New and major challenges lie ahead, against a backdrop of change. We will tackle them with a robust system of corporate governance and with the maximum engagement of our board of directors.

- **A committed, balanced and diverse board**
  - Of 14 directors, 11 are non-executive and 3 are executive.
  - A majority of independent directors
  - 36% female board members

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

- **Maximum transparency as regards remuneration**

- **In the vanguard of best international practices**
  - A corporate governance system in line with the guidelines and recommendations of international bodies.

- **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.
EXECUTIVE SUMMARY

Changes in the composition of the Board and its Committees

In 2017 the composition of the board has changed in order to reinforce its competences and diversity:

- On 26 June 2017, the Bank’s board of directors, at the proposal of the appointments committee, agreed to appoint Ms Homaira Akbari and Ms. Esther Giménez-Salinas i Colomer as members of the audit committee and the risk supervision, regulation and compliance committee, respectively, replacing Mr. Juan Miguel Villar Mir, who resigned from both committees on the same date.

- On 28 November 2017, at the proposal of the appointments committee and after having obtained the necessary regulatory clearance, the board of directors agreed to appoint Mr Ramiro Mato García-Ansorena as independent director, filling the vacancy left by Ms Isabel Tocino Biscarolasaga following her resignation on that same date. The board also appointed, at the proposal of the appointments committee, Mr Ramiro Mato García-Ansorena as member of the executive committee, the audit committee and the risk supervision, regulation and compliance committee.

Mr Mato holds a degree in Economics from the Universidad Complutense and in Management Development Programme of the Harvard Business School. He has spent all his extensive professional career in banking, in which he started to work in the year 1980. Having held a number of positions in the public group Argentaria, some of them in the Latin America market, in 1993 he joined BNP Paribas, being its top representative in Spain and Portugal and director in different companies of the BNP Group, in Bolsas y Mercados Españoles, S.A. and in the Spanish Banking Association.

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

- In addition, in the meeting of the board of directors held on 28 November 2017, Mr Matías Rodríguez Inciarte tendered his resignation as director, resigning also as vice chairman of the board of directors and as member of the executive committee and the innovation and technology committee, and also as member and chairman of the Executive Risk Committee, which is now chaired by the CEO, Mr Jose Antonio Álvarez.

In the same meeting of 28 November 2017, the board of directors, at the proposal of the appointments committee, agreed to appoint Mr Carlos Fernández González as member of the remuneration committee, who withdrew as a member of the risk supervision, regulation and compliance committee on that same date.

- In its meeting of 19 December 2017, the board of directors agreed, at the proposal of the appointments committee, to appoint Ms Belén Romana García as member of the innovation and technology committee, filling the vacancy left by Mr Matías Rodríguez.

- In its meeting of 13 February 2018, the board of directors agreed, at the proposal of the appointments committee, to submit to the general shareholders’ meeting to be held on 22 or 23 March 2018, in first or second call, respectively, the appointment of Mr. Álvaro Antonio Cardoso de Souza as independent director to fill the vacancy left following the resignation of Mr Matías Rodríguez Inciarte.

Lastly, in the meeting of 13 February 2018, the board of directors also agreed to submit to the aforementioned General shareholders’ meeting of 2018, the amendment of article 41 of the Bylaws to reduce the minimum and maximum thresholds of composition of the board of directors, which are currently fixed between 14 and 22 members, to a minimum of 12 and a maximum of 17; size more aligned with the recommendations of the Good Governance Code.

Following the above changes, the board of directors and its committees are now more diverse in terms of knowledge and professional experience for the efficient performance of their respective duties.

Activities of the board

- The board held 15 meetings in 2017. In addition to the report made by the executive chairman at each annual meeting, the chief executive officer submitted management reports on the Group.

- As in previous years, the board held one specific meeting on the Group’s global strategy in the long term, with which he is fully committed as a way to achieve a profitable and sustainable business in the long term.

- The board received reports from and was directly accessible by the heads of internal control functions, namely risks (CRO), compliance (CCO) and internal audit (CAE). This ensures the necessary independence of such functions and facilitates the board’s oversight work on the three lines of defence.

- Digital transformation. Big Data and new information technologies, in addition to risks related to cyber-security and technology threats, have increased its importance amongst the topics dealt by the board and are fully integrated in the board’s agenda.

- The board actively takes part in defining and overseeing the corporate culture and values, particularly in the corporate social responsibility policy. On 13 February 2018, the board amend its rules and regulations in order to, among others, regulate a dedicated responsible banking, sustainability and culture committee for the purpose of advising the board on the formulation and review of corporate culture and values, and on relations with stakeholders, especially employees, customers and consumers in countries where the Group operates.
Social demand for greater transparency in business activities, beyond the financial sector, is fully internalised in board decision-making and in the non-financial information reported in the long-term strategy and in the non-financial information disclosed, with special focus on the analysis of socio-environmental risks.

**Dividend policy**

Banco Santander has traditionally paid its shareholders, against year earnings, three interim dividends and a final dividend in the months of August, November, February and May, respectively. Total remuneration charged to 2017 earnings is expected to total 0.22 euros per share via a scrip dividend and three cash dividends, which amounts to an increase of 5% in total dividend per share and 9% in cash compared to 2016.

To date, two interim dividends of 0.06 euros per share have been paid out against 2017 earnings, in August 2017 and February 2018, and another of 0.04 euros per share in November 2017 through the Santander Scrip Dividend scheme, with a subscription percent of 84.61%. If approved by the general shareholders’ meeting in 2018, a final cash dividend of 0.06 euros per share will be paid out in May.

In coming years, dividends are expected to perform in line with the increase in results, bringing the cash pay-out to between 30% and 40% of recurring profit.

**Bylaw-stipulated emoluments**

Bylaw-stipulated emoluments earned by the board amounted to 4.7 million euros in 2017, which is 22% lower than the maximum amount approved by shareholders at the general meeting held on 7 April 2017.

**Remuneration of executive directors**

At the general shareholders’ meeting of 7 April 2017, shareholders also approved the maximum ratio of 200% between variable and fixed pay items for 2017 for a maximum of 1,000 members of the identified staff, including executive directors.

In addition, the same shareholders’ meeting also took the binding decision to approve the director remuneration policy of Banco Santander, S.A. for 2017, 2018 and 2019 and, on a consultative basis, voted the annual report on director remuneration.

Investors and analysts held a positive view of, amongst other things, the identification of shareholders, including executive directors.

**Financial information periodically published by the Bank**

The board has approved the individual and consolidated quarterly, half-yearly financial information, financial statements and management report for 2017, 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. All these reports are published on the Group’s corporate website (www.santander.com).
3. CORPORATE GOVERNANCE REPORT

Introduction

1. Introduction

Santander has an effective and robust corporate governance structure that enables us to confidently face the Group’s challenges in an ever more complex environment.

During this year, we continued to move forward on the path of good governance, strengthening and improving our corporate governance structure and bringing it into line with our long-term strategy and with the highest international standards in order to increase the confidence of our shareholders, investors and other stakeholders, in an environment that is demanding ever more transparency.

The board of directors, fully engaged and committed to the Group’s corporate culture and strategy, has the expertise, experience, knowledge, dedication and diversity needed to accomplish our objective of making Santander the best commercial and retail bank, helping people and businesses prosper and conveying the values in which we believe. A planned and professionally prepared refresh of the board ensures that we will always have the best talent for successfully meeting that challenge.

In line with the Bank’s vision and mission, the board of directors, within its general supervisory framework, performs the non-delegable task of approving and overseeing the main policies and overall strategies, particularly the strategic plan, the Group’s corporate governance and internal governance system, defining its organisational structure, the corporate culture and values, the corporate social responsibility policy and the structure of the Group of companies, ensuring these are in line with the business strategy and risk appetite and putting into place mechanisms to ensure that all Group entities know how they fit into these strategies and that their processes and mechanisms are consistent with those of the parent.

In particular, the board promotes a sound risk culture and ensures that it is aligned with the corporate governance and internal governance system, the strategic plan, the capital and financial plan and that it is taken into account in the remuneration policies. In the past year, the addition of Mr Ramiro Mato García-Ansorena has helped the board of directors of Banco Santander reinforce its knowledge and professional experience in the fields of finance and risk.

Lastly, the board of directors has amended its rules and regulations in order to, among others, create a committee for responsible banking, sustainability and culture with the aim of providing the board with specific advice in overseeing business performance in line with these principles over the long term and in its relations with stakeholders.
2. Ownership structure

■ Number of shares and significant interests

**Number of shares**

In 2017, the Bank carried out two capital increases:

1. The first one on 27 July 2017, was designed to ensure that there was no deterioration in the Group’s capital ratio as a result of the acquisition of 100% of the share capital of Banco Popular Español, S.A. A total of 1,458,232,245 new shares were issued, representing 10% of the entity’s share capital at year-end 2016. The total new shares subscribed plus the additional shares requested represented demand that is 8.2 times the number of shares offered in the capital increase.

2. The second capital increase, as part of the Santander Scrip Dividend scheme, became effective on 6 November 2017. A total of 95,580,136 new shares were issued, equivalent to 0.7% of the Bank’s share capital at year-end 2016.

On 31 December 2017, the Bank’s share capital was represented by 16,356,153,582 shares. At that date, stock market capitalisation according to the listing price on the Electronic Spanish Stock Market Interconnection System was 88,410 million euros.

All shares carry the same voting and dividend rights.

**Significant interests**

At 31 December 2017, the only shareholders appearing on the Bank’s register of shareholders with a stake of over 3% were State Street Bank and Trust Company (13.32%), The Bank of New York Mellon Corporation (8.83%), Chase Nominees Limited (7.41%), EC Nominees Limited (3.43%), Caceis Bank (3.11%), Clearstream Banking S.A. (3.10%) and BNP Paribas (3.03%).

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

Bearing in mind the current number of members of the board of directors (14), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 2.43 of the Spanish Limited Liability Companies Law (Ley de Sociedades de Capital) on proportional representation, is 7.14%.

■ 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 material fact and is described in the public records thereof.

On 3 August and 19 November 2012, Banco Santander notified the CNMV, through a material fact, 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 material fact, 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 material fact, 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).

On 6 February and 29 May 2015, Banco Santander notified the CNMV, through respective material facts, 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 material fact, 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.

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

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1. The threshold stipulated in Royal Decree 1362/2007, of 19 October, which implemented the Securities Market Law 24/1988, of 28 July, 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 9 August 2017, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.940%, plus a further stake of 0.158% held through financial instruments. However, according to the Bank’s shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date or on 31 December 2017.
3. CORPORATE GOVERNANCE REPORT

Ownership structure

### Shares included in the syndication

At 31 December 2017, the syndication included a total of 79,072,050 shares of the Bank (0.49% of its share capital), broken down as follows:

<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 O’Shea</td>
<td>918,136</td>
</tr>
<tr>
<td>Mr Emilio Botín-Sanz de Sautuola O’Shea¹</td>
<td>16,843,109</td>
</tr>
<tr>
<td>Mr Francisco Javier Botín-Sanz de Sautuola O’Shea²</td>
<td>17,922,803</td>
</tr>
<tr>
<td>Ms Paloma Botín-Sanz de Sautuola O’Shea³</td>
<td>8,394,905</td>
</tr>
<tr>
<td>Ms Carmen Botín-Sanz de Sautuola O’Shea⁴</td>
<td>9,497,451</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., Unipersonal⁵</td>
<td>19,362,840</td>
</tr>
<tr>
<td>NUEVA AZIL, S.L.²</td>
<td>6,132,806</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>79,072,050</strong></td>
</tr>
</tbody>
</table>

1. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
2. 12,591,853 shares held indirectly through Agropecuaria El Castaño, S.L.U.
3. 7,887,903 shares held indirectly through Bright Sky 2012, S.L.
4. Controlled by Ms Ana Botín-Sanz de Sautuola O’Shea.
5. Controlled by Ms Carolina Botín-Sanz de Sautuola O’Shea.

### 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 a resolution of the Board of Directors on 23 October 2014, approved the current treasury share policy³ taking into account the criteria recommended by 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 2017, the Bank and its subsidiaries and investees held a total of 3,913,340 treasury shares in the Bank, representing 0.024% of its share capital at that date (at year-end 2016, there were 1,476,897 treasury shares, representing 0.010% of the Bank’s share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2017 and 2016.

<table>
<thead>
<tr>
<th>% of the Bank’s social capital¹</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>0.05%</td>
<td>0.01%</td>
</tr>
<tr>
<td>February</td>
<td>0.02%</td>
<td>0.3%</td>
</tr>
<tr>
<td>March</td>
<td>0.01%</td>
<td>0.02%</td>
</tr>
<tr>
<td>April</td>
<td>0.01%</td>
<td>0.04%</td>
</tr>
<tr>
<td>May</td>
<td>0.02%</td>
<td>0.05%</td>
</tr>
<tr>
<td>June</td>
<td>0.03%</td>
<td>0.05%</td>
</tr>
<tr>
<td>July</td>
<td>0.07%</td>
<td>0.02%</td>
</tr>
<tr>
<td>August</td>
<td>0.10%</td>
<td>0.06%</td>
</tr>
<tr>
<td>September</td>
<td>0.09%</td>
<td>0.18%</td>
</tr>
<tr>
<td>October</td>
<td>0.08%</td>
<td>0.06%</td>
</tr>
<tr>
<td>November</td>
<td>0.07%</td>
<td>0.03%</td>
</tr>
<tr>
<td>December</td>
<td>0.05%</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

1. Further information in this regard is included in Section A.8 of the annual corporate governance report.
3. The treasury share policy is published on the Group’s corporate website (www.santander.com).

Transactions with treasury shares performed by the consolidated companies in 2017 entailed the acquisition of 239,028,959 shares, equivalent to a par value of 119.5 million euros (cash amount of 1,309.4 million euros) and the sale of 236,592,516 shares, with a par value of 118.3 million euros (cash amount of 1,331.6 million euros).

The average purchase price of the Bank’s shares in 2017 was 5.48 euros per share, and the average sale price of the Bank’s shares was 5.63 euros per share.

The net gain for the Bank, net of tax, on transactions involving shares issued by the Bank amounted to 26,226,030 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 general shareholders’ meeting held on 7 April 2017, under item eight on the agenda, amounted to 3,645,585,175 euros. The Bank’s directors have until 7 April 2020 to carry out capital increases up to this limit. The shareholders gave the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Spanish Limited Liability Companies Law, although this power is limited to capital increases carried out under this authorisation up to 1,458,234,070 euros.

At the date of this document, use of this authorisation has been made in the amount of 729,116,372.50 euros by virtue of the capital increase of the Bank’s share capital at year-end 2016.

As of the date of this document, a total of 13,870,611,883.23 euros has been used under this authority.

At the date of this document, two issues of preference shares contingently convertible into new ordinary shares of the Bank, with disapplication of shareholders’ pre-emptive subscription right, for a total nominal amount of 1,750 million euros: one in April 2017 for a nominal amount of 750,000,000 euros and another in September 2017 for a nominal amount of 1,000,000,000 euros.

Moreover, the annual general meeting held on 7 April 2017 passed the following resolutions:

1. To effect a rights issue charged to reserves for the maximum amount that can be determined according to the terms of the agreement within 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 2017 is typically paid, shares under a scrip issue for an amount equal to that dividend payment.

This capital increase became effective on 14 November 2017 through the issuance of 95,580,136 new shares, each of a par value of 0.50 euros each (equal to 47,790,068 euros), representing a total of 0.7% of the Bank’s share capital at year-end 2016.

2. To render null and void, in the unused portion, the powers vested by general meeting of 18 March 2016, and vest powers in the board once again, pursuant to the terms of article 319 of the Regulations of the Mercantile 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 7 April 2022, whereupon any part thereof not exercised will be cancelled.

3. To delegate to the board of directors, pursuant to the provisions of article 297.1.a) of the Spanish Limited Liability Companies Law, 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 through the issuance of new shares 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

Ms Ana Botín-Sanz de Sautuola y O’Shea
GROUP EXECUTIVE CHAIRMAN
Executive director
Nationality: Spanish
Born in 1960 in Santander, Spain.
Joined the board in 1989.
Degree in Economics from Bryn Mawr College (Pennsylvania, United States).
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.

Other positions of note: member of the board of directors of The Coca-Cola Company. She is also 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) and she sits on the advisory board of the Massachusetts Institute of Technology (MIT).

Membership of board committees
Executive (chairman) and innovation and technology (chairman).

Mr José Antonio Álvarez Álvarez
CHIEF EXECUTIVE OFFICER
Executive director
Nationality: Spanish
Born in 1960 in León, Spain.
Joined the board in 2015.
Graduate in Economics and Business Administration. MBA from the University of Chicago.
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).

Other positions of note: He is a member of the board of Banco Santander (Brasil), S.A. and 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 GMHB and Bank of Zachodni WBK, S.A. He has also been board member of Bolsas y Mercados Españoles (BME).

Membership of board committees
Executive and innovation and technology.

Mr Bruce Carnegie-Brown
VICE CHAIRMAN
Non-executive director (independent) and lead independent director
Nationality: British.
Born in 1959 in Freetown, Sierra Leone.
Joined the board in 2015.
Master of Arts in English Language and Literature from the University of Oxford.

Other positions of note: He is currently the non-executive chairman of Moneysupermarket.com Group Plc and Lloyd’s of London. He was formerly the non-executive chair of AON UK Ltd (2012-2015), founder and managing partner of the quoted private equity division of 3i Group Plc., and president and chief executive officer of Marsh Europe. He was also lead independent director at Close Brothers Group Plc (2006-2014) and Catlin Group Ltd (2010-2014). He previously worked at JPMorgan Chase for eighteen years and at Bank of America for four years.

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

Mr Rodrigo Echenique Gordillo
VICE CHAIRMAN
Executive director
Nationality: Spanish.
Born in 1946 in Madrid, Spain.
Joined the board in 1988.
Graduate in Law and Government Attorney.

Other positions of note: former 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.

Membership of board committees
Executive and innovation and technology.
Mr Guillermo de la Dehesa Romero  
VICE CHAIRMAN  
Non-executive director  
Nationality: Spanish.  
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).  
Other positions of note:  
former secretary of state of Economy, secretary general of Trade, chief executive officer of Banco Pastor, S.A. and international advisor to Goldman Sachs International.  
He is currently non-executive vice chairman of Amadeus IT Group, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) of London, a member of the Group of Thirty based in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros and chairman of Aviva Grupo Corporativo, S.L.  
Membership of board committees  
Executive, appointments, remuneration, risk supervision, regulation and compliance and innovation and technology.

Ms Homaira Akbari  
Non-executive director (independent)  
Nationality: North-American and French.  
Born in 1961 in Tehran, Iran.  
Joined the board in 2016.  
Doctorate in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.  
She is Chief Executive Officer of AKnowledge Partners, LLC.  
Other positions of note:  
currently non-executive director of Gemalto NV, Landstar System, Inc. and Veolia Environment S.A. Ms Akbari has also been president and CEO of Sky Bitz, Inc., managing director of True Position Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC and she has held various posts at Microsoft Corporation and at Thales Group.  
Membership of board committees  
Audit and innovation and technology.

Mr Ignacio Benjumea Cabeza de Vaca  
Non-executive director  
Nationality: Spanish.  
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 (BME) and of the Governing Body of the Madrid Stock Exchange.  
Membership of board committees  
Executive, appointments, remuneration, risk supervision, regulation and compliance and innovation and technology.

Mr Javier Botín-Sanz de Sautuola y O’Shea  
Non-executive director  
Nationality: Spanish.  
Born in 1973 in Santander, Spain.  
Joined the board in 2004.  
Degree in Law.  
Executive Chairman of JB Capital Markets, Sociedad de Valores, S.A.U.  
Other positions of note:  
in addition to his work in the financial sector, he collaborates with several non-profit organisations. Since 2014 he has been chairman of the Botín Foundation and is a trustee of the Princess of Girona.
3. CORPORATE GOVERNANCE REPORT
Banco Santander’s board of directors

Ms Sol Daurella Comadrán
Non-executive director (independent)
Joined the board in 2015.
Degree in Business and MBA from ESADE.
Executive chairman of Olive Partners, S.A. and holds several positions at companies belonging to the Cobega Group. She is also chairman of Coca Cola European Partners, Plc.
Other positions of note: Previously, she has served on the board of the Círculo de Economía and also as an independent non-executive director at Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She has also been honorary counsel general of Iceland in Barcelona since 1992.
Membership of board committees
Appointments and remuneration.

Mr Carlos Fernández González
Non-executive director (independent)
Nationality: Mexican and Spanish. Born in 1966 in Mexico City, Mexico.
Joined the board in 2015.
Industrial engineer. He has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.
He is the chairman of the board of directors of Finaccess, S.A.P.I.
Other positions of note: Mr Fernández has also sat on the boards of Anheuser-Busch Companies, LLC and Televísa S.A. de C.V., among other companies. He is currently non-executive director of Inmobiliaria Colonial, S.A. and member of the supervisory board of AmRest Holdings, SE.
Membership of board committees
Audit, appointments and remuneration.

Ms Esther Giménez-Salinas i Colomer
Non-executive director (independent)
Joined the board in 2012.
PhD in Law and degree in Psychology.
Professor Emeritus at Ramón Llull University, director of the Chair of Restorative Social Justice, director of Unibasq and Aqu (quality assurance agencies for the Basque and Catalan university systems) and of Gawa Capital Partners, S.L.
Other positions of note: She has been chancellor of the Ramon Llull University, member of the standing committee of Conference of Chancellors of Spanish Universities (CRUE), member of the General Council of the Judiciary, member of the Scientific Committee on Criminal Policy of the Council of Europe, director general of the Centre of Legal Studies and Specialised Training of the Department of Justice of the Government of Catalonia (Generalitat de Catalunya) and member of the advisory board of Endesa-Catalunya.
Membership of board committees
Risk supervision, regulation and compliance and innovation and technology.

Ms Belén Romana García
Non-executive director (independent)
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, London and of Aviva Italia Holding SpA, and member of the advisory board of the Rafael del Pino Foundation.
Other positions of note: she was formerly executive vice president of Economic Policy and executive vice president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the Spanish National Securities Market Commission (CNMV). She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She was the executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).
Membership of board committees
Audit (chairman), risk supervision, regulation and compliance and innovation and technology.

The board has strengthened its knowledge and professional experience with the addition of Mr Ramiro Mato García-Ansorena 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.
Mr Juan Miguel Villar Mir

Non-executive director (independent)

Nationality: Spanish.
Born in 1931 in Madrid, Spain.
Joined the board in 2013.
Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation.

He is the Chair of Villar Mir Group.

Other positions of note: formerly Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He has also served as chairman of the OHL Group, Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, 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 supernumerary of the Royal Academy of Economics and Finance.

Mr Ramiro Mato García-Ansorena

Non-executive director (independent)

Nationality: Spanish.
Born in 1952 in Madrid, Spain.
Joined the board in 2017.
Degree in Economics from the Complutense University of Madrid and the Management Development Programme of the Harvard Business School.

Other positions of note: He has held several positions in Banque BNP Paribas, including chairman of the BNP Paribas Group in Spain. Previously, he held several significant positions in Argentaria. He has been a member of the Spanish Banking Association (AEB) and of Bolsas y Mercados Españoles, S.A. (BME) and member of the Board of Trustees of the Fundación Española de Banca para Estudios Financieros (FEBEF).

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

Mr Jaime Pérez Renovales

General secretary and secretary of the board

Nationality: Spanish.
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 is non-executive chairman of Santusa Holding, S.L., Santander Holding International, S.A. and Servicios de Alarmas Controladas por Ordenadores, S.A.; he is also non-executive director of Portal Universia, S.A. In addition, he is member of the board of trustees of the Universia Foundation, of the Banco Santander Foundation, being also a member of its executive committee, and of Fundacion Generacion 2015. Previously, 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 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 the Santander Group, deputy secretary of the Presidency of the Government and chairman of the committee for the Public Administration Reform.

Formerly chairman of the Agency of the Official State Gazette and director, amongst others, of Patrimonio Nacional, of the Sociedad Estatal de las Participaciones Industriales, Holding Olímpico, S.A., Autoestradas de Galicia, S.A. and Sociedad Estatal para la Introducción del Euro, S.A.

Secretary of board committees
Executive, audit, appointments, remuneration, risk supervision, regulation and compliance, innovation and technology.
The appointment of Mr Ramiro Mato García-Ánsorena as independent director will be submitted for ratification by the general meeting. Mr Mato was initially designated via co-option to fill the vacancy left by Ms Isabel Tocino Biscarolasaga. Also, the appointment of Mr Álvaro Antonio Cardoso de Souza as independent director to fill the vacancy left following the resignation of Mr Matías Rodríguez Inciarte will be put forward.

Their professional profiles, together with a description of their work and activities, can be found in the preceding pages of this report and also on the Group’s corporate website (www.santander.com) and in the motions for their re-election, appointment or ratification, to be laid before the general shareholders’ meeting of 2018.

Each of the re-elections, the appointment and the ratification 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.

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### COMPOSITION AND STRUCTURE OF THE BOARD OF DIRECTORS

#### Board of directors

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Shares Represented</th>
<th>% of Share Capital</th>
<th>Date of First Appointment</th>
<th>Date of Last Appointment</th>
<th>End Date</th>
<th>Date of Last Proposal of the Appointments Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive chairman</td>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>918,136</td>
<td>0.126%</td>
<td>04.02.1989</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>924,541</td>
<td>0.006%</td>
<td>25.11.2014</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>Vice chairman</td>
<td>Mr Bruce Carnegie-Brown</td>
<td>22,263</td>
<td>0.000%</td>
<td>25.11.2014</td>
<td>18.03.2016</td>
<td>First six months of 2019</td>
<td>11.02.2016</td>
</tr>
<tr>
<td></td>
<td>Mr Rodrigo Echenique Gordillo</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Mr Guillermo de la Dehesa Romero</td>
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<tr>
<td>Members</td>
<td>Ms Homaira Akbari</td>
<td>22,000</td>
<td>0.000%</td>
<td>27.09.2016</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td></td>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>3,463,716</td>
<td>0.021%</td>
<td>30.06.2015</td>
<td>6</td>
<td>18.03.2016</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mr Javier Botín-Sanz de Sautuola y O’Shea</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>Ms Sol Daurella Comadrán</td>
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<tr>
<td></td>
<td>Mr Carlos Fernández González</td>
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<td></td>
<td>Ms Esther Giménez-Salinas i Colomer</td>
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<tr>
<td></td>
<td>Mr Ramiro Mato García-Ánsorena</td>
<td></td>
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<tr>
<td></td>
<td>Ms Belén Romana García</td>
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<tr>
<td></td>
<td>Mr Juan Miguel Villar Mir</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General secretary and secretary of the board</td>
<td>Mr Jaime Pérez Renovales</td>
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</table>

#### Committees

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</tbody>
</table>

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1. 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.


Powers and duties

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

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, in particular, strategic or business plans, management objectives and the annual budget, fiscal strategy and capital and liquidity strategy, investment and financing, dividend, treasury share, new product approval, activities and services of risk management and control (including fiscal), corporate governance and internal governance of the Bank and its Group, including definition of the organisational structure, the policy for outsourcing services or activities, corporate culture and values, including the corporate social responsibility policy, the regulatory compliance policy, the 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, including employees in charge of internal control functions and those holding other key positions) 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 certain 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.

### Equity holding

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect</th>
<th>Shares represented</th>
<th>Total</th>
<th>% of share capital</th>
<th>Date of first appointment</th>
<th>Date of last appointment</th>
<th>End date</th>
<th>Date of last proposal of the appointments committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>918,136</td>
<td>19,362,840</td>
<td>-</td>
<td>20,280,976</td>
<td>0.126%</td>
<td>04.02.1989</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>924,541</td>
<td>-</td>
<td>-</td>
<td>924,541</td>
<td>0.006%</td>
<td>25.11.2014</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>22,263</td>
<td>-</td>
<td>-</td>
<td>22,263</td>
<td>0.000%</td>
<td>25.11.2014</td>
<td>18.03.2016</td>
<td>First six months of 2019</td>
<td>11.02.2016</td>
</tr>
<tr>
<td>935,773</td>
<td>14,474</td>
<td>-</td>
<td>950,247</td>
<td>0.006%</td>
<td>07.10.1988</td>
<td>07.04.2017</td>
<td>First six months of 2018</td>
<td>20.02.2015</td>
</tr>
<tr>
<td>172</td>
<td>-</td>
<td>-</td>
<td>172</td>
<td>0.000%</td>
<td>24.06.2002</td>
<td>27.03.2015</td>
<td>First six months of 2018</td>
<td>20.02.2015</td>
</tr>
<tr>
<td>22,000</td>
<td>-</td>
<td>-</td>
<td>22,000</td>
<td>0.000%</td>
<td>27.09.2016</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>3,463,716</td>
<td>-</td>
<td>-</td>
<td>3,463,716</td>
<td>0.021%</td>
<td>30.06.2015</td>
<td>18.03.2016</td>
<td>First six months of 2019</td>
<td>11.02.2016</td>
</tr>
<tr>
<td>5,272,830</td>
<td>12,649,973</td>
<td>119,466,183</td>
<td>137,388,986</td>
<td>0.851%</td>
<td>25.07.2004</td>
<td>18.03.2016</td>
<td>First six months of 2019</td>
<td>11.02.2016</td>
</tr>
<tr>
<td>142,094</td>
<td>456,970</td>
<td>-</td>
<td>599,064</td>
<td>0.004%</td>
<td>25.11.2014</td>
<td>18.03.2016</td>
<td>First six months of 2019</td>
<td>11.02.2016</td>
</tr>
<tr>
<td>18,524,499</td>
<td>3</td>
<td>-</td>
<td>18,524,502</td>
<td>0.115%</td>
<td>25.11.2014</td>
<td>27.03.2015</td>
<td>First six months of 2018</td>
<td>20.02.2015</td>
</tr>
<tr>
<td>6,014</td>
<td>-</td>
<td>-</td>
<td>6,014</td>
<td>0.000%</td>
<td>30.03.2012</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>0</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td>0.000%</td>
<td>28.11.2017</td>
<td>28.11.2017</td>
<td>First six months of 2021</td>
<td>27.11.2017</td>
</tr>
<tr>
<td>166</td>
<td>-</td>
<td>-</td>
<td>166</td>
<td>0.000%</td>
<td>22.12.2015</td>
<td>07.04.2017</td>
<td>First six months of 2020</td>
<td>21.02.2017</td>
</tr>
<tr>
<td>1,328</td>
<td>-</td>
<td>-</td>
<td>1,328</td>
<td>0.000%</td>
<td>07.05.2013</td>
<td>27.03.2015</td>
<td>First six months of 2018</td>
<td>20.02.2015</td>
</tr>
</tbody>
</table>

30,233,532 32,484,260 119,466,183 182,183,975 1.129%

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5. Their appointment will be submitted for ratification at the general shareholders’ meeting scheduled for 22 or 23 March 2018, on first or second call.

Chairman
Independent
Non-executive neither proprietary nor independent
3. CORPORATE GOVERNANCE REPORT
Banco Santander’s board of directors

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 representative bodies 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 14 members, 9 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. Two 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.

### Changes made to the committee rules and regulations in the past year

At its meeting of 13 February 2018, the board of directors approved several changes to the Rules and Regulations of the Board aimed at strengthening the supervisory function of its committees, among other points, in line with the recommendations and best practices published in 2017 by different Spanish and international bodies.

Specifically, the Rules and Regulations of the Board were adapted to the following: (i) the 3/2017 Technical Guide of the Spanish National Securities Market Commission, on audit committees of public interest entities, of 27 June 2017, (ii) the guide to internal governance issued by the European Banking Authority and (iii) the joint guidelines issued by the European Banking Authority and the European Securities and Markets Authority on assessing the suitability of members of the board of directors and directors with key functions, the latter two published on 26 September 2017 and coming into force on 30 June 2018.

Further, a new responsible banking, sustainability and culture committee which is governed by article 21 of the Rules and Regulations of the Board will be set up.

This change in the rules and regulations of the board reflects the Group’s commitment to complying with the highest corporate governance standards at all times, and is a further step in strengthening its internal governance system.

### Size and composition of the board

Since the end of 2010, the size of the board has been downsized by 30%, from 20 to 14 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 and approved thereby at its meeting on 13 February 2018.

Of the 14 members currently sitting on the board, three are executive and 11 are non-executive. Of the latter, eight are independent, one is proprietary and the other two, in the opinion of the board, are neither proprietary nor independent.

In its meeting of 13 February 2018, the board of directors agreed, at the proposal of the appointments committee, to submit to the general shareholders’ meeting to be held on 22 or 23 March 2018, in first or second call, respectively, the appointment of Mr. Álvaro Antonio Cardoso de Souza as independent director to fill the vacancy left following the resignation of Mr Matías Rodríguez Inciarte. In case the aforementioned proposal is agreed, the board of directors shall be comprises of 15 members.

Lastly, in the meeting of 13 February 2018, the board of directors also agreed to submit to the aforementioned General shareholders’ meeting of 2018, the amendment of article 41 of the Bylaws to reduce the minimum and maximum thresholds of composition of the board of directors, which are now fixed between 14 and 22 members, at a minimum of 12 and a maximum of 17, more aligned with the recommendations of the Good Governance Code.

![Size of the Board](#)

![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 and Mr Rodrigo Echenique Gordillo.

**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 Limited Liability Companies Law.
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, Mr Ramiro Mato García-Ansorena, Ms Belén Romana García and Mr Juan Miguel Villar Mir.

Given the current number of directors (14), independent non-executive directors account for 57% 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 Benjumeda Cabeza de Vaca are non-executive 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 shareholding directors. 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 Benjumeda, since three years have not yet elapsed since his resignation as a member of the Group’s senior management.

The board of directors, following the proposal of the appointments committee, and after a review of practices in comparable markets and companies, resolved on 13 February 2018 to apply the legally established threshold for significant shareholdings (3% of share capital) to be considered as proprietary director. Since the shareholding represented by Mr. Javier Botín-Sanz de Sautuola y O’Shea (0.98%) is below the referred threshold, he has ceased to meet the requirements to be considered as proprietary director, whilst not satisfying the criteria to be regarded as an independent director under Art. 529, duodecies.4.i of the Spanish Companies Act. As a consequence, the board of directors, following the proposal of the said committee, resolved on that same date, to categorize him as an external manager.

Therefore, following a report from the appointments committee, the board of directors has classified the three members of the Board as non-executive directors that are neither proprietary nor independent, in accordance with article 529 duodecies.4 of the Spanish Limited Liability Companies Law and article 6.2 of the Rules and Regulations of the Board.

**Diversity on the board**

As established in article 18.4.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.

The Bank has a policy of selecting directors that considers and favors diversity in the board of directors, contemplating issues such as experience and knowledge, geographical and gender diversity and that, in general, does not suffer from implicit biases that may imply any discrimination, from any point of view, including for reasons of age or disability. The Bank applies this policy in the selection of directors to cover vacancies that occur.

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 a meeting held on 26 January 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 36% of seats.

At present, there are five women on the board of directors, one of whom is its 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 and Ms Belén Romana García.
PERCENTAGE OF WOMEN ON THE BOARD

<table>
<thead>
<tr>
<th>Year</th>
<th>Members</th>
<th>Female Directors</th>
<th>% Female Directors</th>
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<tbody>
<tr>
<td>2011</td>
<td>11%</td>
<td>5</td>
<td>35.7%</td>
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<tr>
<td>2013</td>
<td>19%</td>
<td>1</td>
<td>14.29%</td>
</tr>
<tr>
<td>2015</td>
<td>33%</td>
<td>2</td>
<td>50.0%</td>
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<tr>
<td>2017</td>
<td>36%</td>
<td>2</td>
<td>20.0%</td>
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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 29 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 10 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 executive chairman of the board of directors, in the expectation that in such cases she will be substituted by a vice chairman, according to the criterion of length of service on the board. However, if one of the vice chairmen is the lead director, he will be the first in the order of replacement. If there are no vice chairmen, the remaining directors will replace the 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.

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 14 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.

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*

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<tr>
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<th>Santander</th>
<th>Average Spain</th>
<th>USA Average</th>
<th>UK Average</th>
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<td>Board</td>
<td>15</td>
<td>10.8</td>
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<td>7.8</td>
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<td>Executive committee</td>
<td>47</td>
<td>9</td>
<td>2.5</td>
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<tr>
<td>Audit committee</td>
<td>12</td>
<td>8</td>
<td>12.8</td>
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<tr>
<td>Appointments committee</td>
<td>11</td>
<td>5.7</td>
<td>5.8</td>
<td>5.0</td>
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<tr>
<td>Remuneration committee</td>
<td>11</td>
<td>5.7</td>
<td>7.9</td>
<td>7.6</td>
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<tr>
<td>Risk supervision,</td>
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<td>16</td>
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<td>regulation and</td>
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<tr>
<td>compliance committee</td>
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* Source: Stuart Spencer Board Indices 2017 (Spain, United States and United Kingdom).

### Secretary of the board

The Bylaws (article 45.2) and the Rules and Regulations of the Board (article 12) include among the duties of the secretary those of ensuring the formal and substantive legality of all action taken 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 18.4.e)) 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 15 meetings during 2017.

The board holds its meetings in accordance with an annual calendar and agenda of business to discuss, without prejudice to any further items that may be added or any additional meetings that need to be held according to the 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, and at least quarterly.

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

### 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 43.2 and 48.1 of the Bylaws and article 8.2 of the Rules and Regulations of the Board). In accordance with her position as such, the 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 executive chairman all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- The corporate strategic functions report to the executive chairman, directly involved in the long term strategy and corporate culture.

#### 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 11.1 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 as independent units.
- 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.
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. The Bank’s directors therefore may not at the same time hold 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 and whether they are capable of carrying out good governance of the Group. 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

Given the Board’s commitment to continuous improvement, an ongoing training programme for directors is in place.

Within the framework of the Bank’s ongoing director training programme, ten sessions were held in 2017. The following matters, among others, were covered in detail at these meetings: the new method for calculating provisions for credit risk; the regulatory and supervisory framework in the US (TLAC, CCAR); public reporting of financial information; risk identification assessment; Santander’s operational risk framework and profile; credit risk models; cyber risk; anti-money laundering; in-depth look at the “Risk Appetite Statement” of 2018; MIFID II.

Likewise, the Rules and Regulations of the Board (article 26.7) 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, Mr Ramiro Mato García-Ansorena (appointed to the board on 28 November 2017) is attending a rigorous induction programme for new directors covering all relevant dimensions of the Group.

In 2017, the audit committee also made an information and induction programme available to the new members that joined the committee regarding matters subject to its competence, which ensures their active participation from the very beginning. Here, for example, Ms Homaira Akbari (appointed as a member of the audit committee on 26 June 2017) attended this specific training programme for committee members.
Decision-making process

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

Self-assessment by the board

Pursuant to article 24.7 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.

In accordance with article 18.4(j) of the Rules of the Regulations of the Board, the appointments committee reported on the self-assessment of the board and of its committees, which in 2017 was carried out by the board with the support of an external firm, the independence of which was verified by the committee.

The self-assessment includes a specific section for assessing the executive chairman, the chief executive officer, the lead director and the secretary. The executive chairman led the assessment of the lead director, who in turn led that of the executive chairman.

The self-assessment was based on a confidential and anonymous questionnaire and personal interviews with the directors. Moreover, best corporate governance practices at an international level and benchmarking with respect to 31 comparable international banks with regard to the composition and dedication of the board, the committees, remuneration and other aspects of corporate governance, in which the Bank ranks very highly, were taken into consideration.

The assessment process focused on the following aspects:

- In relation to the board as a whole: size, composition, organisation and functioning; internal arrangements and culture (planning of meetings, director support and training); knowledge and diversity; and performance of the supervisory function. Matters regarding the future (strategy and internal and external factors that might affect the Group's performance) as well as what its challenges and priorities should be for 2018 were also assessed.

- In relation to the committees: composition; functioning; board support and reporting; committee content, and their main challenges and priorities for 2018.

- In relation to the executive chairman: performance of her functions, leadership, defining the responsibilities with the lead director and with the chief executive officer, resulting in a clear and defined the separation of functions, whereby those related to the Bank's long-term strategy, culture and development of the management team correspond to the executive chairman.

- In relation to the chief executive officer: performance of his functions and distribution of responsibilities with the executive chairman, whereby he is responsible for ordinary management activities.

- In relation to the lead director: performance of his functions; leadership; relations with other directors and with institutional investors.

- In relation to the secretary of the board: performance of his functions and contribution to the smooth functioning of the board and the committees.

The directors consider the following to be strengths of the Group's corporate governance:

- The executive chairman has continued to promote the best international standard across the Group in terms of corporate governance practices, corporate culture, business performance and customer focus.

- The long term vision in the banking business of the chief executive officer, highly committed to the project, and the complmentarity of his profile with that of the Group Executive Chairman's.
• The implementation of all recommendations for improvement identified in the self-assessment processes carried out in previous years.

• The high level of dedication, participation and commitment of the members of the board and of the committees and their involvement in controlling all types of risks.

• A good balance between executive and non-executive directors on the board and the audit committee, appointments committee, remuneration committee, and risk supervision, regulation and compliance committee, all of which are exclusively made up of non-executive directors, the majority of which are independent.

• A good balance of experience, skills and knowledge among the members of the board and the high degree of diversity of their skills.

• The effective operation of the board committees.

The results of the assessment process for the board and its committees revealed the following: high levels of commitment and dedication from all board 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.

The contribution of the lead director in incorporating international best practices on the board and in the committees and in developing relations with institutional investors is also noteworthy of mention.

The report containing the conclusions and results of the assessment process for the board and its committees in 2017 was presented at the board meeting held on 19 December 2017. In view of these findings, the board, at its meeting held on 30 January 2018, approved an action plan that envisages improvements in the following areas, among others:

• Strengthen the composition of the board of directors, showing commitment to international diversity, especially from the strategic markets in which the Group operates, and ensure the suitability of the composition of the committees to improve performance of their functions and their respective areas of action.

• Increase the dedication of the board to strategic matters, which was already increased last year, and to the supervision of emerging risks, such as cybersecurity.

• Continue strengthening the functions and activities of the committees in advising the board.

• Increase the number of meetings of non-executive directors with the lead director.

**Appointment, re-election and ratification of directors**

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 be preceded by the relevant selection process and be subject to the corresponding report of the appointments committee which, if deemed adequate, submit the corresponding reasoned proposal to the board.

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 aforementioned director selection process, as set out in articles 6.1 of the Rules and Regulations of the Board and 42.4 of the Bylaws, the committee reviewed the director selection and succession policy on 23 January 2017. At the request of the appointments committee, at its meeting held on 19 December 2017, the board of directors approved the conclusions of the annual self-assessment process for the board carried out in 2017 with the support of an independent firm and assessed the balance of skills, ability, diversity and experience on the board. With this information, the board of directors approved at the aforementioned meeting the following skills matrix. The findings of the analysis identified the need to seek out new candidates with experience in the financial sector and with greater geographical diversity, especially in Latin America, without prejudice to the need to continue strengthening skills relating to new technologies.

<table>
<thead>
<tr>
<th>Group executive chairman</th>
<th>Chief executive officer</th>
<th>Vice chairmen</th>
<th>Members</th>
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<tr>
<td>Ana Botín</td>
<td>José Antonio Álvarez</td>
<td>Guillermo de la Dehesa</td>
<td>Javier Botín</td>
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<td></td>
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<td>Rodríguez Echenique</td>
<td>Esther Gimenez</td>
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<td>Homaira Albari</td>
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<td>González (Independent)</td>
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<td>Bolón Romana (Independent)</td>
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<td>Ramiro Mato García-</td>
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*  Skills as executive  |  Skills as non-executive  |  Nature  |  Data at December 2017

**Total number of independent directors**  8
**Total number of board members**  14
3. CORPORATE GOVERNANCE REPORT
Banco Santander’s board of directors

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%. The shareholders acting at the general shareholders’ meeting of 7 April 2017 approved a maximum ratio between fixed and variable components of executive directors’ remuneration of 200% for 2017.

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 Limited Liability Companies Law 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. The board of directors, at the proposal of the remuneration committee, is also 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.

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 Bank of Spain Circular 2/2016, of 2 February, on credit institutions, supervision and capital adequacy.

Remuneration of the board in 2017

Bylaw-stipulated emoluments earned by the board amounted to 47 million euros in 2017, which is 22% lower than the maximum amount of 6 million euros approved by the shareholders at the general shareholders’ meeting on 7 April 2017.

Full details regarding director remuneration and the policy for 2017 can be found in the activities report of the remuneration committee, which forms part of the corporate documentation of Banco Santander, in the Annual Corporate Governance Report and in the Annual Report on the Remuneration of Directors.

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, European 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 Limited Liability Companies Law and article 59.bis.1 of the Bylaws, each year the board of directors 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.
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 2017, the report corresponding to 2016 was submitted at the general shareholders’ meeting held on 7 April for an advisory vote by shareholders, as a separate item on the agenda, with 93.531% of the votes being in favour of the report.

The director remuneration policy for 2017, 2018 and 2019 was also submitted for approval, on a binding basis, by shareholders at the annual general shareholders’ meeting held on 7 April 2017, in accordance with article 529 novodecies of the Spanish Limited Liability Companies Law. The policies were approved with 93.828% of the votes in favour.

Lastly, the 2017 annual report on director remuneration will be submitted at the annual general shareholders’ meeting foreseen to be held on 22 or 23 March (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 2018, 2019 and 2020 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 3 to the Group’s annual report.

## SOME MEASURES TAKEN BY THE BOARD WITH REGARD TO REMUNERATION

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013: cap on annual remuneration of the directors by reason of their position</td>
<td>The ordinary general shareholders’ meeting of 2013 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.</td>
</tr>
<tr>
<td>2014: maximum variable remuneration for executive directors</td>
<td>The ordinary general shareholders’ meeting of 2014 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.</td>
</tr>
<tr>
<td>2015: approval of the remunerations policy for directors</td>
<td>The ordinary general shareholders’ meeting of 2015 approved the remunerations policy for directors for years 2015 and 2016, which is consistent with the principles and rules included in the By-laws and in the Rules and Regulations of the board, being unchanged the maximum amount of the remunerations approved in the general shareholders’ meeting of 2013.</td>
</tr>
<tr>
<td>2016: changes in the remuneration policy</td>
<td>A number of changes were proposed at the 2016 general shareholders’ meeting with regard to the remunerations policy for executive directors and senior management, in line with the Simple, Personal and Fair culture. The main new developments with regard to the previous policy are as follows:</td>
</tr>
<tr>
<td></td>
<td>• Simplification: a new streamlined structure for variable and long-term annual remuneration.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td>2017: changes to the remuneration policy of executive directors</td>
<td>A number of changes to the remunerations policy of executive directors were laid before shareholders for their approval at the 2017 general shareholders’ meeting, intended to:</td>
</tr>
<tr>
<td></td>
<td>• Streamline the system of metrics and indicators so that only the most relevant remain in the policy.</td>
</tr>
<tr>
<td></td>
<td>• In relation to individual remuneration, increase the weighting of corporate behaviours that reflect the Simple, Personal and Fair culture of the Santander Group.</td>
</tr>
<tr>
<td>2018: changes to the remuneration policy of executive directors</td>
<td>The approval of some amendments to the remunerations policy of executive shareholders will be submitted to the shareholders for their approval at the general shareholders’ meeting foreseen to be held on 22 or 23 March 2018. The amendments are aimed to:</td>
</tr>
<tr>
<td></td>
<td>• Reduce the amount of the annual contributions to the pension system (sistema de previsión), proportionally increasing the annual fixed allocation and with no increase of the total cost for the Bank.</td>
</tr>
<tr>
<td></td>
<td>• Allow the required changes to eliminate the complementary pension system (sistema de prevision complementario) for the events of death (for widows and orphans) and disability of directors, including a fixed complement of remuneration and enhancing the life insurance cover of the affected directors, with no increase of the total cost for the Bank.</td>
</tr>
</tbody>
</table>
3. CORPORATE GOVERNANCE REPORT

Banco Santander’s board of directors

### 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 of 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.

**Related party transactions**
In accordance with that stipulated by law, article 53 of the Bylaws and articles 3, 17 and 40 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.

These transactions will require board authorisation, based on a favourable report from the audit committee, except for those cases where approval by law 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 participating in 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 36), 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 related 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 2017, there were 86 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 86 cases is as follows: on 27 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and its appoint as members of board committees or as member of other boards at Group companies; on 25 occasions the matter under consideration related to remuneration or granting loans or credits; on 22 occasions the matter concerned the discussion of financing or investment proposals or other risk transactions involving entities related to any of the directors; and on 12 occasions the abstention concerned the annual verification of the status of directors and the suitability of directors.

### 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, and innovation and technology committees).

At the meeting of 13 February 2018, the board of directors approved an amendment of the Rules and Regulations of the board whereby it creates and regulates a new responsible banking, sustainability and culture committee. In addition, given that the board has formed an international advisory board which, among other functions, advises the board on the design and development of the global business strategy, on the same date the board decided to disband the international committee.

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.
**Executive committee**

The executive committee is a basic instrument for the corporate governance of the Bank and 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 2017 it held 47 meetings.

There are currently seven directors sitting on the committee, three 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 53) and in the Rules and Regulations of the Board (article 16).

**Audit committee**

The audit committee, among other duties, 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 normally meets on a monthly basis and met 12 times in 2017.

As provided in the Bylaws (article 53) and the Rules and Regulations of the Board (article 17), the committee must be made up of 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, as defined in 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.

**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 11 occasions in 2017.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 18) 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, three of whom are independent.

**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 and the remuneration of other members of senior management and draws up their remuneration policy.

The committee met on 11 occasions in 2017.

The Bylaws (article 54 bis) and the Rules and Regulations of the Board (article 19) 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 the evaluation of the risks associated to the most relevant corporate transactions. It assists the board in the relation with supervisors and regulators in the various countries in which the Group has a presence, in the drawing up of its capital and liquidity strategy, and it monitors compliance with the General Code of Conduct and, in general, with the Bank’s governance rules and compliance and criminal risk prevention programmes. It also oversees the corporate governance system and the policy of communication and relations with the Bank’s stakeholders.

The committee met on 12 occasions in 2017.

As provided in the Bylaws (article 54 ter) and the Rules and Regulations of the Board (article 20), the committee must be made up of non-executive directors, the majority of whom must be independent, including the chairman.

The committee is currently made up of six non-executive directors, four of which are independent.

**Innovation and technology committee**

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 technology and security risks and to supervise all matters relating to cybersecurity.

The committee met on 3 occasions in 2017.

This committee comprises nine directors, of whom three are executive and six are non-executive, four of which are independent.

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 with the appropriate coordination.
In accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at meetings of board committees of which they are not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested such attendance from the chairman of the board.

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 2017, 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 2017. 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 2017.

### International advisory board

Banco Santander’s international advisory board, comprising experts in strategy, IT and innovation, and those outside the Group, held its first meeting on 26 April 2016 in Boston (US). The international advisory board meets at least twice per year.

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 international advisory board met on 4 May 2017 in London and on 11 October 2017 in New York.

<table>
<thead>
<tr>
<th>Chairman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Larry Summers</td>
</tr>
<tr>
<td>Former US Treasury Secretary and President Emeritus of Harvard University</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Sheila Bair</td>
</tr>
<tr>
<td>Former Chair of the Federal Deposit Insurance Corporation and President of Washington College</td>
</tr>
<tr>
<td>Mr Frank D’Souza</td>
</tr>
<tr>
<td>CEO of Cognizant and director of General Electric</td>
</tr>
<tr>
<td>Mr George Kurtz</td>
</tr>
<tr>
<td>CEO and co-founder of CrowdStrike</td>
</tr>
<tr>
<td>Ms Blythe Masters</td>
</tr>
<tr>
<td>CEO of Digital Asset Holdings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secretary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Jaime Pérez Renovales</td>
</tr>
</tbody>
</table>
COMPOSITION OF THE BOARD COMMITTEES

- EXECUTIVE COMMITTEE: 57% Ejecutivos, 43% No ejecutivos
- AUDIT COMMITTEE: 100%
- APPOINTMENTS COMMITTEE: 100%
- REMUNERATION COMMITTEE: 100%
- RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEE: 100%
- INNOVATION AND TECHNOLOGY COMMITTEE: 62% Ejecutivos, 38% No ejecutivos

NUMBER OF MEETINGS AND ESTIMATED AVERAGE HOURS DEVOTED BY EACH DIRECTOR

<table>
<thead>
<tr>
<th>Committees</th>
<th>No. of meetings</th>
<th>Hours/meeting(^1)</th>
<th>Hours/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive committee</td>
<td>47</td>
<td>5</td>
<td>235</td>
</tr>
<tr>
<td>Audit committee</td>
<td>12</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td>Appointments committee</td>
<td>11</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>11</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Risk supervision, regulation and compliance committee</td>
<td>12</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td>Innovation and technology committee</td>
<td>3</td>
<td>4</td>
<td>12</td>
</tr>
</tbody>
</table>

1. Includes the dedication to preparing and attending the meetings.

ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2017

Pursuant to the Rules and Regulations of the Board (article 25.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board meetings in 2017 was 97%.

RATE OF ATTENDANCE AT BOARD MEETINGS

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</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>
<tr>
<td>2017</td>
<td>97.0</td>
</tr>
</tbody>
</table>
### 3. CORPORATE GOVERNANCE REPORT

Banco Santander's board of directors

<table>
<thead>
<tr>
<th>Directors</th>
<th>Board</th>
<th>Executive</th>
<th>Audit</th>
<th>Appointments</th>
<th>Remuneration</th>
<th>Risk supervision, regulation and compliance</th>
<th>Innovation and technology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average attendance</strong></td>
<td>97%</td>
<td>95%</td>
<td>90%</td>
<td>100%</td>
<td>100%</td>
<td>95%</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Individual attendance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>15/15</td>
<td>44/47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>15/15</td>
<td>46/47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>15/15</td>
<td>38/47</td>
<td>11/11</td>
<td>11/11</td>
<td>12/12</td>
<td>1/3</td>
<td></td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>14/15</td>
<td>44/47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inclarte</td>
<td>14/14</td>
<td>44/44</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>15/15</td>
<td>47/47</td>
<td>11/11</td>
<td>11/11</td>
<td>11/12</td>
<td>3/3</td>
<td></td>
</tr>
<tr>
<td>Ms Homaira Akbari</td>
<td>14/15</td>
<td>6/6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>15/15</td>
<td>47/47</td>
<td>11/11</td>
<td>11/11</td>
<td>12/12</td>
<td>3/3</td>
<td></td>
</tr>
<tr>
<td>Mr Javier Botín-Sanz de Sautuola y O’Shea</td>
<td>14/15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>14/15</td>
<td></td>
<td>11/11</td>
<td>11/11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>15/15</td>
<td></td>
<td>10/12</td>
<td>11/11</td>
<td>2/2</td>
<td>10/11</td>
<td></td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
<td>15/15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6/6</td>
</tr>
<tr>
<td>Mr Ramiro Mato García-Ansorena²</td>
<td>1/1</td>
<td>3/3</td>
<td>1/1</td>
<td></td>
<td></td>
<td></td>
<td>1/1</td>
</tr>
<tr>
<td>Ms Belén Romana García³</td>
<td>15/15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12/12</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasagil</td>
<td>14/14</td>
<td>42/44</td>
<td>11/11</td>
<td></td>
<td>9/9</td>
<td>11/11</td>
<td></td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>13/15</td>
<td>3/6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4/6</td>
</tr>
</tbody>
</table>

2. Director since 28 November 2017.
3. Member of the Innovation and Technology committee since 19 December 2017.
4. Group structure and governance framework

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 co-ordinated 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 its 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, in full compliance with the regulations and local supervisory criteria.

- Between the CEOs (Chief Executive Offices) and country heads of the subsidiaries.

- And between the Group and the officers and teams deemed fit to exercise control functions within the Group and at the subsidiaries: CRO (Chief Risk Officer), COO (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 CEO, country head 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) 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, cybersecurity and communication and brand, and which specify:

1. The way of exercising oversight and control by the Group over the subsidiaries.
2. 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 make up the internal governance system 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. Both the model and the frameworks are maintained up to date on an ongoing basis through the recurring adoption of legislative changes and international best practices.

Based on the corporate frameworks, the functions included in the governance model prepare regulatory documents that are given to the Group’s subsidiaries as reference and development documentation, promoting their effective implementation at the local level.

**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 function, the compliance function and the internal audit function, and also between them and other functions which control or supervise them.

- The risk control function, the compliance function and the internal audit function are headed by the following senior executive vice presidents, each of whom has independent and direct access to the Bank’s board of directors and its committees for the purpose of reporting on their verification and inspection work.
• Risk 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 Marín (Group Chief Audit Executive - Group CAE).

The risk and compliance functions report to the risk supervision, regulation and compliance committee and answer requests for information received from this committee, while the internal audit function reports to the audit committee.

• Furthermore, a further two functions are considered relevant at Group level, one tasked with financial control functions and the other with management control functions. Reporting directly to the Group’s chief executive officer, they are themselves headed by a senior executive vice president. 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**

• The risk governance model, approved by the board of directors, is based on the following principles:

  • Separate decision-making functions from control functions.

  • Strengthen the responsibility of the first line of defence in decision-making.

  • Ensure that all decisions concerning risk follow a formal approval process.

  • Ensure there is an overall vision of all types of risks, including those outside the scope of control of the risk function.

  • Strengthen the role of risk control committees, affording them additional powers.

  • Simplify the committee structure.

• There are currently two internal risk committees not specifically envisaged in the Bylaws: the executive risk committee (chaired by the CEO and in which the CRO has the right to veto), tasked with global risk management functions and comprising two executive members; and the risk control committee (chaired by the CRO), 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 granted general powers to support and advise the board of directors with regard to the supervision and control of risks, and the definition of the Group’s risk policies.

• The executive committee devotes a significant amount of its time to discussions on the Group’s risks.
3. CORPORATE GOVERNANCE REPORT
5. Los derechos de los accionistas y la junta general

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 (ordinary 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.

Encouraging the informed participation of shareholders at general shareholders’ meetings

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.

Another channel of communication available to shareholders is the electronic shareholders’ forum. Since the annual general meeting held in 2011, shareholders have had access to the electronic shareholders’ forum in compliance with the provisions of the Spanish Limited Liability Companies Law. 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 by law, as well as offers or requests to act as a voluntary proxy.

Quorum at the annual general shareholders’ meeting held in 2017

The general shareholders’ meeting is the main vehicle in the direct relationship with shareholders. The informed participation of shareholders at general shareholders’ meetings is an objective expressly acknowledged by the board (article 37.3 of the Rules and Regulations of the Board).

The quorum for the annual general meeting for 2017 rose to 64.03%, the highest to date.

Key Points of the 2017 Annual General Shareholders’ Meeting

- Shareholders approved the corporate management of the Bank in 2016 with 97.74% voting in favour.
- The 2016 annual report on director remuneration received a 93.83% favourable vote.
Annual general shareholders’ meeting held on 7 April 2017

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

A total of 6,411,150 shareholders attended in person or by proxy, with 9,336,283,351 shares. The quorum was thus 64.025% 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 96.56%.

The full texts of the resolutions adopted at the general shareholders’ meeting held in 2017 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 7 April 2017.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physically present</td>
<td>0.905%</td>
</tr>
<tr>
<td>By proxy</td>
<td>47.485%</td>
</tr>
<tr>
<td>Absentee votes</td>
<td>15.635%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64.025%</strong></td>
</tr>
</tbody>
</table>

1. Of this percentage (0.905%), 0.004% 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 1.380%.
3. Of this percentage (15.635%), 15.266% corresponds to votes cast by post, while the rest is the percentage of electronic votes.

In accordance with article 186 of the Spanish Limited Liability Companies Law, 9 of the board’s 15 directors at that date exercised the right to vote on behalf of a total of 6,800,091,154 shares, equivalent to the same number of votes, the breakdown being as follows:

Mr. Matías Rodríguez Inciarte* 658,277
Ms Ana Botín-Sanz de Sautuola O’shea 6,657,283,403
Mr José Ignacio Benjumea Cabeza de Vaca 27,487
Mr Rodrigo Echenique Gordillo 570,534
Mr Francisco Javier Botín-Sanz de Sautuola O’shea 56,544,602
Mr José Antonio Álvarez Álvarez 49,049
Ms Esther Giménez-Salinas I Colomer 17,465
Ms Belén Romana García 17,824
Mr. Carlos Fernández González 84,922,553

*Stood down from the board on 28 November 2017.

Information provided to shareholders and communication with them

In line with the policy for communicating with shareholders, investors and proxy advisors approved by the board of directors on 12 February 2016, in 2017 Banco Santander continued to strengthen communications with, service to and relationships with its shareholders and investors.

In 2017, for the first time, it was created a WhatsApp line of communication, as another customer service channel in addition to those already existing (electronic mailboxes, telephone lines, in person and postal mail) in accordance with the digital transformation and the Bank’s Simple, Personal and Fair culture, promoting transparency and maintaining the highest quality standards in providing service to our shareholders.

<table>
<thead>
<tr>
<th>CHANNELS FOR SHAREHOLDER INFORMATION AND SERVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone service lines</td>
</tr>
<tr>
<td>Shareholder and investor mailbox</td>
</tr>
<tr>
<td>Postal Mailbox</td>
</tr>
</tbody>
</table>

In 2017, there were a total of 1,560 interactions with investors, analysts and rating agencies, which entailed contact with 959 investors/analysts. In addition, the area of 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. In October the Group organised the Group Strategy Update in New York, an event where senior management reviewed the strategic objectives for 2018 in relation to both the Group and its main business units. Over 260 delegates took part in the various Group Strategy Update events, including the Group’s main analysts and investors. Likewise, 175 road shows were held, 19 conference were attended and 1,560 meetings were held with fixed and variable income investors. Also, meetings with 12,517 retail shareholders were held in 241 corporate events.

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 by the Bank sufficiently in advance.

Policy for contacting and communicating with shareholders

The policy for contacting and communicating with shareholders, institutional investors and proxy advisors is published on the Group’s corporate website (www.santander.com), 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 section 36 “Shareholders” of this annual report.

Communication between the board and shareholders and investors continued to be strengthened through the shareholders’ meeting, the Group Strategy Update and the corporate governance road shows arranged and held by the lead independent director.
## 6. Santander Group management team

### Composition

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chairman</strong></td>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
</tr>
<tr>
<td><strong>Chief executive officer</strong></td>
<td>Mr José Antonio Álvarez Álvarez</td>
</tr>
<tr>
<td><strong>Executive vice chairman</strong></td>
<td>Mr Rodrigo Echenique Gordillo</td>
</tr>
</tbody>
</table>

### Businesses

- **Argentina**: Mr Enrique Cristofani
- **Brazil**: Mr Sérgio Rial
- **Chile**: Mr Claudio Melandri Hinojosa
- **US**: Mr Scott Powell
- **Spain**: Mr Rami Aboukhair Hurtado
- **Consumer Finance**: Ms Magda Salarich Fernández de Valderrama
- **Mexico**: Mr Héctor Grisi Checa
- **Poland**: Mr Gerry Byrne, Mr Michal Gajewski
- **Portugal**: Mr António Vieira Monteiro
- **United Kingdom**: Mr Nathan Bostock

### Business divisions

- **Wholesale Global Banking**: Mr José Linares Pou
- **Wealth Management**: Mr Víctor Matarranz Sanz de Madrid

### Business support divisions

- **Santander Digital**: Ms Lindsey Tyler Argalas

### Support and control functions

- **Risks**: Mr José María Nus Badía (*Group Chief Risk Officer*)
- **Compliance**: Ms Mónica López-Monís Gallego (*Group Chief Compliance Officer*)
- **Internal Audit**: Mr Juan Guitard Marín (*Group Chief Audit Executive*)
- **Financial**: Mr José Antonio García Cantera (*Group Chief Financial Officer*)
- **Office of the General Secretary and Human Resources**: Mr Jaime Pérez Renovales
- **Communication, Corporate Marketing and Research**: Mr Juan Manuel Cendoya Méndez de Vigo, Ms Jennifer Scardino
- **Corporate Development**: Mr José Luis de Mora Gil-Gallardo
- **Financial Accounting and Control**: Mr José Francisco Doncel Razola (*Group Chief Accounting Officer*)
- **Executive Chairman’s Office and Strategy**: Mr Enrique Álvarez Labiano
- **Costs**: Mr Javier Maldonado Trinchant
- **Technology and Operations**: Mr Andreu Plaza López
- **Santander Universities**: Mr Javier Roglá Puig

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1. Information on 31 December 2017.
2. It includes Santander and Banco Popular.
3. Reports to the Group Chief Risk Officer.
Remuneration

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

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 2017 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).
We promote the implementation of good corporate governance to generate confidence in the international environment in which the Group operates.

### Financial information and other relevant information

**Financial information**
Pursuant to the provisions of its Rules and Regulations (article 41.2), 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 is disseminated in a true, clear, complete and equitable fashion and on a timely basis and, whenever practicable, such information shall be quantified.

In 2017, the Bank published 73 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 external auditor

**Independence of the auditor**
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 2017 is contained in note 48 to the Group’s legal report.

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 issues a report in this regard. The financial statements of the Bank and of the consolidated Group for 2017 are submitted without qualifications.

At its meeting of 8 February 2018, 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.
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 Spanish Limited Liability Companies Law; Order ECC/461/2013, of 20 March; CNMV Circular 3/2015, of 23 June; and Bank 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 175,000 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 Group’s 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 2018 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).

Compliance with corporate governance recommendations


Banco Santander also takes into account the good governance recommendations and best practices for credit institutions established by the Supervisors, such as the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015; the Corporate Governance Principles of the Organisation for Economic Co-operation and Development (OECD) approved in July 2015; guidelines on various matters (internal governance, suitability assessment of the members of the managing body, remuneration) published by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), and the good governance codes of the stock markets on which its shares are listed.

The Bank’s board of directors approved several changes to its Rules and Regulations of the Board aimed at strengthening the supervisory function of the various board committees, among other points, in line with the recommendations and best practices published in 2017 by different Spanish, European and international bodies.
3. CORPORATE GOVERNANCE REPORT
Transparency and independence

8. Goals for 2018

The board’s goals and priorities for 2018 with regard to corporate governance are as follows:

- Strengthen the composition of the board of directors, showing commitment to international diversity, especially from the strategic markets in which the Group operates, and ensure the suitability of the composition of the committees to improve performance of their functions and their respective areas of action (Board refreshment).

- Further improve the independence of the board by increasing the number of meetings between the independent board members and the lead independent director (Boardroom).

- Intensify the board’s dedication to strategic matters and, in addition to the annual meetings dedicated specifically to strategic matters, hold a meeting every six months on the progress of the strategic plan. The dedication to the supervision of emerging risks and cybersecurity will also be strengthened (Board dynamics).

- Continue strengthening the functions and activities of the committees in advising the board (Board committees).

- Increase the amount of time dedicated to the board to responsible business practices and sustainability and, in particular, to the supervision of the corporate culture and values and in relation to the various stakeholders, through the new responsible business practices and sustainability committee (Sustainability).

- Execute the modifications introduced in the Rules and Regulations of the Board, putting into practice the best operating practices of our governance bodies that arise from the new guidelines issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) that also meet the expectations of the supervisor (Regulatory framework).

- Establish the new responsible banking, sustainability and culture committee, intensifying the Board’s involvement in the development of corporate culture and its commitment to responsible business practices in relation to diversity, inclusion and sustainability.