An **effective system of corporate governance** will guarantee the Group’s long-term competitiveness and sustainability as we embrace our strategic objectives with adequate controls and risk management process in place.
Balanced and committed board.
> Of 15 directors, 11 are non-executive and 4 are executive.

Equality of shareholder rights.
> Principle of one share, one vote, one dividend.
> No defensive mechanisms in the Bylaws.
> Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indices.
> Santander has been listed on the Dow Jones Sustainability Index and FTSE4Good since 2000 and 2002, respectively.
Our aim is to make things Simple, Personal and Fair. These three words are our guiding philosophy and this year we have progressed far. Our people, our customers, our shareholders and communities expect this much of us.

Ms Ana Botín, executive chairman of Banco Santander
General shareholders’ meeting
18 March 2016

Executive summary

Changes in the composition of the board and its committees

On 27 September 2016, the board of directors agreed to appoint Ms Homaira Akbari as independent director on the proposal of the appointments committee and after having obtained the necessary regulatory clearance. Ms Akbari will occupy the vacancy left by Mr Ángel Jado Becerro de Bengoa following his resignation on that same date. The board also appointed Ms Akbari to the innovation and technology committee, again on the proposal of the appointments committee.

Ms Akbari holds a PhD in Particle Physics from Tufts University and an MBA from Carnegie Mellon Tepper School of Business. She has had a solid business career in both the US and France and has served on the boards of several companies working with new technologies. She is the President and CEO of AKnowledge Partners, a global advisory firm specialised in the Internet of Things, Big Data and data analytics.

Ms Akbari’s appointment will be put forward for approval at the next general shareholders’ meeting.

In addition, on 26 April 2016 the Bank’s board of directors agreed to appoint Ms Belén Romana García as chairman of the audit committee on the proposal of the appointments committee. Ms Romana García will replace Mr Juan Miguel Villar Mir, who will retain his seat on the committee.

It was subsequently agreed at a board meeting held on 28 October 2016 to appoint Ms Romana García to the risk supervision, regulation and compliance committee, again on the proposal of the appointments committee.

Following the changes just discussed, the board of directors and its committees are now more diverse in terms of nationality, knowledge, professional experience and gender.

Activities of the board

The board held 13 meetings during 2016. In addition to the report made by the Group executive chairman at each annual meeting, the chief executive officer submitted management reports on the Group and the vice chairman, Mr Matías Rodríguez Inciarte, reported on the Group’s risks. As in previous years, the board held one meeting on the Group’s global strategy in 2016.

The Group’s external auditors and heads of internal audit took part in all the meetings held by the audit committee in 2016 and reported to the board on two occasions.

Dividend policy

In 2015, the Bank restructured its dividend policy with the aim of once again making shareholder remuneration largely a cash event, with the change to become effective from the first dividend paid out against earnings for that year. The Bank also announced its intent that the cash payout represent between 30% and 40% of its recurring profit in the coming years, instead of the previous 20%, and that payments to shareholders reflect the growth in its profit.

A proposal was raised at the general shareholders’ meeting held on 18 March 2016 to make a 5% increase in the total dividend charged to earnings for 2016 in respect of the 0.20 euros relating to 2015, as just discussed. To date, a total of 0.155 euros per share has been paid out against 2016 earnings through the scrip dividend scheme –at a value of 0.045 euros, gross, per free allotment right– and two cash payments –of 0.055 euros each–. A final cash payment of 0.055 euros per share is also to be paid this coming May, subject to the approved of the general meeting. Once paid, this will effectively constitute the aforementioned 5% increase on the total dividend charged to 2016 earnings.

Bylaw-stipulated emoluments

Bylaw-stipulated emoluments earned by the board amounted to 4.6 million euros in 2016, which is 23.9% lower than the maximum amount approved by shareholders at the general meeting held on 18 March 2016.
**Remuneration of executive directors**

At the general shareholders’ meeting of 18 March 2016, shareholders also approved the maximum ratio of 200% between variable and fixed pay items for 2016 for a maximum of 1,700 members of the identified staff, including executive directors.

The binding decision was also reached at the same meeting to approve the director remuneration policy of Banco Santander, S. A. for 2016, 2017 and 2018 and the annual report on director remuneration underwent a consultative vote by shareholders.

Investors and analysts held a positive view of the changes made to the director remuneration policy, such as streamlining the different variable items of remuneration, improving the adjustment for ex-ante risk in relation to variable remuneration and increasing the weighting of long-term pay items and the multiyear performance measures, thus making the ratio of long and short-term objectives more effective and efficient.

**Appointments at subsidiaries**

On 16 May 2016, the supervisory board of Bank Zachodni WBK appointed Mr Michal Gajewski as chief executive officer taking over from Mr Mateusz Morawiecki, who left the bank in November 2015 to join the new Polish Government as Vice President and Minister of Development. The appointment was approved by the Polish Financial Supervision Authority on 29 November 2016.

Likewise, on 25 December 2016, the general shareholders’ meeting of Santander Brasil, acting on a favourable report from the appointments committee of Banco Santander, S.A., proceeded to appoint Mr Álvaro Antonio Cardoso de Souza as independent chairman of Santander Brasil, taking over from Mr Jesús María Zabalza Lotina.

**Financial information periodically published by the Bank**

The board has approved or drawn up the quarterly and half-yearly financial information, financial statements and management report for 2016, in addition to other documents such as the annual report, the sustainability report, the Pillar III disclosures report, the annual corporate governance report and the annual report on director remuneration.

**Internal governance framework at the Group**

In 2016, the Group continued to develop and update its governance framework, which comprises a governance model regulating parent-subsidiary relations and a set of corporate frameworks that effectively implement this model for all the different functions and decision-making processes. A series of new corporate frameworks were approved in 2016 (for managing special situations and one for strategic purposes) while others were updated where needed.

Also in 2016 the Group appointed a new global director of internal governance, who is presently implementing a plan to build a suitable internal governance structure that meets the expectations of supervisors. This process will consist of overseeing the effective application of the parent-subsidiary model of governance; ensuring the internal consistency of the system and of its different component elements (model, corporate frameworks, procedure, policies, etc.); identifying areas where new rules need to be implemented; managing the policy relating to regulatory documents and administering the repository where those documents are kept; defining rules on the functioning and on documenting the decisions of committees and other bodies; and supervising the process of applying the governance system across the entire Group.
1. Introduction

Against this complicated economic landscape, with a huge number of players and scenarios involved, we are aware that corporate governance constitutes a key factor driving the creation of value. At Santander, we are continuously coming up with improvements, in line with the highest international standards, and we implement these through specific actions. In doing so, we are building the confidence and trust of our shareholders and other stakeholders, as well as society in general.

We are therefore continuing to strengthen our corporate governance, focusing especially on the effective functioning of the board of directors. For Santander, robust governance is a key element in ensuring a sustainable long-term business model.

We now have a board of directors that possesses the expertise, experience, knowledge, dedication and diversity needed to attain the objective of making Santander the best commercial and retail bank.

In line with the Bank’s vision and mission (described in chapter one of this annual report) and within the framework of its general supervisory function, the board of directors takes decisions that relate to the Group’s main policies and strategies, its corporate culture, the definition of its structure and the promotion of suitable corporate social responsibility policies. In addition, and especially in exercising its responsibility in managing all risks, the board must approve and monitor the risk framework and appetite, ensure it is in line with the Bank’s business plans, capital and liquidity, verify that risks are correctly reported by all units and oversee the operation of the three lines of defence, guaranteeing the independence of the heads of risk, compliance and internal audit and their direct access to the board.

Last year, following the arrival of Ms Homaira Akbari, the board of directors of Banco Santander is now more diverse in terms of nationality, knowledge and professional experience and gender.
2. Ownership structure

» Number of shares and significant interests

**Number of shares**

In 2016, the Bank effected a rights issue under the Santander Scrip Dividend scheme, a process effectively completed on 4 November. A total of 147,848,122 new shares were issued, equivalent to 1.02% of the Bank’s share capital at year-end 2015.

On 31 December 2016, the Bank’s share capital was represented by 14,582,340,701 shares. At that date, stock market capitalisation according to the listing price on the Electronic Spanish Stock Market Interconnection System was 72,313.8 million euros.

All shares carry the same voting and dividend rights.

**Significant interests**

At 31 December 2016, the only shareholders appearing on the Bank’s register of shareholders with a stake of over 31 were State Street Bank and Trust Company, holding 12.10%; The Bank of New York Mellon Corporation, holding 8.86%; Chase Nominees Limited, holding 5.98%; EC Nominees Limited, holding 4.39%; and Clearstream Banking S.A., holding 3.38%.

Nevertheless, the Bank believes that those stakes are held in custody in the name of third parties and to the best of the Bank’s knowledge none of those shareholders holds itself a stake of over 3% in the share capital or in the voting rights².

Bearing in mind the current number of members of the board of directors (39), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital) on proportional representation, is 6.67%.

» Shareholders’ agreements and other significant agreements

Section A.6 of the annual corporate governance report, which forms part of the management report, contains a description of the shareholders’ agreement executed in February 2006 by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Botín-Sanz de Sautuola y O’Shea, Mr Emilio Botín-Sanz de Sautuola y O’Shea, Mr Francisco Javier Botín-Sanz de Sautuola y O’Shea, Simancas, S.A., Puente San Miguel, S.A., Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, providing for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them. This agreement was also reported to the Spanish National Securities Market Commission (CNMV) as a significant event and is described in the public records thereof.

On 3 August and 19 November 2012, Banco Santander notified the CNMV, through a significant event, that it had been formally notified of amendments to this shareholders’ agreement with regard to the signatories thereto.

On 17 October 2013, the Bank also notified the CNMV, through a significant event, of an update to the signatories and the distribution of shares included in the syndication, as a result of a business reorganisation carried out by one of the parties to the agreement.

On 3 October 2014, Banco Santander notified the CNMV, through a significant event, of a new update to the signatories and the distribution of shares included in the syndication, as well as the change in the chairmanship of the syndicate, which is vested in the chairman of the board of trustees of the Botín Foundation (currently Mr Francisco Javier Botín-Sanz de Sautuola y O’Shea). This information was subsequently supplemented through a further significant event notification on 6 February 2015.

On 6 February and 29 May 2015, Banco Santander notified the CNMV, through respective significant events, of the updates to the signatories and the distribution of shares included in the syndication, all within the framework of the inheritance process as a result of the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos.

Lastly, on 29 July 2015 Banco Santander notified the CNMV, through a significant event, of an update to the signatories and the distribution of shares included in the syndication as a result of extinguishing the usufruct over the shares of one of the parties to the agreement along with the voting rights arising therefrom, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

1. The threshold stipulated in Royal Decree 1362 of 19 October 2007, which implemented the Spanish Securities Market Act of 28 July 1988, defining the concept of significant holding.

2. The website of the Spanish National Securities Market Commission (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 27 October 2016, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.028%, plus a further stake of 0.043% held through financial instruments. However, according to the Bank’s shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date, or on 31 December 2016.
Shares included in the syndication
At 31 December 2016, the syndication included a total of 73,428,193 shares of the Bank (0.5035% of its share capital), broken down as follows:

<table>
<thead>
<tr>
<th>Signatories to the shareholders' agreement</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O'Shea</td>
<td>612,696</td>
</tr>
<tr>
<td>Mr Emilio Botín-Sanz de Sautuola O’Shea</td>
<td>16,873,709</td>
</tr>
<tr>
<td>Mr Francisco Javier Botín-Sanz de Sautuola O’Shea</td>
<td>16,291,842</td>
</tr>
<tr>
<td>Ms Paloma Botín-Sanz de Sautuola O’Shea</td>
<td>7,835,293</td>
</tr>
<tr>
<td>Ms Carmen Botín-Sanz de Sautuola O’Shea</td>
<td>8,636,792</td>
</tr>
<tr>
<td>PUENTEPUMAR, S.L.</td>
<td>-</td>
</tr>
<tr>
<td>LATIMER INVERSIONES, S.L.</td>
<td>-</td>
</tr>
<tr>
<td>CRONJE, S.L., Unipersonal</td>
<td>17,602,382</td>
</tr>
<tr>
<td>NUEVA AZIL, S.L.</td>
<td>5,575,279</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>73,428,193</strong></td>
</tr>
</tbody>
</table>

1. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
2. 11,447,138 shares held indirectly through Agropecuaria El Castaño, S.L.U.
3. 6,628,291 shares held indirectly through Bright Sky 2012, S.L.
4. Controlled by Ms Ana Patricia Botín-Sanz de Sautuola O’Shea.
5. Controlled by Ms Carolina Botín-Sanz de Sautuola O’Shea.

In all other respects the aforementioned syndication agreement remains unchanged.

The aforementioned significant events may be viewed on the Group’s corporate website (www.santander.com).

> Treasury shares

Treasury share policy
The sale and purchase of own shares, whether by the company or its subsidiaries or investees, must conform to the provisions of applicable law and the resolutions adopted at the general shareholders’ meeting in this regard.

The Bank, by resolution of the board of directors on 23 October 2014, approved the current treasury share policy taking into account the recommendations of the CNMV.

Treasury share transactions have the following objectives:

a) To provide liquidity or a supply of securities, as applicable, in the market for the Bank’s shares, giving depth to such market and minimising possible temporary imbalances between supply and demand.

b) To take advantage, in benefit of shareholders as a whole, of situations of weakness in the price of the shares in relation to prospects of changes in the medium term. Such transactions are subject to the following general guidelines:

- They may not entail a proposed intervention in the free formation of prices.
- Trading may not take place if the unit entrusted with such transaction is in possession of insider or relevant information.
- Where applicable, the execution of buy-back programmes and the acquisition of shares to cover obligations of the Bank or the Group shall be permitted.

Transactions with treasury shares are carried out by the investments and holdings department, which is isolated as a separate area from the rest of the Bank’s activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information. The head of such department is responsible for the management of treasury shares.

Key data
At 31 December 2016, the Bank and its subsidiaries and investees held a total of 1,476,897 treasury shares in the Bank, representing 0.010% of its share capital at that date (at year-end 2015, there were 40,291,209 treasury shares, representing 0.279% of the Bank’s share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2016 and 2015.

<table>
<thead>
<tr>
<th>Month</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>0.006%</td>
<td>0.200%</td>
</tr>
<tr>
<td>February</td>
<td>0.029%</td>
<td>0.218%</td>
</tr>
<tr>
<td>March</td>
<td>0.021%</td>
<td>0.233%</td>
</tr>
<tr>
<td>April</td>
<td>0.044%</td>
<td>0.246%</td>
</tr>
<tr>
<td>May</td>
<td>0.050%</td>
<td>0.181%</td>
</tr>
<tr>
<td>June</td>
<td>0.051%</td>
<td>0.169%</td>
</tr>
<tr>
<td>July</td>
<td>0.015%</td>
<td>0.132%</td>
</tr>
<tr>
<td>August</td>
<td>0.060%</td>
<td>0.187%</td>
</tr>
<tr>
<td>September</td>
<td>0.179%</td>
<td>0.244%</td>
</tr>
<tr>
<td>October</td>
<td>0.064%</td>
<td>0.336%</td>
</tr>
<tr>
<td>November</td>
<td>0.026%</td>
<td>0.336%</td>
</tr>
<tr>
<td>December</td>
<td>0.017%</td>
<td>0.335%</td>
</tr>
</tbody>
</table>

1. Further information in this regard is included in section A.8 of the annual corporate governance report, which forms part of the management report, and in the capital and treasury share section of this latter report.

3. The treasury share policy is published on the Group’s corporate website (www.santander.com).
Transactions with treasury shares performed in the Group’s interest by its consolidated companies in 2016 entailed the acquisition of 319,416,152 shares, equivalent to a par value of 159.7 million euros (cash amount of 1,380.5 million euros) and the sale of 358,230,464 shares, with a par value of 179.1 million euros (cash amount of 1,604.8 million euros).

The average purchase price of the Bank’s shares in 2016 was 4.32 euros per share, and the average sale price of the Bank’s shares was 4.48 euros per share.

The net gain for the Bank in 2015, net of tax, on transactions involving shares issued by the Bank amounted to 14,889,813 euros and was recognised in the Group’s equity under Shareholders’ Equity-Reserves.

Authorisation

The current authorisation for transactions with treasury shares arises from resolution Five adopted by the shareholders at the general shareholders’ meeting held on 28 March 2014, item II) of which reads as follows:

“To expressly authorise the Bank and the subsidiaries belonging to the Group to acquire shares representing the Bank’s share capital for any valuable consideration permitted by law, within the limits of the law and subject to all legal requirements, up to a maximum number of shares (including the shares they already hold) equal to 10% of the share capital existing at any given time or the maximum percentage permitted by law while this authorisation remains in force, such shares being fully paid at a minimum price per share equal to the par value thereof and a maximum price of up to 3% higher than the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) prior to the acquisition in question. This authorisation may only be exercised within five years of the date of the general shareholders’ meeting. The authorisation includes the acquisition of any shares that must be delivered to the employees and directors of the company either directly or as a result of the exercise of the options held by them”.

Resolutions in effect regarding the possible issuance of new shares or of bonds convertible into shares

The capital authorised by the shareholders at the annual general meeting held on 27 March 2015, under item eight on the agenda, amounted to 3,515,446,471.50 euros. The Bank’s directors have until 27 March 2018 to carry out capital increases up to this limit.

The shareholders gave the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Corporate Enterprises Act, although this power is limited to capital increases carried out under this authorisation up to 1,406,038,588.50 euros.

This authorisation had not been used as of the date of this document.

In addition, the decision was reached at the same general meeting of 27 March 2015 to authorise the board to issue fixed-income securities convertible into and/or exchangeable for shares in the Bank for a combined maximum issue value (on one or more occasions) of 10,000 million euros, or equivalent value in another currency. The general meeting also authorised the directors to fully or partially disapply the pre-emptive subscription right, subject to the same limits as for the aforementioned authorised capital. The Bank’s directors will be entitled to issue instruments under this power through to 27 March 2020.

This authorisation had not been used as of the date of this document.

Moreover, the annual general meeting held on 18 March 2016 passed the following resolutions:

1. To effect a rights issue charged to reserves for the maximum amount of 750 million euros at market value under the shareholder compensation scheme (Santander Scrip Dividend), whereby the Bank has offered shareholders the possibility of receiving, on the date on which the second interim dividend for 2016 is typically paid, shares under a scrip issue for an amount equal to that dividend payment.

This capital increase was carried out on 4 November 2016 through the issuance of 147,848,122 new shares, each of a par value of 0.50 euros each (equal to 73,924,061 euros), representing a total of 1.02% of the Bank’s share capital at year-end 2015.

2. To vest powers in the board of directors, pursuant to the terms of article 319 of the Regulations of the Companies Registry, authorising it to issue fixed-income securities on one or more occasions up to a maximum of 50,000 million euros, or equivalent value in another currency, doing so in any legally admissible manner, including bonds, covered bonds, promissory notes, debentures and preference shares, or other analogous debt instruments (including warrants, whether settled through physical delivery or netting). The Bank’s directors will be entitled to exercise this power through to 18 March 2021, whereupon any part thereof not exercised will be cancelled.

As of the date of this document, a total of 11,834 million euros has been used under this authority.

3. To delegate to the board of directors, pursuant to the provisions of article 397.1.a) of the Companies Act, the broadest powers such that, within one year of the date on which the aforementioned shareholders’ meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital agreed by the general meeting in the amount of 500 million euros. If the board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

This authorisation had not been used as of the date of this document.
### 3. Banco Santander’s board of directors

<table>
<thead>
<tr>
<th>Ms Ana Botín-Sanz de Sautuola y O’Shea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROUP EXECUTIVE CHAIRMAN</strong></td>
</tr>
<tr>
<td><strong>Executive director</strong></td>
</tr>
<tr>
<td><strong>Born in 1960</strong> in Santander, Spain.</td>
</tr>
<tr>
<td><strong>Joined the board in 1989.</strong></td>
</tr>
<tr>
<td><strong>Degree in Economics</strong> from Bryn Mawr College (Pennsylvania, United States).</td>
</tr>
<tr>
<td>She joined Banco Santander after working at JP Morgan (New York, 1980-1988). In 1992 she was appointed senior executive vice president. Between 1992 and 1998 she led the expansion of Santander in Latin America. In 2002, she was appointed executive chairman of Banesto. Between 2010 and 2014 she was Chief Executive Officer of Santander UK. In 2014 she was appointed executive chairman of Santander.</td>
</tr>
<tr>
<td><strong>Other positions of note:</strong> sits on the board of directors of The Coca-Cola Company and on the advisory board of the Massachusetts Institute of Technology (MIT’s CEO Advisory Board). She is founder and president of the CyD Foundation (which supports higher education) and of the Empieza por Educar Foundation (the Spanish subsidiary of international NGO Teach for All).</td>
</tr>
<tr>
<td><strong>Membership of board committees</strong></td>
</tr>
<tr>
<td>Executive, international and innovation and technology.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mr José Antonio Álvarez Álvarez</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHIEF EXECUTIVE OFFICER</strong></td>
</tr>
<tr>
<td><strong>Executive director</strong></td>
</tr>
<tr>
<td><strong>Born in 1960</strong> in León, Spain.</td>
</tr>
<tr>
<td><strong>Joined the board in 2015.</strong></td>
</tr>
<tr>
<td><strong>Graduate in Economics and Business Administration. MBA</strong> from the University of Chicago.</td>
</tr>
<tr>
<td><strong>Joined the Bank in 2002 and appointed senior executive vice president of the financial management and investor relations division in 2004 (Group Chief Financial Officer).</strong></td>
</tr>
<tr>
<td><strong>Other positions of note:</strong> board member of Banco Santander (Brasil), S.A. and of SAM Investments Holdings Limited. He has also served as director of Santander Consumer Finance, S.A. and Santander Holdings USA, Inc. and he sits on the supervisory boards of Santander Consumer AG, Santander Consumer Holding GMBH and Bank of Zachodni WBK, S.A. He was also board member of Bolsas y Mercados Españoles.</td>
</tr>
<tr>
<td><strong>Membership of board committees</strong></td>
</tr>
<tr>
<td>Executive, international and innovation and technology.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mr Bruce Carnegie-Brown</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VICE CHAIRMAN</strong></td>
</tr>
<tr>
<td><strong>Non-executive director (independent) and lead director</strong></td>
</tr>
<tr>
<td><strong>Born in 1959</strong> in Freetown, Sierra Leone.</td>
</tr>
<tr>
<td><strong>Joined the board in 2015.</strong></td>
</tr>
<tr>
<td><strong>Master of Arts in English Language and Literature</strong> from the University of Oxford.</td>
</tr>
<tr>
<td><strong>Other positions of note:</strong> currently the non-executive chairman of Moneysupermarket.com Group Plc and non-executive director of Santander UK Plc and of Jardine Lloyd Thompson Group Plc. He was formerly the non-executive chairman of Aon UK Ltd (2012-2015), founder and managing partner of the quoted private equity division of 3i Group Plc., and chairman and chief executive officer of Marsh Europe. He was also lead independent director at Close Brothers Group Plc (2006-2014) and Catlin Group Ltd (2010-2014). He previously worked at JP Morgan Chase for eighteen years and at Bank of America for four years.</td>
</tr>
<tr>
<td><strong>Membership of board committees</strong></td>
</tr>
<tr>
<td>Executive, appointments (chairman), remuneration (chairman), risk supervision, regulation and compliance (chairman) and innovation and technology.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mr Rodrigo Echenique Gordillo</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VICE CHAIRMAN</strong></td>
</tr>
<tr>
<td><strong>Executive director</strong></td>
</tr>
<tr>
<td><strong>Born in 1946</strong> in Madrid, Spain.</td>
</tr>
<tr>
<td><strong>Joined the board in 1988.</strong></td>
</tr>
<tr>
<td><strong>Graduate in Law and Government Attorney.</strong></td>
</tr>
<tr>
<td><strong>Other positions of note:</strong> former Group Chief Executive Officer of Banco Santander, S.A. (1988-1994). He has served on the board of directors of several industrial and financial companies, including Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A., and he was chairman of the advisory board of Accenture, S.A. He also held the position of non-executive chairman of NH Hotels Group, S.A., Vocento, S.A., Vallehermoso, S.A. and Merlin Properties SOCIMI, S.A. He is currently a non-executive director of Inditex.</td>
</tr>
<tr>
<td><strong>Membership of board committees</strong></td>
</tr>
<tr>
<td>Executive, international and innovation and technology.</td>
</tr>
</tbody>
</table>
Mr Matías Rodríguez Inciarte
VICE CHAIRMAN
Executive director

Born in 1948 in Oviedo, Spain.
Joined the board in 1988.

Graduate in Economics and Government Economist. He also studied Business Administration at the Massachusetts Institute of Technology (MIT).

Other positions of note:
Minister of the Presidency between 1981 and 1982, as well as technical general secretary of the Ministry of Economy, general secretary of the Ministry for European Community Relations and deputy secretary of state to the President. He is currently chairman of Unión de Crédito Inmobiliario, S.A., of the Princess of Asturias Foundation and of the social council of Universidad Carlos III in Madrid. He is also a non-executive director of Sanitas, S.A. de Seguros, Financiera Ponferrada, S.A., SICAV and Financiera El Corte Inglés E.F.C.

Membership of board committees
Executive and innovation and technology.

Mr Guillermo de la Dehesa Romero
VICE CHAIRMAN
Non-executive director

Born in 1941 in Madrid, Spain.
Joined the board in 2002.

Government Economist and head of office of the Bank of Spain (on leave of absence). He is an international advisor to Goldman Sachs International.

Other positions of note:

Membership of board committees
Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Ms Homaira Akbari
Non-executive director (independent)

Born in 1961 in Tehran, Iran.
Joined the board in 2016.

PhD in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.
Chief Executive Officer of AKnowledge Partner, LLC.

Other positions of note:
currently non-executive director of Gemalto NV, Landstar System, Inc. and Veolia Environment S.A. Ms Akbari has also been president and chief executive of Sky Bitz, Inc., managing director of True Position Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC and she has held various posts at Microsoft Corporation and at Thales Group.

Membership of board committees
Innovation and technology.

Mr Ignacio Benjumea Cabeza de Vaca
Non-executive director

Born in 1952 in Madrid, Spain.
Joined the board in 2015.

Degree in Law from Deusto University, ICADE E-3, and Government Attorney.
He is vice chairman of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

Other positions of note:
senior executive vice president, general secretary and secretary to the board of Banco Santander, S.A., and board member, senior executive vice president, general secretary and secretary to the board of Banco Santander de Negocios and of Santander Investment. He was also technical general secretary of the Ministry of Employment and Social Security, general secretary of Banco de Crédito Industrial and director of Dragados, S.A., Bolsas y Mercados Españoles and of the Governing Body of the Madrid Stock Exchange.

Membership of board committees
Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.
The board is now more diverse in terms of nationality, knowledge, professional experience and gender following the arrival of Ms Homaira Akbari as a new board member, thus concluding a rigorous selection process that involved a careful assessment of the capacities of board members (skills matrix) and a precise identification of the profiles best suited to helping the Group meet its strategic objectives, in accordance with the principles set out in the Bank’s director selection and succession policy. This process has been organised and overseen by the appointments committee.
Ms Belén Romana García

Non-executive director (independent)

Born in 1965 in Madrid, Spain.

Joined the board in 2015.

Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist.

Non-executive director of Aviva Plc.

Other positions of note: formerly executive vice-president of Economic Policy and executive vice-president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the Spanish National Securities Market Commission. She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She was the executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).

Membership of board committees
Audit (chairman) and risk supervision, regulation and compliance.

Ms Isabel Tocino Biscarolasaga

Non-executive director (independent)

Born in 1949 in Santander, Spain.

Joined the board in 2007.

PhD in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School.

She is a professor at Universidad Complutense de Madrid.

Other positions of note: formerly Spanish Minister for the Environment, chairman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and chairman for Spain and Portugal and vice chairman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A., Naturhouse Health, S.A. and Enagás, S.A.

Membership of board committees
Executive, audit, remuneration and risk supervision, regulation and compliance.

Mr Juan Miguel Villar Mir

Non-executive director (independent)

Born in 1931 in Madrid, Spain.

Joined the board in 2013.

PhD in Civil Engineering, graduate in Law and degree in Industrial Organisation.

Chairman of the Villar Mir Group.

Other positions of note: formerly Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He has also served as chairman of the OHL Group, Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, the COTEC Foundation and of Colegio Nacional de Ingenieros de Caminos, Canales y Puertos. He is also currently professor of Business Organisation at Universidad Politécnica de Madrid, a member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumery of the Royal Academy of Economics and Finance.

Membership of board committees
Audit and risk supervision, regulation and compliance.

Mr Jaime Pérez Renovales

General secretary and secretary of the board

Born in 1968 in Valladolid, Spain.

Joined the Group in 2003.

Graduate in Law and Business Administration at Universidad Pontificia de Comillas (ICADE E-3), and Government Attorney.

Other positions of note: he was deputy director of legal services at the CNMV, director of the office of the second vice president of the government for Economic Affairs and the Minister of Economy, general secretary and secretary of the board of Banco Español de Crédito, S.A., general vice secretary and vice secretary of the board and head of legal advisory services of Grupo Santander, deputy secretary of the Presidency of the Government and chairman of the committee for the reform of public administration.


Secretary of board committees
Executive, audit, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.
Re-election of directors at the 2017 annual general shareholders’ meeting

Pursuant to article 55 of the Bylaws and article 22 of the Rules and Regulations of the Board, directors are appointed to three-year terms, such that one-third of the board is renewed each year.

The following directors will be put forward for re-election at the 2017 annual general shareholders’ meeting, scheduled for 6 or 7 April on first and second call, respectively, and following the order determined by seniority for annual renewal and for renewal of one-third of the board: Ms Ana Botín-Sanz de Sautuola y O’Shea, Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo, Ms Esther Jiménez-Salinas i Colomer and Ms Belén Romana García, the first three as executive directors and the latter two as independent directors.

Ms Homaira Akbari’s appointment as independent director will also be put before the general meeting for its approval.

Pursuant to article 55 of the Bylaws and article 22 of the Rules and Regulations of the Board, directors are appointed to three-year terms, such that one-third of the board is renewed each year.

Each of the re-elections and ratifications will be submitted separately for voting at the general meeting in accordance with article 21.2 of the Rules and Regulations for the General Shareholders’ Meeting.

Powers and duties

The basic responsibility of the board of directors is to supervise the Group, delegating the day-to-day management thereof to the appropriate executive bodies and the various management teams.

Composition and structure of the board of directors

<table>
<thead>
<tr>
<th>Board of directors</th>
<th>Committees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group executive chairman</td>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>Mr José Antonio Álvarez Álvarez</td>
</tr>
<tr>
<td>Vice chairmen</td>
<td>Mr Bruce Carnegie-Brown</td>
</tr>
<tr>
<td></td>
<td>Mr Rodrigo Echenique Gordillo</td>
</tr>
<tr>
<td></td>
<td>Mr Matías Rodríguez Inclarte</td>
</tr>
<tr>
<td></td>
<td>Mr Guillermo de la Dehesa Romero</td>
</tr>
<tr>
<td>Members</td>
<td>Ms Homaira Akbari</td>
</tr>
<tr>
<td></td>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
</tr>
<tr>
<td></td>
<td>Mr Javier Botín-Sanz de Sautuola y O’Shea</td>
</tr>
<tr>
<td></td>
<td>Ms Sol Daurella Comadrán</td>
</tr>
<tr>
<td></td>
<td>Mr Carlos Fernández González</td>
</tr>
<tr>
<td></td>
<td>Ms Esther Giménez-Salinas i Colomer</td>
</tr>
<tr>
<td></td>
<td>Ms Belén Romana García</td>
</tr>
<tr>
<td></td>
<td>Ms Isabel Tocino Biscarolasaga</td>
</tr>
<tr>
<td></td>
<td>Mr Juan Miguel Villar Mir</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

1. Figures at 31 December 2016.
2. However, pursuant to the provisions of article 55 of the Bylaws, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.
3. Syndicated shares. See page 64.
4. Effective 13 January 2015.
The Rules and Regulations of the Board (article 3) reserve thereto the power, which cannot be delegated, to approve general policies and strategies and oversee their application, including the following in particular: strategic or business plans; management objectives and the annual budget; fiscal strategy and capital and liquidity strategy; investment, financing, dividend, treasury share, risk management and control (including fiscal), corporate governance, corporate social responsibility and regulatory compliance policies; policies regarding the internal governance of the Bank and its Group; remuneration policies for employees of the Bank and its Group; and policies for reporting to and notifying shareholders, markets and public opinion.

Various matters, which likewise cannot be delegated, are also reserved for the board, including decisions regarding: the acquisition and disposal of substantial assets (except when the decisions come within the purview of the shareholders at a general shareholders’ meeting) and major corporate transactions; the determination of each director’s remuneration and the approval of contracts governing the performance by the directors of duties other than those of director, including executive duties, as well as the remuneration to which they are entitled for the discharge thereof; the selection, appointment by co-option and ongoing assessment of directors; the selection, appointment and, if necessary, removal of the other members of senior management (senior executive vice presidents and equivalents) and the monitoring of management activity and ongoing assessment thereof, as well as the determination of the basic terms and conditions of their contracts; authorisation to create or acquire interests in special purpose entities or in entities registered in countries or territories regarded as tax havens; the approval of investments or transactions of a strategic nature or with a particular tax risk; and the approval of certain related party transactions. With regard to those powers that cannot be delegated, the executive committee may make any appropriate decisions, whenever justified by reasons of urgency, provided that the board is subsequently informed at the first meeting held to ratify such decisions.

Both the Bylaws (article 40) and the aforementioned Rules and Regulations of the Board of Directors (article 5) establish the board’s obligation to ensure that the Bank faithfully complies with applicable law, observes usage and good practices of the industries or countries where it does business and abides by the additional social responsibility principles that it has voluntarily accepted. The board of directors and its standing committees shall exercise their powers and, in general, carry out their duties in accordance with the interests of the company, understood to be the attainment of a long-term sustainable and profitable business that furthers its continuity and maximises the value of the company.

In addition, the Bank’s board takes a very active interest in the Group’s risk function. Of its 15 members, 11 are members of at least one of the two board committees that deal with risk: the executive committee and the risk supervision, regulation and compliance committee. Three executive directors are also members of the executive risk committee, which is the body not mandated by the bylaws responsible for global risk management in the Group.

<table>
<thead>
<tr>
<th>Shares represented</th>
<th>Total</th>
<th>% of capital</th>
<th>Date of first appointment</th>
<th>Date of last appointment</th>
<th>End date</th>
<th>Date of last proposal of committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Indirect</td>
<td>18,215,278¹</td>
<td>0.125%</td>
<td>04.02.1989</td>
<td>28.03.2014</td>
<td>First six months of 2017</td>
</tr>
<tr>
<td>612,696</td>
<td>17,602,582</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>697,913</td>
<td>1,348</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20,099</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>822,927</td>
<td>14,184</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1,475,161</td>
<td>308,163</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>148</td>
<td>-</td>
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<tr>
<td>22,000</td>
<td>-</td>
<td></td>
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<tr>
<td>3,067,201</td>
<td>-</td>
<td></td>
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<tr>
<td>4,793,481</td>
<td>11,498,361</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>128,263</td>
<td>412,521</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16,840,455</td>
<td>-</td>
<td></td>
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<tr>
<td>5,405</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>150</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>270,585</td>
<td>-</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>1,199</td>
<td>-</td>
<td></td>
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</tr>
<tr>
<td>28,757,683</td>
<td>29,837,159</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Their appointment will be submitted for ratification at the general shareholders’ meeting scheduled for 6 or 7 April 2017, on first or second call.
Commitment of the board

Number of shares of the Board
174,845,835
1.2% of share capital

Stock market value
868 million euros

Share price
4.959 euros

1. Figures at 31 December 2016.

Size and composition of the board

Since the end of 2010, the size of the board has been downsized by 25%, from 20 to 15 members.

The composition of the board of directors is balanced between executive and non-executive directors, most of whom are independent. All members are distinguished by their professional ability, integrity and independence of opinion.

Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments committee has duly verified the status of each director. Its proposal was submitted to the board, which approved it at the meeting held on 21 February 2017.

Of the 15 members currently sitting on the board, four are executive and 11 are non-executive. Of the latter, eight are independent, one is proprietary and the other two, in the opinion of the board, are neither proprietary nor independent.

Size of the board

<table>
<thead>
<tr>
<th>Year</th>
<th>Executive directors</th>
<th>Non-executive directors (neither proprietary nor independent)</th>
<th>Proprietary non-executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>20</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>18</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>16</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>14</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

Current composition of the board

Executive directors

Pursuant to the Rules and Regulations of the Board (article 6.2.a)), the following are executive directors: Ms Ana Botín-Sanz de Sautuola y O’Shea, Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo and Mr Matías Rodríguez Inciarte.

Proprietary non-executive directors

According to article 6.2.b) of the Rules and Regulations of the Board, proprietary directors are non-executive directors who hold or represent shareholdings equal to or greater than that which qualifies as significant under the law, or who have been designated as such on account of their status as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as anyone representing such shareholders.

Since 2002, the appointments committee and the board of directors have stipulated that having or representing at least 1% of the Bank’s share capital is a necessary condition, though not the only condition, to be appointed a non-executive proprietary director. This percentage was established by the Bank in accordance with its self-regulatory powers and is less than that deemed significant by law, although the Bank believes it is sufficiently important 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 appointments committee, appointed Mr Javier Botín-Sanz de Sautuola y O’Shea as an external proprietary director representing the following shareholders: Fundación Botín, Cronje, S.L., Puente de San Miguel, S.L.U., Nueva Azil, S.L., Agropecuaria El Castaño, S.L.U., Bright Sky 2012, S.L., Ms Ana Botín-Sanz de Sautuola y O’Shea, Mr Emilio Botín-Sanz de Sautuola y O’Shea, Ms Carmen Botín-Sanz de Sautuola y O’Shea, Ms Paloma Botín-Sanz de Sautuola y O’Shea, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own shareholding.

The voting rights of the aforementioned shareholders corresponded to 1.034% of the Bank’s share capital at year-end 2016.

Independent non-executive directors

The Rules and Regulations of the Board (article 6.2.c)) include the legal definition of independent director established in article 529, duodecies.4 of the Spanish Companies Act. Taking into account the circumstances in each case and following a report from the appointments committee, the board considers the following eight directors to be independent non-executive directors: Mr Bruce Carnegie-Brown (lead director), Ms Homaira Akbari, Ms Sol Daurella Comadrán, Mr Carlos Fernández González, Ms Esther Giménez-Salinas i Colomer, Ms Belén Romana García, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.
Given the current number of directors (15), independent non-executive directors account for 53% of the board.

This percentage exceeds the minimum threshold of one half of total directors set out in article 6.1 of the Rules and Regulations of the Board and reflects the board’s goal for the board to be made up predominantly of non-executive directors, which in turn are predominantly independent, in compliance with best practices in corporate governance.

**Other non-executive directors**

Mr Guillermo de la Dehesa Romero and Mr Ignacio Benjumea Cabeza de Vaca are non-executives directors that are neither proprietary nor independent. Neither can be classified as a proprietary director as they do not hold nor represent 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 three 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 duodecies of the Spanish Companies Act and article 6.2 of the Rules and Regulations of the Board.

**Diversity on the board**

As established in article 17.4 a) of the Rules and Regulations of the Board, the appointments committee is responsible for proposing and reviewing the director selection policies and succession plans and the internal procedures for determining who is to be proposed for the position of director.

As regards gender diversity, both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing to the board women who fulfil the requirements of ability, suitability and effective dedication to the position of director.

The appointments committee, at the meeting held on 26 March 2016, agreed to raise the target level for the least represented gender on the board to 30% of total board members. This target has been met as the minority gender now accounts for 40% of seats.

At present, there are six women on the board of directors, one of whom is its Group executive chairman, namely Ms Ana Botín-Sanz de Sautuola y O’Shea, while the others are independent non-executive directors: Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas, Ms Belén Romana García and Ms Isabel Tocino Biscarolasaga.

The share of women on Banco Santander’s board (40%) exceeds the target set by the appointments committee and is well above the average for large listed companies in Europe. According to a study conducted by the European Commission with data from July 2016, the percentage of female board members at large listed companies was 23.3% for all 28 countries in the European Union and 20.2% for Spain.

The table below shows the number and percentage of women on the board and on each of its committees.

<table>
<thead>
<tr>
<th>Number of female directors</th>
<th>Number of members</th>
<th>% of female directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>15</td>
<td>6</td>
</tr>
<tr>
<td>Executive committee</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Audit committee</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Appointments committee</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Risk supervision, regulation and compliance committee</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>International committee</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Innovation and technology committee</td>
<td>9</td>
<td>3</td>
</tr>
</tbody>
</table>

The table below shows the years of service of independent directors.

<table>
<thead>
<tr>
<th>Years of service of independent directors</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the date of this document, the average length of service for independent non-executive directors serving as board member is just over three years.</td>
<td>11.1</td>
<td>10.2</td>
<td>9.5</td>
<td>7.3</td>
<td>3.0</td>
<td>3.4</td>
</tr>
</tbody>
</table>
» Balanced structure of corporate governance

There is a clear separation of duties between those of the Group executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the Bank’s corporate governance structure, including the following:

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.
- The lead director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees. The lead director also oversees the periodic process of assessing the chairman and coordinates the succession plan.
- The audit committee is chaired by an independent director acting in her capacity as financial expert.
- The powers delegated to the Group executive chairman and the chief executive officer exclude those that are exclusively reserved for the board itself.
- The Group executive chairman may not simultaneously hold the position of chief executive officer of the Bank.
- The corporate Risk, Compliance and Internal Audit functions report to a committee or a member of the board of directors and have direct access thereto.

» Succession plans for the Group executive chairman and the chief executive officer

Succession planning for the main directors is a key element of the Bank’s good governance, assuring an orderly leadership transition at all times. The process is regulated by article 24 of the Rules and Regulations of the Board, which also governs the succession plans for the Group’s other directors and senior management. The board of directors has prepared a matrix of skills that it must possess, together with a succession plan aligned with those skills so as to ensure that when vacancies arise the incoming members reinforce and bolster those skills.

On the proposal of the appointments committee, the following were approved at board meetings held on 30 November 2016 and 24 January 2017, respectively: (i) the Group’s succession policy; and (ii) the board member selection and succession policy.

» Rules for interim replacement of the Group executive chairman

Article 44.2 of the Bylaws and article 9 bis of the Rules and Regulations of the Board set out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the chairman of the board of directors, stating that in these cases the chairman will be substituted by a vice chairman to be selected in order of length of service on the board, except where the lead director is one of the vice chairmen, in which case he or she will be the first choice. If there are no vice chairmen, the remaining directors will replace the Group executive chairman in the order established by the board, whereby the lead director should be the first in this order if such director does not hold the position of vice chairman.

Roles and responsibilities

**Group executive chairman**

- The chairman of the board is the Bank’s highest-ranking officer, responsible for managing the board and ensuring its effective operation (article 48.1 of the Bylaws and article 8.1 of the Rules and Regulations of the Board). In accordance with her position as such, the Group executive chairman is responsible, among others, for the following duties:
  - Ensure compliance with the Bylaws and that the resolutions of the general shareholders’ meeting and of the board of directors are faithfully executed.
  - Carry out a high-level inspection of the Bank and all its services.
  - Meet with the chief executive officer and senior executive vice presidents to keep informed of the performance of the businesses.
- The board of directors has delegated to the Group executive chairman all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- The Group strategic and corporate functions report to the Group executive chairman.

**Chief Executive Officer**

- The Chief Executive Officer is entrusted with the day-to-day management of the business and the highest executive functions (article 49.1 of the Bylaws and article 10.1 of the Rules and Regulations of the Board).
- The board of directors has delegated to the chief executive officer all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- Corporate business and ordinary management support divisions and control functions all report to the chief executive officer, although they also have direct access to the board of directors.
- The country heads, who are the Group’s first representatives in the countries in which the Group operates, also report to the Chief Executive Officer.
» Lead director

By resolution of the general shareholders’ meeting of 28 March 2014, the figure of lead director, already established in the Rules and Regulations of the Board, has been included in the Bylaws, the responsibilities thereof being defined in article 49 bis of the Bylaws. Pursuant to article 49 bis of the Bylaws and article 12 bis of the Rules and Regulations of the Board of Directors, the lead director will have special powers to: (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board that has already been called; (ii) coordinate and organise meetings of the non-executive directors and voice their concerns; and (iii) direct the regular assessment of the chairman of the board of directors and coordinate the succession plan; (iv) contact investors and shareholders to obtain their points of view for the purpose of gathering information on their concerns, in particular, with regard to the Bank’s corporate governance; and (v) substitute the chairman in the event of absence under the terms envisaged in the Rules and Regulations of the Board of Directors.

At its meeting of 25 November 2014, the board of directors appointed Mr. Bruce Carnegie-Brown as vice chairman and lead director, replacing Mr. Fernando de Asúa Álvarez.

The appointment of the lead director has been made for an indefinite period of time and with the abstention of the executive directors, as provided in the Bylaws.

Comparison of number of meetings held*

<table>
<thead>
<tr>
<th>Committee</th>
<th>Santander</th>
<th>Spanish average</th>
<th>US average</th>
<th>UK average</th>
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<tbody>
<tr>
<td>Board</td>
<td>13</td>
<td>11.3</td>
<td>8.4</td>
<td>7.7</td>
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<td>Executive committee</td>
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<td>Audit committee</td>
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<td>5.1</td>
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<td>Appointments committee</td>
<td>10</td>
<td>6.0</td>
<td>4.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>9</td>
<td>6.0</td>
<td>6.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Risk supervision, regulation and compliance committee</td>
<td>12</td>
<td>16.0</td>
<td>-</td>
<td>5.5</td>
</tr>
</tbody>
</table>

* Source: Stuart Spencer Board Indices 2016 (Spain, United States and United Kingdom).

» Secretary of the board

The Bylaws (article 45.2) and the Rules and Regulations of the Board (article 11) include among the duties of the secretary those of ensuring the formal and substantive legality of all action undertaken by the board, ensuring that the good governance recommendations applicable to the Bank are taken into consideration, and ensuring that governance procedures and rules are observed and regularly reviewed.

The secretary of the board is the general secretary of the Bank, and also acts as secretary for all board committees.

The Rules and Regulations of the Board (article 17.4.6)) provide that the appointments committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

On 27 September 2016, the board of directors agreed to appoint Mr. Óscar García Maceiras as vice-secretary to the board of directors, on the proposal of the appointments committee.

» Proceedings of the board

The board of directors held 13 meetings during 2016.

The board holds its meetings in accordance with an annual calendar and agenda of business to discuss, without prejudice to any further business needs that may arise. Directors may also propose the inclusion of items on the agenda. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors (article 46.1 of the Bylaws). Additionally, the lead director is especially authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called (article 49 bis 1 (i) of the Bylaws and article 12 bis of the Rules and Regulations of the Board).

When directors are unable to personally attend a meeting, they may grant any other director proxy, in writing and specifically for each meeting, to represent them for all purposes at such meeting. Proxy is granted with instructions and non-executive directors may only be represented by another non-executive director.

The board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Board meetings shall be validly convened when more than half of board members are present in person or by proxy. Except in instances in which a greater majority is specifically required pursuant to legal provisions, the Bylaws or the Rules and Regulations of the Board, resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie.
In 2016 the board was kept continuously and fully informed of the performance of the various business areas of the Group through the management reports and risk reports submitted to it, among other things. During the year, the board has also reported on the conclusions of the external and internal audits.

The chart below shows a breakdown of the approximate time devoted to each task at the meetings held by the board in 2016.

<table>
<thead>
<tr>
<th>Approximate time devoted to each duty</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management</td>
<td>30%</td>
</tr>
<tr>
<td>General policies and strategies</td>
<td>15%</td>
</tr>
<tr>
<td>Capital and liquidity</td>
<td>15%</td>
</tr>
<tr>
<td>Business performance</td>
<td>30%</td>
</tr>
<tr>
<td>Internal and external audit and review of the financial information</td>
<td>10%</td>
</tr>
</tbody>
</table>

» Dedication to board duties

The duty of diligent management requires directors to dedicate the necessary time and effort to their position, among other requirements.

The maximum number of boards of directors to which they may belong is established in article 26 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions. Thus, Bank directors will not be allowed to occupy, at the same time, more than: (a) one executive position and two non-executive positions, or (b) four non-executive positions. For such purposes, positions held within the same group will be counted as a single position, while positions held at non-profit organisations or organisations not pursuing commercial ends will not be included. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director’s duties at the Bank.

Directors shall endeavour to ensure that absences from meetings of the board and of the committees to which they belong are reduced to cases of absolute necessity.

The appointments committee analyses directors’ dedication to their position on an annual basis, using information received regarding their other professional obligations and other available information to evaluate whether the directors are able to dedicate the necessary time and effort to complying with the duty of diligent management. Dedication is also taken into account for re-election, since proposals by the appointments committee must contain an assessment of their work and of effective dedication to the position during the most recent period of time in which the proposed director has performed his or her duties.

» 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, ten sessions were held in 2016 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: multi-channel and digital transformation; corporate defence; non-financial risks: model risk and reputational risk; regulatory developments relating to capital; risk appetite in relation to compliance and conduct risk, and approval systems for the marketing and sale of products.

Likewise, 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. Here, for example, Ms Homaira Akbari (appointed to the board in 2016) attended a specific training programme for new board members, at which the following matters were addressed:

- General presentation of the Group and the regulatory context in which it operates.
- Compliance.
- Capital.
- Liquidity and balance sheet management.
- Budget and financial statements.
- The Group’s main regions and businesses.
- Main support areas (Technology and Operations, Risks, Audit, Human Resources, Organisation and Costs).
- Innovation.
- Corporate governance and internal governance.
- Sustainability, communication and the Santander brand.

» % Of board members with relevant experience

<table>
<thead>
<tr>
<th>% Of board members with relevant experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and financial</td>
</tr>
<tr>
<td>Banking</td>
</tr>
<tr>
<td>Risk</td>
</tr>
<tr>
<td>Information technology</td>
</tr>
<tr>
<td>Latam</td>
</tr>
<tr>
<td>UK/US</td>
</tr>
</tbody>
</table>

International experience
**DECISION-MAKING PROCESS**

- A board of directors is aware of the business, is well balanced and has vast experience.
- It takes decisions by consensus and has a long-term vision.
- Debate of the issues and effective challenge by external directors.

**Self-assessment by the board**

Pursuant to article 19.7 of the Rules and Regulations of the Board, the board shall conduct a yearly assessment of its own functioning and the quality of its work. An assessment must also be conducted by an independent advisor once every three years, the last one having been completed in 2015.

Specific measures or practices adopted as a product of the board’s assessment in 2015 included the following:

- Meetings to be held yearly to analyse matters of strategic interest to the Group.
- Information to be sent to board members on all opinions and reports issued by financial analysts and institutional investors in relation to the Bank.
- Board composition to be adjusted by incorporating new independent directors with a more international profile, while strengthening diversity and increasing board expertise in digital strategy.
- More preparatory meetings to be held in the lead-up to actual board members so as to improve relations between board members and encourage interaction between board members and company executives.
- Board to become involved in managing talent by setting up talent committees tasked with assessment processes and succession plans and reporting to the appointments committee and the board.

In accordance with article 17.4.(j) of the Rules and Regulations of the Board, the appointments committee, at the meeting held on 18 November 2016, agreed to initiate the board assessment process in 2016, which was conducted internally.

The assessment process focused on the following aspects:

- In relation to the board as a whole: structure; organisation and functioning; internal culture and arrangements (planning of meetings, director support and training); knowledge and diversity; and performance of the supervisory function. The process also addressed a number of other issues relating to strategy, such as where their priorities should lie and what their challenges should be for 2017, plus other matters of interest.
- In relation to commissions: composition; functioning; board support and reporting; committee content; and their main challenges and priorities for 2017.
- In relation to the lead director: performance of his or her functions; leadership; relations with institutional investors; dedication; and performance of the role.

The results of the assessment process for the board and its committees revealed the following: high levels of commitment and dedication from all board and committee members; effective functioning of all committees; high quality debate and discussions on the board and sufficient time dedicated to board business; sound annual planning of board meetings and sufficient quality of the documents delivered at board meetings; annual strategic meeting deemed to be useful.

It also confirmed a clear and proper segmentation of responsibilities and functions between the chairman and chief executive officer, and a steady increase in the work of the lead director in supporting non-executive directors by scheduling periodic meetings with them to assess the activities and functioning of the board.

The report containing the conclusions and results of the assessment process for the board and its committees in 2016 was presented at the board meeting held on 24 January 2017. In view of these findings and the results of the business reports of the various committees in 2016, the board approved an action plan that envisages improvements in the following areas, among others:

- Increase the time dedicated to digital transformation and technology, human resources, succession and talent, strategic, cyber-security, competitor landscape and innovation.
- Strengthen coordination among committees of the Group entities, especially regarding the audit, appointments and risk supervision, regulation and compliance committees.
- Monitoring and updating verified and robust succession plans for the board of directors, its committees and the senior management.
Proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to shareholders for consideration at the general shareholders’ meeting and the appointment decisions adopted by the board itself, by virtue of the legal powers of co-option, must, following the relevant selection process, be preceded by the corresponding report and proposal of the appointments committee.

Although the proposals of such committee are not binding, the Rules and Regulations of the Board provide that if the board does not follow them, it must give reasons for its decision.

Currently, all directors have been appointed or re-elected at the proposal of the appointments committee.

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

In accordance with the director selection process just discussed, as set out in articles 6.1 of the Rules and Regulations of the Board and 42.4 of the Bylaws, the committee proceeded to review the director selection and succession policy on 23 January 2017, as well as the conclusions of the annual board self-assessment process completed in 2016. Following this self-assessment, and on a proposal from the appointments committee, the board of directors reviewed its composition and drew up the following skills matrix at a meeting held on 21 February 2017. The findings of the analysis identified the need to strengthen skills with profiles that specialise in new technologies and banking.

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<tr>
<th>Senior management</th>
<th>Vice chairman 1</th>
<th>Vice chairman 2</th>
<th>Vice chairman 3</th>
<th>Vice chairman 4</th>
<th>Member 1</th>
<th>Member 2</th>
<th>Member 3</th>
<th>Member 4</th>
<th>Member 5</th>
<th>Member 6</th>
<th>Member 7</th>
<th>Member 8</th>
<th>Member 9</th>
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</tbody>
</table>

*Data in February 2017

Total number of independent directors 8

Total board members 15
On the proposal of the appointments committee, the board of directors has undertaken to adapt the contracts of executive directors in relation to the performance of non-director functions so as to bring them in line with the terms of Circular 2/2016 of 2 February, of Banco of Spain, on credit institutions, supervision and capital adequacy.

Remuneration of the board in 2016
Bylaw-stipulated allotments earned by the board amounted to 4.6 million euros in 2016, which is 23.9% lower than the maximum amount of 6 million euros approved by shareholders at the general shareholders’ meeting.

Full details regarding director remuneration and the policy for 2016 can be found in the report of the remuneration committee, which forms part of the corporate documentation of Banco Santander.

The chart below shows the evolution of total remuneration of directors with executive duties against the total return for shareholders (pay for performance).

Anticipation of and adjustment to the regulatory framework
At the proposal of the remuneration committee, the board of directors promotes and encourages a remuneration system that fosters rigorous risk management, and implements ongoing monitoring of the recommendations issued by the main Spanish and international bodies with authority in this field.

Director remuneration policy and annual report on director remuneration
As provided in article 541 of the Spanish Companies Act and in the Bylaws (article 59.bis.1), the board of directors annually approves an annual report on director remuneration, which sets forth the standards and basis for determining remuneration for the current financial year, as well as an overall summary of the application of the remuneration policy during the financial year ended, and a breakdown of the individual remuneration earned for all items by each of the directors during such year. The report is available to shareholders with the call notice for the annual general shareholders’ meeting and is submitted to a consultative vote.

Remuneration system
At the general shareholders’ meeting of 28 March 2014, shareholders resolved to amend the Bylaws to bring the remuneration system for executive directors into line with the provisions of Spanish Law 10 of 26 June 2014, on the planning, supervision and capital adequacy of credit institutions, and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, so as to ensure that the variable components of their remuneration do not exceed 100% of the fixed components, unless the general meeting approves a higher ratio, which may in no event exceed 200%.

With relation to the foregoing, the shareholders acting at the general shareholders’ meeting of 18 March 2016 approved a maximum ratio between fixed and variable components of executive directors’ remuneration of 200% for 2016.

At the general shareholders’ meeting of 27 March 2015, the shareholders once again amended the Bylaws to bring the directors remuneration system into line with the new developments introduced in the Spanish Companies Act by Law 31/2014.

The remuneration of directors acting as such, whether they are executive or not, is made up of fixed annual allotments and attendance fees, as set forth in the Bylaws, which are determined by the board of directors within the maximum amount approved by the shareholders at the general meeting based on the positions held by each director on the board, their membership on and attendance at the various committees and any other objective circumstances that the board may take into account. Accordingly, the board of directors, at the proposal of the remuneration committee, is responsible for establishing director remuneration for carrying out executive functions, taking into account for such purpose the director remuneration policy approved by the shareholders at the general meeting. The shareholders at the general meeting also approved those remuneration plans that entail the delivery of shares of the Bank or options thereon or that entail remuneration tied to the value of the shares.

Evolution of the remuneration for all items of directors with executives duties against attributable net profit*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total remuneration (£ million)</th>
<th>Attributable net profit (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>5,351</td>
<td>37.3</td>
</tr>
<tr>
<td>2012</td>
<td>2,205</td>
<td>24.7</td>
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<tr>
<td>2013</td>
<td>4,370</td>
<td>21.7</td>
</tr>
<tr>
<td>2014</td>
<td>5,816</td>
<td>23.8</td>
</tr>
<tr>
<td>2015</td>
<td>5,966</td>
<td>27.0</td>
</tr>
<tr>
<td>2016</td>
<td>6,204</td>
<td>25.8</td>
</tr>
</tbody>
</table>

* Remuneration data of executive directors and attributable net profit in millions of euros.
The content of such report is subject to the provisions of article 10 of Order ECC/461/2013 and CNMV Circular 4/2013, of 12 June (amended by Circular 7/2015, of 22 December).

In 2016, the report corresponding to 2015 was submitted to the shareholders at the general shareholders’ meeting held on 18 March, as a separate item on the agenda and as a consultative matter, with 91.507% of the votes being in favour of the report accounts.

The director remuneration policy for 2016, 2017 and 2018 was also submitted for approval, on a binding basis, by shareholders at the annual general shareholders’ meeting held on 18 March 2016, in accordance with article 529 novodecies of the Spanish Companies Act. The policies were approved with 91.467% of the votes in favour.

Lastly, the 2016 annual report on director remuneration will be laid before the annual general shareholders’ meeting to be held on 6 or 7 April 2017 (on first or second call, respectively) for an advisory vote by shareholders (as a separate item on the agenda). Meanwhile, the director remuneration policy for 2017, 2018 and 2019 will be laid before that same meeting for a binding and final vote by shareholders.

Transparency
Pursuant to the Bylaws (article 59.bis.5), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank. All such information is contained in note 5 to the Group’s annual accounts.

Duties of directors, related-party transactions and conflicts of interest

Duties
The duties of directors are governed by the Rules and Regulations of the Board, which are compliant with the laws of Spain and with the recommendations of the good governance code for listed companies.

The Rules and Regulations expressly include the duties of diligent management and loyalty and the duty to refrain from taking any action should the director come into the possession of inside or privileged information.

The duty of diligent management includes the directors’ duty to adequately inform themselves of the Bank’s business and to dedicate the time and effort needed to effectively carry out their duties, and also to adopt the measures needed to ensure the sound management and control of the Bank.

Some measures taken by the board

- **2012: maximum limit for share capital increases without pre-emptive rights**
  At the proposal of the board, the shareholders for the first time established a maximum limit on the power to exclude pre-emptive rights for share capital increases; pre-emptive rights may only be excluded for up to the equivalent of 20% of the Bank’s share capital as of the date of the general shareholders’ meeting.

- **2013: cap on annual remuneration of the directors by reason of their position**
  The shareholders established a maximum amount of 6 million euros, which may only be amended by a decision of the shareholders acting at the general shareholders’ meeting.

- **2014: maximum variable remuneration for executive directors**
  The shareholders approved an amendment to the Bylaws establishing a maximum ratio between the fixed and variable components of total remuneration of the executive directors and other employees belonging to categories with professional activities that significantly affect the Group’s risk profile.

- **2015: changes in the remuneration policies**
  A number of changes were proposed at the 2016 general shareholders’ meeting with regard to the remuneration policies for executive directors and senior managers, in line with the Simple, Personal and Fair culture. The main new developments with regard to the previous policy are as follows:

- **2016: changes to the remuneration policy of executive directors**
  A number of changes to the remuneration policy of executive directors will be laid before shareholders for their approval at the general meeting to be held on 6 or 7 April, on first or second call, respectively. These changes are intended to:

  - Simplification: a new streamlined structure for variable and long-term annual remuneration.
  - Alignment with the objectives announced at Investor day held in September 2015; a new set of objectives linked to variable remuneration which includes the four categories on which the Bank’s strategy is based: employees, customers, shareholders and society.
  - Closer alignment with shareholder interests by setting a mandatory requirement for senior executives to invest in shares and increasing the weighting of remuneration pegged to long-term targets, specifically earnings per share, total shareholder return, capital targets and profitability.
Related-party transactions
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 will be aware of any transactions that the company or companies belonging to 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.

In accordance with applicable legislation and the Rules and Regulations of the Board, authorisation will not be necessary in the case of transactions subject to standard terms and conditions, normal market prices and where the amount does not exceed 1% of the company’s annual income.

These transactions will require board authorisation, based on a favourable report from the audit committee, except for those cases where by law approval is required by the shareholders at the general shareholders’ meeting. 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.

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.

The audit committee has verified that all transactions completed with related parties during the year were fully compliant with the Rules and Regulations of the Board and did not require approval from the governing bodies; otherwise, approval was duly obtained following a positive report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters.

Control mechanisms
As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest between their own interests, or those of their related parties, and those of the Bank. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the audit committee.

The director involved must abstain from participating in the discussion and voting on the transaction to which the conflict refers, the body in charge of resolving any disputes being the board of directors itself.

In 2016, there were 95 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees.

The breakdown of the 95 cases is as follows: on 28 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and to appoint members of board committees or other committees at Group or related companies; on 51 occasions the matter under consideration related to remuneration or granting loans or credits; on nine occasions the matter concerned the discussion of financing or investment proposals or other risk transactions in favour of companies related to any director; on five occasions the abstention concerned the annual verification of the status of directors carried out by the appointments committee, pursuant to article 6.3 of the Rules and Regulations of the Board; and on two occasions the abstention concerned the approval of a related-party transaction.

» Board committees

General information
The board has set up an executive committee to which general decision-making powers have been delegated.

The board also has other committees with powers of supervision, information, advice and proposal (the audit, appointments, remuneration, risk supervision, regulation and compliance, international, and innovation and technology committees).

The committees of the board hold their meetings in accordance with an annual calendar and there is a suggested agenda of annual matters to be discussed for committees with supervisory powers.

The board is tasked with promoting and encouraging communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee.

At the annual general shareholders’ meeting of 18 March 2016, a proposal was put forward to amend articles 53, 54, 54.bis and 54.ter of the Bylaws in order to increase the maximum number of members of the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for these committees at any given time.

Executive committee
The executive committee is key to ensuring the proper functioning of the Bank’s corporate governance, and that of its Group. It exercises by delegation all the powers of the board (except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and Regulations of the Board). It reports to the board on the principal matters dealt with and resolutions adopted and provides directors with a copy of the minutes of its meetings. It generally meets once a week and in 2016 it held 52 meetings.

There are currently eight directors sitting on the committee, four of whom are executive and the other four are non-executive, two of which are independent.

Its duties, composition and functioning are established in the Bylaws (article 51) and in the Rules and Regulations of the Board (article 14).
3. Corporate governance report

Audit committee
The audit committee, among other functions, reviews the Group’s financial information and its internal control systems, serves as a communication channel between the board and the external auditor, ensuring the independent exercise of the latter’s duty, and supervises work regarding the Internal Audit function. It typically meets on a monthly basis and met 10 times in 2016.

As provided in the Bylaws (article 53) and the Rules and Regulations of the Board (article 16), the committee must comprise non-executive directors, the majority of whom must be independent, including the chairman.

The committee currently comprises four independent non-executive directors.

Ms Belén Romana García, the committee’s chairman, is considered a financial expert within the meaning of SEC Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Act, given her training and expertise in accounting, auditing and risk management.

Lastly, and so as to ensure that the audit committee exercises its decision-making powers properly when commissioning the external auditor to provide non-audit services, it was agreed at the audit committee meeting held on 20 April 2016 to approve the policy for approving non-audit services provided by the external auditor. In line with the latest national and international practices, this policy contains the proper procedure for approving non-audit services provided by the Group’s financial auditor, as well as the system governing the maximum fees payables. The committee must endorse any decision to arrange non-audit services insofar as 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.

Remuneration committee
Among other duties, the remuneration committee proposes the director remuneration policy to the board, drawing up the corresponding report, and proposes the remuneration of board members, including executive directors. It also proposes the remuneration of other members of senior management and draws up their remuneration policy.

The committee met on nine occasions in 2016.

The Bylaws (article 54 bis) and the Rules and Regulations of the Board (article 17 bis) state that the remuneration committee is also to be made up exclusively of non-executive directors and that its chairman and the majority of its members must be independent.

The committee currently comprises five non-executive directors, three of whom are independent.

Risk supervision, regulation and compliance committee
The risk supervision, regulation and compliance committee, among other duties, supports and advises the board on the definition and assessment of the risk strategy and policies and on its relationship with authorities and regulators in the various countries in which the Group has a presence, assists the board with its capital and liquidity strategy, and monitors compliance with the General Code of Conduct and, in general, with the Bank’s governance rules and compliance and criminal risk prevention programmes. Matters such as sustainability, communication and relations with the Bank’s stakeholders, as well as matters regarding corporate governance and regulation, are also discussed at committee meetings.

The committee met on 12 occasions in 2016.

As provided in the Bylaws (article 54 ter) and the Rules and Regulations of the Board (article 17 ter), the committee must be made up of non-executive directors, the majority of whom must be independent, including the chairman.

The committee currently comprises seven non-executive directors, five of whom are independent.

Appointments committee
The appointments committee, among other duties, proposes appointments of members of the board, including executive directors, and those of the other members of senior management and the Group’s key personnel.

The committee met on 10 occasions in 2016.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 17) state that this committee is also to be made up exclusively of non-executive directors and that its chairman and the majority of its members must be independent directors.

The committee currently comprises five non-executive directors, five of whom are independent.

International committee
The international committee has the following functions (article 17 of the Rules and Regulations of the Board): (i) monitoring the development of the Group’s strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions, while remaining duly informed of the commercial initiatives and strategies of the various units within the Group and of the new projects presented thereto; and (ii) reviewing the performance of financial investments and businesses, as well as the international economic situation, and making proposals to adjust risk-country limits, its structure and return and its assignment by businesses and/or units.

This committee comprises six directors, of whom three are executive and three are non-executive, one of which is independent.
Innovation and technology committee
Given the importance assigned to innovation and technology as a strategic priority for the Group, the regulations of the innovation and technology committee have been amended in order to expand the committee’s functions by redrafting article 17 quinquies of the Rules and Regulations of the Board upon a board resolution dated 26 January 2016.

The functions of the innovation and technology committee include the following: (i) to study and report on relevant projects regarding innovation and technology; (ii) to assist the board in assessing the quality of technological services, new business models, technologies, systems and platforms; and (iii) to assist the risk supervision, regulation and compliance committee in monitoring the technological and security risks and to supervise all matters relating to cyber-security.

The committee met on three occasions in 2016.

This committee comprises nine directors, of whom four are executive and five are non-executive. Three of these five non-executive directors are independent.

***

In accordance with the Rules and Regulations of the Board, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board.

Additionally, all board members who are not also members of the executive committee may attend its meetings, whatever the chairman’s reason is for calling such meeting. In 2016, directors with no seat on the executive committee attended an average of 10.9 meetings of that committee.

The audit, appointments, remuneration and risk supervision, regulation and compliance committees have prepared reports on their activities in 2016. The remuneration committee’s report also includes the director remuneration policy. All such reports are made available to shareholders as part of the Bank’s annual documentation for 2016.

» International advisory board
Banco Santander’s new international advisory board, comprising a large group of experts in strategy, IT and innovation, held its first meeting on 26 April 2016 in Boston (US).

The international advisory board’s objective is to provide strategic advice to the Group, with a special focus on innovation, digital transformation, cybersecurity and new technologies. It also provides its views on trends in capital markets, corporate governance, brand and reputation, regulation and compliance, and global financial services with a customer-based approach. The board is expected to meet two times per year.

First meeting of the international advisory board held on 26 April 2016 in Boston (US).

Chairman
Mr Larry Summers
Former US Treasury Secretary and President Emeritus of Harvard University

Members
Ms Sheila Bair
Former Chair of the Federal Deposit Insurance Corporation and President of Washington College
Mr Francisco D’Souza, CEO of Cognizant and director of General Electric
Mr George Kurtz
CEO and co-founder of CrowdStrike
Ms Blythe Masters
CEO of Digital Asset Holdings
Mr Charles Phillips
CEO of Infor and former President of Oracle

Mr Mike Rhodin
Senior Vice President of IBM Watson
Ms Marjorie Scardino
Former CEO of Pearson and member of the Board of Directors of Twitter

Secretary
Mr Jaime Pérez Renovales
Composition of the committees of the board

Executive committee: 50% Executive, 50% Non-executive
Audit committee: 100%
Appointments committee: 100%
Remuneration committee: 100%
Risk supervision, regulation and compliance committee: 100%
International committee: 56% Executive, 44% Non-executive
Innovation and technology committee: 50% Executive, 50% Non-executive

Number of meetings and estimated average hours devoted by each director

<table>
<thead>
<tr>
<th>Committees</th>
<th>No. of meetings</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive committee</td>
<td>52</td>
<td>260</td>
</tr>
<tr>
<td>Audit committee</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Appointments committee</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>9</td>
<td>36</td>
</tr>
<tr>
<td>Risk supervision, regulation and compliance committee</td>
<td>12</td>
<td>120</td>
</tr>
<tr>
<td>International committee</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Innovation and technology committee</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

Attendance at meetings of the board of directors and its committees in 2016

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board meetings in 2016 was 95.92%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of attendance at board meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>98.4%</td>
</tr>
<tr>
<td>2013</td>
<td>91.0%</td>
</tr>
<tr>
<td>2014</td>
<td>89.8%</td>
</tr>
<tr>
<td>2015</td>
<td>92.8%</td>
</tr>
<tr>
<td>2016</td>
<td>95.9%</td>
</tr>
</tbody>
</table>
### Committees

<table>
<thead>
<tr>
<th>Directors</th>
<th>Decision-making</th>
<th>Advisory</th>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board</td>
<td>Executive</td>
<td>Audit</td>
</tr>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O´Shea</td>
<td>13/13</td>
<td>50/52</td>
<td>91.49%</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>13/13</td>
<td>51/52</td>
<td></td>
</tr>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>13/13</td>
<td>39/52</td>
<td></td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>13/13</td>
<td>50/52</td>
<td></td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>13/13</td>
<td>52/52</td>
<td></td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>13/13</td>
<td>50/52</td>
<td></td>
</tr>
<tr>
<td>Ms Homaira Akbari</td>
<td>4/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>13/13</td>
<td>52/52</td>
<td></td>
</tr>
<tr>
<td>Mr Javier Botín-Sanz de Sautuola y O´Shea</td>
<td>11/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>11/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>12/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
<td>13/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
<td>13/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
<td>13/13</td>
<td>50/52</td>
<td></td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>10/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa</td>
<td>10/10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average attendance: 95.92% 94.71% 91.49% 93.10% 100.00% 89.16% 100.00% 3/3

Individual attendance:

- Ms Ana Botín-Sanz de Sautuola y O´Shea: 13/13, 50/52
- Mr José Antonio Álvarez Álvarez: 13/13, 51/52
- Mr Bruce Carnegie-Brown: 13/13, 39/52, 10/10, 9/9, 12/12, 3/3
- Mr Rodrigo Echenique Gordillo: 13/13, 50/52
- Mr Matías Rodríguez Inciarte: 13/13, 52/52
- Mr Guillermo de la Dehesa Romero: 13/13, 50/52, 10/10, 9/9, 12/12, 3/3
- Ms Homaira Akbari: 4/4, 0/0
- Mr Ignacio Benjumea Cabeza de Vaca: 13/13, 52/52, 10/10, 9/9, 12/12, 3/3
- Mr Javier Botín-Sanz de Sautuola y O´Shea: 11/13
- Ms Sol Daurella Comadrán: 11/13, 10/10, 9/9
- Mr Carlos Fernández González: 12/13, 8/10, 6/10, 7/12
- Ms Esther Giménez-Salinas i Colomer: 13/13, 3/3
- Ms Belén Romana García: 13/13, 10/10, 2/2
- Ms Isabel Tocino Biscarolasaga: 13/13, 50/52, 10/10, 9/9, 11/12
- Mr Juan Miguel Villar Mir: 10/13, 8/10, 9/12
- Mr Ángel Jado Becerro de Bengoa: 10/10, 7/7, 8/8, 7/7, 9/9

a. No meetings held in 2016.
1. Director since 27 September 2016.

- The Bank continues to increase the role played by board committees by broadening their functions and arranging joint meetings to address matters that fall within the remit of more than one such committee.
- Improvements were made to the functioning of the board and its committees. These include the use of devices and technological tools in order to make the documents relating to each item on the agenda available to board members, thereby enhancing their knowledge and awareness of the matters to be addressed, the ensuing discussions, and their ability to challenge any proposals or motions made by the directors.
The structure of the Santander Group is one of a model of subsidiaries whose parent is Banco Santander, S.A. The Group has its traditional headquarters in the city of Santander (Cantabria, Spain) and its corporate centre in Boadilla del Monte (Madrid, Spain).

The Santander Group’s subsidiaries model has the following features:

- The governing bodies of each subsidiary shall see to it that their company is managed rigorously and prudently, while ensuring their economic solvency and upholding the interests of their shareholders and other stakeholders.

- Management of the subsidiaries is a local affair carried out by local management teams who provide immense knowledge and experience in relation to local customers and markets, while also benefiting from the synergies and advantages of belonging to the Santander Group.

- The subsidiaries are subject to the regulation and supervision of their respective local authorities, without prejudice to the global supervision of the Group by the European Central Bank.

- Customer funds are secured by virtue of the deposit guarantee funds in place in the relevant country.

Subsidiaries finance themselves autonomously when it comes to both capital and liquidity. The Group’s capital and liquidity positions are coordinated by the corporate committees. Intragroup exposure is limited and transparent and any such transactions are invariably arranged under arm’s length conditions. Moreover, the Group has listed subsidiaries in certain countries, in which it always retains a controlling stake.

The subsidiaries’ autonomy limits the contagion risk between the Group’s different units, which reduces systemic risk. Each subsidiary has its own resolution plan.

» Corporate centre

The subsidiaries model of Banco Santander is further complemented with a corporate centre that brings together Group support and control units tasked with functions relating to strategy, risks, auditing, technology, human resources, legal services, communication and marketing, among others. The corporate centre adds value to the Group by:

- Making the Group’s governance more robust, through policies, models and control frameworks that allow the Group to implement corporate criteria and ensure effective supervision over the Group.

- Making the Group’s units more efficient by unlocking cost management synergies, economies of scale and achieving a common brand.

- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation.

» Internal governance of the Santander Group

Santander has an internal governance framework that takes the form of a governance model, establishing a set of principles that regulate relations and the interaction that must exist between the Group and its subsidiaries on three levels:

- On the governing bodies of the subsidiaries, where the Group has devised rules and procedures regulating the structure, composition, make-up and functioning of the boards and their committees (audit, appointments, remuneration and risks), in accordance with international standards and good governance practices, as well as other rules and regulations concerning the appointment, remuneration and succession planning of members of governing bodies.

- Between the CEOs (Chief Executive Officers) and country heads and the Group and between the officers and teams deemed fit to exercise control functions within the Group and at the subsidiaries: CRO (Chief Risk Officer), CCO (Chief Compliance Officer), CAE (Chief Audit Executive), CFO (Chief Financial Officer), CAO (Chief Accounting Officer) or general auditor; and also between certain support functions (IT, Operations, HR, General Secretary’s Office, Legal Services, Marketing, Communication and Strategy) and business functions.
In relation to CEOs, country heads and other significant office holders, the governance model establishes, among other aspects, the relevant rules and regulations to be followed in relation to their appointment, fixing of objectives, assessment, and fixing of variable remuneration and succession planning. It also explains how Group officers and their counterparts at the subsidiaries should liaise and interact.

Santander also has thematic frameworks (corporate frameworks), developed as common operating frameworks for those matters considered important due to their impact on the Group’s risk profile—notable among which are risks, compliance, technology, auditing, accounts, finances, strategy, human resources and communication and brand—and which specify:

- The way of exercising oversight and control by the Group over the subsidiaries.
- The Group’s involvement in certain of the subsidiaries’ important decisions, as well as the subsidiaries’ involvement in the Group’s decision-making processes.

The aforementioned governance model and corporate frameworks effectively comprise the internal governance framework and have been approved by the board of directors of Banco Santander, S.A. for subsequent adherence by the governing bodies of the subsidiaries, with due regard to any local requirements to which the subsidiaries may be subject.

» Internal control framework

- In line with the objective of strengthening the Group’s corporate governance, in recent years governance of the risk control functions has been updated and reinforced, and best international practices have been incorporated. The Group is convinced of the need to establish an organisational structure that includes a proper and clear separation of functions, with well-defined responsibilities that are both transparent and consistent so as to ensure the healthy and prudent management of the Group and all its companies.

- The Group relies on a risk management and control model based on three lines of defence: the first is located at the different business and support functions; the second is exercised by the Risks and Compliance functions; while the third is wielded by Internal Audit. There is a sufficient degree of segregation between the risk control function, the compliance function and the internal audit function, and also between them and other functions which control or supervise them.

- The risks control function, the compliance function and the internal audit function are headed by the following group chief executives, each of whom has independent and direct access to the directors and committees for the purpose of reporting on their verification and inspection work.

  - Risks Function: Mr José María Nus Badia (Group Chief Risk Officer-Group CRO).
  - Compliance Function: Ms Mónica López-Monís Gallego (Group Chief Compliance Officer-Group CCO).
  - Internal Audit Function: Mr Juan Guitard Marin (Group Chief Audit Executive-Group CAE).

- Furthermore, and given the Group’s structure, a further two functions are considered relevant at Group level, entrusted with financial control functions. Reporting directly to the Group’s chief executive officer, they are themselves headed by a group chief executive: These functions are:

  - Financial function: Mr José García Cantera (Group Chief Financial Officer-Group CFO).
  - Financial Accounting and Control function: Mr José Doncel Razola (Group Accounting Officer-Group CAO).
Governance of the risk function

- In 2015, the board of directors approved a new risk governance model 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 committee structure.

- There are currently two internal risk committees not specifically envisaged in the Bylaws: the executive risks committee, tasked with global risk management functions and comprising three executive members; and the risk control committee, which is charged with the global risk supervision and control. This organisational model is compliant with best risk governance practices.

- The Bank’s risk supervision, regulation and compliance committee was set up in June 2014 with general powers to support and advise the board of directors on risk supervision and control, on determining the Group’s risk policies, on relations with supervisory authorities, on regulation and compliance, corporate social responsibility and corporate governance. This committee held 12 meetings in 2016, the estimated time devoted by each member of the committee to preparing and taking part in those meetings was approximately 10 hours per meeting.

- The executive committee held 52 meetings in 2016 and devoted a very significant amount of its time to discussions on risks.

- The audit committee met 10 times in 2016, the estimated time devoted by each member of the committee to preparing and taking part in those meetings was approximately 10 hours per meeting. It received the report of the head of internal audit and discussed matters relating to conduct risk and the financial reporting process.

| Number of meetings of the executive, the audit, and the risk supervision, regulation and compliance committees |
|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| Executive* | 59 | 58 | 65 | 59 | 52 |
| Audit | 11 | 12 | 13 | 13 | 10 |
| Risk supervision, regulation and compliance | - | - | 5 | 13 | 12 |
| Total meetings | 70 | 70 | 81 | 85 | 74 |

* The executive committee devoted a very significant amount of its time to discussions on risks.
5. Shareholder rights and the general shareholders’ meeting

» One share, one vote, one dividend. No defensive mechanisms in the Bylaws

The Bank does not have any defensive mechanisms in the Bylaws, fully conforming to the principle of one share, one vote, one dividend.

The Bylaws of Banco Santander provide for only one class of shares (common shares), granting all holders thereof the same rights.

There are no non-voting or multiple-voting shares, or shares giving preferential treatment in the distribution of dividends, or shares that limit the number of votes that can be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

Any individual is eligible for a director position, subject, exclusively, to the limitations established by law.

» Quorum at the annual general shareholders’ meeting held in 2016

The informed participation of shareholders at general shareholders’ meetings is an objective expressly acknowledged by the board (article 31.3 of the Rules and Regulations of the Board).

The quorum at the 2016 annual general shareholders’ meeting was 57.627%.

» Encouraging the informed participation of shareholders at general shareholders’ meetings

Since the annual general meeting held in 2011, shareholders have had access to an electronic shareholders’ forum, in compliance with the provisions of the Companies Act. The forum, which the Bank has set up on the corporate website (www.santander.com), allows shareholders to post supplementary proposals to the agenda announced in the call notice, along with requests for support for those proposals, initiatives aimed at reaching the percentage required to exercise any of the minority shareholder rights provided for at law, as well as offers or requests to act as a voluntary proxy.

Furthermore, remote attendance at the shareholders’ meetings has been made possible and shareholders are now able to exercise their information and voting rights in real time.

KEY POINTS OF THE 2016 ANNUAL GENERAL SHAREHOLDERS’ MEETING

- Shareholders approved the corporate management of the Bank in 2015 with 94% voting in favour.
- The 2015 annual report on director remuneration received a 92% favourable vote.
3. Corporate governance report  » Shareholder rights and the general shareholders’ meeting

» Annual general shareholders’ meeting held on 18 March 2016

Information on the call notice, establishment of a quorum, attendance, proxy-granting and voting

A total of 5,411,072 shareholders attended in person or by proxy, with 8,315,158,012 shares. The quorum was thus 57.627% of the Bank’s share capital at the date of the meeting.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 93.491%.

The following data are expressed as percentages of the Bank’s share capital at the date of the annual general shareholders’ meeting:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physically present</td>
<td>0.863%</td>
</tr>
<tr>
<td>By proxy</td>
<td>43.459%</td>
</tr>
<tr>
<td>Absentee votes</td>
<td>13.305%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57.627%</strong></td>
</tr>
</tbody>
</table>

1. Of this percentage (0.863%), 0.003% corresponds to the share capital that attended the meeting remotely via Internet connection.
2. The percentage of share capital that granted proxies through the Internet was 1.064%.
3. Of this percentage (13.305%), 13.039% corresponds to votes cast by post, while the rest is the percentage of electronic votes.

At that meeting, 12 of the board’s 15 directors at that date exercised, in accordance with article 186 of the Spanish Corporate Enterprises Act, the right to vote on behalf of a total of 6,194,277,775 shares, equivalent to the same number of votes, the breakdown being as follows:

- Ms Ana Botín-Sanz de Sautuola y O’Shea: 6,032,110,807
- Mr José Antonio Álvarez Álvarez: 155,651
- Mr Bruce Carnegie-Brown: 1,690
- Mr Rodrigo Echenique Gordillo: 90,323
- Mr Matías Rodríguez Inciarte: 714,933
- Mr Guillermo de la Dehesa Romero: 762
- Mr Ignacio Benjumea Cabeza de Vaca: 742,941
- Mr Javier Botín-Sanz de Sautuola y O’Shea: 67,993,418
- Ms Sol Daurella Comadrán: 73,941
- Mr Ángel Jado Becerro de Bengoa*: 5,180,557
- Ms Belén Romana García: 33,151
- Ms Isabel Tocino Biscarolasaga: 154,299

*Stood down from the board on 27 September 2016.

» Resolutions adopted at the 2016 general shareholders’ meetings

The full texts of the resolutions adopted at the general shareholders’ meetings held in 2016 can be viewed on the corporate website of the Group (www.santander.com) and on the CNMV’s own website (www.cnmv.es), since it was filed as a significant event on 18 March 2016.

» Information provided to shareholders and shareholder communication

In 2016, Banco Santander continued to strengthen communication with, service to and its relationship with shareholders and investors.

- Channels for shareholder information and service

<table>
<thead>
<tr>
<th>Service lines</th>
<th>Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone service lines</td>
<td>177,884</td>
</tr>
<tr>
<td>Shareholder and investor mailbox</td>
<td>9,069 E-mails answered</td>
</tr>
<tr>
<td>Personal actions</td>
<td>928 Actions carried out</td>
</tr>
</tbody>
</table>

During 2016, there were 928 meetings with investors, analysts and rating agencies, which entailed contact with 571 investors/analysts. In addition, Shareholder Relations maintained direct contact with the Bank’s main shareholders during the year to offer them information on Group policies relating to sustainability and governance. London was the venue of the Group’s Group Strategy Update in September. During the event, the senior management reviewed the 2018 objectives presented at the 2015 Investor Day in relation to both the Group and its main business units. Over 200 delegates took part in the various Group Strategy Update events, including the Group’s main analysts and investors.

In line with CNMV recommendations, announcements of meetings to be held with analysts and investors and the documentation to be used at those meetings are published sufficiently in advance.

» Policy for contacting and communicating with shareholders

The Bank’s board of directors has approved a policy for contacting and communicating with shareholders, institutional investors and proxy advisors. This policy is published on the Group’s corporate website (www.santander.com). The policy contains the general principles governing communication and contact between the Bank and its shareholders, institutional investors and proxy advisors. It also explains the main channels and procedures in a bid to improve the Bank’s existing relations with those stakeholders. In accordance with the principles of transparency, equal treatment and protection of shareholder interests and within the framework of the new Simple, Personal and Fair culture, the Bank makes available to its shareholders and investors the information and communication channels set out in the Shareholder section of this annual report.

Communication between the board and shareholders and investors has been stepped up through the Group Strategy Update and the corporate governance road show arranged and held by the lead director.
Everything we do stems from a sense of responsibility and commitment to our people, to sustainability and to the communities in which we are present.

Ms Ana Botín, executive chairman of Banco Santander
General shareholders’ meeting
18 March 2016

Composición

<table>
<thead>
<tr>
<th>Group executive chairman</th>
<th>Ms Ana Botín-Sanz de Sautuola y O’Shea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>Mr José Antonio Álvarez Álvarez</td>
</tr>
<tr>
<td>Executive vice chairman</td>
<td>Mr Rodrigo Echenique Gordillo</td>
</tr>
<tr>
<td>Executive vice chairman</td>
<td>Mr Matías Rodríguez Inciarte</td>
</tr>
</tbody>
</table>

Businesses

Argentina: Mr Enrique Cristofani
Brazil: Mr Sérgio Agapito Lires Rial
Chile: Mr Claudio Melandri Hinojosa
United States: Mr Scott Powell
Spain: Mr Rami Aboukhair Hurtado
Consumer Finance: Ms Magda Salarich Fernández de Valderrama
Mexico: Mr Héctor Blas Grisi Checa
Poland: Mr Gerry Byrne
Portugal: Mr Antonio Vieira Monteiro
United Kingdom: Mr Nathan Bostock

Business divisions

Santander Global Corporate Banking: Mr Jacques Ripoll

Business support divisions

Retail & Commercial Banking: Mr Ángel Rivera Congosto

Support and control functions

Risks: Mr José María Nus Badía (Group Chief Risk Officer)
Financial: Mr José Antonio García Cantera (Group Chief Financial Officer)
Office of the General Secretary and Human Resources: Mr Jaime Pérez Renovales
Compliance: Ms Mónica López-Monis Gallego (Group Chief Compliance Officer)
Internal audit: Mr Juan Guitard Marín (Group Chief Audit Executive)
Strategic Alliances in Asset Management and Insurance: Mr Juan Manuel San Román López
Communication, Corporate Marketing and Research: Mr Juan Manuel Cendoya Méndez de Vigo
Corporate Development: Mr José Luis de Mora Gil-Gallardo
Innovation: Mr J. Peter Jackson
Financial Accounting and Control: Mr José Francisco Doncel Razola (Group Chief Accounting Officer)
Executive Chairman’s Office and Strategy: Mr Víctor Matarranz Sanz de Madrid
Costs: Mr Javier Maldonado Trinchant
Technology and Operations: Mr Andreu Plaza López
Universities: Mr Javier Roglá Puig

1. Information on 31 December 2016. Subsequent to that date it was announced: the integration of the Retail & Commercial Banking and Innovation divisions into a new division called Santander Digital whose will be temporarily occupied by Mr Víctor Matarranz Sanz de Madrid as global head until the appointment of a new person in charge; the departure of the Group of Mr J. Peter Jackson; the appointment of Mr Ángel Rivera Congosto as executive vice president of Banco Comercial de Santander México; and the departure of the Group of Mr Jacques Ripoll and the appointment of Mr José María Linares Perou as executive vice president of Santander Global Corporate Banking. Those appointments are subject, where appropriate, to clearance of supervisor.

2. To whom the Group Chief Risk Officer reports.

3. This appointment is subject authorisation and other formalities.
» Remuneration

Information on the remuneration of senior executive vice presidents is provided in note 5 to the Group’s annual accounts.

» Related-party transactions

To the Bank’s knowledge, no member of senior management who is not a director, no person represented by a member of senior management who is not 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 unusual or significant transaction therewith during 2016 and through the date of publication of this report.

» Conflicts of interest

The control mechanisms and the bodies in charge of resolving this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group’s corporate website (www.santander.com).
7. Transparency and independence

Santander has been included in the DJSI and FTSE4Good indices since 2000 and 2002, respectively, and its corporate governance model is recognised by socially responsible investment indices.

» Financial information and other relevant information

Financial information
Pursuant to the provisions of its Rules and Regulations (article 34.2), the board has taken the necessary actions to ensure that the quarterly and half-yearly information and any other information made available to the markets is prepared following the same principles, standards and professional practices as are used to prepare the financial statements. To such end, this information is reviewed by the audit committee prior to being released.

Other relevant information
Pursuant to the provisions of the Code of Conduct in Securities Markets, the Compliance area is responsible for informing the CNMV of the relevant information generated in the Group.

Such communication is simultaneous to the release of relevant information to the market or to the media and occurs as soon as the decision in question is made or the resolution in question has been signed or carried out. Relevant information shall be disseminated in a true, clear, complete and equitable fashion and on a timely basis and, whenever practicable, such information shall be quantified.

In 2016, the Bank published 57 significant events, which are available on the Group’s corporate website (www.santander.com) and from the website of the CNMV (www.cnmv.es).

» Relationship with the auditor

Independence of the auditor
In line with good corporate governance recommendations regarding the rotation of the external auditor, the annual general shareholders’ meeting held on 18 March 2016 agreed to designate PricewaterhouseCoopers Auditores, S.L. (PwC) as external auditor of both the Bank and its wider consolidated Group for the years 2016, 2017 and 2018, obtaining the favourable vote of 94.663% of all capital present and represented by proxy.

The Bank has the necessary mechanisms in place to ensure the independence of the external auditor, and its audit committee verifies that the services provided by this auditor comply with applicable legislation.

In addition, the Rules and Regulations of the Board imposes certain restrictions when arranging non-audit services with the audit firm. Insofar these could jeopardise the independence of the auditor. In this regard, the audit committee must approve such services. They also require the board to make public the overall fees paid by the Bank to the auditor for non-audit services. The information for 2016 is contained in note 48 to the Group’s annual accounts.

The Rules and Regulations of the Board set out the mechanisms used to prepare the accounts so as to ensure that an unqualified audit report is eventually issued. Nevertheless, the Bylaws and the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor issue a report in this regard. The financial statements of the Bank and of the consolidated Group for 2016 are submitted without qualifications.

At its meeting of 15 February 2017, the audit committee received written confirmation from the external auditor of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, in accordance with that provided in legislation governing financial audits.

At that same meeting, the audit committee issued a report expressing a favourable opinion regarding the independence of the external auditors and reporting, among other matters, on the provision of additional services as mentioned in the preceding paragraph.

The report, which was issued prior to the financial audit report, can be viewed on the Group’s corporate website (www.santander.com) as part of the annual report on the activities of the audit committee.
The Bylaws, the Rules and Regulations for the General Shareholders’ Meeting and the Rules and Regulations of the Board were amended in 2016 to bring them in line with both legislative changes and best practices in corporate governance.

**Intra-group transactions**

There were no intra-group transactions in 2016 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the Group companies as regards their purpose and conditions.

**Group’s corporate website**

Since 2004, the Group’s corporate website (www.santander.com) has disclosed, in the Shareholders and Investors section of the main menu, all information required under applicable law (mainly the Corporate Enterprises Act; Order ECC/461/2013, of 20 March; CNMV Circular 3/2015, of 23 June; and Banco of Spain Circular 2/2016, of 2 February).

The Group’s website, which is presented with specific sections for institutional investors and shareholders and can be viewed in Spanish, English and Portuguese, receives approximately 145,000 visits per week.

The information available on such website includes:

- The Bylaws.
- The Rules and Regulations for the General Shareholders’ Meeting.
- The Rules and Regulations of the Board.
- The composition of the board and its committees.
- Professional profiles and other information on the directors.
- The annual report.
- The annual corporate governance report and the annual report on director remuneration.
- The General Code of Conduct.
- The sustainability report.
- The reports of the board committees.
- Pillar III disclosures report.

The call notice for the 2017 annual general shareholders’ meeting may be viewed as from the date of publication thereof, together with the information relating thereto, which shall include the proposed resolutions and mechanisms for exercising rights to receive information, to grant proxies and to vote, including an explanation of the mechanisms for exercising such rights by means of data transmission and the rules applicable to the electronic shareholders’ forum that the Bank will make available on the Group’s corporate website (www.santander.com).

**Good governance code of listed companies**

Banco Santander follows the recommendations for good corporate governance contained in the good governance code of listed companies.

Banco Santander follows the good governance recommendations and best practices for credit institutions, such as the corporate governance principles for banks of the Basel Committee and the recommendations of the Organisation for Economic Co-operation and Development, and also takes into account the good governance codes of the stock markets on which its shares are listed.
8. Goals for 2017

The board’s goals for 2017 with regard to corporate governance are as follows:

- Disseminating the culture and corporate values of Simple, Personal and Fair across the entire organisation.

- Consolidating the governance model so as to further strengthen the relations between the parent bank and its subsidiaries, especially with regard to corporate governance, ensuring gradual implementation of the model at all of the Group’s main units. The purpose here is to ensure the consistency and soundness of decision-making processes, control systems, information flows and control mechanisms on a Group scale.

- Consolidating interaction between board members, especially between non-executive directors and the management team.

- Arranging and encouraging joint meetings between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee, so as to ensure an effective and efficient exchange of information and proper coverage of all risks.

- Incorporate into the functioning of the board the improvements resulting from the self-assessment process by counteracting the growing number of matters the board must address -especially regulatory affairs- with an agile and effective system for making well-informed decisions.