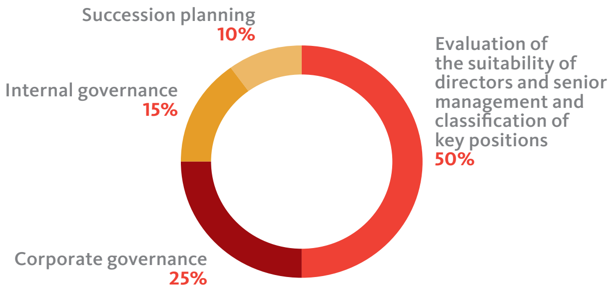
Mr Bruce Carnegie-Brown	9/9
Mr Guillermo de la Dehesa Romero	11/12
Mr Ignacio Benjumea Cabeza de Vaca	3/3
Ms Sol Daurella Comadrán	6/8
Mr Carlos Fernández González	7/8
Mr Ángel Jado Becerro de Bengoa	8/8
Mr Fernando de Asúa Álvarez	3/3
Mr Rodrigo Echenique Gordillo	2/2
Mr Abel Matutes Juan	3/3

* The first figure is the number of meetings attended by the director, and the second the number of sessions held in the year since the director has or had been a member of the committee.

The estimated average time devoted by each of these directors in preparing and taking part in the meetings held in 2015 was approximately three hours per meeting.

The chart below shows the approximate breakdown of the time used for each task at the meetings held by the committee in 2015.

Approximate time dedicated to each duty



In the previous chart, the section on *corporate governance* includes, among others, the estimated time taken by the committee to review and prepare the documents relating to this matter, annual verification of the status of directors (executive, proprietary, independent or other) and participation in the board's self-assessment.

How the committee works

The rules governing the committee, set forth in article 17 of the Rules and Regulations of the Board, establish the valid constitution thereof, with the attendance, either present or represented, of more than half of its members, and the adoption of agreements by the majority of those attending, it being possible to designate another member as proxy.

The necessary documentation for each meeting (draft agenda, presentations, minutes of previous meetings) is provided to members of the committee three business days ahead of the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Minutes are taken of all meetings of the appointments committee, and copies of these are delivered to all members of the board.

The committee is empowered to require the attendance at its meetings of the Bank's senior executives or any of its employees; it may also harness the help of experts, in application of the special provisions of article 27 of the Rules and Regulations of the Board.

2. Activities in 2015

2.1 Renewal of the board and its committees and description of the selection process of members thereof

Renewal of board members

At its meeting on 25 November 2014 and at the proposal of the appointments committee on 21 November, the board of directors approved the following appointments:

- Mr Bruce Carnegie-Brown, as vice-chairman, independent director and lead director.
- Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors.

These directors covered the vacancies that emerged as a result of the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, and the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan. The appointments were effective, once cleared by the European Central Bank, from 12 February 2015, in the case of Mr Bruce Carnegie-Brown and Mr Carlos Fernández González, and on 18 February, in the case of Ms Sol Daurella Comadrán.

Moreover, on 25 November 2014, at the proposal of the committee, the board of directors appointed Mr José Antonio Álvarez Álvarez as a member of the board and as chief executive officer, replacing Mr Javier Marín Romano. These appointments, once cleared by the European Central Bank and having complied with the relevant legal requirements, were effective from 13 and 14 January 2015, respectively.

At its meeting of 16 January 2015, the board of directors agreed, at the appointments committee's proposal, to appoint Mr Rodrigo Echenique Gordillo, vice-chairman of the board, as executive director of the Bank.

At its session of 30 June 2015, at the appointments committee's proposal, the board agreed the co-opted appointment, following the resignation for personal reasons of Mr Juan Rodríguez Inciarte as a member of the board, of Mr Ignacio Benjumea Cabeza de Vaca as an external director, effective from 21 September, having been cleared by the European Central Bank.

Lastly, following the resignation of Ms Sheila C. Bair as a director of the Bank, effective from 1 October 2015, as a result of her being appointed president of Washington College, the board meeting of 22, at the proposal of the appointments committee, agreed to the co-opted appointment of Ms Belén Romana García as an independent director, having been cleared by the European Central Bank.

New composition of the board committees

In the wake of the appointment as directors of Mr Bruce Carnegie-Brown, Mr Jose Antonio Alvarez Alvarez, Ms Sol Daurella Comadrán and Mr Carlos Fernández González, approved on 25 November 2014, and the appointment as executive officer of Mr Rodrigo Echenique Gordillo, approved on 16 January 2015, the appointments committee, at its meeting of 20 February 2015, proposed the appointment of new members of the board's committees, and the proposal was approved by the board at its meeting of 23 February.

Moreover, at its meeting of 29 July, the board, at the committee's behest, agreed to appoint Mr Ignacio Benjumea Cabeza de Vaca as a member of the executive, executive risk, appointments, remuneration, risk supervision, regulation and compliance, international, and innovation and technology committees; these appointments were effective from 21 September 2015, except in the case of the risk supervision, regulation and compliance committee, where the appointment was effective from 1 October. At its meeting of 22 December, at the committee's behest, the board appointed Ms Belén Romana García as a member of the audit committee.

Furthermore, the entry into force of the new risk governance model approved by the board at its meeting of 29 September, signalled the discontinuation of the delegate risk committee, by agreement of the board on 1 December 2015.

Details of the composition of the committees at the date of writing this document are included in section 2.4.

At its meeting of 11 February 2016, the committee suggested that the board propose the re-election, as a proprietary director, of Mr Javier Botín-Sanz de Sautuola y O'Shea, and, as independent directors, of Mr Bruce Carnegie-Brown, Mr Ángel Jado Becerro de Bengoa, Ms Sol Daurella Comadrán and Ms Isabel Tocino Biscarolasaga at the next general shareholders meeting.

The committee also suggested that the board propose at the next general shareholders' meeting the ratification of the appointments of Mr Ignacio Benjumea Cabeza de Vaca, as an external director, and of Ms Belén Romana García, as an independent director. The aforementioned proposals were approved by the board at its meeting of 12 February 2016.

Selection process of new directors

In accordance with the policy for selecting directors, and pursuant to articles 6.1 of the Rules and Regulations of the Board and 42.4 of the Bylaws, the board of directors and, as a result, the appointments committee, must ensure that the procedures for selecting board members guarantee the individual and collective training of directors, foster diversity of gender, experience and knowledge, and do not carry implicit any bias that might lead to any discrimination whatsoever and, in particular, facilitate the selection of female directors.

During the process of appointing new directors, the committee must gauge the balance of knowledge, skills, capacity, diversity and experience necessary and existing in the board of directors, and shall compile the resulting skills matrix and a description of the duties and aptitudes necessary for each specific appointment, taking into account the time and dedication envisaged to properly fulfil the duties required of the office.

As a result of the vacancies on the board in 2015, arising from the resignation from their posts as directors and other positions on the board, tendered by Mr Juan Rodríguez Inciarte and Ms Sheila C. Bair, the appointments committee commenced selection processes for new directors, in partnership with an external firm, which drew up a list of candidates based on an assessment of the board's capacities (skills matrix) to determine the profiles more adequate for the Group's strategic goals.

Skills matrix of the members of the board and diversity analysis*

In 2015, an external firm was commissioned to conduct an analysis of the skills and diversity of the members of the board of directors. The findings of this analysis are shown in the skills analysis below.

The findings of the analysis identified the need to strengthen skills, with profiles that specialise in new technologies, non-financial business activity, regulation and experience in certain countries (US). This was taken into consideration in the subsequent appointments and the preparation of the succession plans.

				Vice chairmen				Members								
		Chairman	CEO	Vice chairman 1	Vice chairman 2	Vice chairman 3	Vice chairman 4	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9
Financial service experience	Senior management	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥	🟦	🟥 🟦	🟥 🟦	🟥 🟦
	General	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟦	🟥 🟦		🟦	🟥 🟦		
	Banking	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟦	🟦	🟦		🟦	🟦		
	International diversity			⬛							⬛					
International experience	Spain	🟥 🟦	🟥 🟦		🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥	🟥 🟦	🟥 🟦	🟥 🟦	🟦	🟥 🟦	🟥 🟦	🟥 🟦
	Latam	🟥 🟦	🟥 🟦		🟦	🟥 🟦	🟦		🟥		🟥 🟦	🟦				🟦
	UK/ US	🟥 🟦	🟥 🟦	🟥 🟦	🟦	🟥 🟦	🟦		🟥		🟥 🟦	🟦		🟦		
	Others	🟥	🟥 🟦	🟥 🟦	🟦	🟥 🟦	🟦		🟥	🟦	🟥 🟦	🟦		🟦		🟦
	Acounting and financial	🟥 🟦	🟥	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦		🟦			🟦	🟥 🟦	🟦	🟥 🟦
	Other commercial	🟥 🟦			🟦	🟦	🟦			🟥 🟦	🟥 🟦			🟥 🟦		🟥 🟦
	Risk	🟥 🟦	🟥	🟥 🟦	🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟥					🟥 🟦	🟦	
	Government/ Academic/ Research	🟦		🟦	🟦	🟥 🟦	🟥 🟦	🟥 🟦		🟦	🟦	🟥 🟦	🟦	🟥 🟦	🟥 🟦	🟥 🟦
	IT/Digital	🟥 🟦														🟦
	Strategy	🟥 🟦	🟥	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦		🟥 🟦	🟥	🟥 🟦			🟥		🟥 🟦
	Regulation/ Regulatory relations	🟥 🟦	🟥	🟥 🟦	🟥 🟦	🟦	🟥 🟦	🟥 🟦	🟥		🟥			🟥 🟦		
	Corporate governance experience	🟥 🟦	🟥 🟦	🟥 🟦	🟥 🟦	🟦	🟥 🟦	🟥 🟦	🟥		🟥 🟦			🟥 🟦	🟦	🟥 🟦
	Gender diversity	⬛								⬛		⬛		⬛	⬛	

🟥 Skills obtained as an executive 🟦 Skills obtained as an Non-Executive ⬛ Nature * Data at February 2015

Independent non-executive directors	**8**
Members of the board	**15**

The capacities of the board that need strengthening, according to the skills and diversity analysis, were those relating to the following aspects: commercial knowledge beyond banking, new technology, strategy, international experience, regulatory knowledge and diversity.

The committee analysed the various candidates on the list, as well as the short-listed candidates' CVs and assessment of their skills and suitability as directors of the Bank, and proposed to the board the appointment of Mr Ignacio Benjumea Cabeza de Vaca, as a nonexecutive director, and Ms Belén Romana García, as an independent director, whose profiles may be consulted in the Group's annual report. In the case of Mr Ignacio Benjumea, his appointment was based essentially on his experience and knowledge of legal and tax matters, compliance, corporate governance and regulatory matters. In assessing Ms Belén Romana's candidacy, her financial and international experience, and the posts she has occupied in both the public and private sectors were taken into account.

The European Central Bank verified the suitability of Mr Ignacio Benjumea Cabeza de Vaca and Ms Belén Romana García to discharge the duties of director of the Bank, in decisions of 21 September and 19 November, respectively.

2.2 Annual verification of the status of directors

Pursuant to article 6.3 of the Rules and Regulations of the Board, at its meeting of 11 February 2016, the appointments committee verified the status of each director. Its proposal, submitted to the board of directors, and approved by the latter at its meeting of 12 February 2016, was as follows:

i. Executive directors:
Ms Ana Botín-Sanz de Sautuola y O'Shea
Mr José Antonio Álvarez Álvarez
Mr Rodrigo Echenique Gordillo
Mr Matías Rodríguez Inciarte

The above are considered executive directors in accordance with section 1 of article 529-12 of the Corporate Enterprise Act and article 6.2.a) of the Rules and Regulations of the Board.

ii. External proprietary director:
Mr Javier Botín-Sanz de Sautuola y O'Shea

This classification is based on the definition contained in article 6.2.b) of the Rules and Regulations of the Board, which specifies that external or non-executive directors who hold or represent shareholdings equal to or greater than the one legally considered as significant, or who have been designated due to their position as shareholders, despite their shareholdings not reaching the threshold to be considered significant, as well as anyone representing such shareholders, shall be considered proprietary directors.

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 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, taking into account the prevailing circumstances of each case, and following a report by the committee, appointed Mr Javier Botín-Sanz de Sautuola y O'Shea as an external proprietary director representing shareholders owners of voting rights with an 1.041% of the Bank's share capital at year-end 2015.

iii. External independent directors:
Mr Bruce Carnegie-Brown
Ms Sol Daurella Comadrán
Mr Carlos Fernández González
Ms Esther Giménez-Salinas i Colomer
Mr Ángel Jado Becerro de Bengoa
Ms Belén Romana García
Ms Isabel Tocino Biscarolasaga
Mr Juan Miguel Villar Mir

The above are considered independent directors in accordance with section 4 of article 529-12 of the Corporate Enterprise Act and article 6.2(c) of the Rules and Regulations of the Board.

iv. External non-proprietary and non-independent directors:
Mr Guillermo de la Dehesa Romero
Mr Ignacio Benjumea Cabeza de Vaca

Neither can be classified as a proprietary director as they do not hold shareholdings equal to or greater than that which qualifies as significant under the law and have not been designated as such on account of their status as shareholders. Likewise, neither can be considered an independent director since, in the case of Mr de la Dehesa, he has held the position of director for more than 12 years and, in the case of Mr Benjumea, since 3 years have not yet elapsed since his resignation as a member of the Group's senior management.

Therefore, following a report from the appointments committee, the board of directors has classified both as non-executive directors that are neither proprietary nor independent, in accordance with article 529-12 of the Spanish Corporate Enterprises Act and article 6.2 of the Rules and Regulations of the Board.

Accordingly, of the fifteen current members of the board, four are executive directors and eleven are external directors. Of the latter, eight are independent, one proprietary and another two are, in the opinion of the board and the committee, neither proprietary nor independent.

2.3 Evaluation of the suitability of directors and other key personnel

Pursuant to the provisions of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Royal Decree 84/2015, of 13 February, implementing Law 10/2014, and in accordance with the internal ongoing selection and assessment procedure approved by the board at its meeting of 24 June 2013, the committee has assessed the directors, the senior executive vice presidents or persons holding similar positions, those responsible for internal control functions and those holding key positions for the daily conduct of the banking business of the Group (161 people in total at year-end 2015), concluding that they demonstrate commercial and professional integrity, and have suitable knowledge and experience to perform their duties. Likewise, the committee found that the members of the board are capable of carrying out good governance of the Bank, and have sufficient professional experience in the management of credit institutions and effective capacity to make independent and autonomous decisions for the Bank's benefit.

The appointments committee approved raising the target percentage of women serving on the board from the previous minimum of 25% to 30%, in line with good corporate governance recommendations.

2.4 Board committee members

At the proposal of the committee, the board has resolved to modify the composition of its committees, which will be respectively comprised by the directors mentioned below:

Executive committee
Chairman: Ms Ana Botín-Sanz de Sautuola y O'Shea.
Members: Mr José Antonio Álvarez Álvarez, Mr Bruce Carnegie-Brown, Mr Rodrigo Echenique Gordillo, Mr Matías Rodríguez Inciarte, Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca y Ms Isabel Tocino Biscarolasaga.
Secretary: Mr Jaime Pérez Renovales.

Audit committee
Chairman: Mr Juan Miguel Villar Mir.
Members: Mr Carlos Fernández González, Mr Ángel Jado Becerro de Bengoa, Ms Belén Romana García y Ms Isabel Tocino Biscarolasaga.
Secretary: Mr Jaime Pérez Renovales.

Appointments committee
Chairman: Mr Bruce Carnegie-Brown.
Members: Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca, Ms Sol Daurella Comadrán, Mr Carlos Fernández González y Mr Ángel Jado Becerro de Bengoa.
Secretary: Mr Jaime Pérez Renovales.

Remuneration committee
Chairman: Mr Bruce Carnegie-Brown.
Members: Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca, Ms Sol Daurella Comadrán, Mr Ángel Jado Becerro de Bengoa y Ms Isabel Tocino Biscarolasaga.
Secretary: Mr Jaime Pérez Renovales.

Risk supervision, regulation and compliance committee
Chairman: Mr Bruce Carnegie-Brown.
Members: Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca, Mr Carlos Fernández González, Mr Ángel Jado Becerro de Bengoa, Ms Isabel Tocino Biscarolasaga y Mr Juan Miguel Villar Mir.
Secretary: Mr Jaime Pérez Renovales.

International committee
Chairman: Ms Ana Botín-Sanz de Sautuola y O'Shea.
Members: Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo, Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca y Ms Esther Giménez-Salinas i Colomer.
Secretary: Mr Jaime Pérez Renovales.

Innovation and technology committee
Chairman: Ms Ana Botín-Sanz de Sautuola y O'Shea.
Members: Mr José Antonio Álvarez Álvarez, Mr Bruce Carnegie-Brown, Mr Rodrigo Echenique Gordillo, Mr Matías Rodríguez Inciarte, Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca y Ms Esther Giménez-Salinas i Colomer.
Secretary: Mr Jaime Pérez Renovales.

In 2015, the Bylaws and Rules and Regulations of the Board were modified, in order, among other things, to adapt the board's committees to the latest regulatory reforms and best practices in connection with good governance.

2.5 Participation in the board's self-assessment process

The appointments committee reported in regard to the self-assessment process of the board and its members, and of its committees, conducted by the board with the support of independent firm Spencer Stuart.

The self-assessment includes a specific section for the individual assessment of directors, the chairman and the chief executive officer. The chairman led the assessment of the lead director and the lead director that of the chairman, and also the process of crossed individual assessments.

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 using, among other methods, benchmarking with respect to comparable international banks.

The latest self-assessment focused on the following matters: organisation, internal trend and culture, roles and contribution of directors; composition and content of the board and its committees; comparison 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.

The directors consider the following as strengths of the Group's corporate governance: the high level of dedication and commitment of the members of the board and their involvement in the control of all types of risks, not only credit risk; the directors' experience in and knowledge of the banking business; the balance between executive and non-executive directors, both on the board and on its committees; and the excellent operation of the board committees, particularly the executive committee. They also note the sound combination of experience, skills and knowledge among the members of the board and the high degree of diversity in respect of their skills. They also highlight the leadership of the Group executive chairman, who strives to involve all members of the board and to properly moderate discussions. Moreover, the duties of lead director are properly discharged and incorporate international best practices in good governance. The frequency and duration of the board meetings is considered to be adequate.

For the independent assessment, Spencer Stuart compared the Bank with another 23 Top international financial institutions with regard to the composition and dedication of the board, the committees, remuneration and other aspects of corporate governance; the Bank ranks very highly.

The findings were presented at the board meeting of 29 September 2015.

Some specific measures or practices adopted as a consequence of the board's self-assessment in the last few years

- A more detailed succession plan for positions on the board, in particular those of the Group executive chairman and chief executive officer, established in the Rules and Regulations of the Board and reflected in the related succession plans.
- Annual board meetings dedicated specifically to the Group's strategy.
- Continued improvement in the director training programme, which has been implemented continuously since it was proposed in the self-assessment process of 2005.
- 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.
- Full involvement of the appointments committee in the process to appoint new directors.
- Review of the Bylaws and Rules and Regulations of the Board, for the purpose, among others, of adapting the duties of some committees to applicable regulations and to best corporate governance practices.
- Improvement in board members' relationships outside of meetings, as well as the interaction between these directors and company executives.
- Inclusion of corporate social responsibility among the responsibilities of the risk supervision, regulation and compliance committee.
- The board approved the amendment to section 3 of article 17-5 of its Regulations, broadening the scope of duties of the innovation and technology committee.

2.6 Internal governance

At its meeting of 29 July 2015, the board of directors, at the committee's behest, approved the governance model for the relationship between the parent Bank and the subsidiaries, including the principles and practices of good governance for the subsidiaries in which the Group is the core shareholder.

This control and supervision model is based on the three levels into which the relationship between the parent and the subsidiaries is classified:

- Presence of directors of the parent Bank and/or executives of the Group in the subsidiaries' governing bodies.
- Relationship between chief executives and country heads with the chairman and the chief executive of the Group.
- Relationship between the divisions or departments of corporate support and control (in particular, Risk, Internal Audit and Compliance) and the subsidiaries.

The principles and practices of good corporate governance contained in this model and applicable to the subsidiaries comply with the legal requirements and best practices set forth in national and international codes of good governance.

The model envisages the roles of country head, chairman and chief executive of each subsidiary, and describes the process for the selection and appointment of said persons, with the involvement of governing bodies of both the parent and the subsidiary. It also contains aspects of internal governance linked to key functions: risk, compliance, audit, financial management and general intervention.

2.7 Succession plans

In 2015, in addition to the provisions of article 24 of the Rules and Regulations of the Board concerning directors, a talent review and succession planning process has been launched, implementing the so-called talent committees that will be responsible for assessment and succession plans.

Within this framework, at its meeting of 21 July, the board approved the committee's proposed succession planning policy for the Group, establishing a structured succession process for key posts (including executive directors), focusing on aspects such as scope, the responsibilities of the appointments committee and other bodies and executives in the process and reporting and control mechanisms. Likewise, this policy is aimed at fostering the development and retention of internal talent.

Lastly, the committee has reviewed the implementation of the succession planning policy in its meetings of 21 December 2015 and 25 January 2016.

2.8 Simplification of the corporate structure and appointment of senior executives who are not directors

In 2015, corporate structure was simplified, with the number of divisions streamlined from 15 to 10 and the number of senior executive vice presidents cut by 23%.

In 2015, the committee issued favourable opinions, among others, regarding the following appointments, agreed by the board of directors:

- Mr Javier Maldonado Trinchant, initially as head of Control and Coordination of Regulatory Projects and subsequently as head of the corporate Cost area.
- Mr Andreu Plaza López, as senior executive vice president and head of the Technology and Operations division.
- Mr Rami Aboukhair Hurtado, as senior executive vice president and head of Commercial Banking at Santander España, later appointed country head of Santander España.
- Mr José Luis de Mora Gil-Gallardo, as senior executive vice president and head of Financial Planning and Corporate Development.
- Ms Mónica López-Monís Gallego, as senior executive vice president and Group chief compliance officer.
- Mr Juan Manuel San Román López, as senior executive vice president and head of Strategic Alliances, replacing Mr Juan Andres Yanes, who had previously been appointed head of this area in 2015.

The board also appointed the following senior executive vice presidents for the following posts, based on favourable reports by the committee:

- Mr Jaime Pérez Renovales, as general secretary and secretary of the board and head of the General Scretariat and Human Resources division.
- Mr Víctor Matarranz Sanz de Madrid, as head of the Office of the Chairman and Strategy.
- Mr Ángel Rivera Congosto, as head of the Corporate Commercial Banking division.
- Mr Javier San Felix García, as head of Commercial Banking at Santander UK.
- in 2016, Mr J. Peter Jackson, as head of the Corporate Innovation function replacing Mr José María Fuster VanBendegem, who had previously been appointed head of this function in 2015.

Furthermore, the committee issued a favourable opinion regarding the proposal to set up the board of Santander España as an internal collegiate body to cooperate with the Bank's board and its committees in the administration and supervision of this business unit, taking a prior position in regard to any decision the latter must make. The members of the board of Santander España are appointed by the Bank's board of directors and at least one third must be independent. The proposal for setting up this body was approved by the board at its meeting of 30 June.

2.9 Training of directors and information or induction programme for new directors

As a result of the board's self-assessment process of 2005, an ongoing training programme for directors was implemented.

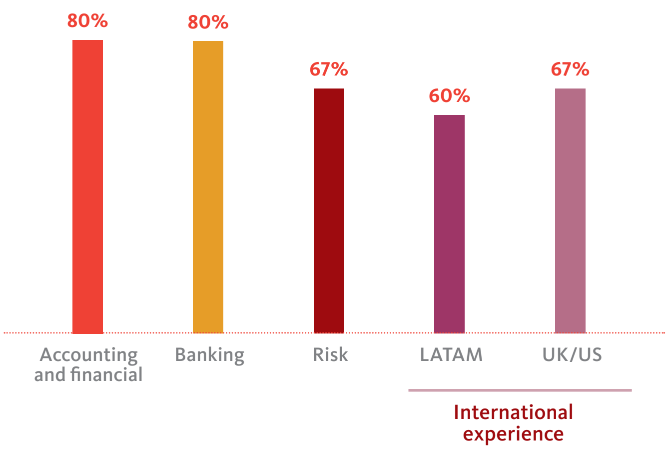
Within the framework of the Bank's ongoing director training programme, nine sessions were held in 2015 with an average attendance of eight directors, who devoted approximately two hours to each session. Various issues were covered in depth at such meetings, including: capital requirements and assessment, liquidity, structural reforms, the EU MiFID II directive, the new regulatory system, as well as matters relating to new trends in risk appetite and operational risk.

The Rules and Regulations of the Board (article 21.7) establish that the board must make an information and induction programme available to new directors that provides swift and sufficient knowledge of the Bank and its Group, including their governance rules.

New directors therefore attended an information or induction programme specifically for new directors, which addressed the following matters:

- General presentation of the Group and the regulatory context in which it operates.
- The Group's main regions and businesses.
- The main support areas (technology and operations, risk, audit, human resources, organisation and costs).
- Corporate governance and internal governance.
- Sustainability, communication and the Santander brand.

% Of board members with relevant experience



2.10 Self-assessment

The self-assessment of the board and its members, as well as that of its committees, conducted by the board with the support of independent firm Spencer Stuart, welcomed both the composition of the committee and the very high degree of dedication among its members, as well as the chairman's leadership and the improvements in the committee's involvement in appointing external directors and the knowledge of both the board and the committees of the Bank's main executives.

For the purposes of the board's assessment of the committee's performance, the former took into account the committee's report for the previous year, as well as other information concerning its activities and operation supplied to the board.

2.11 Civil liability insurance

A proposal to renew the civil liability insurance policy for directors and executives of the Group was approved by the board at its meeting of 29 September 2015, a report on said renewal having been presented to the committee at its meeting of 28 September 2015.

2.12 Institutional documentation

At the meeting of 11 February 2016, the committee endorsed this report and, in respect of the section that affects its sphere of competencies, the Group's annual report, which were approved by the board of directors on 12 February 2016.

3. Challenges for 2016

The main challenges for the committee in 2016 are as follows:

- Monitoring and overseeing the long-term succession planning of the Group's directors and key members of the senior management.
- Take part in the entire process of devising policies within its sphere of competencies.
- Develop the governance model to strengthen the relationship between the parent Bank and the subsidiaries, especially with regard to corporate governance, ensuring its implementation throughout the Group's main geographical areas.

4. Conclusion

Throughout 2015, the appointments committee has properly discharged the responsibilities assigned to it in the Bylaws and the Rules and Regulations of the Board.

Report of the remuneration committee 2015

1. Introduction

Regulation

The Bylaws contain the basic rules and regulations for the remuneration committee, which are supplemented and further developed by the Rules and Regulations of the Board[1] and which define the committee's composition, operation and powers.

Duties

In exercising its duties, the remuneration committee must take into account the long-term interests of shareholders, investors and other parties interested in company, as well as public interest.

The competencies of the remuneration committee may be classified into the following main categories:

1. Remuneration of directors

- Propose to the board the director remuneration policy, drafting the required report on such policy pursuant to article 28.bis of the Rules and Regulations of the Board, and prepare the annual remuneration report envisaged in article 29.

- Propose to the board the individual remuneration of directors in their capacity as such.

- Propose to the board the individual remuneration of directors for carrying out any duties other than those corresponding thereto in their capacity as directors and other conditions of their contracts.

- Ensure compliance with the director remuneration policy established by the company.

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

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

2. Remuneration of non-director members of senior management

- Propose to the board the remuneration policy of the senior executive vice presidents and other members of senior management in accordance with the law.

- Propose to the board the basic terms and conditions of the contracts and remuneration of the members of senior management.

- Ensure compliance with the remuneration policy for members of senior management established by the company.

3. Remuneration of other executives whose activities may have a significant impact on the Group's assumption of risks

- Propose to the board the remuneration of 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.

4. Other

- Other functions stipulated in the board regulation and applicable legislation

1. The committee is regulated by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board. Articles 28, 28.bis and 29 of these Rules and Regulations also contain specific provisions regarding certain aspects of its activity. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group's website (www.santander.com).

   At its meeting of 29 July 2015 the committee resolved, at the proposal of the risk supervision, regulation and compliance committee, to amend article 17 bis 4 of the Board of Directors' Regulations, governing the duties of the committee, in order to bring them into line with the latest regulatory changes and recommendations regarding corporate governance.

Composition of the committee and attendance at its meetings in 2015

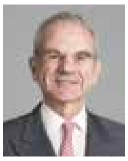
At the date of this report, the composition of the remuneration committee is as follows:

Chairman

Mr Bruce Carnegie-Brown

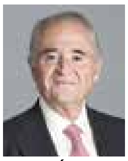
Members

Mr Guillermo de la Dehesa Romero



Mr Ignacio Benjumea Cabeza de Vaca

Ms Sol Daurella Comadrán



Mr Ángel Jado Becerro de Bengoa

Ms Isabel Tocino Biscarolasaga

Secretary

Mr Jaime Pérez Renovales

In 2015, the committee's composition changed as follows:

Mr Bruce Carnegie-Brown has been a member and chairman of the committee since 12 February 2015, when his appointment as director of the Bankvecame effective, replacing Mr Fernando de Asúa Álvarez as both chairman and member of the committee.

Ms Sol Daurella Comadrán and Mr Ángel Jado Becerro de Bengoa have been members of the committee since 23 February 2015.

Mr Ignacio Benjumea Cabeza de Vaca has been a member since 21 September 2015, when his appointment as a director of the Bank became effective, having obtained the pertinent regulatory clearance.

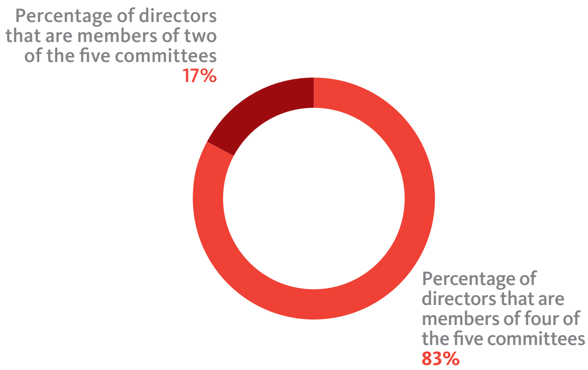
Mr Rodrigo Echenique Gordillo ceased to be a member of this committee on 16 January 2015 as a result of his appointment as executive director of the Bank.

The Bylaws and the Rules and Regulations of the Board[2] provide that the remuneration committee shall be composed solely of non-executive directors, with independent directors having majority representation and that it be chaired by an independent director. All members of the committee are non-executive directors and four of them are independent (including the chairman).

All the directors that form part of the remuneration committee have proven capacity to discharge their duties on such committee based on their experience and their knowledge in the area of remuneration.

In addition, since the committee members sit on other committees of the board (executive, audit, appointments and risk supervision, regulation and compliance committees), continuously updated information is available on the Group's risks, capital base and liquidity, which is particularly significant in, among others, the establishment of remuneration systems, the control thereof, and the determination of the specific amounts of variable remuneration.

Participation of members of the remuneration committee on the executive, audit, appointments and risk supervision, regulation and compliance committees



2. The committee's composition is regulated by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board.

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

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The committee held ten sessions in 2015.

Attendance at meetings of the remuneration committee in 2015 was as follows:

Number of meetings and attendance[1]

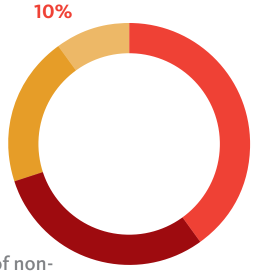
Mr Bruce Carnegie-Brown	9/9
Mr Guillermo de la Dehesa Romero	9/10
Mr Ignacio Benjumea Cabeza de Vaca	4/4
Ms Sol Daurella Comadrán	6/9
Mr Ángel Jado Becerro de Bengoa	8/9
Ms Isabel Tocino Biscarolasaga	10/10
Mr Fernando de Asúa Álvarez	1/1
Mr Rodrigo Echenique Gordillo	1/1

1. The first figure is the number of meetings attended by the director, and the second the number of sessions held in the year since the director has or had been a member of the committee.

The estimated average time devoted by each of these directors in preparing and taking part in the committee meetings held in 2015 was approximately three hours per meeting.

The chart below shows a breakdown of the approximate time dedicated to each task at the meetings held by the committee in 2015.

Topic/Meeting %



How the committee works

The rules governing the committee establish the valid constitution thereof, with the attendance, either present or represented, of more than half of its members, and the adoption of agreements by the majority of those attending, it being possible to designate another member as proxy.

The necessary documentation for each meeting (draft agenda, presentations, minutes of previous meetings) is provided to committee members three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Minutes are taken of all meetings of the remuneration committee, and copies thereof are delivered to all members of the board.

The committee is empowered to require the attendance at its meetings of the Bank's senior executives or its employees, and of the external auditor. It may also harness the help of experts, in accordance with the provisions of article 27 of the Board of Directors' Regulations.

The chairman and any other director may submit suggestions to the committee in relation to the matters within its sphere of competencies. Additionally, the remuneration committee shall consult the chairman and chief executive officer on issues relating to executive directors and senior management.

Self-assessment

The self-assessment process of the board, its members and its committees, conducted by the board with the support of the independent firm Spencer Stuart, welcomed the autonomy and independence of the committee, as well as the knowledge and involvement of its members.

For the purposes of the board's assessment of the committee's performance, the former took into account the committee's report for the previous year, as well as other information concerning its activities and operation supplied to the board.

2. Report on the director remuneration policy

The remuneration committee has prepared this report[3] which sets forth the standards and grounds that this collective decision-making body uses to determine the remuneration of the members of the board of directors for the last financial year and for the current year. In addition, based on the information herein for 2015 and 2016, the remuneration committee has prepared the annual report on director remuneration required by article 541 of the Companies Act *(Ley de Sociedades de Capital)* following the template provided by CNMV Circular 4/2013 (amended by Circular 7/2015), which shall be made available to the shareholders when the annual general shareholders' meeting of 2016 is called and shall be submitted to a consultative vote as a separate item on the agenda.

This report also includes the content required by section 2 of article 529.novodecies of the Companies Act in relation to the proposed director remuneration policy for 2016, 2017 and 2018 which the board of directors submits to binding approval of the shareholders at the annual general shareholders' meeting of 2016 as a separate item on the agenda. The committee is of the opinion that said proposal conforms to the principles of the company's remuneration policy and to the bylaw-mandated remuneration system described in section 2.5 of this report.

2.1 Principles of the remuneration policy

a) Remuneration of directors in their capacity as such

The individual remuneration of directors, whether executive or not, for the performance of supervisory and collective decision-making duties, shall be determined by the board of directors, within the maximum set by the shareholders, based on the positions held by the directors on the collective decision-making body itself and membership on and attendance at the various committees, as well as any other objective circumstances that the board may take into account.

b) Remuneration of executive directors

The principles of the remuneration policy for executive directors of the Bank are as follows:

- Remuneration must be compatible with rigorous risk management, without favouring an inappropriate assumption thereof, and must be in line with the interests of the shareholders, fostering the long-term creation of value.
- Fixed remuneration must represent a significant proportion of total compensation.
- Variable remuneration must compensate directors' performance in achieving the Group's objectives.
- The overall remuneration package and the structure thereof must be competitive, facilitating the attraction, retention, and appropriate remuneration of the directors and executives.

Banco Santander performs an annual comparative review of the total compensation of the executive directors and senior executives.

2.2 Principles of corporate governance regarding remuneration

a) Engagement of the board

The board of directors itself, at the proposal of the remuneration committee, is the body that approves the annual report on director remuneration submitted to a consultative vote of the shareholders at the general shareholders' meeting. At the proposal of this committee, the board also proposes the director remuneration policy, submitted to a binding vote of the shareholders at the general meeting, and approves individual director remuneration, including that of executive directors and, if appropriate, non-executive directors, for the performance of duties other that those of a director, and establishes the other terms and conditions of their contracts.

b) Transparency

Banco Santander believes transparency to be a basic principle in corporate governance, and has acted in advance of the regulatory requirements that now apply in this regard.

3. Note 5 to the Group's legal report provides information regarding director remuneration for 2015.

2.3 Remuneration policy applied in 2015[4]

This report includes both qualitative and quantitative information on the remunerations of members of the board of directors (executive and non-executive) for the 2014 and 2015 fiscal years. This information refers to those who were directors at some time during these years but have since left the board.

In 2015, the Bank's board of directors approved a number of appointments and organisational changes in order to simplify the Group's organisation and make it more competitive. Below is a summary of the remuneration for executive directors and senior management that were part of these governance bodies at year-end in 2015 and 2014:

	Thousands of euros		
	2015	2014	
Active executive directors at 31 December of each year	24,692	22,364	
Active members of senior management at 31 December of each year	56,076	81,785	
	80,768	104,419	-22.7 %

2.3.1 Remuneration of directors for the performance of supervisory and collective decision-making duties. Bylaw-stipulated emoluments

i) Composition and limits

At the annual general shareholders' meeting of 22 March 2013, the shareholders approved an amendment to the Bylaws, such that remuneration of directors in their capacity as such now consists of a fixed annual amount determined at the general shareholders' meeting. Such amount shall remain in effect until the shareholders resolve to amend it, though the board may reduce such amount in the years it considers such reduction appropriate. The remuneration established at the general shareholders' meeting for 2015 was EUR 6 million, with two components: (a) annual allotment and (b) attendance fees.

The remuneration of each one of the directors in their capacity as such has been determined by the board of directors based on the positions held by the directors on the collective decision-making body, membership on and attendance at the various committees, and any other objective circumstances evaluated by the board.

Bylaw-stipulated emoluments earned by the board in 2015 amounted to EUR 5.1 million, which is 13.6% less than the amount approved at the general shareholders' meeting.

Independently of the directors' right to receive remuneration in their capacity as such, they are also entitled to receive other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the remuneration committee and upon resolution by the board of directors, may be deemed appropriate in consideration for the performance of other duties in the company, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as members of the board.

ii) Annual allotment

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

4. The information contained in this section will be included in the annual remuneration report for 2015 and 2016, which will be submitted to a consultative vote of the shareholders at the 2016 annual general shareholders' meeting.

Amount per director in euros:	2015	2014	2013	2012	2011
Members of the board of directors	84,954	84,954	84,954	84,954	99,946
Members of the executive committee	170,383	170,383	170,383	170,383	200,451
Members of the audit committee	39,551	39,551	39,551	39,551	46,530
Members of the appointments committee[1]	23,730	23,730	23,730	23,730	27,918
Members of the remuneration committee[1]	23,730	23,730	23,730	23,730	27,918
Members of the risk supervision, regulation and compliance committee	39,551	20,697	–	–	–
Chairman of the appointments committee	50,000	–	–	–	–
Chairman of the remuneration committee	50,000	–	–	–	–
Chairman of the risk supervision, regulation and compliance committee	50,000	26,164	–	–	–
Lead director[2]	111,017	–	–	–	–
Non-executive vice chairmen[3]	28,477	28,477	28,477	28,477	33,502

1. The data for 2011 to 2013 correspond to the amounts received by the members of the appointments and remuneration committee (EUR 23,730 in 2012 and 2013 and EUR 27,918 in 2011) prior to its separation into the appointments committee and the remuneration committee.
2. Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the risk supervision, regulation and compliance committee and as lead director, and the time and dedication required to perform these duties, received total annual remuneration of EUR 700,000 in 2015, including the aforementioned annual allowances corresponding to him and attendance fees.
3. The amount for 2013 was paid to Mr Guillermo de la Dehesa and Mr Manuel Soto Serrano in proportion to the time during which the position was held during the year by each of them. The amounts for 2012 and 2011 were paid to Mr Manuel Soto Serrano.

Set forth below is an individualised breakdown of the amount received for this remuneration item for the last two financial years.

Amount in euros

			2015						
				Committees of the board					
Directors	**Executive**	**Non-executive**	**Board**	**EC**	**AC**	**NC**	**RC**	**RSRCC**	**Total**
Ms Ana Botín-Sanz de Sautuola y O'Shea	●		84,954	170,383	—	—	—	—	**255,337**
Mr José Antonio Álvarez Álvarez[1]	●		84,954	170,383	—	—	—	—	**255,337**
Mr Bruce Carnegie-Brown[2]		I	374,448	170,383	—	23,730	23,730	39,551	**631,842**
Mr Rodrigo Echenique Gordillo[3]	●		84,954	170,383	—	—	—	—	**255,337**
Mr Matías Rodríguez Inciarte	●		84,954	170,383	—	—	—	—	**255,337**
Mr Guillermo de la Dehesa Romero		N	113,431	170,383	—	23,730	23,730	39,551	**370,825**
Mr Ignacio Benjumea Cabeza de Vaca[4]		N	23,596	47,326	—	6,594	6,594	9,888	**93,998**
Mr Javier Botín-Sanz de Sautuola y O'Shea[5]		P	84,954	—	—	—	—	—	**84,954**
Ms Sol Daurella Comadrán[6]		I	84,954	—	—	23,730	23,730	—	**132,414**
Mr Carlos Fernández González[2]		I	84,954	—	39,551	23,730	—	39,551	**187,786**
Ms Esther Giménez-Salinas i Colomer		I	84,954	—	—	—	—	—	**84,954**
Mr Ángel Jado Becerro de Bengoa		I	84,954	—	39,551	23,730	23,730	39,551	**211,516**
Ms Belén Romana García[7]		I	2,327	—	1,084	—	—	—	**3,411**
Ms Isabel Tocino Biscarolasaga		I	84,954	170,383	39,551	—	23,730	39,551	**358,169**
Mr Juan Miguel Villar Mir		I	84,954	—	39,551	—	—	39,551	**164,056**
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos[8]	●		—	—	—	—	—	—	**—**
Mr Javier Marín Romano[9]	●		2,793	5,602	—	—	—	—	**8,395**
Mr Fernando de Asúa Álvarez[10]		I	43,189	20,073	4,659	2,796	2,796	4,659	**78,172**
Ms Sheila C, Bair[11]		I	63,715	—	—	—	—	29,663	**93,379**
Mr Vittorio Corbo Lioi[12]		N	—	—	—	—	—	—	**—**
Mr Abel Matutes Juan[13]		I	11,405	—	5,310	3,186	—	—	**19,900**
Mr Juan Rodríguez Inciarte[14]	●		42,477	—	—	—	—	—	**42,477**
Total			**1,611,875**	**1,265,682**	**169,257**	**131,226**	**128,040**	**281,516**	**3,587,596**

1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Executive director since 16 January 2015.
4. Director since 21 September 2015.
5. All amounts received were reimbursed to Fundación Botín.
6. Director since 18 February 2015.
7. Director since 22 December 2015.
8. Ceased to be a director due to his death on 9 September 2014.
9. Ceased to be a director on 12 January 2015.
10. Ceased to be a director on 12 February 2015.
11. Ceased to be a director on 1 October 2015.
12. Ceased to be a director on 24 July 2014.
13. Ceased to be a director on 18 February 2015.
14. Ceased to be a director on 30 June 2015.

P Proprietary
I Independent
N Non-executive (neither proprietary nor independent)
EC: Executive committee
AC: Audit committee
NC: Appointments committee
RC: Remuneration committee
RSRCC: Risk supervision, regulation and compliance committee

2014								
	Committees of the board							
Board	EC	AC	ARC	NC	RC	RSRCC	Total	Chg (%)
84,954	170,383	—	—	—	—	—	**255,337**	**0**
—	—	—	—	—	—	—	**—**	**—**
—	—	—	—	—	—	—	**—**	**—**
84,954	170,383	12,245	19,244	4,486	4,486	20,697	**316,495**	**-19.32**
84,954	170,383	—	—	—	—	—	**255,337**	**0**
113,431	170,383	39,551	19,244	4,486	4,486	—	**351,581**	**5.47**
—	—	—	—	—	—	—	**—**	**—**
84,954	—	—	—	—	—	—	**84,954**	**0**
—	—	—	—	—	—	—	**—**	**—**
—	—	—	—	—	—	—	**—**	**—**
84,954	—	—	—	—	—	—	**84,954**	**0**
84,954	—	—	—	—	—	20,697	**105,651**	**100.20**
—	—	—	—	—	—	—	**—**	**—**
84,954	170,383	—	19,244	—	4,486	—	**279,067**	**28.35**
84,954	—	—	—	—	—	—	**84,954**	**93.11**
58,653	117,634	—	—	—	—	—	**176,287**	**—**
84,954	170,383	—	—	—	—	—	**255,337**	**-96.71**
113,431	170,383	39,551	19,244	4,486	4,486	46,861	**398,442**	**-80.38**
78,902	—	—	—	—	—	20,697	**99,599**	**-6.25**
47,714	—	—	—	—	—	—	**47,714**	**—**
84,954	—	39,551	—	4,486	—	—	**128,991**	**-84.57**
84,954	—	—	—	—	—	—	**84,954**	**-50**
1,346,626	**1,310,315**	**130,898**	**76,976**	**17,944**	**17,944**	**108,952**	**3,009,654**	**19.20**

iii) Attendance fees

By resolution of the board, at the proposal of the remuneration committee, the amount of attendance fees applicable to meetings of the board and its committees (excluding the executive committee, for which no fees are provided) during 2015 was the same as that established since 2008. The amounts are as follows:

Amount in euros	2008-2015
Attendance fees per meeting	
Board of directors	
Resident directors	2,540
Non-resident directors	2,057
Delegate risk committee, audit committee and risk supervision, regulation and compliance committee***	
Resident directors	1,650
Non-resident directors	1,335
Other committees (excluding executive committee)	
Resident directors	1,270
Non-resident directors	1,028

* Disbanded by the resolution of the board of 1 December 2015; the committee held its last meeting on 29 October.

** Held its first meeting on 23 July 2014.

Set forth below is an individualised breakdown of the amount received for this remuneration item for the last two financial years.

Amount in euros

Directors	Executive	Non-executive	2015			2014			Chg (%)
			Board	Other attendance fees	Total	Consejo	Other attendance fees	Board	
Ms Ana Botín-Sanz de Sautuola y O'Shea	●		53,340	—	53,340	29,281	2,056	31,337	70.21
Mr José Antonio Álvarez Álvarez[1]	●		48,260	37,950	86,210	—	—	—	—
Mr Bruce Carnegie-Brown[2]		I	34,969	33,189	68,158	—	—	—	—
Mr Rodrigo Echenique Gordillo[3]	●		50,800	87,580	138,380	35,560	152,070	187,630	-26.25
Mr Matías Rodríguez Inciarte	●		53,340	132,000	185,340	38,100	158,400	196,500	-5.68
Mr Guillermo de la Dehesa Romero		N	53,340	49,390	102,730	38,100	48,120	86,220	19.15
Mr Ignacio Benjumea Cabeza de Vaca[4]		N	10,160	31,990	42,150	—	—	—	—
Mr Javier Botín -Sanz de Sautuola y O'Shea[5]		P	35,560	—	35,560	25,400	—	25,400	40
Ms Sol Daurella Comadrán[6]		I	38,100	11,430	49,530	—	—	—	—
Mr Carlos Fernández González[2]		I	30,855	34,203	65,058	—	—	—	—
Ms Esther Giménez-Salinas i Colomer		I	48,260	—	48,260	35,560	—	35,560	35.71
Mr Ángel Jado Becerro de Bengoa		I	53,340	160,570	213,910	38,100	8,250	46,350	361.51
Ms Belén Romana García[7]		I	2,540	—	2,540	—	—	—	—
Ms Isabel Tocino Biscarolasaga		I	53,340	177,700	231,040	35,560	170,850	206,410	11.93
Mr Juan Miguel Villar Mir		I	48,260	33,000	81,260	20,320	—	20,320	299.90
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos[8]	●		—	—	—	20,320	1,270	21,590	—
Mr Javier Marín Romano[9]	●		—	—	—	35,560	2,540	38,100	—
Mr Fernando de Asúa Álvarez[10]		I	10,160	26,530	36,690	35,560	210,710	246,270	-85.10
Ms Sheila C. Bair[11]		I	30,855	12,015	42,870	22,627	6,675	29,302	46.30
Mr Vittorio Corbo Lioi[12]		N	—	—	—	8,228	—	8,228	—
Mr Abel Matutes Juan[13]		I	7,620	5,460	13,080	27,940	25,770	53,710	-75.65
Mr Juan Rodríguez Inciarte[14]	●		38,100	61,050	99,150	38,100	86,690	124,790	-20.55
Total			**701,199**	**894,057**	**1,595,526**	**484,316**	**873,401**	**1,357,717**	**17.52**

1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Executive director since 16 January 2015.
4. Director since 21 September 2015.
5. All amounts received were reimbursed to Fundación Botín.
6. Director since 18 February 2015.
7. Director since 22 December 2015.
8. Ceased to be a director due to his death on 9 September 2014.
9. Ceased to be a director on 12 January 2015.
10. Ceased to be a director on 12 February 2015.
11. Ceased to be a director on 1 October 2015.
12. Ceased to be a director on 24 July 2014.
13. Ceased to be a director on 18 February 2015.
14. Ceased to be a director on 30 June 2015.

P Proprietary
I Independent
N Non-executive (neither proprietary nor independent)

2.3.2 Remuneration of directors for the performance of executive duties

(i) Policy applied

The policy applied to the remuneration of directors in 2015 for the performance of executive duties was approved by the board of directors and submitted to a binding vote of the shareholders at the general shareholders' meeting of 27 March 2015, with 91.659% of the votes in favour. In 2015:

- Fixed remuneration represented a significant proportion of total compensation.
- Total variable remuneration was made up of: (i) a Bonus, to be received partly in cash and partly in shares, while deferring collection of a portion of the Bonus for five years; and (ii) a long-term incentive or LTI that, if applicable, will be received entirely in shares on a deferred basis.
- By resolution of the shareholders at the general meeting of 27 March 2015, the variable components of executive directors' total remuneration (including the Bonus and the LTI) for 2015 was limited to 200% of the fixed components.

A) The 2015 Bonus for executive directors was determined based on a standard benchmark bonus for executive directors to comply with 100% of the established targets, which is called a benchmark bonus, and which takes into account certain quantitative metrics, as well as additional qualitative factors:

a. Quantitative metrics:

- 75% of the Bonus was set based on NOP for 2015[5], compared to the NOP budgeted for the financial year and modified based on growth over the prior year.
- 25% of the Bonus was set based on the return on risk-weighted assets (RoRWA) in 2015 compared with that estimated for the year.

Group NOP and RoRWA were used in the application of the above metrics.

b. Additional qualitative factors:

In order to evaluate the quality of the results of the above metrics and to determine the individual Bonus, the following factors have also been taken into account:

- Appropriate risk management and efficient consumption of capital.
- Benchmarking of results against competing institutions.
- Benchmarking of customer satisfaction against competing institutions.
- Changes in core capital, the Group's economic capital, the balance sheet and other relevant management factors.

c. Additional conditions:

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

- The Group's NOP for 2015 was not less than 50% of that for 2014. If this had occurred, the remuneration committee would have analysed the results and determined a Bonus that would in no case exceed 50% of the benchmark bonus for 2015.
- The Group's NOP has not been negative. If this had occurred, the Bonus would have been zero.

Form of payment of Bonuses to executive directors: The Bonus is paid 50% in cash and 50% in shares, part in 2016 part on a deferred basis. Although this deferral may by law limited to three years, the company has established a period of five years, which is more in alignment with the long-term sustainability of results, as follows:

- 40% of the Bonus is paid in 2016 net of taxes, half in cash and half in shares.
- The remaining 60% will be deferred in fifths and will be paid, if applicable, in 2017, 2018, 2019, 2020 and 2021. The corresponding amount will be paid each year net of taxes, half in cash and half in shares.

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

B) The maximum benchmark LTI for executive directors was set by the board, at the proposal of the remuneration committee, at an amount equal to 20% of the benchmark bonus in 2015. Based on that figure, an amount of LTI was determined for each director (the "Approved LTI Amount") taking into account the performance of two indicators in 2015. As follows:

(1) The earnings per share (EPS) of Grupo Santander in 2015 compared to the target amount for such year:

2015 EPS (% target EPS 2015)	"2015 EPS Ratio"
≥ 90%	1
> 75% but < 90%	0.75 – 1*
≤ 75%	0

* Straight-line increase in the 2015 EPS Ratio based on the specific percentage that 2015 EPS represents of the target within this bracket of the scale.

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

(2) The return on tangible equity ("RoTE") of Grupo Santander in 2015 compared to the target that year:

2015 RoTE (% target RoTE 2015)	"2015 RoTE Ratio"
≥90%	1
> 75% but < 90%	0.75 – 1*
≤ 75%	0

* Straight-line increase in the 2015 RoTE Ratio based on the specific percentage that 2015 RoTE represents of the target within this bracket of the scale.

The formula for determining the LTI was therefore as follows (the result of such formula being the Approved LTI Amount):

Approved LTI amount= Bench. amt. x (0.5 x 2015 EPS Ratio + 0.5 x 2015 RoTE Ratio)

where,

– "Bench. amt." is the amount resulting from multiplying by the benchmark bonus of the executive director by 20%.

– The 2015 EPS Ratio and the 2015 RoTE Ratio shall have the applicable values according to the tables above based on the performance of the EPS and RoTE in 2015.

For each executive director, the Approved LTI Amount determines the maximum number of shares that they may receive and is calculated taking into account the listing price of Santander's shares for the 15 trading sessions prior to the board meeting approving the Bonus for 2015.

Notwithstanding, the accrual and final amount of the approved LTI amount are linked to the level of achievement of the multiyear objectives of the plan and other conditions described below.

(a) The relative performance of Grupo Santander's EPS growth for the 2015-2017 period compared to a peer group of 17 credit institutions (the "Peer Group").

EPS growth is understood as the percentage ratio between the earnings per share according to the initial and final consolidated annual financial statements for the comparison period (i.e. the consolidated financial statements ended 31 December 2014 and 31 December 2017, respectively).

Ranking of Santander's 2015-2017 EPS growth	"EPS Ratio"
From 1st to 5th	1
6th	0.875
7th	0.75
8th	0.625
9th	0.50
10th - 18th	0

The Peer Group comprises the following entities: Wells Fargo, JP Morgan Chase, HSBC, Bank of America, Citigroup, BNP Paribas, Lloyds, UBS, BBVA, Barclays, Standard Chartered, ING, Deutsche Bank, Société Générale, Intesa SanPaolo, Itau-Unibanco and Unicredito.

(b) Grupo Santander RoTE for 2017:

RoTE in 2017 (%)	"RoTE Ratio"
≥ 12%	1
> 11% but < 12%	0.75 – 1*
≤ 11%	0

* Straight-line increase in the RoTE Ratio based on the specific percentage of Grupo Santander RoTE in 2017 within this bracket of the scale.

(c) Employee satisfaction, measured by whether or not it is included in the "Top 3" of the best banks to work for in the principal markets in which the Group operates.

Number of principal markets in which Santander is in the Top 3 of the best banks to work for in 2017	"Employees Ratio"
6 or more	1
5 or less	0

For these purposes, Grupo Santander's "Main Markets" are: Germany, Argentina, Brazil, Chile, Spain, the United States, Mexico, Poland, Portugal and the United Kingdom.

(d) Customer satisfaction, measured by whether or not it is included in the "Top 3" of the best banks on the customer satisfaction index in the Principal Markets.

Number of Principal Markets in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017	"Customers Ratio"
10	1
6 to 9	0.2 – 0.8*
5 or less	0

* Straight-line increase in the Customers Ratio, such that, within this bracket of the scale, the ratio is increased by 0.2 for each additional Principal Market in which the customer satisfaction index is in the Top 3.

(e) Customer loyalty, taking into account the targets at the Grupo Santander level, which are 17 million individual loyal customers linked and 1.1 million SME and corporate loyal customers linked at 31 December 2017.

Individual loyal customers (million)	**"Retail Coefficient"**	**SME and corporate loyal customers (million)**	**"Corporates Coefficient"**
≥ 17	1	≥ 1.1	1
> 15 but < 17	0.5 – 1*	> 1 but < 1.1	0.5 – 1*
≤ 15	0	≤ 1	0

* Straight-line increase in the Retail Coefficient and Corporates Coefficient based on the number of loyal customers of each kind at 31 December 2017.

Based on the compliance metrics and scales above and on the data at year-end 2017, the accrued LTI amount for each executive director (the "Accrued LTI Amount") shall be determined in accordance with the following formula:

Accrued LTI Amount = Amt. x (0.25 x A + 0.25 x B + 0.2 x C + 0.15 x D + 0.075 x E1 + 0.075 x E2)

where,
- "Amt." is the Approved LTI Amount of the executive director.
- "A" is the EPS Ratio according to the scale in paragraph (a) above based on the performance during the 2015-2017 period of Grupo Santander's EPS growth compared to a Peer Group.
- "B" is the RoTE Ratio according to the scale in paragraph (b) above based on the performance in 2017 of Grupo Santander's RoTE.
- "C" is the Employees Ratio according to the scale in paragraph (c) above.
- "D" is the Customers Ratio according to the scale in paragraph (d) above.
- "E1" is the Retail Coefficient according to the scale in paragraph (e) above regarding individual loyal customers.
- "E2" is the Corporates Coefficient according to the scale in paragraph (e) above regarding linked SME and corporate loyal customers.

The LTI accrual period ends on 31 December 2018 and, therefore, the plan conditions must be met by the end of this period, without prejudice to the above metrics referring to the 2015-2017 period.

Therefore, to determine the final LTI amount for each executive director (the "Final LTI Amount"), the board of directors, at the proposal of the remuneration committee, may at any time prior to the payment date reduce the Accrued LTI Amount of each director if they have incurred excessive risks to meet the multiyear objectives.

In addition, the accrual of the LTI remuneration is conditional upon the beneficiary remaining in the Group and none of the malus clauses being triggered prior to the delivery of the shares.

The LTI shall be fully paid in shares and payment thereof shall be deferred until 2019. Payment is expected to take place during the first quarter of 2019.

C) Other rules applicable to the Bonus and the LTI

In addition to the continuity of the beneficiary within the Group[6], the accrual of the deferred remuneration (both the Final LTI Amount and the deferred portion of the Bonus) is conditional upon none of the following circumstances arising, in the opinion of the board of directors, at the proposal of the remuneration committee, during the period before each delivery 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.

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

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

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

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

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

None of the above circumstances shall give the right to receive the LTI or the deferred amount of the Bonus in advance. If the beneficiary or the successors thereof maintain the right to receive the LTI or the deferred amount of the Bonus (as well as the corresponding dividends and interest), they shall be delivered within the periods and under the terms provided in the rules for the respective plans.

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 Bonus and the Final LTI Amount to be paid.

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

When shares are delivered and subject to the same requirements, executive directors will be paid an amount in cash equal to the dividends corresponding to such shares, and to the interest accrued on the portion of the deferred amount of the Bonus to be paid in cash, in both cases, from the date of payment of the percentage of immediate payment of the Bonus through the date of payment of the corresponding Bonus or LTI. In those cases in which the Santander Scrip Dividend programme applies, the price paid will be the price offered by the Bank for the bonus share rights corresponding to such shares.

Since the Bonus and the LTI involve the delivery of shares of the Bank, the board of directors submitted to the shareholders at the 2015 annual general shareholders' meeting, which so approved, the application of the fifth cycle of the *Deferred and Conditional Variable Remuneration Plan,* through which the Bonus is implemented, and the second cycle of the Performance Shares Plan, which is used to implement the LTI.

(ii) Gross annual salary

The executive directors' gross annual salary for 2015 was as follows:

Thousands of euros	2015	2014
Executive directors		
Ms Ana Botín-Sanz de Sautuola y O'Shea[1]	2,500	2,500
Mr José Antonio Álvarez Álvarez[2]	2,000	-
Mr Rodrigo Echenique Gordillo[3]	1,500	-
Mr Matías Rodríguez Inciarte	1,710	1,710
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos[4]	-	930
Mr Javier Marín Romano[5]	165	2,000
Mr Juan Rodríguez Inciarte[6]	600	1,200
Total	**8,475**	**8,340**

1. The 2014 gross annual salary was determined on her appointment as chairman of Grupo Santander to reflect her new responsibilities. The effective amount paid in 2014 was EUR 2,225 thousand, including the portion relating to her duties of executive chairman of Santander UK plc (EUR 1,392 thousand) and the portion corresponding to her duties as Group chairman (4/12 of EUR 2,500 thousand, i.e. EUR 833 thousand).
2. Member of the board and executive chairman from 13 January 2015.
3. Executive director since 16 January 2015.
4. Ceased to be a director due to his death on 9 September 2014.
5. Ceased to be a director on 12 January 2015.
6. Figure includes remuneration for service until cessation as a director on 30 June 2015.

(iii) Variable remuneration

The board approved the Bonus and the LTI of the Group executive chairman, the former chief executive officer and the other executive directors, at the proposal of the remuneration committee, which has taken into account the standards referred to in paragraph (i) above and the conclusions of the remuneration risk evaluation committee[7].

Calculation methodology

A) Determination of the individual Bonus for executive directors

The methodology for calculating the 2015 Bonus for executive directors was determined based on the 2015 benchmark bonus, with the following fine-tuning:

- For Ms Ana Botín-Sanz de Sautuola y O´Shea, the benchmark used was the 2014 benchmark set for the Group chairman.
- For Mr José Antonio Álvarez Álvarez and Mr Rodrigo Echenique Gordillo the benchmark used was that approved with the occsion of their respective appointments as chief executive officer and executive chairman of the Group.

The 2015 Bonus was determined based on certain quantitative metrics as well as additional qualitative factors.

Quantitative metrics

The quantitative metrics are as follows:

— Average NOP compared to that budgeted for 2015, which comprises 75% of the Bonus, adjusted according to growth over the prior year, and

— The Rorwa obtained in 2015, compared to the budgeted amount, which determines the remaining 25%.

Santander Group's attributed net ordinary profit (75% weighting) was 93.4% of the budget for 2015 taking into consideration the extraordinary impact of Payment Protection Insurance (PPIs) in the UK and other one-off effects.

The RoRWA (weighting of 25%) of the Group was 99.9% of the budget for 2015.

Modifier by growth compared to the previous year: 2015 NOP increased by 13% compared to 2014, and therefore a modifier of +5% was applied.

Additional qualitative factors (positive and negative)

(1) Appropriate risk management and efficient consumption of capital

The remuneration risk evaluation committee (RREC) is the body entrusted with evaluating the risks and controls of the Group as a whole and of the business divisions, and with the proposal of the corresponding adjustment to the remuneration committee.

7. This committee is made up of members of senior management who are also divisional managers of the Group's control areas (including risk, internal audit, compliance, general secretariat and human resources, financial management, audit and management control) and are directly related to the process of generating financial information. Their duties consist of assessing the impact on the objectives associated with variable remuneration of the management of risks (losses, liquidity, capital or concentration) as well as the quality and recurrence of results and the general compliance and control environment.

In its assessment, the RREC took into consideration the following factors, among others:

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

The result of the Group assessment was +1.5% (percentage points).

(2) Benchmarking of results against competing institutions
A comparison was made between the results of the consolidated Group and those of a peer group. To assess variable remuneration in 2015 a peer group was set up comprising the following entities: UniCredito, Lloyds, BNP Paribas, Intesa SanPaolo, Bank of America, Deutsche Bank, UBS, Société Générale, Citigroup, BBVA, ING, HSBC, Wells Fargo, Itaú-Unibanco, JP Morgan, Standard Chartered and Barclays.

The result of the assessment of this factor is a neutral adjustment of 0% (percentage points).

(3) Benchmarking of customer satisfaction against competing institutions
A comparison was formed based on local customer satisfaction surveys. These surveys are taken in the principal markets in which the Group does business.

The result of this evaluation is +1.9% (percentage points).

(4) Changes in core capital, the Group's economic capital, the balance sheet and other relevant management factors
An assessment was carried out on the most noteworthy aspects of the Group's management during the year, taking into account that the general performance was as expected and in line to reach its long-term goals.

No positive or negative adjustments have been determined for this factor.

Result of the calculations

The result of aggregating the weighted quantitative results as applicable (75% or 25%) and of the qualitative factors is as follows: 103.4%

Such percentage, applied to the sum of the individual benchmark bonuses stated above, has been used to determine the total maximum bonus applicable to the sum of the individual bonuses of executive directors.

The bonus immediately payable or payable in the short term, 40% of the total bonus, is as follows:

Thousands of euros	In the short term 2015 (40%)			In the short term 2014 (40% of total)		
Executive directors	Cash (20%)	Shares (20%)[6]	Total short term	Cash (20%)	Shares (20%)	Total short term
Ms Ana Botín-Sanz de Sautuola y O'Shea[1]	840	840	1,680	752	752	1,504
Mr José Antonio Álvarez Álvarez[2]	558	558	1,116	-	-	-
Mr Rodrigo Echenique Gordillo[3]	414	414	828	-	-	-
Mr Matías Rodríguez Inciarte	573	573	1,146	574	574	1,148
Mr Javier Marín Romano[4]	-	-	-	793	793	1,586
Mr Juan Rodríguez Inciarte[5]	220	220	440	445	445	890
Total	**2,605**	**2,605**	**5,210**	**2,564**	**2,564**	**5,128**

1. The amounts in euros appearing in the right side of this table above for 2014 include the Bonus arising from her duties as chief executive of Santander UK (EUR 884 thousand, EUR 442 thousand in cash and EUR 442 thousand in shares) and the portion corresponding to her duties as Group chairman (EUR 620 thousand, EUR 310 thousand in cash and EUR 310 thousand in shares).
2. Member of the board and chief executive from 13 January 2015.
3. Executive director since 16 January 2015.
4. Ceased to be a director on 12 January 2015.
5. Figure includes bonuses payable immediately or in the short term until cessation as a director on 30 June 2015. The portion corresponding to variable remuneration for duties as senior executive vice-president from 1 July is included in the corresponding section.
6. The amounts payable immediately in shares in the table above correspond to 656,147 Banco Santander shares.

The deferred portion of 2015 variable remuneration, the receipt of which is conditional on staying with the Group and none of the circumstances described in section (i) above occurring, will be paid, where applicable in 2017, 2018, 2019, 2020 and 2021, as follows:

Thousands of euros	Deferred in 2015 (60%)			Deferred in 2014 (60%)		
Executive directors	Cash (30%)	Shares (30%)[6]	Total deferred	Cash (30%)	Shares (30%)	Total deferred
Ms Ana Botín-Sanz de Sautuola y O'Shea[1]	1,260	1,260	2,520	1,129	1,129	2,258
Mr José Antonio Álvarez Álvarez[2]	838	838	1,676	-	-	-
Mr Rodrigo Echenique Gordillo[3]	620	620	1,240	-	-	-
Mr Matías Rodríguez Inciarte	860	860	1,720	860	860	1,720
Mr Javier Marín Romano[4]	-	-	-	1,190	1,190	2,380
Mr Juan Rodríguez Inciarte[5]	330	330	660	667	667	1,334
Total	**3,908**	**3,908**	**7,816**	**3,846**	**3,846**	**7,692**

1. The amounts in euros appearing in the right side of this table for 2014 include the Bonus arising from her duties as chief executive of Santander UK (EUR 1,328 thousand, EUR 664 thousand in cash and EUR 664 thousand in shares) and the portion corresponding to her duties as Group chairman (EUR 930 thousand, EUR 465 thousand in cash and EUR 465 thousand in shares).
2. Member of the board and chief executive from 13 January 2015.
3. Executive director since 16 January 2015.
4. Ceased to be a director on 12 January 2015.
5. Figure includes bonus payable immediately or in the short term until cessation as a director on 30 June 2015. The portion corresponding to variable remuneration for duties as senior executive vice-president from 1 July is included in the corresponding section.
6. The amounts deferred in shares in the table above correspond to a total of 984,221 Banco Santander shares.

The total number of shares indicated in the footnotes to the above tables is within the maximum limit of 2,291,614 shares authorised for executive directors by the shareholders at the general shareholders' meeting of 27 March 2015, and has been calculated on the basis of the average weighted daily volume of the average weighted listing prices of Santander shares for the fifteen trading sessions prior to 26 January 2015 (the date on which the board approved the Bonus for the executive directors of the Bank for 2015), which was EUR 3.971 per share.

B) Determination of the Approved LTI Amount for executive directors

The application of the rules indicated in compliance with approved policy as described in point i) above, is as follows:

a) 2015 EPS compared to the budget was 84.6%.

b) 2015 RoTE compared to the budget was 85.2%.

The application of these scales throws up rates of 91% and 92%, for EPS and ROTE, respectively, resulting in an Approved LTI amount of 91.50% of the (maximum) established benchmark.

The share price applied, corresponding to the 15 stock market sessions prior to 26 January 2016 -the date on which the 2015 Bonus for executive directors was approved by the board, is EUR 3.971 per share. The accrual and final amount of the Approved LTI amount are linked to the degree of compliance with the multiyear targets defined by the plan and other conditions described in point (i) above, and could be zero. If all objectives are met, and the condition of remaining in the Group is complied with and none of the circumstances described in section 2.3.2 (i) above occur, the maximum number of shares corresponding to each executive director and the estimated fair value of this variable remuneration would be as follows:

Thousands of euros

	Maximum number of shares	Fair value[1]
Ms Ana Botín-Sanz de Sautuola y O'Shea	184,337	512
Mr José Antonio Álvarez Álvarez	124,427	346
Mr Rodrigo Echenique Gordillo	92,168	256
Mr Matías Rodríguez Inciarte	143,782	400
Mr Juan Rodríguez Inciarte[2]	50,693	141
Total	**595,407**	**1,655**

1. Fair value estimate at the date on which the maximum number of shares corresponding to the plan was determined based on estimates made by an independent third party (Willis Towers Watson report of July 2015).
2. Figure includes the LTI for service until cessation as a director on 30 June 2015. The portion corresponding to LTI for duties as senior executive vice-president from 1 July is included in the corresponding section.

The total number of shares indicated is within the maximum limit of 931,755 shares authorised for executive directors by the shareholders at the general shareholders' meeting of 27 March 2015, and has been calculated on the basis of said listing price of EUR 3.971 per share.

C) Ratio of variable to fixed components of remuneration in 2015

Shareholders at the general shareholders' meeting of 27 March 2015 approved a maximum ratio between variable and fixed components of executive directors' remuneration of 200%.

The following table shows the percentage of variable components of total remuneration compared to fixed components for each executive director in 2015:

%	Variable components / fixed components
Executive directors	
Ms Ana Botín-Sanz de Sautuola y O'Shea	109%
Mr José Antonio Álvarez Álvarez	56%
Mr Rodrigo Echenique Gordillo	121%
Mr Matías Rodríguez Inciarte	141%
Mr Juan Rodríguez Inciarte[1]	71%

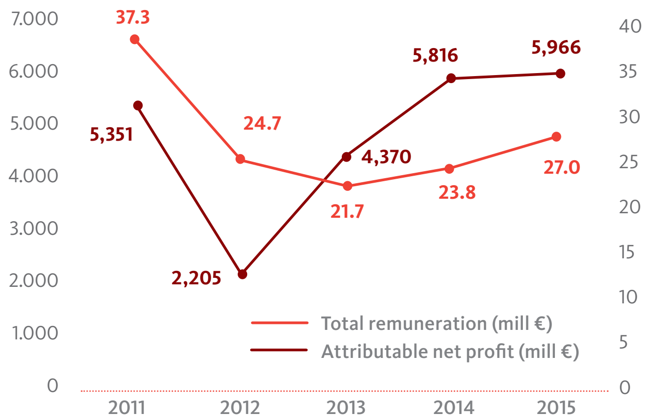
1. Ceased to be a director on 30 June 2015.

For these purposes:

- The variable components of remuneration include the Bonus, the LTI and, if applicable, the portion of contributions to the benefits system that are calculated on the variable remuneration of the related director.

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

The chart below shows the evolution of total remuneration of directors with executive duties against attributable net profit.



* Remuneration data of executive directors and attributable net profit in millions of euros.

(iv) Main features of the benefit plans

In 2012, within the framework of the actions taken by the Group to reduce the risks arising from maintaining defined benefit pension commitments towards certain employees, which gave rise to an agreement with worker representatives to transform the defined benefit obligations arising from the collective bargaining agreements into defined contribution plans, the contracts of the executive directors and the other members of the Bank's senior management (the senior executives) with defined benefit pension commitments were amended to transform them into a defined contribution system, which was externalised to Santander Seguros y Reaseguros Compañía Aseguradora, S.A. The new system gives executive directors the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement, expressly excluding any obligation of the Bank to executive directors other than the conversion of the previous system into the new benefits system that took place in 2012 and, if applicable, the making of the annual contributions described below[8].

In the case of pre-retirement and until the retirement date, executive directors who have not exercised the option to receive their pensions in the form of equity have the right to receive an annual allotment.

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system[9].

Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement). No contributions will be made with respect to executive directors or senior executives who exercised the option to receive their pension rights as capital prior to the transformation of the defined benefits pension commitments into the current defined contribution system indicated in footnote[8] of this report.

The terms of the benefits system govern the impact of the deferral of variable remuneration calculated in the payment of the benefits covered by the system upon retirement, as well as the retention in shares of benefits arising therefrom, if applicable.

The balance in the benefits system corresponding to each of the executive directors at 31 December 2015 is as follows:

Thousands of euros	
Ms Ana Botín-Sanz de Sautuola y O'Shea	41,291
Mr José Antonio Álvarez Álvarez	14,167
Mr Rodrigo Echenique Gordillo[1]	14,623
Mr Matías Rodríguez Inciarte	47,745
Mr Juan Rodríguez Inciarte[2]	-
Total[1]	**117,826**

1. Mr Rodrigo Echenique is not part of the defined-contribution pension scheme described above. However, as he is an executive director, he is included in the tables for rights to which he was entitled before his appointment as such.
2. Ceased to be a director on 30 June 2015 and on 1 January 2016 as senior executive vice-president, retaining his pension rights, which at 31 December 2015 amounted to EUR 14,188 thousand.

The Group also has pension obligations to other directors amounting to EUR 2.5 million (EUR 18 million at 31 December 2014). The variation is the result of the inclusion of the balance corresponding to Mr Rodrigo Echenique in the information on executive directors, although, as explained previously, this balance corresponds to pension rights obtained prior to his appointment as executive director. The payments made in 2015 to the members of the board entitled to post-employment benefits amounted to EUR 1,2 million (EUR 1.2 million in 2014). Of this latter amount (EUR 959 thousand), EUR 909 thousand correspond to Mr Rodrigo Echenique.

The contract with Mr Echenique after his appointment as executive director does not provide for any obligation for Banco Santander regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

8. As provided in the contracts of the executive directors and members of senior management prior to the change, Mr Matías Rodríguez Inciarte exercised the option to receive accrued pensions (or similar amounts) in the form of capital, i.e. in a lump sum, which means that he ceased to accrue pensions from such time, with a fixed capital amount to be received, which shall be updated at the agreed interest rate.
9. In the case of Mr Matías Rodríguez Inciarte, the initial balance corresponded to the amount that was set when, as described above, he exercised the option to receive a lump sum, and includes the interest accrued on this amount from that date.

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

The provisions recognised in 2015 for retirement pensions and supplementary benefits (surviving spouse, child benefits, and permanent disability) were EUR 6,312 thousand (EUR 4,984 thousand in provisions for 2014), as broken down below.

Thousands of euros	
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,302
Mr José Antonio Álvarez Álvarez	2,677
Mr Rodrigo Echenique Gordillo	-
Mr Matías Rodríguez Inciarte	-
Mr Javier Marín Romano[1]	484
Mr Juan Rodríguez Inciarte[2]	849
Total	**6,312**

1. Ceased to be a director on 12 January 2015.
2. Ceased to be a director on 30 June 2015.

2.3.3 Remuneration of the board members as representatives of the Bank

By resolution of the executive committee, all remuneration received by the Bank's directors who represent the Bank on the boards of directors of companies in which the Bank has an interest and which relates to appointments made after 18 March 2002, will accrue to the Group. The directors of the Bank did not receive remuneration from this type of representation in 2015, 2014 or 2013.

Mr Matías Rodríguez Inciarte received a total of EUR 42 thousand in 2015 in his role as non-executive director of U.C.I., S.A. (EUR 42 thousand in 2014).

2.4 Individual remuneration of directors for all items in 2015

The detail, by Bank director, of remuneration payable in the short term (or immediately) in 2015 and 2014 is provided below. The Annex to this report contains disclosures on the shares delivered in 2015 by virtue of the deferred remuneration schemes in place in previous years, the conditions for delivery of which were met in the corresponding years.

Thousands of euros

	Bylaw-stipulated emoluments					
	Annual allotment					
Executive Directors	Board	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk supervision, regulation and compliance committee
Ms Ana Botín-Sanz de Sautuola y O'Shea						
Chief Executive Officer of Santander UK	-	-	-	-	-	-
Group executive chairman	85	170	-	-	-	-
Mr José Antonio Álvarez Álvarez[1]	85	170	-	-	-	-
Mr Rodrigo Echenique Gordillo[2]	85	170	-	-	-	-
Mr Matías Rodríguez Inciarte	85	170	-	-	-	-
Mr Guillermo de la Dehesa Romero	113	170	-	24	24	40
Mr Bruce Carnegie-Brown[3]	374	170	-	24	24	40
Mr Ignacio Benjumea Cabeza de Vaca[4]	24	47	-	7	7	10
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[5]	85	-	-	-	-	-
Ms Sol Daurella Comadrán[6]	85	-	-	24	24	-
Mr Carlos Fernández González[7]	85	-	40	24	-	40
Ms Esther Giménez-Salinas i Colomer	85	-	-	-	-	-
Mr Ángel Jado Becerro de Bengoa	85	-	40	24	24	40
Ms Belén Romana García[8]	2	-	1	-	-	-
Ms Isabel Tocino Biscarolasaga	85	170	40	-	24	40
Mr Juan Miguel Villar Mir	85	-	40	-	-	40
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos[9]	-	-	-	-	-	-
Mr Fernando de Asúa Álvarez[10]	43	20	5	3	3	5
Ms Sheila Bair[11]	64	-	-	-	-	30
Mr Vittorio Corbo Lioi[12]	-	-	-	-	-	-
Mr Javier Marín Romano[13]	3	6	-	-	-	-
Mr Abel Matutes Juan[14]	11	-	5	3	-	-
Mr Juan Rodríguez Inciarte[15]	42	-	-	-	-	-
Total 2015	**1,612**	**1,266**	**169**	**131**	**128**	**282**
Of which are current directors	**1,448**	**1,240**	**159**	**125**	**125**	**247**
Total 2014	**1,347**	**1,310**	**131**	**57**	**57**	**18**

1. Appointed chief executive on 13 January 2015. Remuneration as executive vice-president in 2014 is included in section 3 of this report.
2. Executive director since 16 January 2015.
3. Appointed director with effect from 12 February 2015.
4. Appointed director with effect from 21 September 2015. Remuneration as executive vice-president received prior to that date is included in section 3 of this report.
5. All amounts received were reimbursed to Fundación Marcelino Botín.
6. Appointed director with effect from 18 February 2015.
7. Appointed director with effect from 12 February 2015.
8. Appointed director with effect from 22 December 2015.
9. Ceased to be a director 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 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 and chief executive on 1 January 2016. Remuneration between that date and the date of cessation as executive vice-president (1 January 2016) is included in section 3 of this report.

a. Includes life insurance and medical insurance costs borne by the Group relating to Bank directors.

2015								2014
		Short term remuneration of executive directors						
Attendance fees			Variable - immediate payment					
Board	Other attendance fees	Fixed	In cash	In shares	Total	Other remuneration[a]	Total	Total
								-
-	-	-	-	-	-	-	-	3,010
53	-	2,500	840	840	4,180	396	4,884	1,453
48	38	2,000	558	558	3,116	1,468	4,925	-
51	88	1,500	414	414	2,328	26	2,748	526
53	132	1,710	573	573	2,856	169	3,465	3,484
53	49	-	-	-	-	-	473	436
35	33	-	-	-	-	-	700	-
10	32	-	-	-	-	242	379	-
35	-	-	-	-	-	-	120	110
38	12	-	-	-	-	-	183	-
31	34	-	-	-	-	-	254	-
48	-	-	-	-	-	-	133	121
53	161	-	-	-	-	-	427	152
2		-	-	-	-	-	5	-
53	178	-	-	-	-	-	590	485
48	33	-	-	-	-	-	246	105
-	-	-	-	-	-	-	-	1,129
10	27	-	-	-	-	-	116	645
31	12	-	-	-	-	-	137	129
-	-	-	-	-	-	-	-	56
-	-	165	-	-	165	47	221	3,934
8	5	-	-	-	-	-	32	183
38	61	600	220	220	1,040	153	1,334	2,484
701	**894**	**8,475**	**2,605**	**2,605**	**13,685**	**2,501**	**21,372**	**-**
614	**789**	**7,710**	**2,385**	**2,385**	**12.480**	**2,301**	**19,532**	
484	**873**	**8,065**	**2,564**	**2,564**	**13,193**	**884**	**-**	**18,354**

An individual breakdown of the deferred (or long term) remuneration of the executive directors, the receipt of which is conditional upon remaining with the Group, the non-occurrence of malus clauses and, for the LTI, full compliance with the stated objectives (or minimum thresholds thereof, with the subsequent reduction in the Approved LTI amount), under the terms applied in section 2.3.2 (i) above, is shown below. The remunerations shown in the table below correspond to the maximum amount of the deferred bonus approved by the board as remuneration for the year, regardless of the year of payment and the amount which may ultimately be paid to the directors under the agreed-upon deferred remuneration scheme. Also, figures for 2015 include the estimated fair value of the long-term incentive (LTI), regardless of the year of payment and the amount which may ultimately be paid under the agreed-upon deferred remuneration scheme.

Thousands of euros

	2015				2014
	Long-term salary remuneration				
	Variable deferred payment[1]				
Executive directors	**In cash**	**In shares**	**LTI[2]**	**Total**	**Total**
Ms Ana Botín-Sanz de Sautuola y O'Shea					
Chief Executive Officer of Santander UK	-	-	-	-	1,468
Group executive chairman	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 Javier Marín Romano	-	-	-	-	2,527
Mr Juan Rodríguez Inciarte	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. Maximum amount receivable over 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. Estimated fair value at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods. For more information, see Note 47 to the Annual Financial Statements.

2.5 Director remuneration policy for 2016, 2017 and 2018 that is submitted to a binding vote of the shareholders

A) Introduction

i) Principles of the remuneration policy:

a) Remuneration of directors in their capacity as such
Remuneration of directors in their capacity as such will be based on the positions held by the directors on the collective decision-making body, membership on and attendance at the various committees, and any other objective circumstances that the board may take into account.

b) Remuneration of executive directors
The principles of the remuneration policy for the performance of executive duties are as follows:

- Remuneration must be compatible with rigorous risk management, without favouring an inappropriate assumption thereof, and must be in line with the interests of the shareholders, fostering the long-term creation of value.
- Fixed remuneration must represent a significant proportion of total compensation.
- Variable remuneration must compensate directors' performance in achieving the Group's objectives.
- The overall remuneration package and the structure thereof must be competitive, facilitating the attraction, retention, and appropriate remuneration of the directors.

ii) System for the remuneration of directors in their capacity as such:
The director remuneration system is regulated by article 58 of the Bylaws of Banco Santander and article 28 of the Rules and Regulations of the Board. Pursuant to such system, the remuneration of the directors in their capacity as such will consist of a fixed annual amount determined by the shareholders, which shall remain in effect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such reduction appropriate. This remuneration will have two components: (a) annual allotment and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors and the form of payment shall be determined by the board of directors. For such purpose, it shall take into consideration the positions held by each director on the board itself, membership on the various committees and attendance at committee meetings and any other objective criteria.

In addition, the company will obtain a civil liability insurance policy for its directors upon customary terms that are proportionate to the circumstances of the company, and the directors may be entitled to receive compensation by means of the delivery of shares or option rights thereon, or by any other compensation system tied to the value of shares, provided the application of such compensation systems is previously approved by the shareholders at the general shareholders' meeting.

Independently of the directors' right to receive remuneration in their capacity as such, they are also entitled to receive other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the remuneration committee and upon resolution by the board of directors, may be deemed appropriate in consideration for the performance of other duties in the company, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as members of the board.

iii) Remuneration of executive directors:
For the performance of executive duties, executive directors shall be entitled to receive remuneration (including, if applicable, salaries, incentives, bonuses, possible severance payments for early termination from such duties, and amounts to be paid by the company for insurance premiums or contributions to savings schemes) which, following a proposal from the remuneration committee and by resolution of the board of directors, is deemed to be appropriate, subject to the limits of applicable law.

B) Remuneration of directors for 2016

1. Remuneration of directors in their capacity as such
In 2016, the directors, in their capacity as such, shall continue to receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to EUR 6 million as authorised by the shareholders at the 2015 annual general shareholders' meeting (and again subject to approval by the shareholders at the 2016 general shareholders' meeting), with two components:

(i) annual allotment; and

(ii) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors and the form of payment thereof shall be determined by the board of directors under the terms set forth in section A (ii) above.

In addition, as stated in the description of the director remuneration system, in 2016 the company will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the company.

2. Remuneration of directors for the performance of executive duties
2.1 Fixed components of remuneration
2.1.1 Gross annual salary
At the proposal of the committee, the board approved the following amounts as gross annual salary for executive directors in 2016:

Thousands of euros	2016	2015	Chg (%)
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,500	2,500	0%
Mr José Antonio Álvarez Álvarez[1]	2,000	2,000	0%
Mr Rodrigo Echenique Gordillo[2]	1,500	1,500	0%
Mr Matías Rodríguez Inciarte	1,710	1,710	0%

1. 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. Mr José Antonio Álvarez Álvarez took office as director on 13 January 2015, with Mr Javier Marín Romano withdrawing from the position effective 12 January 2015.
2. Executive director since 16 January 2015.

2.1.2 Other fixed components of remuneration

(i) Benefits systems: defined contribution plans (see section D below)[10].

(ii) Company benefits: executive directors will also receive certain company benefits such as life insurance premiums, medical insurance, company vouchers and, as the case may be, allocating earnings from loans granted under employee conditions in accordance with the normal policy established by the Bank for senior management. Information in addition to this project is included in section D) below.

2.2 Variable components of remuneration

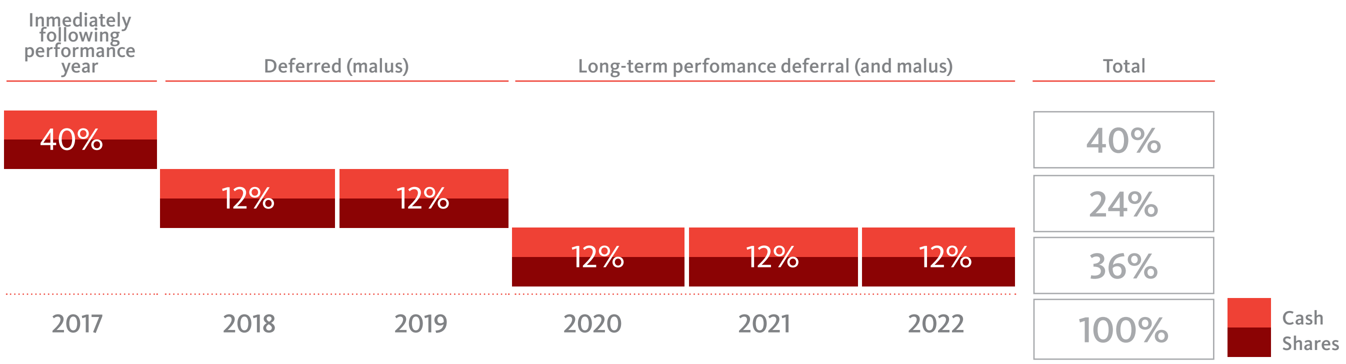
The variable remuneration policy[11] for executive directors for 2016, which was approved by the board at the proposal of the remuneration committee, is based on the principles of the remuneration policy described in section A above.

The variable remuneration[4] of the executive directors is combined in one single amount, that of the previous bonus and LTI, thereby simplifying its structure and aligning it with the company's long-term sustainability and the interests of its shareholders.

It consists of a single incentive linked to the achievement of short and long term objectives, structured as follows: subject to compliance with the short term objectives described in section (ii) below.

- The final amount of the incentive will be determined at the start of the following year (2017) based on the benchmark amount and
- 40% of the resulting incentive shall be paid immediately and the remaining 60% shall be deferred in equal parts over five years, as follows:
  - The payment of the amount deferred over the first two years, payable in the two following years, 2018 and 2019, shall be conditional upon none of the malus clauses described in section (v) being triggered.
  - The amount deferred over the next three years (36% of the total), payable in 2020, 2021 and 2022, shall be conditional not only upon the aforementioned malus clauses not being triggered but also upon the achievement of the long term objectives described in section (iv) (deferred incentive subject to long-term performance objectives).

The structure of the new incentive can be illustrated as follows (incentive for 2016):



10. As stated in section D below, contributions to the benefits systems for some executive directors include both fixed components and variable components.
11. As shown in section D below, the contribution to pension systems for two executive directors includes both fixed and variable components, which are part of the total variable remuneration.

The variable components of executive directors' total remuneration for 2016 must not exceed a limit of 200% of the fixed components, which must be authorised at the general shareholders' meeting.

(i) Benchmark incentive

2016 variable remuneration for executive directors shall be determined based on a standard benchmark bonus conditional on compliance with 100% of the established targets. The benchmark for 2016 has been set aggregating the following components:

- The 2015 benchmark incentive.
- The long-term benchmark incentive for 2015 (20% of the previous amount).

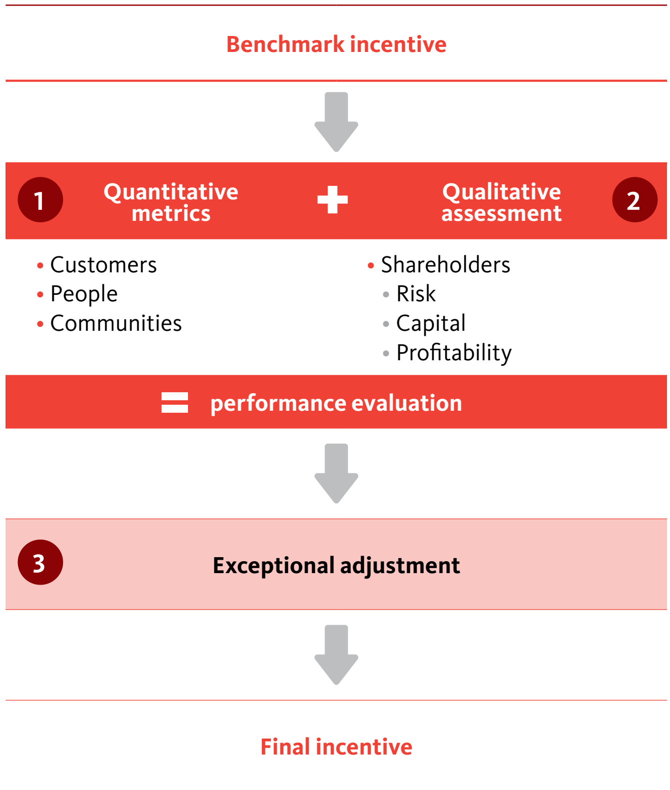
At the proposal of the committee, the board of directors has factored in the following:

- The variable remuneration structure has been simplified by combining the bonus and LTI in a single incentive.
- A higher weighting is given to long-term objectives in total variable remuneration, as these will represent up to 36% of the new incentive.
- More efficient combination of the short and long term objectives as meeting the short term objectives will determine the maximum long-term amount and this may only be reduced, never increased.

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

Based on the scheme described, 2016 variable remuneration for executive directors shall be set on the basis of the following key factors:

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



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

Category & weight		Quantitative metrics	Qualitative assessment
Customers (15%)		• Customer satisfaction rankings • Number of loyal customers • Number of digital customers	• Effective development of the franchise • Compliance with adequate sales and loyalty conduct
Employees (10%)		• Results of commitment survey	• Evidence of a strong Simple, Personal & Fair culture
Society (5%)		• Santander Universities programme	• Support for the society of the future
Shareholders (70%)	Risks (10%)	• Non-Performing Loans • Cost of lending ratio	• Effective risk appetite management • Reinforcing culture and risk control • Operational risk management • Progress towards risk management Pillar II
	Capital (10%)	• Target capital ratio • Risk Weighted Assets (RWA) cap	• Management of regulatory changes affecting capital • Effective capital management in business decisions • Progress in the capital plan to achieving Pillar III objectives
	Profitability (50%)	• Net ordinary profit (NOP)[12] • RoRWA: return on risk weighted assets	• Growth compared to the prior year allowing for market environment and competitors • Sustainable profits and capital management • Cost management • Effective capital allocation

Lastly, and as additional conditions, in determining the incentive, it will be verified whether or not the following circumstances occurred:

- If the Group's NOP for 2016 is less than 50% of the NOP for 2015, the incentive would in no case exceed 50% of the benchmark incentive for 2016.
- If the Group's NOP is negative, the incentive would be zero.

(iii) Form of payment of the incentive:

The variable remuneration is paid 50% in cash and 50% in shares, part in 2017 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% of the incentive is paid in 2017 net of taxes, half in cash and half in shares.

b) 60% is paid, if applicable, in equal parts in 2018, 2019, 2020, 2021 and 2022 net of taxes, half in cash and half in shares, subject to the conditions stipulated in section (v) below.

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

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

(iv) Deferred performance-based incentive

As mentioned, the amounts deferred in 2020, 2021 and 2022 shall be conditional upon, in addition to the terms described in section (v), compliance with the Group's long-term objectives for 2016-2018. The long-term metrics, which may only reduce the deferred amounts, and number of deferred shares are as follows:

(a) Compliance with Banco Santander's consolidated EPS per share growth target in 2018 vs 2015. The EPS ratio relating to this target is shown in the table below:

EPS growth 2018 (% vs 2015)	"EPS ratio"
≥ 25%	1
< 0% but < 25%	0 – 1*
≤ 0%	0

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

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

12. For this purpose, NOP is net ordinary attributable profit, adjusted up or down for transactions whose impact the board of directors deems to be unrelated to the performance of the executives evaluated, considering to this end any extraordinary capital gains, corporate transactions, special write-offs and accounting or legal adjustments that may take place over the course of the year.

Ranking of Santander's TSR	"TRS ratio"
Above the 66th percentile	1
Between the 33rd and 66th percentile	0-1*
Lower than the 33rd percentile	0

* Proportional increase in the TRS ratio according to the number of positions moved up in the ranking within this line of the scale.

TSR[13] measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

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

(c) Compliance with the common equity tier 1 ("CET1") fully loaded ratio set for 2018 (higher than 11% at 31 December 2018). If this objective is met, a CET1 ratio of 1 shall be assigned to this metric, otherwise the CET1 ratio will be 0. To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2018 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

(d) Compliance with Grupo Santander's underlying return on risk-weighted assets ("RoRWA") growth target for 2018 measured against 2015. The RoRWA ratio shall be obtained based on the following table:

RoRWA growth in 2018 vs 2015 (basis points difference)	"RoRWA ratio"
≥ 20%	1
≥ 10% but < 20%	0.5 – 1*
< 10%	0

* Straight-line increase in the RoRWA ratio according to the specific growth percentage of 2018 RoRWA with respect to 2015 RoRWA within this line of the scale.

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

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

where,

- "Amt." is one third of the incentive amount deferred conditional on performance (i.e. Amt. will be 12% of the total incentive set in early 2017).
- "A" is the EPS ratio thrown up by the scale in section (a) above, according EPS growth in 2018 vs 2015.
- "B" is the TSR ratio thrown up the scale in section (b) above according to the relative performance of TSR in 2016-2018 vs the peer group.
- "C" is the CET1 ratio according to compliance with the CET1 target ratio described in section (c) above.
- "D" is the RoRWA ratio deriving from the scale in section (d) above according to the level of RoRWA growth in 2018 vs 2015.

13. TSR is the difference (expressed as a percentage) between the end value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2016 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2019 (exclusive) (to calculate the final value).

(v) Other incentive terms

(a) Continuity and applicable malus clauses

In addition to the continuity of the beneficiary within the Group[14], the accrual of the deferred remuneration (performance-linked or otherwise) is conditional upon none of the following circumstances arising, in the opinion of the board of directors, at the proposal of the remuneration committee, during the period before each delivery under the terms of the Group's malus policy.

1. Poor financial performance of the Group;
2. Violation by the beneficiary of internal regulations, particularly those relating to risks;
3. 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
4. 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 incentive.

(b) Other rules applicable to the incentive

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

2.3 Holding shares

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

According to this policy, each executive director active on 1 January 2016 shall have five years in which to demonstrate that his/her personal assets include an investment in the Bank's shares equivalent to twice the net tax amount of his/her gross annual salary at the same date. If an executive director is appointed after that date, the five year term shall commence on his/her joining date. Once this level of investment has been obtained, it must be maintained while the executive director continues to perform this function.

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

C) REMUNERATION OF DIRECTORS FOR 2017 AND 2018

1. Remuneration of directors in their capacity as such

In 2017 and 2018, the directors, in their capacity as such, shall receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to EUR 6 million as authorised by the shareholders at the 2015 annual general shareholders' meeting (and again subject to approval by the shareholders at the 2016 general shareholders' meeting), unless the shareholders approve a higher amount. According to the remuneration system, the components of the remuneration shall be:

(a) Annual allotment; and

(b) Attendance fees.

The specific amount corresponding to the above items for each of the directors and the form of payment will be determined by the board of directors, which will take into account, respectively, (a) the duties performed by each director within their own decision-making body and their membership on various board committees, (b) attendance at meetings of the board and, if applicable, of the committees to which the director belongs, and (c) any other objective criteria.

In addition, in 2017 and 2018 the company will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the company.

Independently of the directors' right to receive remuneration in their capacity as such, they are also entitled to receive other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the remuneration committee and upon resolution by the board of directors, may be deemed appropriate in consideration for the performance of other duties in the company, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as directors.

2. Remuneration of directors for the performance of executive duties

Remuneration of executive directors shall conform to principles similar to those applied in 2016, as described below.

2.1 Fixed components of remuneration

2.1.1 Gross annual salary

The gross annual salary for executive directors shall be the amount established by the board, at the proposal of the remuneration committee, that is consistent with the level of responsibility within the Bank such that it favours the retention of key professionals and attracts the best talent and such that the amount represents a significant proportion of their total compensation.

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

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

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

If the beneficiary goes to another company of Grupo Santander (including through international assignment and/or expatriation), there shall be no change in the rights thereof. If the relationship terminates by mutual agreement or because the beneficiary obtains a leave not referred to in any of the preceding paragraphs, the terms of the termination or temporary leave agreement shall apply.

None of the above circumstances shall give the right to receive the deferred amount of the incentive in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred amount of the incentive, it shall be delivered within the periods and under the terms provided in the rules for the plans.

The annual gross fixed remuneration may be revised each year depending on the criteria approved at each moment by the remuneration committee. The maximum increase for the 2017 and 2018 fiscal years for each executive director may not exceed 3% of his or her annual gross salary for the 2016 or 2017 fiscal year, as the case may be. Nonetheless, this increase may be higher for one or several directors provided that, when applying the rules or requirements or supervisory recommendations that may be applicable and if so proposed by the remuneration committee, it is appropriate to adjust their remuneration mix and, particularly, their variable remuneration in view of the functions they perform, without these increases possibly leading to an increase in the total remuneration of the mentioned directors for this reason. In the event this circumstance occurs, it will be described in the corresponding remuneration committee report and in the annual report on board member remuneration that is put to an advisory vote each year at the general shareholders' meeting.

2.1.2 Other fixed components of remuneration

(i) Benefits systems: defined contribution plans (see section D below).

(ii) Social welfare benefits: Executive directors will also receive certain social welfare benefits such as life insurance premiums, medical insurance, company store vouchers and, if applicable, the allocation of remuneration for employee loans, all on market terms.

2.2 Variable components of remuneration

The variable remuneration policy for executive directors for 2017 and 2018 shall be based on principles similar to those of 2016, as described below:

- Variable remuneration executive directors include an incentive to be received partly in cash and partly in shares, while deferring collection of a portion thereof for at least five years; and a portion of the deferred incentive conditional upon meeting the long-term objectives that may only reduce its amount[15].

- Variable remuneration limits. The variable components of executive directors' total remuneration for 2017 and 2018 must not exceed a limit of 200% of the fixed components.

(i) Setting the incentive

The 2017 and 2018 variable remuneration for executive directors shall be determined based on a benchmark incentive approved for each year which takes into account:

- A group of short term quantitative metrics measured against annual objectives. These metrics will be aligned with the Group strategic plan and include shareholder return targets, risk objectives, capital, customers and employees. The metrics may be measured at Group level, and, where applicable, at division level if the executive director is responsible for managing a specific business division. The results of each metric may be compared to both the budget established for the financial year as well as to growth compared to the prior year.

- A qualitative assessment supported by accredited evidence which cannot adjust the quantitative result by more than 25% upwards or downwards. The qualitative assessment shall be performed on the same categories as the quantitative metrics, including shareholder returns, risk and capital management, customers and employees.

- Potential exceptional adjustments that must be supported by clear evidence and that may result in amendments deriving from deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

  The quantitative metrics, qualitative assessment and potential extraordinary adjustments will ensure that the main objectives are considered from the perspective of different stakeholders, a suitable balance between quantitative metrics and qualitative assessment, and that the importance of risk and capital management is factored in.

  Additionally, in determining the incentive it will be verified whether or not the following circumstances have occurred:

- If the quantitative metrics linked to profit do not reach a certain compliance threshold, the incentive may not be greater than 50% of the benchmark incentive for the corresponding year.

- If the results of the metrics linked to profit are negative, the incentive shall be zero.

(ii) Form of payment of the incentive:

(1) For the 2017 incentive

A minimum of 50% of the incentive shall be paid in shares and the remaining amount in cash, part in 2018 and a part deferred for at least five years, as follows:

- 40% of the incentive will be paid in 2018.

- 60% of the incentive will be paid in 2019, 2020, 2021, 2022 and 2023, in equal parts and the three last years shall be conditional on the achievement of long-term objectives that can only reduce the amount payable.

(2) For the 2018 incentive

A minimum of 50% of the incentive shall be paid in shares and the remaining amount in cash, part in 2019 and a part deferred for at least five years, as follows:

- 40% of the incentive will be paid in 2019.

- 60% of the incentive will be paid in 2020, 2021, 2022, 2023 and 2024, in equal parts and the three last years shall be conditional on the achievement of long-term objectives that can only reduce the amount payable.

15. As shown in section D below, the contribution to pension systems for two executive directors includes both fixed and variable components, which are part of the total variable remuneration.

(iii) Deferred performance-based incentive

For the 2017 incentive, the amounts deferred in 2021, 2022 and 2023 shall be conditional upon, in addition to the terms described in section (iv), compliance with the Group's long-term objectives for at least the period 2017-2019. For the 2018 incentive, the amounts deferred in 2022, 2023 and 2024 shall also be conditional upon, in addition to the terms described in section (iv) below, compliance with the Group's long-term objectives for at least the period 2018-2020. The achievement of long-term objectives may only confirm or reduce the amounts and number of shares deferred and a minimum threshold shall be set below which the deferred incentives shall not be accrued.

Long-term metrics include objectives relating to value-creation and shareholder returns, risk and capital in a multiyear period of at least three years. These metrics shall be aligned with the Group's strategic plan and reflect its main priorities from a stakeholders' perspective.

These metrics may be measured at the level of the Group or of the country or business, when appropriate, and the performance thereof may be relatively compared to a peer group.

The portion paid in shares in the 2017 and 2018 incentives may not be sold until at least one year has elapsed from delivery thereof.

(iv) Other incentive terms

- Accrual of the deferred amounts, including performance-linked amounts, shall also be conditional upon the beneficiary remaining in the Group and none of the circumstances set forth in the related malus clauses taking place, all under terms similar to those indicated for 2016.

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

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances due to internal or external factors and such as regulatory requirements or requests or recommendations issued by regulators or supervisory authorities. If that were the case, such adjustments will be described in detail in the corresponding report of the remuneration committee and in the annual report on director remuneration submitted each year to a consultative vote of the shareholders at the general shareholders' meeting.

2.3 Holding shares

The share holding policy approved in 2016 will apply in 2017 and 2018, unless the remuneration committee, under exceptional circumstances such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies, were to propose amendments to this policy to the board. Any eventual amendments would be described in detail in the corresponding report of the remuneration committee and in the annual report on director remuneration submitted each year to a consultative vote at the general shareholders' meeting.

D) TERMS AND CONDITIONS OF EXECUTIVE DIRECTORS' CONTRACTS

The terms for the provision of services by each of the executive directors are governed by the contracts signed by each of them with the Bank. The basic terms and conditions of the contracts of the executive directors, besides those relating to the remuneration, are the following:

a) Exclusivity and non-competition

Executive directors may not enter into contracts to provide services to other companies or entities except where expressly authorised by the board of directors. In all cases, a duty of non-competition is established with respect to companies and activities similar in nature to those of the Bank and its consolidated Group.

Likewise, the contracts of the executive directors provide for certain prohibitions against competition and the poaching of clients, employees and suppliers that may be enforced for two years after the termination thereof for reasons other than retirement, pre-retirement or a breach by the Bank. The compensation to be paid by the Bank for this prohibition against competition is 80% of the fixed remuneration of the corresponding director, payable 40% on termination of the contract and 60% at the end of the 2-year period.

b) Code of conduct

There is an obligation to strictly observe the provisions of the Group's general code and of the code of conduct in securities markets, in particular with respect to rules of confidentiality, professional ethics and conflicts of interest.

c) Termination

The contracts are of indefinite duration and do not provide for any severance payment in the case of termination other than as may be required by law.

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

In the event of termination of her contract by the Bank, Ms Ana Botín-Sanz de Sautuola y O' Shea must remain available to the Bank for a period of four months to ensure a proper transition, during which period she would continue to receive her gross annual salary..

d) Pre-retirement and benefit plans

The contracts of the following executive directors acknowledge their right to pre-retire under the terms stated below when they have not yet reached retirement age:

- Ms Ana Botín-Sanz de Sautuola will be entitled to pre-retirement in the event of leaving her post for reasons other than breach of duty. In this case, she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of the last variable remunerations of the executive chairman, to a maximum of three. This allotment shall be reduced by 20% in the event of voluntary termination prior to the age of 60.

- Mr José Antonio Álvarez Álvarez will be entitled to pre-retire in the event of leaving his post for reasons other than his own free will or breach of duty In that case, he will be entitled to an annual allocation equivalent to the fixed remuneration corresponding to him as a senior executive vice president.

If Ms Ana Botín-Sanz de Sautuola y O'Shea or Mr José Antonio Álvarez Álvarez take pre-retirement, they are entitled to receive the annual allotments in the form of an annuity or as capital (i.e. in a lump sum), in whole but not in part.

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans for the benefit of the other executive directors, except in the case of Mr Matías Rodríguez Inciarte, for whom new contributions are not made. The annual contributions are calculated in proportion to the respective pensionable bases of the executive directors, and shall continue to be made until they leave the Group or until their retirement within the Group, or their death or disability (including, if applicable, during pre-retirement). The pensionable base for purposes of the annual contributions is the one indicated above for the calculation of the allotment for pre-retirement (except in the case of Mr José Antonio Álvarez, who, during his term of office as CEO, will have a pensionable base equal to the sum of his fixed remuneration as such and 30% of the average of the last three variable remuneration payments), with the amount of the contributions being 55% in the cases of Ms Ana Botín-Sanz de Sautuola y O'Shea and Mr José Antonio Álvarez Álvarez.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors thereunder belong to them regardless of whether or not they are active in the Bank at the time of their retirement, death or disability. As stated in section c) above, the contracts of these directors do not provide for any severance payment in the case of termination other than as may be required by law.

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

Finally, the contracts of Ms Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez Álvarez include a supplemental benefit scheme for the contingencies of death (surviving spouse and child benefits) and permanent disability of serving directors, which entitles the widow/widower and any children under the age of 25 in the case of death, or the director in case of disability, the right to a pension supplemental to that which they would be entitled to receive from Social Security up to an annual maximum amount equal to their respective pensionable bases, as indicated above in connection with the pre-retirement (refers to fixed remuneration as chief executive officer in the case of Mr Álvarez). Income to be received from the benefit system described above shall be deducted from the amount of the supplemental benefit, and the supplemental pension could reach zero (but not less than zero).

e) Insurance and other benefits in kind
The Group has arranged life and health insurance policies for the directors.

In 2016, the premiums for this insurance amounted to 479 thousand euros. In 2017 and 2018, these premiums could vary in the event of a change in the fixed remuneration of directors or in their actuarial circumstances.

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

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

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

g) Other conditions
The advance notice periods contained in the contracts with the executive directors are as follows:

	Date of current contract	By decision of the Bank (months)	By decision of the director (months)
Ms Ana Botín-Sanz de Sautuola y O'Shea	26/01/2015	-	4
Mr José Antonio Álvarez Álvarez	23/02/2015	-	-
Mr Rodrigo Echenique Gordillo	26/01/2015	-	-
Mr Matías Rodríguez Inciarte	26/12/2012	4	4

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

E) APPOINTMENT OF NEW EXECUTIVE DIRECTORS
The components of remuneration and basic structure of the agreements described in this remunerations policy will apply to any new director that is given executive functions, notwithstanding the possibility of amending specific terms of agreements so that, overall, they have conditions similar to those previously described.

In particular, the total remuneration of said director for performing executive duties may not be greater than the highest remuneration received by the current executive directors of the company pursuant to the remuneration policy approved by the shareholders. The same rules shall apply if a director assumes new duties that said director did not previously discharge or becomes an executive director.

If executive responsibilities are assumed with respect to a specific division or country, the board of directors, at the proposal of the remuneration committee, may adapt the metrics used for the establishing and accrual of the incentive in order to take into account not just the Group but also the respective division or country.

As regards the remuneration of directors in their capacity as such, it shall be included within the maximum distributable amount set by the shareholders and to be distributed by the board of directors as described above.

Additionally, if the new director comes from an entity not included in Grupo Santander, he/she could be the beneficiary of a buy out to offset the loss of variable remuneration corresponding to his/her prior post if he/she had not accepted the engagement offer of the Group. According to the buy out policy approved by the board, following a proposal by the remuneration committee, compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders' meeting. Therefore, at the next meeting, authorisation is expected to be sought to deliver a specified maximum number of shares as part of any hires to which the buy out policy applies.

2.6 Preparatory work and decision-making process with a description of the participation of the remuneration committee and the identity of the external advisors

Remuneration committee

At its meeting of 11 February 2016, the remuneration committee prepared this report, section 2.5 of which contained the remuneration policy for the years 2016 and 2017 and 2018, to be submitted for approval at the ordinary general shareholders' meeting of 2016.

Likewise, the committee prepared the annual report on directors' remuneration for 2015, in accordance with the regulatory template. These two reports were approved by the board at its meeting of 12 February 2016.

The annual report on directors' remuneration is expected to be submitted for approval at the ordinary general meeting of 2016 as a separate item of the agenda and on a consultative basis.

External advisors

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

Annex

Below is a report on the deferred variable remuneration payments to executive directors for financial years prior to 2015.

Variable remuneration in 2011, 2012, 2013 and 2014

Deferred and conditional variable remuneration plan

In 2011, 2012, 2013 and 2014, the board of directors, at the proposal of the appointments and remuneration committee, approved the first, second, third and fourth cycle of the deferred conditional variable remuneration plan, which was used to implement the variable remuneration or bonus for financial years 2011, 2012, 2013 and 2014, respectively, of the executive directors and certain officers (including senior management) and employees whose professional activities have a material impact on the risk profile, who exercise control duties, or whose total remuneration takes them into the same remuneration bracket as that of senior management and employees whose professional activities have a material impact on the risk profile (all of whom are referred to as "identified staff" under the Guidelines on Remuneration Policies and Practices approved by the committee of European Banking Supervisors on 10 December 2010). Since these cycles entail the delivery of shares in the Bank, the shareholders at the general shareholders' meetings of 17 June 2011, 30 March 2012, 22 March 2013 and 28 March 2014, respectively, approved the application of the first, second, third and fourth cycle of the deferred conditional variable remuneration plan.

The purpose of these cycles is to defer payment of a portion of the variable remuneration or bonus of the beneficiaries thereof for a period of three years, in cash and in Santander shares, and to pay upon commencement the other portion of such variable remuneration in cash and in Santander shares, in accordance with the rules described below.

Payment of the deferred percentage of the bonus is paid in a period of three years, and paid in thirds within the fifteen days following the anniversaries of the initial date (date on which the immediate bonus payment is made) in 2013, 2014 and 2015 for the first cycle and within the thirty days immediately following the anniversaries of the initial date in 2014, 2015 and 2016 for the second cycle, in 2015, 2016 and 2017 for the third cycle and in 2016, 2017 and 2018 in the fourth cycle, paying 50% in cash and 50% in shares, provided that the conditions below are met.

Accrual of the deferred remuneration is conditional upon continued service of the beneficiary with the Group and upon the absence, in the judgement of the board and at the proposal of remuneration committee, of any of the following circumstances during the period prior to each of the deliveries under the terms set down in the corresponding plan: (i) poor financial performance by the Group; (ii) violation by the beneficiary of internal rules, particularly those relating to risks; (iii) a material restatement of the Group's financial statements, except if such restatement is made pursuant to a change in accounting rules, or (iv) significant changes in the Group's financial capital or risk profile. All this, in each case, according to the regulations of the corresponding cycle of the plan.

On each delivery, beneficiaries are paid an amount in cash equal to the dividends paid on the deferred amount in shares and interest on the amount accrued in cash. In those cases in which the scrip dividend scheme *(Santander Dividendo Elección)* applies, the price paid is the price offered by the Bank for the free allotment rights corresponding to such shares.

The maximum number of shares deliverable is calculated based on the amount resulting from applying applicable taxes and the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to the date on which the board approves the bonus for the Bank's executive directors for the years 2011, 2012, 2014 and 2014 for the first, second, third and fourth cycles, respectively.

Below is the number of shares (taking gross amounts into account) that corresponded to each of the executive directors under the first four cycles of this plan in early 2015, the amount delivered during the year and the balance at year-end. Also shown is the amount in thousands of euros paid in 2015 under said cycles of this plan.

1. Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea

Variable remuneration in 2011 (first cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
17 June 2011	47,000	47,000	-	-	319

Variable remuneration in 2012 (second cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
30 March 2012	104,874	34,958	-	69,916	226

Variable remuneration in 2013 (third cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
22 March 2013	165,603	66,241	-	99,362	466

Variable remuneration in 2014 (fourth cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/201	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
28 March 2014	304,073	121,629	-	182,444	801

2. Mr José Antonio Álvarez Álvarez

Variable remuneration in 2011 (first cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
17 June 2011	32,038	32,038	-	-	182

Variable remuneration in 2012 (second cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
30 March 2012	72,140	24,047	-	48,093	155

Variable remuneration in 2013 (third cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
22 March 2013	117,362	58,681	-	58,681	392

Variable remuneration in 2014 (fourth cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
28 March 2014	157,452	78,726	-	78,726	487

3. Mr Matías Rodríguez Inciarte

Variable remuneration in 2011 (first cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
17 June 2011	62,878	62,878	-	-	357

Variable remuneration in 2012 (second cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
30 March 2012	124,589	41,530	-	83,059	267

Variable remuneration in 2013 (third cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
22 March 2013	172,731	69,092	-	103,639	462

Variable remuneration in 2014 (fourth cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
28 March 2014	231,814	92,726	-	139,088	574

4. Mr Javier Marín Romano[16]

Variable remuneration in 2011 (first cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
17 June 2011	25,960	25,960	-	-	147

Variable remuneration in 2012 (second cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
30 March 2012	58,454	19,485	-	38,969	125

Variable remuneration in 2013 (third cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
22 March 2013	187,125	74,850	-	112,275	500

Variable remuneration in 2014 (fourth cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
28 March 2014	320,563	128,225	-	192,338	793

5. Mr Juan Rodríguez Inciarte[17]

Variable remuneration in 2011 (first cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
17 June 2011	36,690	36,690	-	-	208

Variable remuneration in 2012 (second cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
30 March 2012	72,699	24,233	-	48,466	156

Variable remuneration in 2013 (third cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
22 March 2013	110,747	44,299	-	66,448	296

Variable remuneration in 2014 (fourth cycle of deferred conditional variable remuneration plan)

Date of implementation	Shares 01/01/2015	Shares delivered in 2015	Shares retired in 2015	Shares pending delivery in 2015	Cash paid in 2015 (thousands of euros)
28 March 2014	179,680	71,872	-	107,808	445

16. Ceased to be a director on 12 January 2015.
17. Ceased to be a director on 30 June 2015.

3. Remuneration of non-director members of senior management

Remuneration

At its meeting of 25 January 2016, the committee agreed to propose to the board of directors the approval of the bonus for 2015 of members of senior management who are not directors. The 2015 Approved LTI Amount was also set, as mentioned for executive directors in section 2.3.2. The committee's proposal was approved by the board at its meeting of 26 January 2016.

In 2015, the Bank's board of directors approved a series of appointments and organisational changes to simplify the Group's organisation and make it more competitive. The table below shows the amounts of short-term remuneration (immediately payable) for members of senior management at 31 December 2015 and 2014, excluding that corresponding to the executive directors shown previously:

Thousands of euros

		Short-term salary remuneration				
			Immediately payable variable remuneration (bonus)			
Year	Number of people	Fixed	In cash	In shares[1]	Other remunerations[2]	Total
2015	21	17,838	6,865	6,865	5,016	36,584
2014	25	24,772	9,259	9,259	7,046[3]	50,336

1. The amount immediately payable in shares in 2015 was 1,726,893 Santander shares (1,514,738 Santander shares and 148,631 Banco Santander (Brazil) S.A. shares in 2014).
2. Includes other items of remuneration such as life insurance premiums in the amount of EUR 1,309 thousand (EUR 1,290 thousand in 2014).
3. Additionally, an extraordinary tax payment of US$6.9 million was made in the United States of America due to the transformation of certain pension plans of Banco Santander, S.A.

The following table shows a breakdown of the deferred (long-term) salary remuneration for members of senior management at 31 December 2015 and 2014. This remuneration is conditional upon compliance with certain established terms for each manager in the corresponding deferral periods.

Thousands of euros

		Long-term salary remuneration			
		Variable remuneration (deferred payment)[1]			
Year	Number of people	In cash	In shares	LTI[2]	Total
2015	21	7,880	7,880	3,732	19,492
2014	25	11,751	11,751	2,264	25,766

1. Corresponds to the fourth and fifth cycle of the deferred conditional variable remuneration plan for 2014 and 2015, pursuant to which a portion of variable remuneration for FY2015 and FY2014 will be deferred for five or three years respectively for payment, if any, in fifths or thirds, 50% in cash and 50% in Santander shares, provided that they have complied with the conditions established for the receipt thereof. The 2015 plan was approved at the general shareholders' meeting of 27 March 2015.

2. LTI estimated fair value. The accrual and amount of the LTI is subject to, among other things, compliance with the multi-year goals provided for in the plan. LTI shall be received, if applicable, fully in shares and deferred in 2019 for the second cycle approved in 2015, or in thirds (each amount shall be linked to a specific performance objective), for the first cycle approved in 2014. The 2015 plan was approved at the general shareholders' meeting of 27 March 2015.

Additionally, executive vice-presidents ceasing to carry out their duties in 2015 and who were not members of senior management by the end of the year, received salary remuneration and other remuneration relating to the cessation of their duties for a total amount of EUR 17,803 thousand during the year (EUR 3,349 thousand for those leaving their posts in 2014), while maintaining their long-term salary rights for a total amount of EUR 7,123 thousand (EUR 1,342 thousand for those leaving 2014).

In 2015, the ratio between the variable components of remuneration to the fixed components was 86,7% of the total for executive vice presidents, in all cases respecting the upper limit of 200% set by the shareholders.

See note 5 of the Group's 2015 annual financial statements for further details.

Remuneration of identified staff

The committee proposes to the board of directors the remuneration of executives whose activities may have a substantial impact on the assumption of significant risks by the Group and the remuneration of executives performing control duties.

The aforementioned professionals, together with the executive directors, the other members of senior management and the employees receiving remuneration similar to that of the senior management make up what is known as the identified staff group.

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

In 2014, the committee updated the criteria for defining identified staff, for the purposes of conforming said definition to Directive 2013/36/EU, to Law 10/2014, and to Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile. Also, in 2015, at the proposal of the committee, the board approved the policy to determine the Group's identified staff.

At year-end 2015, and taking into account such update in standards, the group was comprised of 1,281 executives from the entire Group (including the executive directors and the members of senior management who are not directors), which covers 0.66% of the workforce.

The directors within the identified staff other than executive directors are subject to the same remuneration standards applicable to the latter (described in sections 2.3.2 and 2.5), except for (i) the various deferral percentages and terms that apply based on the category thereof; (ii) the possibility that in 2016 the deferred part of the incentive of certain categories of executives is not conditional upon performance but only to the malus clause; and (iii) as happened with the bonuses in previous years, the variable remuneration amount that is paid or deferred in shares to the executives of the Group in Brazil, Chile, Mexico, Poland, and Santander Consumer USA is delivered in shares or similar instruments of their own entities. In financial year 2016, the board of directors will maintain its flexibility for agreeing total or partial payment in shares or similar instruments of Banco Santander and/or the respective subsidiary in the proportion it considers appropriate in each case (subject, in any event, to the maximum number of Santander shares to be delivered as agreed by shareholders at the general meeting and any regulatory restrictions applicable in each jurisdiction).

The aggregate amount of the 2015 variable remuneration of identified staff, excluding the amount of remuneration of the executive directors and of the other executive vice presidents (described in earlier sections of this report) was as follows:

Remuneration 2015

Number of executives	Fixed	Bonus	Immediate payment in cash (30%)[1]	Immediate payment in shares (30%)[1]	Deferred payment in cash (20%)[1 and 2]	Deferred payment in shares (20%)[1 and 2]	LTI	Other remuneration	Total[3]
1,246[4]	311,175	317,330	91,520	90,637	67,587	67,587	35,276	35,019	698,800

1. Generally applied percentages. In some countries the percentages to defer may be higher for certain categories of executives, also resulting in a lower proportion of immediate payment. In addition, those officers whose variable remuneration is less than EUR 50,000 are not subject to deferral and receive their full bonus immediately in cash.
2. In three or five years: 2017, 2018, 2019, 2020 and 2021 subject to continued employment of the beneficiary, with the exceptions provided in the rules of the plan, and the non-triggering of malus clauses.
3. The amount of the LTI to which the identified staff are entitled was set by the board of directors at a total of 50,394 thousand euros (with a fair value of 35,276 thousand euros). The accrual and amount of the LTI is subject to, among other things, compliance with the multiyear goals provided for in the plan. This LTI shall be received, if applicable, wholly in shares in 2019.
4. This number includes all members of the Identified Staff who are not executive directors or members of senior management. Pursuant to the qualitative standards of Commission Delegated Regulation (EU) No 604/2014, this number includes the non-executive directors of the Bank, although their remuneration is not included in the figures of this table or in the previous footnote. The remuneration of the non-executive directors in their condition as such, which does not include variable components, is described in section 2.3 herein.

In 2015, the ratio between the variable components of remuneration to the fixed components for the entire identified staff (excluding that corresponding to the remuneration of the executive directors and the other executive vice presidents – as described in this report) was 90.6%, in all cases complying with the limit applicable to each of them.

The amounts set forth above were approved by the board at its meeting of 26 January 2016, as a result of the proposal formulated by the remuneration committee at its meeting of 25 de January 2016.

4. Challenges for 2016

The main challenges for the committee in 2016 are as follows:

- To intensify collaboration with the risk supervision, regulation and compliance committee in establishing rational remuneration policies and practices, particularly with regard to verifying whether the new remuneration system considers the Group's risk, capital, liquidity and likelihood of, and opportunities for, profits.
- To continue developing remuneration policies consistent with best international practices, fostering their implementation throughout the Group.

5. Conclusion

Throughout 2015, the remuneration committee has properly discharged the responsibilities assigned to it in the Bylaws and the Rules and Regulations of the Board.

Report of the risk supervision, regulation and compliance committee 2015

"There have always been people with great intelligence and energy in the banking world. Our success in the next few years will hinge on our integrity"

Ana Botín, Group executive chairman
8th International Banking Conference
26 November 2015

1. Introduction

Regulation

The Bank's risk supervision, regulation and compliance committee was set up in June 2014 and was granted general powers to support and advise the board of directors in regard to the supervision and control of risks, the definition of the Group's risk policies, relations with supervisory authorities and matters concerning compliance.

This committee's regulations are contained in articles 54-3 of the Bylaws and 17-3 of the the Rules and Regulations of the Board[1].

Duties

The competencies of the risk, supervision, regulation and compliance committee may be classified into the following main categories[2]:

1. Risk:

- Support and advice to the board in defining and assessing the risk policies affecting the Group and in determining the current and future risk propensity, and the strategy in this regard.

  The Group's risk policy must include:

  (i) Identification of the various types of risk, whether financial or non-financial, facing the Bank, including, among financial or economic risks, contingent and other off-balance liabilities.

  (ii) Setting of the risk appetite considered acceptable for the Bank.

  (iii) The measures envisaged to mitigate the impact of the risks identified, should they materialise.

  (iv) The information and internal control systems to be used to control and manage the aforementioned risks, including those relating to tax.

- To help the board in supervising implementation of the risk strategy and its alignment with commercial strategic plans.
- To ensure that the pricing policy of the assets and liabilities offered to customers fully takes into consideration the business model, risk appetite and risk strategy of the Bank.
- To ascertain and measure the risks resulting from the macroeconomic environment and economic cycles pertaining to the activities of the Bank and its Group.
- To systematically review the exposures of major clients, economic sectors, geographical areas and types of risk.
- To oversee the risk function, without prejudice to the board of directors' direct access thereto.
- To support and assist the board in conducting stress tests.
- To ascertain and assess the management tools, improvement initiatives, project implementation and any other relevant activity linked to risk control, including the policy on internal risk models and the internal approval thereof.
- To determine, along with the board of directors, the nature, amount, format and frequency of information regarding risk to be received by the committee itself and by the board. In particular, the committee will receive periodic information from the Group chief risk officer.
- To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the remunerations committee, the risk supervision, regulation and compliance committee examines whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability and opportunity of profit.

1. The Bylaws and the Rules and Regulations of the Board of Banco Santander, S.A. are published on the Group's corporate website (www.santander.com).
2. The duties of the risk, supervision, regulation and compliance committee are regulated by article 17-3.4 of the Rules and Regulations of the Board, which were amended by agreement of the board on 29 July 2015, on the basis of a favourable report by the committee, to adapt their content to the latest regulatory changes and recommendations in connection with corporate governance.

2. Capital and liquidity:

- To assist the board in approving the capital and liquidity strategies and to supervise their implementation.

3. Compliance:

- To supervise and regularly evaluate how the Bank's compliance programme works, its governance regulations and the compliance function, and to make any necessary proposals for improvement. For this purpose, the 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, in the event, issue reports concerning any disciplinary measures applied to members of senior management.

  (iii) Shall supervise the implementation of actions and measures that are the result of reports and inspections by the administrative supervisory and control authorities.

- Shall periodically assess the operation of the criminal risk prevention model and its efficacy in preventing or mitigating criminal offences, seeking external advice when deemed appropriate, and proposing to the board any changes in the criminal risk prevention model and, in general, the compliance programme, that it deems appropriate based on said assessment.

4. Sustainability, communication and relations with stakeholders:

- To review the Bank's corporate social responsibility policy, seeking to ensure that it is oriented towards the creation of value for the Bank, and to follow the strategy and practices established in this connection, assessing the degree of compliance therewith.

- To supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized investors, as well as to supervise and assess the processes for relations with the various stakeholders.

- To coordinate the process of communicating non-financial information and information in regard to diversity, in accordance with applicable regulations and accepted international standards.

5. Corporate governance and regulation:

- To periodically assess the adequacy of the Bank's corporate governance system, in order that it fulfil its mission of promoting social interest and that it should take into account, as appropriate, the legitimate interests of the remaining stakeholders.

- To monitor and assess the regulatory proposals and new regulations that may be applicable and their potential consequences for the Group.

- To report proposals for modifying the Rules and Regulations of the Board prior to their approval by the board.

6. Supervisors and regulators:

- To support and advise the board in relation to supervisors and regulators in the various countries where the Group operates.

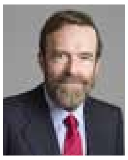
Composition of the committee and attendance to its meetings in 2015

At the time of preparing this document, the composition of the risk, supervision, regulation and compliance committee is as follows:

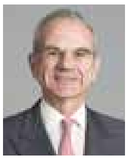
Chairman

Mr Bruce Carnegie-Brown

Members

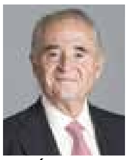


Mr Guillermo de la Dehesa Romero



Mr Ignacio Benjumea Cabeza de Vaca

Mr Carlos Fernández González



Mr Ángel Jado Becerro de Bengoa

Ms Isabel Tocino Biscarolasaga

Mr Juan Miguel Villar Mir

Secretary

Mr Jaime Pérez Renovales

In 2015, the committee's composition changed as follows:

Mr Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015, when he became an executive director of the Bank.

Mr Bruce Carnegie-Brown has been a member and chairman of the committee since 12 February 2015, when he was appointed a director of the Bank, replacing Mr Fernando de Asúa Álvarez.

Mr Guillermo de la Dehesa Romero, Mr Carlos Fernández González, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir were appointed members of the committee on 23 February 2015.

Mr Ignacio Benjumea Cabeza de Vaca has been a member of the committee since 1 October 2015, when Ms Sheila C. Bair ceased to be a director and a member of the committee.

The Bylaws and Rules and Regulations of the Board provide that the risk supervision, regulation and compliance committee comprise solely external directors, have a majority of independent directors, and that it be chaired by an independent external director[3]. At present, all seven members of the committee are external directors, and five of them are independent.

All the members of the committee have proven capacity to discharge their duties in said committee, based on their experience and their knowledge of the matters that are handled by the committee.

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

The committee, in accordance with its regulations, approves an annual meeting schedule with at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The committee held 13 sessions in 2015.

Members' attendance to meetings of the risk, supervision, regulation and compliance committee in 2015 was as follows:

Number of meetings and attendance*

Mr Bruce Carnegie-Brown	12/12
Mr Guillermo de la Dehesa Romero	11/11
Mr Ignacio Benjumea Cabeza de Vaca	3/3
Mr Carlos Fernández González	10/11
Mr Ángel Jado Becerro de Bengoa	13/13
Ms Isabel Tocino Biscarolasaga	11/11
Mr Juan Miguel Villar Mir	10/11
Mr Fernando de Asúa Álvarez	1/1
Mr Rodrigo Echenique Gordillo	0/0
Ms Sheila C. Bair	9/10

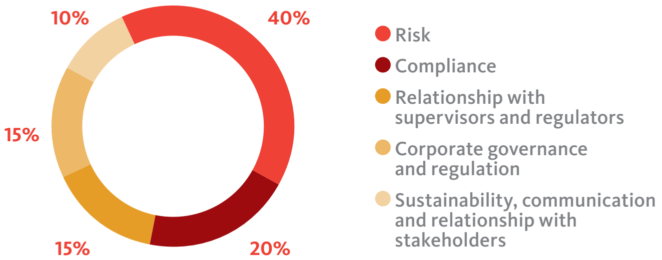
* The first figure is the number of meetings attended by the director, and the second the number of sessions held in the year since the director has or had been a member of the committee.

In 2015, the estimated average time devoted by each member of the risk, supervision, regulation and compliance committee to preparing and taking part in these meetings was approximately four hours per meeting.

3. The composition of the risk, supervision, regulation and compliance committee is regulated by articles 54 of the Bylaws and 17-3 of the Rules and Regulations of the Board.

The chart below shows the approximate breakdown of the time used for each task at the meetings held by the committee in 2015.

Approximate time used for each task



In the above chart, the "Corporate governance and regulation" portion reflects the estimated time spent by the committee in assessing the suitability of the Bank's corporate governance system, reviewing and preparing documents relating to this matter, gauging the efficiency and compliance with the Bank's rules and procedures on corporate governance, monitoring and evaluating regulatory proposals, regulatory developments and matters debated in the financial sector that could affect the Bank's business and its positioning in that regard, and reporting on proposals for modifying the Rules and Regulations of the Board.

How the committee works

The rules governing the committee establish the valid constitution thereof, with the attendance, either present or represented, of more than half of its members, and the adoption of agreements by the majority of those attending, it being possible to designate another member as proxy.

The necessary documentation for each meeting (draft agenda, presentations and minutes of previous meetings) is provided to committee members three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Minutes are taken of all meetings of the risk, supervision, regulation and compliance committee, and copies of these are delivered to all members of the board.

The committee is empowered to require the attendance at its meetings of the Bank's senior executives or any of its employees; it may also harness the help of experts, in application of the special provisions of article 27 of the Rules and Regulations of the Board.

As the following summary of activities shows, the committee is in constant and seamless contact with the Group's management team, and persons heading the risk division regularly attend its meetings, in particular, the Group's chief risk officer, and the Group's chief compliance officer.

Other Group directors responsible for areas performing functions supervised by this committee also took part in the meetings.

In accordance with international best practices, the interaction between the risk supervision, regulation and compliance committee and the audit committee has been intensified, as well as interaction between the former and the remuneration committee, so as to facilitate an exchange of information and the effective supervision of all risks affecting the Group.

2. Activities in 2015

This section contains a summary of the risk supervision, regulation and compliance committee's activities in 2015, classified in accordance with the committee's basic functions.

2.1 Risk

To comply with the duties and functions attributed to this committee in regard to risk, the risk department has regularly presented the committee a comprehensive overview of the Group's risks, and specific analyses by region and risk type, as well as various matters and projects relating to the management and control of the Group's risk, including a review of its risk appetite.

This information and analysis is conducted by providing an overview of all the risks and focusing on those topics that enable the committee to advise the board in connection with risk and, in the event, to draw up suitable recommendations.

Governance

With regard to governance, the committee issued a favourable opinion on the new risk governance model approved by the board at its meeting of 29 September 2015. The new model entered into force on 1 November and is based on the following principles:

- Separate decision-making functions from control functions.
- Strengthen the responsibility of the first line of defence in decision-making.
- Ensure that all decisions concerning risk follow a formal approval process.
- Ensure there is an overall vision of all types of risks, including those outside the scope of control of the risk function.
- Strengthen the role of risk control committees, affording them additional powers.
- To simplify the committees' structure.

The new model resulted in the creation of two internal risk committees, the executive risk committee, as the body in charge of global risk management, which replaces the board's executive risk committee, and the risk control committee, as the body in charge of global risk supervision and management, without prejudice to the powers in connection with risk that correspond to the board and its committees.

The risk model serves as a reference for the Group's units in preparing, developing and executing local risk governance models.

In 2015, the board also approved the corporate frameworks for risk appetite and model risk.

Comprehensive overview of the Group's risks

With a view to providing a comprehensive overview of all risks, each month the committee received the report, covering the full scope of all the risks identified in the Group's map. Based on the risk assessment, three levels are established: (i) there is no area requiring attention; (ii) there is an area requiring attention; and (iii) there is cause of concern. Based on these three levels, the report summarises the Group's risk profile.

This document takes into account regulators' recommendations in regard to accuracy (the information included must be correct, accurate and have been checked), thoroughness (it must cover all risks, including risk limits and appetite, and it must include forecasts), identification of potential and emerging risks, orientation towards decision-making (it must include the actions proposed to mitigate risks) and usefulness (there must be an adequate balance between data, analysis and qualitative comments).

Overview by risk type

To ensure a proper degree of analysis, the committee is presented with specific overviews by risk type. Accordingly, the committee receives information concerning the following risks:

- **Credit risk:** monitoring of the risk profile by segments and countries.

- **Market trading risk:** the most notable aspects in regard to the management of trading books (risk profile, organisation of the function in the Group, measurement and analysis method, among others) and aspects requiring special attention (liquidity risk, model risk and operating risk associated with market activity). At the request of the committee, it has been informed in detail in regard to the trading risk control metrics and processes, as well as the scenarios used in stress testing and any existing measures to increase operating risk control in the treasury desk.

- **Structural risk and capital:** the committee has been informed in regard to structural liquidity risks, interest rate risks and exchange rate risks for the entire Group, without prejudice to the competencies of the ALCO global (asset and liabilities committee), as the body in charge of coordinating and monitoring the management of this type of risk for the entire Group. The capital profile was also monitored, without prejudice to the monitoring performed by the Group's capital committee.

- **Liquidity and financing risk:** the principles and roles involved in liquidity risk management, risk profile, regulatory ratios and risk appetite and metrics, without prejudice to the competencies of the global asset and liabilities committee.

- **Operating risk:** monitoring of losses, status of the AORM —advance operational risk management— project and strategy, model, plans, events, priorities and actions in relation to cybersecurity.

- **Compliance and conduct risk:** the committee has been regularly informed about this kind of risk, as detailed in section 2.3 herein, with actions focusing on ensuring that the Bank conducts itself in a fair manner with its customers, markets, employees and society at large.

- **Model risk:** progress in the concept and model of management and control.

- **Strategic risk:** monitoring of the events affecting the course of business and compliance with the Group's strategic goals.

Overview by unit

In order to facilitate a proper view of risk in the various regions, the committee is informed in regard to the risk profile of the Group's main units. The reports generally contain an overview of the macroeconomic environment in which the unit operates, a comprehensive look at all the risks, monitoring of the unit's risk appetite, the main focuses of attention considered relevant by the risk function, potential and emerging risks, and proposed risk mitigation actions.

Risk appetite

It has reviewed the Group's risk appetite on a quarterly basis, and has verified compliance with the established indicators. Risk reports for the Group's main units presented to the committee contain detailed information regarding each unit's respective risk appetite.

Matters or projects pertaining to risk management and control within the Group

The committee was informed in regard to other matters relating to the proper management and control of risks within the Group, such as corporate, strategic or regulatory operations or projects in this connection, most notably:

(i) Risk identification and assessment (RIA): in order to improve the identification and management of risks, the Bank conducted a risk identification and assessment (RIA), which is a systematic exercise to assess the Group's risk profile, in both granular terms, gauging risk per activity and segment, and in Group terms, obtaining a global risk profile for the Group. From the methodological standpoint, the exercise comprised three sections: risk level, control environment and sensitivity to risk factors. The result for the year was presented at the committee meeting held on 22 April.

(ii) Risk data aggregation and risk reporting framework (RDA-RRF): at the committee meeting held on 22 April, the risk data aggregation and risk reporting framework (RDA-RRF) project was also presented. This project is aimed at creating a technological infrastructure that provides support to the Group's risk reporting framework, to ensure compliance with the principles for the efficient input of data regarding risks and presentation of Basel Committee on Banking Supervision risk reports. The project includes four basic elements: risk reporting framework, databases, records clean-up and process re-engineering. A control model has also been implemented for the process for certifying compliance with the RDA-RRF, and a certification model based on questionnaires applicable to each project sphere and category is used. At the committee meeting of 30 November, a progress report on this project was presented, and it was informed that the goal of compliance with the RDA would be achieved in December.

(iii) The Volcker Rule project: the head of regulatory project control and coordination reported to the committee in regard to the Volcker Rule project. The Volcker Rule is a centre-piece of the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), aimed at reducing risk and increasing transparency in global financial markets. Generally, this rule bans two types of activity, with specific exceptions, by banks whose deposits are insured by the FDIC and by bank holding companies: (i) proprietary trading on financial instruments (with some exceptions, such as operations on US government debt); and (ii) investment, sponsorship and others relating to certain types of funds (covered funds).

The head of regulatory project control and coordination explained the impact of the Volcker Rule and the process of implementing the programme for compliance therewith within the Group, and also referred to the content of the manual on prop trading and investment in covered funds, which received a favourable report by the committee prior to being approved by the board.

(iv) Advance operational risk management (AORM) programme: the Group's head of operating risk reported to the committee regarding the AORM programme, as one of the main initiatives for improving operating risk management and control within the Group. This programme was launched in 2014 in order to boost the framework of operating risk control to levels considered advanced under the regulation, with a view to reducing the current level of losses and preventing future writedowns and, in general, enhancing the control environment.

(v) Capital and liquidity plans: these are described in section 2.2 below.

The committee also helped the board in supervising implementation of the risk strategy and its alignment with commercial strategic plans.

P-18 (3-year plan, 2016 to 2018)

At its meeting of 26 October, the committee issued a favourable report of the P-18, with a view to its approval by the board of directors. This plan is one of the Group's management tools and includes a cluster of activities and processes aimed at developing three-year business plans (in the case of P-18, from 2016 to 2018) for all units and the consolidated Group. This is a bottom-up exercise in which all the Group's units prepare their own three-year plans, which must be aligned with the strategy, the risk appetite and the liquidity and capital plans of each unit and of the Group. Based on these local plans, a corporate plan is developed, which covers, in qualitative terms and for the entire Group, the management priorities and projects for the next three years and, in quantitative terms, a financial plan for that period.

2.2 Capital and liquidity

Capital plan (ICAAP)

At its meeting of 22 April, the committee endorsed the annual capital self-assessment report for 2014, which was then approved by the board at its meeting of 23 April.

The report was prepared by the Risk and Financial Management divisions and has been developed in the context of the Group's business model and new culture —Simple, Personal and Fair—.

Once the report was issued, the mandatory annual capital self-assessment process at Group level concluded. This process identifies the main sources of risk to the Group, analyses the capital resources in relation thereto, conducts stress tests in order to confirm that in all the scenarios envisaged there is sufficient capital and ensures the processes, strategies and systems used for accepting and managing risk are adequate. Moreover, a capital plan is drawn up in accordance with the scenarios envisaged over a three-year time frame.

Liquidity Plan (ILAAP)

At its 23 meeting, the committee endorsed the liquidity plan, which was approved by the board at its meeting of 27 April.

The liquidity plan is an internal self-assessment process of the Group's liquidity adequacy, which must be integrated with the rest of strategic processes, such as the ICAAP or risk appetite. The adequacy of available liquidity is examined over a time frame of one year, against the minimum goals established for base-case and stressed scenarios, taking into account liquidity buffers and additional measures to hand. The ILAAP has also been developed in the context of the Group's business model and new culture.

2.3 Compliance

The compliance department has attended 11 of the 13 meetings held by the committee in 2015 to report on matters within its sphere of competency.

Governance

On 21 July, the new target operating model (TOM) was presented to the committee, involving a plan to transform the compliance function over a three-year term, in order to situate it as an independent control function in second line of defence, in accordance with the expectations of supervisory bodies and the Group's organisational models comprising three lines of defence. In accordance with this model, the compliance function comprises the following specialist tasks: regulatory compliance, prevention of money-laundering and terrorist financing, governance of products and consumer protection and reputational risk, and the following transversal duties: coordination with units, governance, planning and consolidation, compliance processes and information systems. It also establishes a clear demarcation of other control functions (risks and internal audit) and support functions (relations with supervisors and public policy).

The new operating model, which was launched in 2015 and is devised for implementation over three years, will apply to all subsidiaries, regardless of any local adaptations that are required, and it contains 20 initiatives grouped into five main pillars: governance, organisation and workforce; frameworks and methodologies; management information and reporting; technology platforms and data; and implementation in the various countries and businesses worldwide.

In accordance with the provisions of the TOM, the general compliance framework was also presented to the committee, and approved by the board on 22 December. This framework is consistent with the model for the relationship between the parent and the Group subsidiaries and with the commitment acquired with the European Central Bank for having a corporate compliance framework in order to cover the plan to transform the compliance function that is being implemented.

Codes of conduct

The compliance department periodically reports to the committee regarding the application of and compliance with the Group's codes of conduct, of which, the most significant are the General Code of Conduct and the Code of Conduct in Securities Markets. The first applies to all employees and directors of the Group companies. The second applies to persons who, due to their activity, are in contact with the markets. Any non-compliance with these codes is managed in accordance with the procedures and by the committees established for this purpose, in the financial year, there were no material non-compliances with these codes.

At its meeting of 20 May, the committee endorsed the proposed amendments to sections 45 (rules from the manual of conduct in the use of information and communication technologies), 50 (regulatory compliance committee) and 52 (audit committee) of the Group's General Code of Conduct. This reform was approved by agreement of the board of directors on 26 May.

Criminal risk prevention model (corporate defence)

In 2014, AENOR certification was awarded to the corporate defence model, comprising a set of policies, procedures and controls aimed at preventing criminal risk, whose efficacy was subject to an audit over the last three years. The aforementioned model was the basis for other important projects for the Group, such as the implementation of a corporate programme to prevent corruption. Implementation of the model in the various countries, as well knowledge of the first line of defence, are processes that will soon conclude, along with the establishment of a simpler criminal risk map.

Whistleblowing channels

There are five main whistleblowing channels in which 400 complaints were filed at the Group in 2015.

The most common complaints refer to employees' behaviour , either unsuitable behaviour or which does not uphold either internal Group regulations or external standards.

Annual report on compliance as a swap dealer

At the 26 March committee meeting, the compliance department referred to the annual report required by the US Commodity Futures Trading Commission (CFTC) concerning policies, procedures and controls in place to ensure compliance with the regulations pertaining to the Bank's activity as a swap dealer. In accordance with the provisions of said regulations, the report was submitted to the board of directors, which approved it on 23 April.

Product governance and consumer protection

As a result of the programme to transform the compliance function and in accordance with its new organisational model, the former office for the management of reputational risk is now known as the office for product governance and consumer protection. This body's powers, which previously focused on the development of market models and the control of approval processes and product and services monitoring, now also encompass consumer protection, including, among others, the control and supervision of customer complaints and the analysis of their root cause, the establishment of criteria in this connection, or thematic reviews, and the control of fiduciary risk and the provision of custody services. The committee was informed of this broadening of powers at its meeting of 27 July.

Prevention of money-laundering and terrorist financing

In 2015, the committee was periodically informed by the compliance department in regard to the corporate system for the prevention of money laundering and terrorist financing (PML/TF), as well as specific supervisory actions in this connection that have affected various of the Group's units.

At the committee meeting of 28 September, compliance referred to the findings of the annual independent expert's report on the Group's PML/TF system in Spain for the period between April 2013 and April 2014. The report refers to both the corporate PML/TF system and that of Santander España and its supervised subsidiaries, and focuses mainly on the procedures and internal control and communication bodies. Certain recommendations were drafted with differing degrees of priority and implementation periods.

Social and environmental risk

At the committee meeting of 26 March, the compliance department presented the Group's policies in regard to sensitive industries, noting that an internal task force has been set up to review and update the Bank's social and environmental policies. At the committee's behest, on 26 September the proposed review of the socio-environmental policies prepared by that task-force was presented. The proposal was endorsed by the committee, debated at the meeting of the sustainability committee held on 27 November, and approved by the board of directors on 22 December. The specific policies approved were as follows:

(i) Policies that establish general undertakings in regard to social and environmental protection and human rights:

- Sustainability policy.
- Human rights policy.
- Volunteer policy.
- Climate change policy.

(ii) Policies that establish criteria for measuring social and environmental risks, which the business and risk functions must take into account in their commercial financing activity, in certain sensitive sectors:

- Defence policy.
- Energy policy.
- Soft commodities policy.

Communications from supervisors and penalties

Compliance also reports to the committee regarding communications from supervisory bodies to the Group's companies with regard to compliance and conduct and the measures to be adopted in connection with these communications, as well as regarding the main penalties imposed on Group companies, relating mainly to regulatory compliance, the prevention of money-laundering and terrorist financing, and the marketing of financial products and services.

Treasury shares

The compliance department also reports to the committee in regard to the Bank's treasury shares and compliance with the treasury share policy approved by the board of directors.

2.4 Corporate governance and regulation

Rules and Regulations of the Board

In 2015, the committee issued favourable reports regarding the following proposed amendments to the Rules and Regulations of the Board:

(i) At its meeting of 20 February, the modification of section 3 of article 13 of the regulations, changing the name of the technology, productivity and quality committee to the innovation and technology committee; this proposal was approved by the board on 23 February.

(ii) At its meeting of 21 July, the modification of various articles of the regulations and the introduction of some new articles[4], this proposal being approved by agreement of the board on 29 July. The purpose of this reform was:

- To complete the changes to the Bylaws approved at the ordinary general meeting on 27 March 2015, adapting the Rules and Regulations of the Board to the new aspects of the Spanish Corporate Enterprises Act pursuant to Corporate Governance Law 31/2014, of 3 December.
- To review and adapt the Bank's corporate governance rules to the recommendations applicable to it in its dual position as a listed company and credit institution, considering: i) the new code of good governance for listed companies issued by the Securities Market Commission (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.
- To review the functions of the board's committees in view of recent regulatory changes.
- To bring the operating rules for the board and its committees into line with the Bank's current practices.
- To separately regulate the appointments and remuneration committees and to reform the regulation of the international and innovation and technology committees.
- To include certain internal rules regarding the Bank's criminal risk prevention model, considering the modification of article 31-2 of Spain's Penal Code.
- To introduce technical improvements or enhancements to the wording or explain certain rules of the Bank's internal governance.

(iii) At its meeting of 28 September, the modification of section 1 of article 17-5 of the regulation, increasing the maximum number of members of the innovation and technology committee from seven to eight; this proposal was approved by the board on 29 September.

4. The following articles were modified: 3.2, 5, 6, 8, 9, 11, 12.1, 12-2.1, 13, 14, 15, 16, 17, 18, 19 (sections 2 and 7), 20, 21, 22 (sections 1 and 2), 23 (sections 2 and 4), 24, 27, 28, 29, 30, 31.1, 32, 33.1, 34.4(b) and 35. A new section 3 was introduced into article 3, plus new articles 9-2, 17-2 (renumbering article 17-2 as 17-3, as a result, and also modifying it), 17-4, 17-5, 28-2 and 32-2. Furthermore, articles 13 to 18 were included in the new chapter on "committees" and the transitory provision was removed.

Modifications to the Rules and Regulations of the Board agreed by the board at its meetings of 23 February, 29 July and 29 September were registered with the Companies Register of Cantabria on 4 March, 14 August and 13 October, respectively.

Finally, at its meeting on 26 January 2016, it examined the amendment of section 3 of article 17 quinquies of the regulations which extends the functions of the Innovation and technology committee. This resolution was duly adopted by the board at its meeting on 26 January 2016.

Annual corporate governance report

The finer detail of the Bank's governance rules and procedures are provided in the annual corporate governance report for 2015, which is prepared in accordance with the Securities Market Act, Order ECC/2575/2015, dated 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and Circular 5/2013, of 12 June, issued by the Spanish Securities Market Commission (CNMV), establishing annual corporate governance report templates for listed corporations, savings banks and other entities that issue securities accepted for trading in official securities markets (modified by CNMV Circular 7/2015, of 22 December), and in the corporate governance report included in the Group's annual report.

Public policy and regulation

The committee is periodically 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 that could affect the Group's activity and its position in their connection

Assessment meeting

In its meeting of 11 February 2016, in accordance with the provisions of article 17-3.4.l) of the Rules and Regulations of the Board, the committee assessed the efficiency and compliance with the Bank's governance rules and procedures.

2.5 Relations with supervisors and regulators

In 2015, the committee read the main reports issued by supervisory authorities in both Spain and other countries where the Group operates. Furthermore, monitoring reports have periodically been delivered in regard to the main matters, including their status, the action plan associated with them and those responsible for their implementation.

The corporate director for relations with supervisors and regulators informed the committee in regard to the presentation scheduled by officials from the European Central Bank and the Bank of Spain before the Bank's board of directors, in regard to the European Central Bank's activity as consolidated supervisor of the Group, explaining the organisation, operation and supervisory review and evaluation process (SREP) methodology. The director also outlined the European Central Bank's priorities in regard to supervision, its main focuses of attention and monitoring in relation to the Group, and the meetings and contacts with local supervisory bodies and regulators in countries where the Group operates.

2.6 Self-assessment

The self-assessment process of the board and its members, as well as its committees, conducted by the board with the support of independent firm Spencer Stuart, welcomed both the composition of the committee and the leadership of its chairman, and the high degree of autonomy and independence in discharging the committee's responsibilities, which must be separate from those of the rest of committees, and in which regard the committee is making steady progress.

For the purposes of the board's assessment of the committee's performance, the former took into account the committee's report for the previous year, as well as other information concerning its activities and operation supplied to the board.

3. Challenges for 2016

The main challenges for the committee in 2016 are as follows:

- To consolidate its position as the main body for supervision and control of the Bank's risk strategy and risk propensity, as well as the functions of compliance and sustainability.
- To foster the monitoring of non-financial risks (frameworks, profile, metrics, risk appetite, etc.).
- To intensify cooperation with the remunerations committee in establishing rational remuneration policies and practices, in particular, ensuring the new remuneration system takes into account the Group's risk, capital, liquidity, probability and opportunity for profit.
- To continue progressing in the manner of exercising its duties, separating them from those of other committees, and to make further headway in defining the models for reporting to the committee.
- To develop its duties in connection with sustainability, and relations with supervisors, regulators and stakeholders.
- To facilitate the exchange of information and effective coverage of all risks (including emerging risks), making any necessary changes to the Bank's risk governance.

4. Conclusion

Throughout 2015, the risk, supervision, regulation and compliance committee has properly discharged the responsibilities assigned to it in the Bylaws and the Rules and Regulations of the Board.

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