#Transparency
Report of the audit committee 2017

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1. Introduction

**Regulation**

In compliance with applicable legislation as a listed company and credit institution, the Bank’s Bylaws contain the basic rules and regulations for the audit committee, which are supplemented and further developed by the Rules and Regulations of the Board1 and which define the committee’s composition, operation and powers. In addition to meeting legal requirements, the committee rules and regulations adhere to the main principles and recommendations established in the Good Governance Code of Listed Companies of the Spanish National Securities Market Commission of February 2015 and the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015, thereby reinforcing its specialist and independent nature.

The rules and regulations of the audit committee also adhere to the recommendations and good operating practices established in Technical Guide 3/2017 of the Spanish National Securities Market Commission, on Audit Committees of Public Interest Entities, of 27 June 2017, as well as the guidelines established by the European Banking Authority in “Guidelines on internal governance under Directive 2013/36/EU”, published on 26 September 2017, which will come into force on 30 June 2018.

The committee also complies with the regulations applicable in the United States for listing its shares as American Depositary Shares on the New York Stock Exchange (“NYSE”) and, in particular, it complies with “Rule 10A-3m under the Securities Exchange Act”, introduced by the Sarbanes-Oxley Act of 2002, on requirements for the audit committees of companies.

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1. The Bank’s audit committee is regulated by articles 53 of the Bylaws and 17 of the Rules and Regulations of the Board. Articles 3, 15, 40, 41.2 and 42 of the Regulations also contain specific provisions regarding certain aspects of its activity. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group’s corporate website (www.santander.com).
The duties of the audit committee, described in article 53 of the Bylaws and, in particular, in article 17 of the Rules and Regulations of the Board, may be classified into the following main categories:

### 1. Financial statements and other financial information

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

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

- Report to the board, before the latter is called upon to make the relevant decisions, in regard to the financial information that the company must periodically publish, ensuring that said information is prepared in accordance with the same principles, criteria and professional practices with which the financial statements are prepared and is just as reliable as these financial statements.

### 2. External auditor

- With respect to the appointment of the external auditor, the committee shall:
  
  i. Submit to the board of directors proposals for the selection, appointment, re-election and replacement of the external auditor—being responsible for the selection process in accordance with applicable regulations—and the latter’s contract conditions. The committee will favour the Group’s external auditor also undertaking the responsibility for auditing the financial statements of companies belonging to the Group.
  
  ii. Ensure that the company publicly announces a change of external auditor, and releases a statement in regard to any potential disagreements with the outgoing external auditor and, where applicable, the content of such disagreements, and, should the external auditor resign, the committee will examine the circumstances leading to that decision.
  
  • With regard to the auditing of the financial statements, the committee shall:
    
    i. Establish proper relations with the external auditor so as to receive information regarding matters that might jeopardise its independence, and any other information relating to the auditing process, and serve as a communication channel between the board and the external auditor, evaluating the results of each audit. Specifically, the committee shall seek to ensure that the financial statements prepared by the board be presented at the general shareholders’ meeting without reserve or qualification by the external auditor.
    
    ii. Receive information on a regular basis from the external auditor on the audit plan and its implementation.
    
    iii. Periodically assess the scope of the audit and the frequency at which the Group’s consolidated financial statements are submitted to external audits.

- Ensure that the external auditor attends the meetings of the board of directors to present the corresponding report on the financial statements and on the half-yearly financial information.

- Ensure that the external auditor issues a report on the system of internal control over financial reporting.

- Ensure that senior management and the board take into account the conclusions and recommendations set forth in its reports.

- With regard to the independence of the external auditor:
  
  i. Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, the concentration limits pertaining to the external auditor’s business and, in general, any other rules regarding the independence of the external auditor, obtaining, for such purpose, the information necessary to assess their independence from the Bank’s internal or external sources, and approving the internal policies with regard to personal situations and the prohibition of providing certain personal services by the auditor and the approval of the provision of other services not related to auditing the financial statements, as well as the Company’s internal policies for complying with the prohibitions subsequent to completion of the audit work. Specifically, the committee shall seek to ensure that the external auditor’s compensation does not compromise the quality of its work or its independence, shall establish a suggested limit regarding the fees to be received by the external auditor for non-audit services, and shall check the percentage of fees paid for all items compared to the total revenue of the audit firm, and the length of service of the partner who leads the audit team providing such services to the company.
  
  ii. Endorse any decision to arrange non-audit services insofar as not prohibited by applicable regulations, having first properly assessed any threats to the auditor’s independence and the safeguard measures applied in accordance with said regulations.
  
  iii. Receive from the external auditor, on an annual basis, written confirmation of the latter’s independence in respect of the company or parties directly or indirectly related thereto, as well as detailed, specific information regarding any additional services provided to these companies by said auditor or by persons or companies related thereto, and all fees received from these firms.
iv. Issue an annual report, prior to the issue of the auditors’ report, expressing an opinion on the independence of the external auditor, which contains a reasoned assessment of the services provided in addition to those relating to the audit of the financial statements.

3. Internal audit

• Supervise the internal audit function and, in particular:

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

ii. Ensure the independence and efficacy of the internal audit function.

iii. Ensure that the internal audit function has the material and human resources that it requires to carry out its work and propose the budget for this department.

iv. Receive regular information on its activities and review the annual activities report.

v. Annually assess the internal audit function and the performance of the head thereof, and notify the remuneration committee and the board in order to establish their variable remuneration.

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

4. Internal control

• Supervise the preparation and presentation of financial information and the efficacy of internal control systems. In particular, the committee shall:

i. Supervise the preparation and presentation of relevant financial information concerning the company and the Group, including related non-financial information, and ensure that such information is complete, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting policies, ensuring that this information is always up to date on the company’s website.

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

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

5. Related party transactions and corporate transactions

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

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

ii. The approval of related party transactions, except when such transactions simultaneously comply with the conditions provided in the Rules and Regulations of the Board, under the terms described in section 2.5 herein.

• Receive information on transactions involving structural or corporate modifications planned by the company, for analysis and reporting to the board of directors in relation to the economic conditions of such activities and their accounting impact and, in particular, where relevant, the proposed exchange ratio of shares. The above shall not apply to simple transactions that are not significant for the Group’s activities, including, where applicable, intra-group restructuring.

6. Policies and tax matters

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

7. Suggestions, complaints and whistleblowing channel

• Know and, where applicable, respond to the initiatives, suggestions and complaints filed by shareholders in respect of the committee’s duties and submitted by the company’s general secretary.

• Receive, process and keep a record of complaints received by the Bank in regard to issues relating to the process of generating financial information, auditing and internal controls.

• Establish and supervise a mechanism allowing Group employees to submit, confidentially and anonymously, their concerns about potentially questionable practices within their sphere of competency and, in particular, financial and accounting matters.
Composition of the committee

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

**Chairman**

Ms Belén Romana García, independent director.
She joined the committee in 2015 and has been chairman since April 2016.

**Members**

- Mr Carlos Fernández González, independent director. He joined the committee in 2015.
- Mr Ramiro Mato García-Ansorena, independent director. He joined the committee in 2017.
- Ms Homaira Akbari, independent director. She joined the committee in 2017.

**Secretary**

Mr Jaime Pérez Renovales, general secretary and secretary to the board.

In 2017, the committee’s composition changed as follows:

- On 26 June 2017, the Bank’s board of directors, at the proposal of the appointments committee, agreed to appoint Ms Homaira Akbari as member of the audit committee, in place of Mr Juan Miguel Villar Mir, who stepped down as a member of the committee on this same date.

- On 28 November 2017 the board of directors of the Bank, at the proposal of the appointments committee, agreed to appoint Mr Ramiro Mato García-Ansorena as member of the audit committee, in place of Ms Isabel Tocino Biscarolasaga, who stepped down as director on this same date.

The Bylaws and Rules and Regulations of the Board provide that the audit committee comprise a minimum of three and a maximum of nine members, all of which are non-executive directors, and that its chairman and the majority of its members be independent directors. All four directors currently sitting on the audit committee are non-executive and independent.

The board of directors, at the request of the appointments committee, has appointed the members of the audit committee, bearing in mind their knowledge, aptitude and experience in finance, accounting, auditing, internal control, information technologies, business or risk management, so that, overall, the members of the committee are in possession of all relevant technical knowledge relating to the activities carried out by the Group. Specifically, Ms Belén Romana García, the committee’s chairman, is considered to be a financial expert, as defined in the US Securities Exchange Commission (SEC) Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Act, based on her training and expertise in accounting, auditing and risk management, and as a result of having held various positions of responsibility at entities in which knowledge of accounting and risk management was essential.

For further information on the skills, knowledge and experience of each of the committee members, see the corporate governance section of the Group’s corporate website (www.santander.com).

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also the senior executive vice president of the General Secretariat and Human Resources, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.
Committee meetings: meetings attended by members and dedication

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

In 2017, the audit committee held 12 meetings. Attendance was as follows:

<table>
<thead>
<tr>
<th>NUMBER OF MEETINGS ATTENDANCE*</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Belén Romana García</td>
<td>12/12</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>10/12</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
<td>11/11</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>3/6</td>
</tr>
<tr>
<td>Ms Homaira Akbari</td>
<td>6/6</td>
</tr>
<tr>
<td>Mr Ramiro Mato García-Ansorena</td>
<td>1/1</td>
</tr>
</tbody>
</table>

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

In 2017, the average estimated time dedicated by each member of the audit committee to preparing for and participating in meetings was approximately ten hours per meeting, with the chairman estimated to have spent double that time per meeting.

The following chart shows a breakdown of the approximate time spent by the committee in carrying out the key functions described above in 2017.

How the committee works

The rules governing the committee establish the valid constitution thereof, with the attendance, either present or represented, at least half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees, either present or represented, and the chairman has the deciding vote in the event of a tie.

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documentation) is provided to committee members sufficiently in advance to the meeting date, using the channels available for this purpose, which ensure the confidentiality of the information.

The committee has the power to require executives and the external auditor to attend its meetings, who must accept any invitation from the chairman of the committee to attend under the terms stated therein. As stated in the following summary of activities, the audit committee is in fluid and constant contact with the external auditor, the Group Chief Accounting Officer and the Group Chief Audit Executive.

The committee may contract legal, accounting or financial advisers or other experts, with a charge to the Bank, to assist in the exercise of its functions.

Without prejudice to the fact that the committee reports on the content of its meetings, through its chairman, at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.
2. Activities in 2017

This section contains a summary of the audit committee’s activities in 2017, classified in accordance with the committee’s basic functions.

2.1 Financial statements and other financial information

The committee has focused especially on reviewing, prior to the board of director’s review and the adoption of the related decision taken thereby, the annual financial statements of the Bank and the consolidated Group, as well as the periodic and other financial information disclosed to the market or to supervisory bodies prior to their publication.

Heads of the Financial Accounting and Control division of the Group attended all meetings held by the committee in 2017, for which they were required in order to present financial information, enabling the committee to be informed in regard to the process of preparation and consolidation of the financial information, check that they comply with applicable accounting regulations and principles, and ensure, therefore, that these statements properly reflect the assets, financial position and results for the relevant period of both the Bank and its Group.

The committee endorsed quarterly the financial statements dated 31 March, 30 June, 30 September and 31 December 2017, respectively, prior to their approval by the board and their disclosure to the markets and to supervisory bodies. The committee ensured that the interim financial information was prepared in accordance with the same principles and practices as applied to the annual financial statements and is just as reliable as these financial statements.

With regard to the separate and consolidated financial statements and management report for 2017, which includes the annual banking report, and which shall be submitted for approval at the annual general meeting scheduled for either 22 or 23 March 2018, at first or second call, respectively, the committee, at its meeting of 8 February 2018, reviewed the financial statements and management report and endorsed their content prior to their authorisation for issue by the board at its meeting held on 13 February 2018, ensuring that the external auditor issues the corresponding report with regard to the effectiveness of the Group’s system of internal controls of financial reporting (ICFR), referred to in section F of the annual corporate governance report. In the committee’s view, the separate and consolidated financial statements for 2017 express, in all material aspects, a true and fair view of the equity and financial position of the Bank and of the Group. Said separate and consolidated financial statements were audited by the external auditor. Accordingly, the separate and consolidated management reports for 2017 include an analysis of the performance and results of the corporate earnings, and the position of the Bank and the Group, along with a description of the main risks and uncertainties they face.

In compliance with the Code of Good Tax Practice to which the Bank has subscribed since 2010, the committee was informed by the Group’s tax advisory unit, prior to approval of the annual financial statements by the board, in regard to the tax policies applied.

Moreover, in 2017 the committee endorsed the Group’s annual report, annual corporate governance report (in the part relating to its areas of competence), share registration document filed with the CNMV on 4 July 2017, Form 20-F filed with the US Securities and Exchange Commission (SEC) on 31 March 2017 and the Group’s consolidated financial statements specific to Brazil. Specifically, the external auditor reported on the Form 20-F review process of 2016 and the findings thereof. The review was conducted in accordance with the regulations issued by the Public Company Accounting Oversight Board (PCAOB), and the external auditor’s opinions were unqualified in regard to the Group’s financial statements and internal control model.

Throughout 2017 the audit committee was informed by the heads of the Group’s Risk division and the Financial Accounting and Control division and by the external auditor on the project of implementing accounting standard IFRS 9, in force as of 1 January 2018, and its main impacts.
## 2.2 Relationship with the external auditor

### Auditing the financial statements

The external auditor attended all twelve committee meetings held in 2017, serving as a channel of communication between the auditor and the board. The committee met twice with the external auditor without the presence of the Bank’s executives in order to understand, as the case may be, their concerns relating to the audit work and examine the collaboration given by Group employees in accessing the necessary information.

The audit committee obtained the external auditor’s confirmation that it has had full access to all information, having received adequate cooperation from the Group’s teams, both at the Parent and the subsidiaries, to conduct its activity. Accordingly, the heads of the Financial Accounting and Control division reported to the committee on their assessment of the external auditor, in accordance with the corporate quality procedure, which, in general, demonstrates a high level of satisfaction with the external auditor.

In 2017 the external auditor provided the committee with detailed information on the planning, progress and execution of its work. With the assistance of the auditor, the committee analysed the auditor’s reports for the separate and consolidated financial statements for 2016, as well as the auditor’s report for the consolidated financial statements referring to the first half of 2017, prior to the external auditor’s report to the board of directors.

### Fees

The fees for the audit services provided by the external auditor to the various Group companies were as follows (figures from PwC for 2017 and 2016 and Deloitte in 2015):

<table>
<thead>
<tr>
<th></th>
<th>Millions of euros</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Audits</td>
<td>76,2</td>
</tr>
<tr>
<td>Audit-related services</td>
<td>13,4</td>
</tr>
<tr>
<td>Tax advisory services</td>
<td>1,3</td>
</tr>
<tr>
<td>Other services</td>
<td>3,1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94,0</strong></td>
</tr>
</tbody>
</table>

The “Audits” heading includes fees paid for:

- Auditing fees for the individual and consolidated annual accounts of Banco Santander, S.A., and, as the case may be, of the companies forming part of the Group.

- The integrated audit required for the record of the annual Form 20-F in the US SEC for those entities currently required to do so.

- The internal control audit (SOx) for those required entities.

- The audit of the consolidated financial statements at 30 June, and the consolidated quarterly limited reviews of Banco Santander S.A. for the Brazilian regulator, dated 31 March, 30 June and 30 September, and the regulatory reports required from the auditor corresponding to the different locations of the Santander Group.

The main concepts included in “Audit-related services” refer to aspects such as the issuance of comfort letters, or other reviews required by other regulations in relation to aspects such as, for example, securitisations.

The services commissioned to the external auditor meet the independence requirements provided in the Spanish Audit Law and the US SEC and Public Company Accounting Oversight Board (PCAOB) applicable to the Group and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group in 2017 commissioned services to audit firms other than PwC in the amount of 115.6 million euros (127.9 and 117.4 million euros to audit firms other than PwC in 2016 and Deloitte in 2015, respectively).

### Independence

The audit committee understands that there are no objective reasons for doubting the independence of the external auditor. For these purposes, in order to assess the independence of the external audit function, this committee:

1. Has reviewed all services rendered by the auditor, including audit and audit-related services, tax advisory services and other services detailed in the section above, verifying that the services provided by the Group’s auditor meet the independence requirements set out in the Spanish Audit Law, the US SEC and PCAOB rules applicable to the Group and the Rules and Regulations of the Board, and that, at the request and approval thereof, the guidelines included in the policy for approving non-audit services carried out by the auditor and approved by the audit committee at its meeting on 20 April 2016 have been met.

2. Has verified the ratio of fees received by the auditor during the year for non-audit and audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio for 2017 standing at 4.6%.

As a benchmark and according to available information on the leading listed companies in Spain, average fees paid to auditors in 2017 for non-audit and related services account for 9% of total fees paid.

3. Has verified the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by the audit firm in 2017. The Group’s total fees paid account for less than 0.3% of PwC’s total revenue.

4. Has reviewed the banking transactions performed with companies related to the external auditor, concluding that no transactions have been carried out that compromise the external auditor’s independence.
At its meeting of 8 February 2018, the audit committee received a written document from the external auditor, confirming its independence in respect of the Bank or parties directly or indirectly related thereto, as well as detailed, specific information regarding any additional services provided to these companies by said auditor or by persons or companies related thereto, and all fees received from these firms in accordance with the provisions of regulatory standards concerning the auditing of the financial statements.

Similarly, at its meeting of 8 February 2018, the audit committee issued a report expressing a favourable view of the independence of the external auditor, referring, among other matters, to the provision of additional services other than the auditing of the financial statements. Said report, issued prior to the auditor’s report on the financial statements, includes the content required under section 4.f) of article 529 quaterdecies of the Spanish Limited Liability Companies Law, and under article 17.4.c)(iii) of the Rules and Regulations of the Board.

### 2.3 Internal audit

The audit committee supervised the Internal Audit function and ensured its independence and efficacy throughout 2017, having held a meeting with the internal auditor, without the presence of other executives or the external auditor, in order to analyse various matters relating to the Internal Audit function and ensure that it has the resources necessary to perform its duties.

Representatives of the Internal Audit division attended all twelve meetings held by the audit committee in 2017, at which, in addition to reporting to the committee on the progress of the internal audit plan, the reports issued and the degree of implementation of and compliance with the recommendations made by this function, they reported on the internal quality control process for this function and the evaluation thereof, in accordance with the corporate framework governing this function.

At the committee meetings in 2017, the committee also reviewed the application of the measures included in the strategic internal audit plan for the 2016-2018 period which, as a third line of defence, aims to contribute to the proper governance of the organisation and to the appropriate management and control of risks. The plan is intended to constantly adapt the function to the Group’s strategic priorities and transformation plans and to ensure ongoing improvement and adaptation to new regulatory, technical and supervisory requirements.

At its meeting held on 25 January 2018, the audit committee reviewed and approved the internal audit plan for 2018, submitted it to the board, and assessed the adequacy and effectiveness of the function when performing its mission, as well as the performance of the head of the function, which was reported to the remuneration committee and to the board in order to establish their variable remuneration. The committee also proposed the budget for 2018, ensuring that the function has the material and human resources necessary to carry out its function, which was approved by the board in the Group’s annual budget.

At its meeting of 13 February 2018, the board was informed of the internal audit activities carried out in 2017 and approved the function’s annual audit plan for 2018.

### 2.4 Internal control in preparing financial information

#### Evaluation and certification of the internal control model

In exercising its function of supervising the financial reporting process and the internal control systems, the committee, at its meeting held on 30 March 2017, was informed of the process of evaluating and certifying the Group’s internal control model (ICM) for 2016 and the conclusions on its effectiveness. No material weaknesses were detected at Group level in accordance with this annual evaluation process.

**Sarbanes-Oxley Act**

Within the framework of auditing internal control over financial reporting as required by the Sarbanes-Oxley Act, the external auditor reviewed the effectiveness of the Bank’s internal controls on the generation of financial information contained in the Group’s consolidated annual report filed in the United States (Form 20-F) for 2016, concluding, as the auditor explained at the committee meeting of 30 March 2017, that, in its opinion, the Group maintained effective internal control over said financial information, in all material aspects.

#### Complaints and allegations of questionable financial and accounting practices

The committee is responsible for receiving, processing and keeping a record of complaints received by the Bank in regard to issues relating to the process of generating financial information, auditing and internal controls. The committee is also responsible for the establishment and monitoring of a mechanism allowing Group employees to submit, confidentially and anonymously, their concerns about potentially questionable practices in matters within its sphere of competency and, in particular, financial and accounting matters. No complaints of this kind were received in 2017.

The committee was informed by representatives of the Compliance Department on the activity of the whistleblowing channel and the irregularities committees existing in the Group for these purposes.

#### Communications with regulators and supervisors

The committee was notified in a timely manner of the different requirements and case files open for review by the various supervisors in the countries in which the Group has a presence and that affect matters that are subject to their competence and, where applicable, the final result thereof.
2.5 Report on related party transactions

This section includes the report on related transactions referred to in recommendation six of the Good Governance Code of Listed Companies of the Spanish National Securities Market Commission of 18 February 2015.

In accordance with the provisions article 529 of the Spanish Limited Liability Companies Law, article 53 of the Bylaws and articles 3, 17 and 40 of the Rules and Regulations of the Board, the board of directors of the entity will be aware of any transactions that the company or companies of its Group carry out with directors, under the terms envisaged by Law and in the Rules and Regulations of the Board; with shareholders, either individually or in concert with other shareholders, holding a significant ownership interest, including shareholders represented on the board of directors of the company or of other Group companies, or with persons related thereto.

These transactions 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 financial information published periodically under the terms envisaged in applicable regulations.

In accordance with current legislation and that set forth in the Rules and Regulations of the Board, authorisation from the board will not be necessary if such transactions simultaneously comply with the following three conditions:

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

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

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

If these conditions are met, the directors in question are not required to report these transactions or obtain prior authorisation from the board2.

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.

In 2017 and up until the date of publication of this report, the audit committee, in exercising its functions, deemed that to the best of its knowledge no member of the board of directors, no person represented by a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has carried out any significant transactions or any transaction on non-customary market conditions with the Bank.

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 favourable report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters.

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

2.6 Information for the general shareholders' meeting and corporate documentation for 2017

Information for shareholders

At the annual general meeting held on 7 April 2017, Ms Belén Romana, acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the audit committee, making reference to the report that the committee had prepared on its activities in 2016, which was made available to the shareholders in the meeting's call notice.

Corporate documentation for 2017

At its meeting of 8 February 2018, in accordance with the provisions of article 17.4 (f)(i) of the Rules and Regulations of the Board, the committee reviewed, with respect to its areas of competence, the information to be approved by the board and included in the annual public documentation for 2017, including this report relating to the activities of the audit committee in 2017 and the annual corporate governance report for 2017.

2. Notwithstanding the foregoing, the Bank is subject to the provisions of Bank of Spain Circular 2/2016, of 2 February, issued to credit institutions, regarding supervision and solvency, which completes the process to adapt the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No. 575/2013, rule 35 of which (developing article 35 of Royal Decree 84/2015) establishes the framework for the authorisation or notification of financial operations (loans, collateral and guarantees) to members of the board, senior executive vice-presidents and other similar executives. In this connection, in those cases in which the operation meets the requirements to be subject to the supervisor's authorisation, the Circular requires presentation of proof of formal approval of the operation by the relevant governing body.

In accordance with article 35.2 of Royal Decree 84/2015, operations not fulfilling the following conditions are subject to authorisation: (a) they are covered by collective bargaining agreements between the credit institution and its employees; and (b) they are performed under contracts with standard terms and conditions that are normally applicable to a large number of customers, provided that the amount granted to a single person, their relatives up to the second degree or companies in which such persons hold a controlling stake of at least 15 percent, or in which they are members of the board, does not exceed 200,000 euros.
3. Self-assessment

- **Annual assessment of the functioning and performance of the committee**

  Pursuant to article 17.4 j) of the Rules and Regulations of the Board, and as part of the board’s annual assessment, at its meeting of 25 January 2018, the audit committee assessed the quality of the committee’s work and its performance of the tasks assigned to it in the Bank’s Bylaws and the Rules and Regulations of the Board for 2017. The assessment was carried out in collaboration with an external consultant, whose independence was verified by the appointments committee.

  As a result of this assessment, it was concluded that the committee effectively performed its functions in supporting and advising the board, having held an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

  Moreover, the external consultant made positive comments with respect to the autonomy and leadership of the committee, its specialist nature and leadership, and noted its high level of expertise and engagement. They also commented positively the willingness of its members, both individually and as a group, to challenge executives and to hold them accountable. The committee also considered senior management’s access to committee meetings, following an invitation by the chairman, to be adequate, and limited to the items on the agenda for which they were called, whereby they were given a reasonable amount of time to analyse and discuss the matters without the presence of executives.

  The committee considers that the succession of the position of chairman of the committee made in 2016 was successfully consolidated.

- **Fulfilment of the goals set by the committee for 2017**

  In 2017 the audit committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2016, as part of the action plan approved by the committee, having successfully addressed all challenges put forward by the committee.

  In this regard, the committee supervised the consolidation of the Group’s internal control model through which it specifically strengthened the integration of operational risk control in the internal control model and implemented measures to unify criteria and identify controls on the financial information required by Sarbanes-Oxley Act (SOx) through the use of new technological tools that allowed for increased efficiency and consistency of the process and strengthened the quality of the documentation. Moreover, strategic objectives were set in controlling risks, strengthening and supervising the actions of the second line of defence in order to promote an environment of control.

  Accordingly, interaction with the risk supervision, regulation and compliance committee facilitated coordination in carrying out its functions. In this regard, both committees held a joint meeting, at which they reported on the activities and the enhanced corporate framework of the Internal Audit function, which was subsequently approved by the board, the report concerning the protection of customers’ assets, the situation of the Group’s risk appetite and, where applicable, excesses over the limits and alerts, and with regard to outsourcing the Group’s services and supplier management. The holding of joint meetings will become regular practice in the future and this is already reflected in the committee’s planning for 2018.

  Lastly, the committee deepened the relationship and cooperation with the audit committees of Group companies, having held the first meeting of the chairmen of the committees of the Group’s main business units in May. The chairman of the committee also participated in various meetings of the aforementioned committees, which were also attended by representatives of Financial Accounting and Control and Internal Audit and the External Auditor. All of this has favoured an environment of collaboration and coordination that allows the Group to understand the functioning, skills and dynamics of the audit committees of its subsidiaries, as well as their adherence to the governance model that governs the relationship between the Parent and the subsidiaries, and facilitates the solid knowledge that they have regarding how the Group operates and the expectations of the global supervisor.

  The committee plans to increase coordination between the committees and collaboration of its chairmen in order to promote a common vision and language, which may also be integrated in the programme for training their members.
4. Challenges in 2018

The committee’s self-assessment identifies the following areas to enable it to continue to strengthen its performance in 2018:

- Strengthen the composition of the committee with greater financial knowledge.

- Coordinate with the risk supervision, regulation and compliance committee in supervising the execution of the internal audit plan to ensure its approach towards the relevant risks for the Group and the evaluation and monitoring of its recommendations and measures adopted.

- Increase the coordination and processing of common topics with the audit committees of the Group’s main subsidiaries.

This report was prepared by the audit committee on 8 February 2018 and approved by the board of directors on 13 February 2018.
Report of the appointments committee 2017

1 Introduction
2 Activities in 2017
3 Self-assessment
4 Challenges in 2018
1. Introduction

**Regulation**

In compliance with applicable legislation as a listed company and credit institutions, the Bylaws contain the basic rules and regulations for the appointments committee, which are supplemented and further developed by the Rules and Regulations of the Board of Directors and which define the committee’s composition, operation and powers. In addition to meeting legal requirements, the committee rules and regulations adhere to the main principles and recommendations established in the Good Governance Code of Listed Companies of the National Securities Market Commission of February 2015 and the Corporate Governance Guidelines for banks of the Basel Committee on Banking Supervision of July 2015, thereby reinforcing its specialist and independent nature.

**Duties**

The competencies of the appointments committee, as described in article 54 of the Bylaws and, specifically, in article 18 of the Rules and Regulations of the Board of Directors, may be classified into the following main categories:

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

2. Succession plan
   - Propose, review, apply and supervise the directors’ succession plan approved by the board, in coordination with the chairman of the board or, in respect thereto, with the lead director, examining and organising the succession of the chairman and chief executive officer.
   - Propose and review the succession plan of senior management and other employees responsible for the internal control functions or occupying key posts for the daily course of the banking business.
   - Report on and supervise implementation of the Group’s policy for planning succession, and modifications thereto.

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1. The committee is regulated by articles 54 of the Bylaws and 18 of the Rules and Regulations of the Board of Directors. Articles 6, 8, 9, 12, 13, 15, 26, 28, 29 and 36 of the Regulations also contain specific provisions regarding certain aspects of its activity. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group’s corporate website (www.santander.com).
3. Annual verification of the status of directors
• Annually verify the status of directors, for presentation by the board to the shareholders at the general shareholders’ meeting and for publication in the annual corporate governance report.

4. Periodic assessment
• Periodically (at least once a year) report in regard to the structure, size, composition and action of the board of directors, the operation of and compliance with the policy for selecting directors (which will include diversity targets), and the succession plan, presenting recommendations to the board for potential changes.

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

• Inform in regard to the self-assessment process of the board and its members, and gauge the independence of the external consultant hired to carry out that process at least every three years.

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

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

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

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

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

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

Chairman
Mr Bruce Carnegie-Brown
(Independent director)
Joined the committee in 2015 and has chaired it since February of that year

Members
Mr Guillermo de la Dehesa Romero
(Non-executive director, neither proprietary nor independent)
Joined the committee in 2014

Mr Ignacio Benjumea Cabeza de Vaca
(non-executive director, neither proprietary nor independent)
Joined the committee in 2015

Ms Sol Daurella Comadrán
(independent director)
Joined the committee in 2015

Mr Carlos Fernández González
(independent director)
Joined the committee in 2015

Secretary
Mr Jaime Pérez Renovales
(general secretary and board secretary)
In 2017, there were no changes in the composition of the committee.

The Bylaws and the Rules and Regulations of the Board of Directors provide that the appointments committee comprise solely non-executive directors, have a majority of independent directors, and that it be chaired by an independent director. At present, all members of the committee are non-executive directors and three of them are independent (including the chairman).

The board of directors designates the members of the appointments committee based on their knowledge, aptitudes and experience in relation to the committee’s mission.

For further information on the skills, knowledge and experience of each of the committee members, see the corporate governance section of the Group’s corporate website (www.santander.com).

The post of secretary to the committee corresponds, in a non-voting capacity, to the secretary to the board, who is also the Bank’s senior Executive Vice President of the General Secretariat and Human Resources, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.

### Committee meetings: meetings attended by members and dedication

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings and an annual work plan. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The appointments committee held 11 meetings in 2017.

Members’ attendance to meetings of the appointments committee in 2017 was as follows:

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>11/11</td>
<td></td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>11/11</td>
<td></td>
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<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
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<tr>
<td>Ms Sol Daurella Comadrán</td>
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<tr>
<td>Mr Carlos Fernández González</td>
<td>11/11</td>
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* The first figure is the number of meetings attended by the director, and the second the number of sessions held in the year since the director has or had been a member of the committee.

In 2017, the average estimated time dedicated by each committee member to preparing for and participating in meetings was approximately four hours per meeting, with the chairman estimated to have spent double that time per meeting.

### How the committee works

The rules governing the committee, provide in article 18 of the Rules and Regulations of the Board, establish the valid constitution thereof, with the attendance, either present or represented, of more than half of its members, it being possible to designate another member as proxy. Resolutions are passed by a majority vote of the attendees, either present or represented, and the chairman has the casting vote in the event of a tie.

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members sufficiently in advance to the meeting date using mechanisms set up for this purpose that ensure that the information is kept confidential.

The committee has the power to require any of the bank’s managers or employees to attend its meetings, who must accept any invitation from the chairman to attend under the terms stated therein.

The Committee may contract legal, accounting or financial advisers or other experts, with a charge to the Bank, to assist in the exercise of its functions.

Without prejudice to the committee, through its chairman, reporting on the content of its meetings to the board of directors. All the documentation distributed for meetings and minutes thereof are available to all directors.

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**APPROXIMATE TIME DEVOTED TO EACH TASK**

- 45% Suitability assessment of directors and senior management and classification of key positions
- 15% Corporate governance
- 15% Internal governance
- 25% Succession plans

The above chart shows a breakdown of the approximate time spent by the committee in carrying out the key functions described above in 2017.
2. Activities in 2017

This section contains a summary of the appointments committee’s activities in 2017, classified in accordance with the committee’s basic functions.

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

Renewal of board members
At its meeting of 21 February 2017, the committee proposed that the board submit for approval of the general shareholders’ meeting of 7 April 2017 the re-election of Mr José Antonio Álvarez Álvarez, Ms Belén Romana García, Ms Ana Botín-Sanz de Sautuola y O’Shea, Mr Rodrigo Echenique Gordillo and Ms Esther Giménez-Salinas i Colomer, and the ratification of the appointment of Ms Homaira Akbari, who was designated via co-option on 27 September 2016. The committee’s grounded proposal, prepared in compliance with the provisions of article 529 decies of the Spanish Limited Liability Companies Law and articles 18.4 and 26 of the Rules and Regulations of the Board, comprised an assessment of the work and effective dedication to the post of each of them.

In addition, the appointments committee meeting of 27 November 2017 reported the resignation, effective from the following day, of Ms Isabel Tocino Biscarolasaga and of Mr Matías Rodríguez Inciarte from the post of director.

The committee proposed to the board to designate Mr Ramiro Mato García-Ansorena as independent director to fill the vacancy left by Ms Isabel Tocino Biscarolasaga and of Mr Matías Rodríguez Inciarte from the post of director.

On 12 February 2018, the committee proposed to the board of directors submitting to the general shareholders’ meeting, scheduled for 22 or 23 March 2018, on either first or second call, respectively, appointment of Mr Álvaro Antonio Cardoso de Souza as independent director of the Bank to fill the vacancy left by the resignation of Mr Matías Rodríguez Inciarte.

The appointment of Mr Mato and the proposed appointment of Mr Cardoso de Souza help to deepen the board’s and the committees’ experience and knowledge in international, banking and financial matters and its geographical diversity, in line with international expectations and best practices and Group policies.

In addition, the committee, at its meeting of 12 February 2018, proposed to the board for consideration at the general shareholders’ meeting the re-election of Mr Carlos Fernández González, Mr Ignacio Benjumea Cabeza de Vaca, Mr Guillermo de la Dehesa Romero, Ms Sol Daurella Comadrán and Ms Homaira Akbari, and the ratification of the appointment of Mr Ramiro Mato García-Ansorena, who was designated via co-option.

The committee’s grounded proposal, prepared in compliance with the provisions of article 529 decies of the Spanish Limited Liability Companies Law and articles 18.4 and 26 of the Rules and Regulations of the Board, comprises an assessment of the work and effective dedication to the post of each of them.

New composition of the board committees
At its meetings of 24 April and 14 June 2017, the committee unanimously agreed to propose to the board of directors the appointment of Ms Homaira Akbari as a member of the audit committee and Ms. Esther Giménez-Salinas i Colomer as a member of the risk supervision, regulation and compliance committee, respectively. On 26 June 2017, the Bank’s board of directors resolved to approve both appointments. On the same date, Mr Juan Miguel Villar Mir tendered his resignation as a member of the audit and risk, regulation and compliance oversight committees. At its meeting of 27 November 2017, the committee unanimously decided to propose to the board of directors the appointment of Mr Ramiro Mato García-Ansorena as a member of the executive, audit and risk supervision, regulation and compliance committees. The proposal was approved by the board on 28 November 2017.

Lastly, at the proposal of the appointments committee, the board decided in its meeting of the same date to appoint Mr Carlos Fernández González to the remuneration committee and, in its meeting of 19 December, appoint Ms Belén Romana García to the innovation and technology committee.

Selection process of new directors
In accordance with the policy for selecting directors, and pursuant to articles 6.1 of the Rules and Regulations of the Board of Directors and 42.4 of the Bylaws, the board of directors and, as a result, the appointments committee, ensure that the procedures for selecting board members guarantee the individual and collective training of directors, foster diversity of gender, experience and knowledge, and do not carry implicit any bias that might lead to any discrimination whatsoever and, in particular, facilitate the selection of female directors.
The committee gauges the balance of knowledge, skills, capacity, diversity and experience existing in the board of directors, and compiles the resulting skills matrix, which identifies skills that should be shored up in future appointments. The matrix is submitted for the approval of the board of directors.

Whenever a new director is appointed, the appointments committee conducts the relevant analysis of functions and skills necessary for the position, and evaluates necessary time and dedication to adequately perform it. The various candidates are analysed and a proposal is made to the board based on assessing the suitability of one of them, which includes an analysis of their commercial and professional integrity and the adequacy of their knowledge and experience for the position.

The selection processes for new directors is carried out in partnership with an external firm, which draws up a list of candidates based on an assessment of the board’s capacities in order to determine the profile best suited to join the board based on the Group’s strategic goals.

In appointments during the year, the skills to be strengthened on the board were those relating to international experience, financial and accounting knowledge and geographical diversity.

The committee analysed the candidates presented, as well as the curriculum vitae and an assessment of the skills and suitability of the pre-selected candidates. As noted, the committee proposed to the board the appointment of Mr Ramiro Mato García-Ansorena to fill the vacancy left by Ms Isabel Tocino Biscarolasa. Mr Mato’s professional profile is included in the Group’s annual report and the corporate website. The committee also proposed submitting to the general shareholders’ meeting scheduled for 22 or 23 March 2018, in first or second call, the appointment of Mr Álvaro Antonio Cardoso de Souza as independent director of the Bank to fill the vacancy left by Mr Matías Rodríguez Inciarte.
In accordance with the director selection process just discussed, as set out in articles 6.1 of the Rules and Regulations of the Board and 42.4 of the Bylaws, the committee proceeded to review the director selection and succession policy on 23 January 2017. In addition, on the proposal of the appointments committee, in the board of directors meeting of 19 December 2017, the board was informed of the conclusions of the annual self-assessment process by the board and its committees carried out in 2017 with the support of the independent firm Spencer Stuart and evaluated the balance of skills, capabilities, 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>SKILLS MATRIX OF THE MEMBERS OF THE BOARD AND DIVERSITY ANALYSIS*</th>
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<tr>
<td><strong>Chairman</strong></td>
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<tr>
<td>High Level Management</td>
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<td>Financial Services Experience</td>
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<td>General</td>
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<td>Banking</td>
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<td>International Diversity</td>
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<tr>
<td>Other</td>
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<td>Accounting / Financial Background</td>
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<td>Other Commercial</td>
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<td>Risk</td>
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<td>Government / Academic Research</td>
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<td>IT / Digital</td>
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<td>Strategy</td>
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<td>Regulation / Regulatory Relations</td>
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<tr>
<td>Corporate Governance experience</td>
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<tr>
<td>Gender Diversity (Female)</td>
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</tbody>
</table>

**Skills as an executive**  
**Skills obtained as a Non-Executive**  
**Condition**  
**Data at December 2017**

| Total number of independent directors | 8 |
| Total board members | 14 |

At its meeting of 26 January 2016, the appointments committee 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 35.7% of seats.
2.2 International advisory board

On the proposal of the appointments committee, the meeting of the board of directors held on 6 April 2017 approved, upon completion of one year of their term of office and in accordance with the bylaws, the re-election of the following members of the Santander Group’s international advisory board: Mr Larry Summers (former secretary of the US Treasury), Ms Sheila Bair (former chairman of the Federal Deposit Insurance Corporation (FDIC), former director of Banco Santander and current president of Washington College), Mr Frank d’Souza (CEO of Cognizant and director of General Electric), Mr George Kurtz (CEO and co-founder of CrowdStrike), Mr Charles Philips (CEO of Infor and former executive vice president of Oracle), Mr Mike Rhodin (board member of TomTom, H2O and Syncsort and former executive vice president of IBM Watson), Ms Marjorie Scardino (former CEO of Pearson and director of Twitter) and Mr James Whitehurst (CEO of Red Hat). Subsequently, also on the proposal of the appointments committee, and for the same reason, the board of directors approved in its meeting of 26 June 2017 the re-election of Ms Blythe Masters (CEO of Digital Assets Holding) as a member of the international advisory board.

In January 2018, Mr Charles Philips resigned from the advisory board, at his own request.

The international advisory board will comprise at least seven and at most twelve members, of various nationalities and areas of activity, all external to the Bank. Its goal is to provide strategic advice to the Group, by contributing ideas and suggestions, with a particular emphasis on innovation, digital transformation, cyber-security and new technologies. It also provides its views on a broad range of topics, including trends in capital markets, corporate governance and talent, brand and reputation, regulatory matters and compliance, and global financial services with a customer-based approach.

2.3 Annual verification of the status of the directors

Pursuant to article 6.3 of the Rules and Regulations of the Board of Directors, at its meeting of 12 February 2018, the committee verified the status of each director. Its proposal, submitted to the board of directors, and approved by the latter at its meeting of 13 February 2018, was as follows:

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

The above are considered executive directors in accordance with section 1 of article 539 duodecies of the Spanish Limited Liability Companies Law and article 6.2.a) of the Rules and Regulations of the Board of Directors.

ii. Independent non-executive directors:
   Ms Homaira Akbari
   Mr Bruce Carnegie-Brown
   Ms Sol Daurella Comadrán
   Mr Carlos Fernández González
   Ms Esther Giménez-Salinas i Colomer
   Mr Ramiro Mato García-Ansorena
   Ms Belén Romana García
   Mr Juan Miguel Villar Mir

The above are considered independent directors in accordance with section 4 of article 539 duodecies of the Spanish Limited Liability Companies Law and article 6.2(c) of the Rules and Regulations of the Board of Directors.

iii. Non-executive directors, neither proprietary nor independent:
   Mr Guillermo de la Dehesa Romero
   Mr Ignacio Benjumeda Cabeza de Vaca
   Mr Francisco Javier Botín-Sanz de Sautuola y O’Shea

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 shareholders. Likewise, neither can be considered an independent director since, in the case of Mr de la Dehesa, he has held the position of director for more than 12 years and, in the case of Mr 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 other external director.

Therefore, following a report from the appointments committee, the board of directors has classified the three mentioned 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.

Accordingly, of the fourteen members of the board in office, three are executive directors and eleven are non-executive directors. Of the latter, eight are independent and another three are, in the opinion of the board and the committee, neither proprietary nor independent. This composition is considered adequate to ensure the proper representativeness and efficient functioning of the board, in accordance with the provisions of article 42 of the Bylaws and articles 6 and 7 of the Rules and Regulations of the Board.

### 2.4 Suitability assessment of directors and other key personnel

Pursuant to the provisions of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Royal Decree 84/2015, of 13 February, implementing Law 10/2014, and Bank of Spain Circular 2/2016, of 2 February, concerning the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No. 575/2013, and in the corporate procedure of appointments for key positions and suitability assessment approved by the executive committee at its meeting of 27 February 2017, the committee has assessed suitability of the members of the board, the senior management, those responsible for internal control functions and those holding key positions for the daily conduct of the banking business of the Group (441 people in total at year-end 2017), concluding that they demonstrate commercial and professional integrity, and have suitable knowledge and experience to perform their duties. Likewise, the committee found that the members of the board are capable of carrying out good governance of the Bank, and have sufficient professional experience and effective capacity to make independent and autonomous decisions for the benefit of the Bank.

### 2.5 Board committee members

At the proposal of the committee, the board has modified the composition of its committees which, at 31 December 2017 were respectively comprised by the directors mentioned below:

**Executive committee**
Chairman: Ms Ana Botín-Sanz de Sautuola y O’Shea.
Members: Mr Bruce Carnegie-Brown, Mr Rodrigo Echenique Gordillo, Mr Guillermo de la Dehesa Romero, Mr José Antonio Álvarez Álvarez, Mr Ignacio Benjumea Cabeza de Vaca and Mr Ramiro Mato García-Ansorena.
Secretary: Mr Jaime Pérez Renovales.

**Audit committee**
Chairman: Ms Belén Romana García.
Members: Mr Carlos Fernández González, Ms Homaira Akbari and Mr Ramiro Mato García-Ansorena.
Secretary: Mr Jaime Pérez Renovales.

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

**Remuneration committee**
Chairman: Mr Bruce Carnegie-Brown.
Members: Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca, Ms Sol Daurella Comadrán and Mr Carlos Fernández González.
Secretary: Mr Jaime Pérez Renovales.

**Risk supervision, regulation and compliance committee**
Chairman: Mr Bruce Carnegie-Brown.
Members: Mr Guillermo de la Dehesa Romero, Mr Ignacio Benjumea Cabeza de Vaca, Ms Esther Giménez-Salinas i Colomer, Mr Ramiro Mato García-Ansorena and Ms Belén Romana García.
Secretary: Mr Jaime Pérez Renovales.

**Innovation and technology committee**
Chairman: Ms Ana Botín-Sanz de Sautuola y O’Shea.
Members: Mr Bruce Carnegie-Brown, Mr Rodrigo Echenique Gordillo, Mr Guillermo de la Dehesa Romero, Mr José Antonio Álvarez Álvarez, Ms Homaira Akbari, Mr Ignacio Benjumea Cabeza de Vaca, Ms Esther Giménez-Salinas i Colomer and Ms Belén Romana García.
Secretary: Mr Jaime Pérez Renovales.
2.6 Internal governance

In accordance with the governance model for the relationship between the parent Bank and its subsidiaries, the appointments committee is attributed with certain functions in connection with the appointment of members of the governing bodies and the suitability assessment of certain posts at subsidiaries, as well as the composition and structure of their governing bodies.

The governance model includes the main principles and practices of corporate governance for the subsidiaries in which the Group is a majority shareholder. This model is based on the three levels into which the relationship between the parent and the subsidiaries is classified:

- Presence of directors of the parent Bank and/or executives of the Group in the subsidiaries’ governing bodies.
- Relationship between CEOs and country managers and the Group.
- Relationship between global functions of control (Risk, Internal Audit, Compliance, Financial Accounting and Control) and support and the subsidiaries.

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

The model regulates the roles of country head, chairman and chief executive of each subsidiary, and describes the process for the selection and appointment of said persons, with the involvement of governing bodies of both the parent and the subsidiary. It also contains aspects of internal governance relating to the heads of key control functions – CRO (Group Chief Risk Officer), CCO (Group Chief Compliance Officer), CAE (Group Chief Audit Executive), CFO (Group Chief Financial Officer), Controller – and support and business functions.

This Committee has assessed the suitability of a number of appointments or re-elections in relation to those subsidiary subject to the Group’s appointments and suitability procedure. This assessment is conducted prior to the final approval of the subsidiary Governance bodies.

In 2017, the appointments committee was informed and issued an opinion about the level of compliance of the subsidiaries with Governance expectations included in the Group Subsidiary Governance Model, related to Board and Board Committees structure and best practices. These include: independence levels, skills matrix, diversity etc.

It also was informed and approved the appointment of the Lead Group-nominated Directors and a Guide to ensure that those representing the Group on Subsidiary Boards are fully aware of their duties and responsibilities in this regard.

Robust corporate governance throughout the Group constitutes a key factor in driving the creation of value and is a key element in ensuring a sustainable long-term business model. As a result, driving continuous improvement of corporate governance across the Group, focusing especially on the effective functioning of board of directors, is a key enabler to this with Group Nominated Directors playing an essential role. In addition, the Group Nominated Directors represent one of many mechanisms deployed to ensure that the Group exercises adequate oversight and control of its Subsidiary operations.

2.7 Participation in the Board’s self-assessment process

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 and Regulations of the Board, the appointments committee reported on the self-assessment by the board and its committees, which was carried out in 2017 with the support of an external firm whose independence was verified by the board.

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

The self-assessment 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 dynamic and culture (planning of meetings, director support and training); knowledge and diversity; and performance of the supervisory function. Matters regarding the future (strategy and internal and external factors that might affect the Group’s performance) as well as what its challenges and priorities should be for 2018 were also assessed.

- In relation to committees: composition; functioning; board support and reporting; committee content; and their main challenges and priorities for 2018.
In relation to the Group executive chairman: performance of her functions, leadership, defining the responsibilities of the lead director and those of the chief executive officer, resulting in a clearer and defined the separation of functions, whereby those related to the bank’s long-term strategy, culture and development of the management team correspond to the Group executive chairman.

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

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

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

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

- The executive chairman has continued to promote the best international practices standard across the Group in terms of corporate governance, 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 complementarity 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 excellent operation of the board committees.

The 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 independent directors with the lead director.

**Action plan 2018**

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 independent directors with the lead director.

**2.8 Succession plans for executive directors and senior management**

In addition to overseeing compliance of the policy for the selection and succession of directors set forth in section 2.1 above, in 2017 the appointments committee continued the talent review and succession planning process for executive directors and senior management, receiving proposals from the human resources committee, which is responsible for assessment and succession plans.

The committee reviewed the succession plans of executive directors and of the main executives to ensure they are oriented towards the availability of sufficient qualified personnel in order to uninterruptedly execute the Group’s strategic plans, help safeguard business continuity and keep important functions covered, identify possible replacements for key positions, prepare them and equip them with the right skills sufficiently in advance.

**2.9 Appointment of non-director members of senior management**

In 2017, the committee issued favourable opinions, among others, regarding the following appointments, agreed by the board of directors:

- Mr José María Linares Perou, as senior executive vice president of the Bank heading the Global Corporate Banking.
- Ms Lindsey Tyler Argalas, as senior executive vice president heading the Santander Digital division.
- Mr Víctor Matarraz Sanz de Madrid, as senior executive vice president heading of the Global Wealth Management division.
- Mr Enrique Álvarez Labiano, as senior executive vice president heading of the Executive Chairman’s Office and Strategy corporate area.
In addition, the committee reported favourably on the appointment of directors and members of senior management of the main subsidiaries of the Santander Group.

### 2.10 Training of directors and information or induction programme for new directors

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

Within the framework of this 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 and 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 in 2017) is attending a specific training programme for new directors, at which the following matters are addressed:

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

### 2.11 Related to potential conflicts of interest and suitability assessment

As part of its duties, the appointments committee analyse the existence of possible conflicts of interest.

In general, the Bank’s directors were not found to be involved in potential situations of conflict of interest that might affect the performance of their duties. Nevertheless, in specific cases of potential conflicts of interest – appointments, re-election, financial transactions, etc. – the affected directors refrained from taking part in deliberations or votes of the board of directors or its committees.

Also, as part of its duties, the appointments committee conduct a periodic review; at least once per year, of the fitness and properness of the different members of the board of directors, and analyse those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company.

In 2017, the company was not informed by any director of any circumstance, or as far as it is concerned of any circumstance, that in the opinion of the board would have justified his dismissal as a member of the board of directors of the entity.

However, in compliance with the obligation of the directors to report on situations in which they may adversely affect the credit or reputation of the Company, during 2017 some directors have informed the appointments committee of the situation of the lawsuits in which they are involved.

In none of the cases indicated, the appointments committee and the board of directors have considered that there were circumstances that justified their removal as members of the board of directors.

### 2.12 Institutional documentation

At the meeting of 12 February 2018, the committee endorsed this report and, in respect of the section that affects its sphere of competencies, the Group’s 2017 annual corporate governance report, which were approved by the board its meeting of 13 February 2018.

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**% of Board Members with Relevant Experience**

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<th></th>
<th>Accounting and financial</th>
<th>Banking</th>
<th>Risks</th>
<th>Information technologies</th>
<th>Latam</th>
<th>International experience</th>
<th>UK/US</th>
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<tr>
<td>Latam</td>
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<tr>
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<td>86%</td>
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<tr>
<td>UK/US</td>
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3. Self-assessment

☐ Annual assessment of the functioning and performance of the committee

Pursuant to article 18.4.i) of the Rules and Regulations of the Board, at its meeting of 12 February 2018, the appointments committee assessed the quality of the committee’s work in 2017 and its performance of the tasks assigned to it in 2017 in the bank’s Bylaws and the Rules and Regulations of the Board in the year. The assessment was carried out in collaboration with an external consultant, whose independence was verified by the appointments committee.

The self-assessment, welcomed both the composition of the committee and the very high degree of dedication among its members, as well as the chairman’s leadership. The frequency and duration of its meetings were also found to be appropriate for its proper functioning and for the performance of their duties.

As a result of this assessment, it was concluded that the committee effectively performed its functions in supporting and advising the board, having held an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

The self-assessment process also welcomed the committee’s engagement in the appointment of directors and members of senior management, and in the development of succession plans. Lastly, the information provided to the board on the committee’s performance of its duties has stepped up. This has occurred both directly on the part of its chairman and via availability to directors of materials distributed for the meeting and minutes and summary of the matters discussed and main points of debate.

☐ Fulfilment of the goals set by the committee for 2017

In 2017 the appointments committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2016.

The committee has continued to develop and deepen the continuous induction and training plan of directors, including providing remote assistance in accordance with the expectations and guidelines of the European Central Bank. Emphasis will also be placed on specific training required by members of certain committees, such as the audit committee, in accordance with the good operating practices established by the Spanish National Securities Market Commission. In addition, committees’ annual planning includes specific training sessions for their members.

Application is complete of the governance model for the relationship between the group parent and its subsidiaries for appointment of directors and executives in the main subsidiaries, and all subject geographies have adhered to it. The model will ensure that appointments in the subsidiaries are carried out in accordance with the internal procedure of appointment of directors and executives with key positions in the Group approved on 27 February 2017.

Lastly, the appointments committee has being informed on the measures to extend the succession plans for key positions and other significant positions at Group level which is a relevant element to consider when assessing the suitability of candidates subject to the appointments and suitability assessment Procedure.
4. Challenges in 2018

The committee’s self-assessment identifies the following areas to enable it to continue to strengthen its performance in 2018:

- Continue to play a leadership role in ensuring the suitable composition of the board of directors, considering the addition of new members with experience in the financial and international sector, especially in key geographies, and of senior management.

- Continue the review of the composition of board committees, evaluating rotation of their members and chairmen, and preventing them from having a similar composition.

- Continue developing of succession plans of directors, chairmen of board committees and, jointly with the human resources department, of senior management, thus ensuring adequate talent management and professional development.

This report was prepared by the appointments committee on 12 February 2018 and approved by the board of directors on 13 February 2018.
Report of the remuneration committee 2017

1. Introduction
2. Report on the director remuneration policy
3. Remuneration of non-director members of senior management
4. Remuneration of identified staff
5. Self-assessment of the remuneration committee
6. Challenges in 2018
1. Introduction

**Regulation**

In compliance with applicable legislation as a listed company and credit institution, the Bylaws contain the basic rules and regulations for the remuneration committee, which are supplemented and further developed by the Rules and Regulations of the Board1 and which define the committee's composition, operation and powers. In addition to meeting legal requirements, the committee rules and regulations adhere to the main principles and recommendations established in the Good Governance Code of Listed Companies of the Spanish National Securities Market Commission of February 2015 and the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015, thereby reinforcing its specialist and independent nature.

**Functions**

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

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

1. **Remuneration of directors**
   - Propose the director remuneration policy to the board, drafting the required report on such policy pursuant to article 34 of the Rules and Regulations of the Board, and prepare the annual remuneration report envisaged in article 35.
   - Propose to the board the individual remuneration of directors in their capacity as such.
   - Propose to the board the individual remuneration of directors for carrying out any duties other than those corresponding thereto in their capacity as directors and other conditions of their contracts.
   - Assist the board of directors in supervising compliance with the director remuneration policy.

2. **Remuneration of non-director members of senior management**
   - Propose to the board the remuneration policy of the senior executive vice presidents and other members of senior management in accordance with the law.
   - Propose to the board the basic terms and conditions of the contracts and remuneration of the members of senior management.

3. **Remuneration of other executives whose activities may have a material impact on the Group’s assumption of risks**
   - Propose to the board the essential elements of remuneration for other directors who, although not members of senior management, do belong to the so-called identified staff.

4. **Others**
   - Periodically review the remuneration programmes to ensure they are up-to-date, giving weight to their adaptation and performance; ensuring that directors’ remuneration is in line with criteria of moderation and the company’s results, culture and risk appetite; and that no incentives are offered to assume risk that exceeds the level tolerated by the company, such that they promote and are compatible with adequate and effective risk management. For these purposes the mechanisms and systems adopted will be revised to ensure that the remuneration programmes take into account all types of risk and all levels of capital and liquidity, and that remuneration is in line with the company’s business targets and strategies, corporate culture and long-term interest.
   - Ensure transparency of the remuneration and inclusion in the annual report, the annual corporate governance report, the annual report on remuneration and in other reports required by applicable legislation regarding information on remuneration and, for such purpose, submit any information required to the board.
   - Assist the board of directors in supervising compliance with director remuneration policies established by the Santander Group.
   - And all remaining functions specifically provided in the Rules and Regulations of the Board and in applicable legislation.

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1. The rules and regulations of the committee are set down in article 54 ter of the Bylaws and article 19 of the Rules and Regulations of the Board. Articles 3.3 and 32 of these rules and regulations also contain specific provisions regarding certain aspects of its activity. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group’s corporate website (www.santander.com).
Composition of the committee and attendance at its meetings in 2017

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

Chairman

Mr Bruce Carnegie-Brown (independent director)
He became chairman on joining the committee in 2015.

Vocales

Mr Guillermo de la Dehesa Romero (non-executive director, neither proprietary nor independent)
Joined the committee in 2014.

Mr Ignacio Benjumea Cabeza de Vaca (non-executive director, neither proprietary nor independent)
Joined the committee in 2015.

Ms Sol Daurella Comadrán (independent director)
Joined the committee in 2015.

Mr Carlos Fernández González, (independent director)
Joined the committee in 2017.

Secretary

Mr Jaime Pérez Renovales (general secretary and board secretary)

In 2017, the committee’s composition changed as follows:

• On 28 November 2017, the Bank’s board of directors, at the proposal of the appointments committee, agreed to appoint Mr Carlos Fernández González as member of the committee, in place of Ms Isabel Tocino Biscarolasaga, who stepped down as director at the same date.

The Bylaws and Rules and Regulations of the Board provide that the remuneration committee comprise a minimum of three and a maximum of nine directors, all of which must be external or non-executive, with a majority of independent directors, and that it be chaired by an independent director. At present, all five members of the committee are non-executive directors, and three of them (including the chairman) are independent.

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

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

PARTICIPATION OF MEMBERS OF THE REMUNERATION COMMITTEE ON THE EXECUTIVE, AUDIT, APPOINTMENTS AND RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEES

- Percentage of directors that are members of four of the five committees
- Percentage of directors that are members of two of the five committees
For further information on the skills, knowledge and experience of each committee member, see the corporate governance section of the Group’s corporate website (www.santander.com)

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also the Bank’s senior executive vice president of the General Secretariat and Human Resources, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.

**Committee meetings: meetings attended by members and dedication**

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

In 2017, the committee held 11 meetings. Attendance at its meetings was as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Attendance</th>
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<tbody>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>11/11</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>11/11</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>11/11</td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>11/11</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>2/2</td>
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</table>

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

In 2017, the average estimated time dedicated by each committee member to preparing for and participating in meetings was approximately four hours per meeting, with the chairman estimated to have spent double that time per meeting.

The following chart shows a breakdown of the approximate time spent by the committee in carrying out the key functions described above in 2017.

- **Remuneration of executive directors**: 50%
- **Remuneration of non-director members of senior management and key personnel**: 20%
- **Review of the remuneration**: 20%
- **Others**: 10%

**How the committee works**

The rules governing the committee establish the valid constitution thereof, with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees, either present or represented, and the chairman has the casting vote in the event of a tie.

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documentation) is provided to committee members sufficiently in advance to the meeting date, using the channels available for this purpose, which ensure the confidentiality of the information.

The committee has the power to require any of the bank’s managers or employees to attend its meetings, who must accept any invitation from the chairman to attend under the terms stated therein.

The committee may contract legal, accounting or financial advisors or other experts, with a charge to the bank, to assist in the exercise of its functions.

Without prejudice to the fact that the committee reports on the content of its meetings, through its chairman, at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.
2. Report on the director remuneration policy

The remuneration committee has prepared this report, which sets forth the standards and grounds that this collective decision-making body uses to determine the remuneration of the members of the board of directors for the last financial year and for the current year. In addition, based on the information herein for 2017 and 2018, the remuneration committee has prepared the annual report on director remuneration required by article 541 of the Spanish Limited Liability Companies Law following the model established in CNMV Circular 4/2013 (amended by Circular 7/2015), which shall be made available to the shareholders when the annual general shareholders’ meeting of 2018 is called and shall be submitted to a consultative vote as a separate item on the agenda.

This report also includes the content required by section 2 of article 529 novodecies of the Spanish Limited Liability Companies Law in relation to the proposed director remuneration policy for 2018, 2019 and 2020 that the board of directors submits to binding approval of the shareholders at the annual general shareholders’ meeting of 2018 as a separate item on the agenda. The committee is of the opinion that said proposal conforms to the principles of the company’s remuneration policy and to the bylaw-mandated remuneration system described in section 2.5 of this report.

In addition, within the Basel III legal framework, established in Europe by Directive 2013/36 and Regulation 575/2013 on prudential requirements for credit institutions and investment firms, quantitative and qualitative aspects are also detailed regarding the remuneration policy of the Group for other executives whose activities may have a substantial impact on the assumption of risks by the Group. These professionals, together with the executive directors, the other members of senior management and the employees receiving remuneration similar to that of the senior management make up what is known as the identified staff (Material Risk Takers).

### 2.1 Principles of the remuneration policy

#### a) Remuneration of directors in their capacity as such

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

#### b) Remuneration of directors for the performance of executive duties

The most notable principles of the Bank’s remuneration policy for the performance of executive duties are as follows:

1. **Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with a rigorous risk management and with the company’s long-term strategy, values and interests.**

2. **Fixed remuneration must represent a significant proportion of total compensation.**

3. **Variable remuneration must compensate for performance in terms of the achievement of agreed goals, in line with the role and responsibilities of the individual and within the framework of prudent risk management.**

4. **The global remuneration package and the structure thereof must be competitive, in order to appeal to and retain professionals.**

5. **Conflicts of interest and discrimination must be avoided in decisions regarding remuneration.**

Banco Santander performs an annual comparative review of the total compensation of the executive directors and senior executives. The comparison group comprises the following banks: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

2. Note 5 of the Group’s legal report provides information on the remuneration of directors for the 2017 financial year.
2.2 Principles of corporate governance regarding remuneration

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

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

2.3 Remuneration policy applied in 2017

This document contains quantitative and qualitative information concerning the remuneration of executive and non-executive directors for the years 2017 and 2016.

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

i) Composition and limits
At the annual general shareholders’ meeting of 22 March 2013, the shareholders approved an amendment to the Bylaws, such that remuneration of directors for their status as such now consists of a fixed annual amount determined at the general shareholders’ meeting. Such amount shall remain in effect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such reduction appropriate. The remuneration established at the general shareholders’ meeting for 2017 was 6 million euros, with two components: (a) annual allotment and (b) attendance fees.

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

Bylaw-stipulated emoluments earned by the board in 2017 amounted to 4.7 million euros, which is 22% less than the amount approved at the general shareholders’ meeting.

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3 The information contained in this section will be included in the annual remuneration report for 2017, which will be submitted to a consultative vote of the shareholders at the 2018 annual general shareholders’ meeting.
Independently of the directors’ right to receive remuneration for their status as such, they are also entitled to receive other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the remuneration committee and upon resolution by the board of directors, may be deemed appropriate in consideration for the performance of other duties in the company, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as members of the board.

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

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</tr>
<tr>
<td>Members of the executive committee</td>
<td>170,000</td>
<td>170,000</td>
<td>170,383</td>
<td>170,383</td>
<td>170,383</td>
<td>170,383</td>
<td>200,451</td>
</tr>
<tr>
<td>Members of the audit committee</td>
<td>40,000</td>
<td>40,000</td>
<td>39,551</td>
<td>39,551</td>
<td>39,551</td>
<td>39,551</td>
<td>46,530</td>
</tr>
<tr>
<td>Members of the appointments committee(^1)</td>
<td>25,000</td>
<td>25,000</td>
<td>23,730</td>
<td>23,730</td>
<td>23,730</td>
<td>23,730</td>
<td>27,918</td>
</tr>
<tr>
<td>Members of the remuneration committee(^1)</td>
<td>25,000</td>
<td>25,000</td>
<td>23,730</td>
<td>23,730</td>
<td>23,730</td>
<td>23,730</td>
<td>27,918</td>
</tr>
<tr>
<td>Members of the risk supervision, regulation and compliance committee</td>
<td>40,000</td>
<td>40,000</td>
<td>39,551</td>
<td>20,697</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chairman of the audit committee</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chairman of the appointments committee</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chairman of the remuneration committee</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chairman of the risk supervision, regulation and compliance committee</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>26,164</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lead director(^2)</td>
<td>110,000</td>
<td>110,000</td>
<td>111,017</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-executive vice chairmen</td>
<td>30,000</td>
<td>30,000</td>
<td>28,477</td>
<td>28,477</td>
<td>28,477</td>
<td>28,477</td>
<td>33,502</td>
</tr>
</tbody>
</table>

1 The data for 2011 to 2013 correspond to the amounts received by the members of the appointments and remuneration committee (EUR 23,730 in 2012 and 2013 and EUR 27,918 in 2011) prior to its separation into the appointments committee and the remuneration committee.

2 Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the risk supervision, regulation and compliance committee and as lead director, and the time and dedication required to perform these duties, is allocated minimum total annual remuneration of 700,000 euros in 2015, including the aforementioned annual allowances and attendance fees corresponding to him.
iii) Attendance fees
By resolution of the board, at the proposal of the remuneration committee, the amount of attendance fees applicable to meetings of the board and its committees (excluding the executive committee, for which no fees are provided) during 2017 was as follows:

<table>
<thead>
<tr>
<th>Attendance fees per meeting</th>
<th>Euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of directors</td>
<td>2,600</td>
</tr>
<tr>
<td>Audit committee and risk supervision, regulation and compliance committee</td>
<td>1,700</td>
</tr>
<tr>
<td>Other committees (excluding executive committee)</td>
<td>1,500</td>
</tr>
</tbody>
</table>

iv) Breakdown of bylaw-stipulated emoluments
The total amount accrued for bylaw-stipulated emoluments and attendance fees was 4.7 million euros in 2017 (4.6 millions in 2016). The individual amount accrued for each director for these items is as follows:

Set forth below is an individualised breakdown of the amount received for this remuneration item for the last two financial years.
<table>
<thead>
<tr>
<th>Directors</th>
<th>Executive</th>
<th>Non-executive</th>
<th>Amount in euros</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board</td>
<td>EC</td>
<td>AC</td>
<td>ASC</td>
</tr>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>87,500</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>87,500</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>I</td>
<td>377,500</td>
<td>170,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>87,500</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>79,722</td>
<td>154,889</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>E</td>
<td>117,500</td>
<td>170,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Ms Homaira Akbari²</td>
<td>I</td>
<td>87,500</td>
<td>—</td>
<td>20,556</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>E</td>
<td>87,500</td>
<td>170,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Mr Javier Botín-Sanz de Sautuola y O’Shea³</td>
<td>D</td>
<td>87,500</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ms Sol Daurellá Comadrán</td>
<td>I</td>
<td>87,500</td>
<td>—</td>
<td>25,000</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>I</td>
<td>87,500</td>
<td>—</td>
<td>40,000</td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
<td>I</td>
<td>87,500</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Ramiro Mato García-Ansorena³</td>
<td>I</td>
<td>7,778</td>
<td>15,111</td>
<td>3,556</td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
<td>I</td>
<td>137,500</td>
<td>—</td>
<td>40,000</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasagaí</td>
<td>I</td>
<td>79,722</td>
<td>154,889</td>
<td>36,444</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>I</td>
<td>87,500</td>
<td>—</td>
<td>19,444</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa⁴</td>
<td>I</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Totales</td>
<td>1,674,722</td>
<td>1,344,889</td>
<td>160,000</td>
<td>125,000</td>
</tr>
</tbody>
</table>

1. Ceased to be a director on 28 November 2017.
2. Director since 27 September 2016.
3. All amounts received were reimbursed to Fundación Botín.
5. Ceased to be a director on 27 September 2016

P: Proprietary  I: Independent  N: Non-executive (neither proprietary nor independent)
EC: Executive committee  AC: Audit committee  ASC: Appointments committee  RC: Remuneration committee  RSRCC: Risk supervision, regulation and compliance committee
<table>
<thead>
<tr>
<th>Consejo</th>
<th>EC</th>
<th>AC</th>
<th>ASC</th>
<th>RC</th>
<th>RSRCC</th>
<th>Board and committee attendance fees</th>
<th>Total bylaw-stipulated emoluments and attendance fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>85,000</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
<td>292,000</td>
</tr>
<tr>
<td>85,000</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
<td>292,000</td>
</tr>
<tr>
<td>375,000</td>
<td>170,000</td>
<td>—</td>
<td>25,000</td>
<td>25,000</td>
<td>40,000</td>
<td>85,900</td>
<td>720,900</td>
</tr>
<tr>
<td>85,000</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
<td>292,000</td>
</tr>
<tr>
<td>85,000</td>
<td>170,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
<td>292,000</td>
</tr>
<tr>
<td>115,000</td>
<td>170,000</td>
<td>—</td>
<td>25,000</td>
<td>25,000</td>
<td>40,000</td>
<td>85,900</td>
<td>460,900</td>
</tr>
<tr>
<td>22,194</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>10,000</td>
<td>32,194</td>
</tr>
<tr>
<td>85,000</td>
<td>170,000</td>
<td>—</td>
<td>25,000</td>
<td>25,000</td>
<td>40,000</td>
<td>81,200</td>
<td>426,200</td>
</tr>
<tr>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>30,000</td>
<td>115,000</td>
</tr>
<tr>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>25,000</td>
<td>25,000</td>
<td>—</td>
<td>56,000</td>
<td>191,000</td>
</tr>
<tr>
<td>85,000</td>
<td>—</td>
<td>40,000</td>
<td>25,000</td>
<td>—</td>
<td>40,000</td>
<td>64,500</td>
<td>254,500</td>
</tr>
<tr>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
<td>122,000</td>
</tr>
<tr>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>119,110</td>
<td>—</td>
<td>40,000</td>
<td>—</td>
<td>—</td>
<td>7,123</td>
<td>52,900</td>
<td>219,133</td>
</tr>
<tr>
<td>85,000</td>
<td>170,000</td>
<td>40,000</td>
<td>—</td>
<td>25,000</td>
<td>40,000</td>
<td>81,700</td>
<td>441,700</td>
</tr>
<tr>
<td>100,890</td>
<td>—</td>
<td>40,000</td>
<td>—</td>
<td>—</td>
<td>40,000</td>
<td>53,900</td>
<td>234,790</td>
</tr>
<tr>
<td>62,806</td>
<td>—</td>
<td>29,556</td>
<td>18,472</td>
<td>18,472</td>
<td>29,556</td>
<td>72,200</td>
<td>231,062</td>
</tr>
<tr>
<td>1,645,000</td>
<td>1,360,000</td>
<td>189,556</td>
<td>143,472</td>
<td>143,472</td>
<td>276,679</td>
<td>589,200</td>
<td>4,617,379</td>
</tr>
</tbody>
</table>
2.3.2 Remuneration of directors for the performance of executive duties

(i) Policy applied
The policy applied to the remuneration of directors in 2017 for the performance of executive duties was approved by the board of directors and submitted to a binding vote at the general shareholders’ meeting of 7 April 2017, with 93.828% of the votes in favour. Said policy was implemented in 2017 with the following results:

- Fixed remuneration represented a significant proportion of total compensation.

- The variable components4 of the total remuneration of executive directors in 2017 amount to less than 200% of the fixed components, as provided by agreement at the general shareholders’ meeting of 7 April 2017.

- At the request of the remuneration committee, at the beginning of 2018 the board approved the final amount of the incentive for 2017, based on the individual benchmark variable remuneration figure in accordance with the following:
  - A group of short-term quantitative metrics measured against annual objectives.
  - A qualitative assessment which cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.
  - Where applicable, an exceptional adjustment that will be supported by the substantiated evidence.

### Performance assessment

<table>
<thead>
<tr>
<th>Target incentive</th>
<th>1 Quantitative + 2 Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Customers • Shareholders</td>
</tr>
<tr>
<td></td>
<td>• Risk • Capital • Profitability</td>
</tr>
</tbody>
</table>

### Exceptional adjustment

- The final incentive is adjusted based on the individual assessment of the executive director, which is carried out in accordance with the current model and taking into account their individual objectives, as well as how they are achieved, for which the people management is considered.

- The approved incentive is paid 50% in cash and 50% in shares, a portion in 2018 and portion deferred and linked to multi-year targets. 40% shall be paid immediately once the final amount has been determined, and the remaining 60% shall be deferred in equal parts over five years, as follows:
  - Payment of the amount deferred over the first two years, payable in 2019 and 2020, where applicable, shall be conditional on none of the malus clauses described below being triggered.
  - The amount deferred over the next three years (36% of the total), or the deferred portion linked to multi-year targets, payable in 2021, 2022 and 2023, where applicable, shall be conditional not only on the malus clauses not being triggered but also on the achievement of the multi-year targets described below. These objectives can only decrease the amounts and the number of deferred shares.
  - When the deferred amount is paid in cash, the beneficiary may be paid the amount corresponding to the adjustment of the deferred

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4 Likewise, and as stated in heading (iv) below of this section of the report, contributions to the benefits systems for two executive directors include both fixed components and variable components, which become part of the total variable remuneration.
amount for inflation through the date of payment of each corresponding amount in cash.

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group’s malus and clawback policy.

The payment schedule of the incentive can be illustrated as follows:

<table>
<thead>
<tr>
<th>Immediately following performance year</th>
<th>Deferred (malus)</th>
<th>Long-term performance deferral (and malus)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>40%</td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>2019</td>
<td>12%</td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td>2020</td>
<td>12%</td>
<td></td>
<td>36%</td>
</tr>
<tr>
<td>2021</td>
<td>12%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The incentive for 2017 factored in the additional quantitative metrics and qualitative factors approved, which are as follows:

<table>
<thead>
<tr>
<th>Category and weighting</th>
<th>Quantitative metrics</th>
<th>Qualitative assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (20%)</td>
<td>• Customer satisfaction • Number of loyal customers</td>
<td>• Effective compliance with the objectives of the rules on risk conduct in respect of customers</td>
</tr>
<tr>
<td>Risks (10%)</td>
<td>• Non-performing loans ratio • Cost of lending ratio</td>
<td>• Appropriate management of risk appetite and excesses recognised • Adequate management of operational risk</td>
</tr>
<tr>
<td>Capital (15%)</td>
<td>• Capital ratio (CET1)</td>
<td>• Efficient capital management</td>
</tr>
<tr>
<td>Shareholders (80%)</td>
<td>• Ordinary net profit (ONP)* • RoRWA: return on risk weighted assets</td>
<td>• Suitability of business growth compared to the previous year, considering the market environment and competitors • Sustainability and solidity of results • Efficient cost management and achievement of efficiency goals</td>
</tr>
</tbody>
</table>

* For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.
The multi-year targets linked to the payment of the deferred amounts payable in 2021, 2022 and 2023 are as follows:

(a) Compliance with the consolidated earnings per share (EPS) growth target of Banco Santander in 2019 vs. 2016. The EPS ratio relating to this target is obtained as shown in the table below:

<table>
<thead>
<tr>
<th>EPS growth in 2019 (% sobre 2016)</th>
<th>EPS ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 25%</td>
<td>1</td>
</tr>
<tr>
<td>≥ 0% but &lt; 25%</td>
<td>0 – 1 (*)</td>
</tr>
<tr>
<td>&lt; 0%</td>
<td>0</td>
</tr>
</tbody>
</table>

(*) Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2019 represents with respect to 2016 EPS within this bracket of the scale.

(b) Relative performance of the Bank’s total shareholder return (TSR) in 2017-2019 compared to the TSRs of a peer group comprising 17 credit institutions (the “Peer group”), applying the appropriate TSR ratio according to the Bank’s TSR within the peer group.

<table>
<thead>
<tr>
<th>Ranking of Santander TSR</th>
<th>TSR ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above percentile 66</td>
<td>1</td>
</tr>
<tr>
<td>Between percentiles 33 and 66</td>
<td>0 - 1 (*)</td>
</tr>
<tr>
<td>Below percentile 33</td>
<td>0</td>
</tr>
</tbody>
</table>

(*) Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

The peer group comprises the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

(c) Compliance with the fully loaded target common equity Tier 1 ratio (CET1) for 2019. The CET1 ratio relating to this target is obtained as described below:

<table>
<thead>
<tr>
<th>CET1 in 2019</th>
<th>CET1 ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 11.30%</td>
<td>1</td>
</tr>
<tr>
<td>&gt; 11% but &lt; 11.30%</td>
<td>0.5 – 1 (*)</td>
</tr>
<tr>
<td>&lt; 11%</td>
<td>0</td>
</tr>
</tbody>
</table>

(*) Linear increase in the CET1 coefficient as a function of the CET1 ratio in 2019 within this bracket of the scale.

To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2019 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

To determine the annual amount of the deferred portion linked to objectives corresponding to each board member in 2021, 2022 and 2023, the following formula shall be applied to each of these payments (“Final annuity”) without prejudice to any adjustment deriving from the malus clauses:

Final annuity = Amt. x (1/3 x A + 1/3 x B + 1/3 x C)

where:

“Amp.” is one third of the incentive amount deferred conditional on performance (i.e., Amt. will be 12% of the total incentive set in early 2018).

“A” is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2019 vs 2016.

“B” is the TSR ratio according to the scale in section (b) above, according to the relative performance of the Bank’s TSR within its peer group in 2017-2019.

“C” is the CET1 ratio according to compliance with the CET1 target for 2019 described in section (c) above.

5. For this purpose, TSR refers to the difference (expressed as a percentage) between the final value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2017 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2020 (exclusive) (to calculate the final value).

6. The neutral effect on CET1 as a result of the capital increase used to finance the acquisition of Banco Popular Español, S.A., announced in June 2017 and executed in July 2017, will be taken into account.
• Accrual of the deferred amounts (whether or not linked to multi-year targets) is also conditional upon the beneficiary’s continued service in the Group, and upon none of the circumstances arising, in the period prior to each payment, that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group’s remuneration policy. Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions therein provided.

Malus and clawback clauses are triggered in situations in which there is poor financial performance of the bank as a whole or a specific division or area thereof or of the exposure generated by staff, taking into account at least the following factors:

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

(ii) An increase in capital requirements at the bank or one of its business units not planned at the time that exposure was generated.

(iii) Regulatory penalties or legal convictions for events that might be attributable to the unit or staff responsible for them. Likewise, failure to comply with the Bank’s internal codes of conduct.

(iv) Improper conduct, whether individual or collective. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

• The application of the clawback clause will be in addition to the malus clause, such that the clawback clause will apply when the malus clause is considered insufficient to include the effects that the event should have on the allocated variable remuneration.

• The application of malus or clawback clauses for executive directors shall be determined by the board of directors, at the proposal of the remuneration committee, and cannot be proposed once the retention period related to the final payment in shares in accordance with the plan has elapsed in 2024. Consequently, the board of directors, at the proposal of the remuneration committee and depending on the level of compliance with the aforementioned conditions regarding malus clauses, shall determine the specific amount of the deferred incentive to be paid and, where applicable, the amount that could be subject to clawback.

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

Since variable remuneration involves the delivery of shares of the Bank, the board of directors submitted to the shareholders at the 2017 annual general shareholders’ meeting, which so approved, the application of the second cycle of the Deferred Variable Remuneration Plan Linked to Multi-Year Targets, through which the aforementioned variable remuneration for executive directors is instrumented.

(ii) Gross annual salary
The executive directors’ gross annual salary for 2017 was as follows:

<table>
<thead>
<tr>
<th>EXECUTIVE DIRECTORS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>1,568</td>
<td>1,710</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,568</strong></td>
<td><strong>7,710</strong></td>
</tr>
</tbody>
</table>

1. Ceased to be a director on 28 November 2017. Figure includes his gross annual salary until he ceased to be a director on 28 November 2017. The portion of gross annual salary for discharging his duties as senior executive vice president from 28 November is included in the corresponding section.
(iii) Variable remuneration

The board approved the variable remuneration of the Group executive chairman, the chief executive officer and the other executive directors, at the proposal of the remuneration committee, which has taken into account the approved policy referred to in paragraph (i) above and the work of the human resources committee.

A) Determination of the individual variable remuneration for executive directors

The result of aggregating the quantitative and qualitative weighted results is 119.8%.

The board approved this percentage to be applied to the benchmark variable remuneration of the Group executive chairman, the chief executive officer and the other executive directors, at the proposal of the remuneration committee, which has taken into account the standards referred to in the table above and the work of the human resources committee.

The evaluation of the categories of quantitative metrics and qualitative factors is as follows:

— Customers: the goals set for customer satisfaction and loyalty were met with a result of 92%, which was adjusted to 98.5% for the application of the qualitative aspects in relation with the progress on the implementation of conduct risk controls with customers.

— Risks: the quantitative results obtained from the evaluated metrics (cost of credit and non-performing loans ratio) provided a result of 101.5%, which was adjusted to 114% for qualitative aspects in relation with the management of the risk appetite model.

— Capital: the Group exceeded the capital targets set for the year and, therefore, the quantitative results obtained from the evaluated metrics provided a result of 100.8%.

— Profitability: ONP was at 104.9% of the annual target at the end of the year, and the RoRWA was at 111.6% of the target. Qualitative factors were evaluated, including comparison with comparable companies and the solidity and sustainability of results, and it was approved to not modify the quantitative evaluation. The final evaluation of this category is therefore 117.4%.

The following were also evaluated, however no adjustment was made for them:

- Management of the risk appetite model, level and disclosure of excesses
- The general control environment in accordance with internal regulations and Group standards
- The degree of compliance with internal and external regulations, and observations made by regulators and supervisory bodies
- Prudent and efficient liquidity

Finally, and as an exception, the good results obtained by the Group with regard to achieving the fully loaded CET1 ratio were evaluated positively, which has exceeded the goal set for 2017 and has set a solid base to reach the regulatory goal for the end of 2018, agreeing 9 percent points to reach the final percentage of 119.8% as indicated above.

The application of the aforementioned metrics to the sum of the benchmark variable remuneration of the executive directors, together with the level of compliance with the individual goals and the market reference, determined the incentive allocated to each executive director.

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

- The Group’s ordinary net profit (ONP) for 2017 was not less than 50% of that for 2015. If this had occurred, the incentive would not have been greater than 50% of the benchmark incentive.
- The Group’s ONP has not been negative. If this had occurred, the incentive would have been zero.

As a result of the aforementioned process and following a proposal by the remuneration committee, the board of directors approved the following amounts for variable remuneration payable immediately and the deferred amounts not linked to long-term metrics:

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8 This committee was aided by members of senior management who are also responsible for different functions in the Group, including risk, internal audit, compliance, general secretariat and human resources, financial management, financial accounting and control. Their role in this committee consisted of analysing quantitative metrics information, undertaking a qualitative analysis, and considering whether or not to apply exceptional adjustments. This analysis included different matters related to risk, capital, liquidity, quality and recurrence of results, and other compliance and control matters.

9 For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.
The deferred portion of the variable remuneration, which will only be received, in 2021, 2022 and 2023, if the aforementioned long-term multi-year targets are met, under the condition of the beneficiary’s continued service at the Group and provided the malus clauses are not triggered, is as follows:

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>2,192</td>
<td>2,192</td>
<td>4,384</td>
<td>1,928</td>
<td>1,928</td>
<td>3,856</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>1,466</td>
<td>1,466</td>
<td>2,932</td>
<td>1,302</td>
<td>1,302</td>
<td>2,604</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>1,142</td>
<td>1,142</td>
<td>2,284</td>
<td>965</td>
<td>965</td>
<td>1,930</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>1,117</td>
<td>1,117</td>
<td>2,234</td>
<td>1,149</td>
<td>1,149</td>
<td>2,298</td>
</tr>
<tr>
<td>Total</td>
<td>5,917</td>
<td>5,917</td>
<td>11,834</td>
<td>5,344</td>
<td>5,344</td>
<td>10,688</td>
</tr>
</tbody>
</table>

1. Ceased to be a member of the board on 28 November 2017. Figure includes his deferred bonus payable immediately, not subject to long-term objectives, until he ceases to be a director. The portion for discharging his duties as senior executive vice president from 28 November is included in the corresponding section.

2. The share amounts in the table correspond to a total of 992 thousand shares in Banco Santander.

The deferred portion of the variable remuneration, which will only be received, in 2021, 2022 and 2023, if the aforementioned long-term multi-year targets are met, under the condition of the beneficiary’s continued service at the Group and provided the malus clauses are not triggered, is as follows:

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>863</td>
<td>863</td>
<td>1,726</td>
<td>759</td>
<td>759</td>
<td>1,518</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>577</td>
<td>577</td>
<td>1,154</td>
<td>513</td>
<td>513</td>
<td>1,026</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>450</td>
<td>450</td>
<td>900</td>
<td>380</td>
<td>380</td>
<td>760</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>440</td>
<td>440</td>
<td>880</td>
<td>452</td>
<td>452</td>
<td>904</td>
</tr>
<tr>
<td>Total</td>
<td>2,330</td>
<td>2,330</td>
<td>4,660</td>
<td>2,104</td>
<td>2,104</td>
<td>4,208</td>
</tr>
</tbody>
</table>

1. Ceased to be a member of the board on 28 November 2017. Figure includes his bonus subject to long-term objectives for service until cessation as a director on 28 November 2017. The portion for discharging his duties from 28 November is included in the corresponding section.

2. The share amounts in the foregoing table correspond to a total of 391 thousand shares in Banco Santander.

The total number of shares relating to the plan (1,383 thousand shares) is within the maximum limit of 1,929 shares authorised for executive directors by the shareholders at the general shareholders’ meeting of 7 April 2017, and has been calculated on the basis of the average weighted daily volume of the average weighted listing prices of Santander shares for the 15 trading sessions prior to the Friday (not inclusive) before 30 January 2018 (the date on which the board approved the bonus for the executive directors for 2017), which was 5.963 euros per share.

B) Ratio of variable to fixed components of remuneration in 2017
Shareholders at the general shareholders’ meeting of 7 April 2017 approved a maximum ratio between variable and fixed components of executive directors’ remuneration of 200%.

The following table shows the percentage of variable components of total remuneration compared to fixed components for each executive director in 2017:

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>Variable components / fixed components (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>140%</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>93%</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>179%</td>
</tr>
<tr>
<td>Mr. Matías Rodríguez Inciarte</td>
<td>173%</td>
</tr>
</tbody>
</table>

10 Corresponding to the fair value of the maximum amount to be received over a total of 3 years, subject to continued service, with the exceptions envisaged, the non-applicability of malus clauses and compliance with the defined goals. Fair value was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.
For these purposes:

- The variable components of remuneration include all items of this nature, including the portion of contributions to the benefits system that are calculated on the variable remuneration of the related director.

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

### C) Change in the compensation of executive directors and the attributable net profit

There follows an overview of the compensation (short-term remuneration, deferred variable remuneration and/or deferred variable remuneration linked to multi-year targets) of the directors performing executive duties as compared with attributable net profit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Compensation to Directors</th>
<th>Attributable Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.12%</td>
<td>0.70%</td>
</tr>
<tr>
<td>2012</td>
<td>1.06%</td>
<td>0.50%</td>
</tr>
<tr>
<td>2013</td>
<td>1.07%</td>
<td>0.50%</td>
</tr>
<tr>
<td>2014</td>
<td>1.17%</td>
<td>0.50%</td>
</tr>
<tr>
<td>2015</td>
<td>1.17%</td>
<td>0.50%</td>
</tr>
<tr>
<td>2016</td>
<td>0.65%</td>
<td>0.50%</td>
</tr>
<tr>
<td>2017</td>
<td>0.60%</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

The variable remuneration of the executive directors is also shown below as a percentage of the cash dividends paid.

### (iv) Main features of the benefit plans

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

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

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

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

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11 As provided in the contracts of the executive directors prior to the change, Mr Matías Rodríguez Inciarte exercised the option to receive accrued pensions (or similar amounts) in the form of capital, i.e., in a lump sum, which means that he ceased to accrue pensions from such time, with a fixed capital amount to be received, which shall be updated at the agreed interest rate.

12 In the case of Mr Matías Rodríguez Inciarte, the initial balance corresponded to the amount that was set when, as described above, he exercised the option to receive a lump sum, and includes the interest accrued on this amount from that date.
the transformation of the defined benefits pension commitments into the current defined forecast contribution system indicated in footnote 11 of this report.

In application of that set forth in remuneration regulations, the contributions calculated on the basis of variable remuneration are subject to the discretionary pension benefits scheme. Under this scheme, these contributions are subject to malus and clawback clauses in accordance with the policy in place at any given time and during the same period in which variable remuneration is deferred. Furthermore, they must be invested in shares in the Bank during a period of five years as from the leaving date of the executive directors from the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance of the executive director, or it will be paid to said executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

The balance in the benefits system corresponding to each of the executive directors at 31 December 2017 is as follows:

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Balance (Thousands of Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>45,798</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>16,151</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>13,957</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75,906</strong></td>
</tr>
</tbody>
</table>

1. Mr Rodrigo Echenique does not participate in the defined pensions scheme described in the preceding paragraphs. However, as an executive director and for informational purposes, this year’s table includes the rights to which he was entitled prior to his designation as such.
2. He ceased to be a member of the board on 28 November 2017.

The payments made in 2017 to the members of the board entitled to post-employment benefits amounted to 0.9 million euros (0.9 million euros in 2016).

The contract with Mr Echenique after his appointment as executive director does not provide for any obligation for Banco Santander regarding benefits, notwithstanding the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

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

The provisions recognised in 2017 for retirement pensions and supplementary benefits (death of spouse, death of parent and permanent disability) amounted to 5,163 thousand euros (4,770 thousand euros in provisions for 2016), as broken down below:

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Provision (Thousands of Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>2,707</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>2,456</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>-</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,163</strong></td>
</tr>
</tbody>
</table>

(v) Other remuneration

In addition to the above, the Group has insurance policies for life, health and other contingencies for the executive directors of the Bank. Note 5 to the Group’s financial statements provides more detailed information regarding the other benefits received by the executive directors.

(vi) Holding shares

Following a proposal submitted by the remuneration committee, in 2016 the board of directors approved a share holding policy aimed at strengthening the alignment of executive directors with shareholders’ long-term interests.

According to this policy, each executive director active on 1 January 2016 shall have five years in which to demonstrate that their personal assets include an investment in the Bank’s shares equivalent to twice the net tax amount of their gross annual salary at the same date.

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

2.3.3 Remuneration of the board members as representatives of the Bank

By resolution of the executive committee, all remuneration received by the Bank’s directors who represent the Bank on the boards of directors of companies in which the Bank has an interest and which relates to appointments made after 18 March 2002, will accrue to the Group. The directors of the Bank did not receive remuneration from this type of representation in 2016, 2015 or 2014.

One of the Bank’s directors, Mr Matías Rodríguez Inciarte, received a total of 42 thousand euros in 2017 as a non-executive director of U.C.I., S.A. (42 thousand euros in 2016).
2.4 Individual remuneration of directors for all items in 2017

The detail, by Bank director, of salary remuneration payable in the short term (or immediately) and of deferred remuneration not linked to long-term goals for 2017 and 2016 is provided below. The Annex to this report contains disclosures on the shares delivered in 2017 by virtue of the deferred remuneration schemes in place in previous years, the conditions for delivery of which were met in the related years.

Thousands of euros

<table>
<thead>
<tr>
<th>Directors</th>
<th>Bylaw-stipulated emoluments</th>
<th>Annual allotment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Executive committee</td>
<td>Audit committee</td>
</tr>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>88</td>
<td>170</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>88</td>
<td>170</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>88</td>
<td>170</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>118</td>
<td>170</td>
</tr>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>378</td>
<td>170</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>88</td>
<td>170</td>
</tr>
<tr>
<td>Mr Francisco Javier Botín-Sanz de Sautuola y O’Shea</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
<td>138</td>
<td>-</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Ms Homaira Akbari (1)</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Mr Ramiro Mato García-Ansorena (2)</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte (3)</td>
<td>80</td>
<td>155</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga (4)</td>
<td>80</td>
<td>155</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa (5)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total ejercicio 2015</strong></td>
<td><strong>1,645</strong></td>
<td><strong>1,360</strong></td>
</tr>
<tr>
<td><strong>Total ejercicio 2016</strong></td>
<td><strong>1,675</strong></td>
<td><strong>1,345</strong></td>
</tr>
</tbody>
</table>

(1) Appointed director with effect from 27 September 2016.
(2) Appointed director with effect from 28 November 2017.
(3) Ceased to be a member of the board on 28 November 2017 and senior executive vice president on 2 January 2018. The remuneration for discharging his duties as senior executive vice president from 1 July is included in the corresponding section.
(4) Ceased to be a member of the board on 28 November 2017.
(5) Ceased to be a member of the board on 27 September 2016.

(a) Includes life insurance and medical insurance costs borne by the Group relating to Bank directors.
2.4 Individual remuneration of directors for all items in 2017

The detail, by Bank director, of salary remuneration payable in the short term (or immediately) and of deferred remuneration not linked to long-term goals for 2017 and 2016 is provided below. The Annex to this report contains disclosures on the shares delivered in 2017 by virtue of the deferred remuneration schemes in place in previous years, the conditions for delivery of which were met in the related years.

Thousands of euros

<table>
<thead>
<tr>
<th>Directors</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Short term salary remuneration of executive directors</td>
<td>Other remuneration (a)</td>
</tr>
<tr>
<td></td>
<td>Fixed</td>
<td>In cash</td>
</tr>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O'Shea</td>
<td>2,500</td>
<td>1,370</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>2,000</td>
<td>916</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>1,500</td>
<td>714</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Homaira Akbari</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Ramiro Mato García-Ansorena</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total ejercicio 2016</td>
<td>7,568</td>
<td>3,699</td>
</tr>
<tr>
<td>Total ejercicio 2015</td>
<td>7,710</td>
<td>3,340</td>
</tr>
</tbody>
</table>

Note: from 1 July is included in the corresponding section.
In addition, the following provides the individualised detail of the salary remuneration of the executive directors linked to multi-year targets, which will only be paid if the conditions of continued service at the Group, non-applicability of the malus clauses and compliance with the defined multi-year targets are fulfilled (or, as applicable, of the minimum thresholds of these, with the consequent reduction of the agreed amount at the end of the year).

<table>
<thead>
<tr>
<th></th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea.</td>
<td>863</td>
<td>863</td>
<td>1,726</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>577</td>
<td>577</td>
<td>1,154</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>450</td>
<td>450</td>
<td>900</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>440</td>
<td>440</td>
<td>880</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,330</td>
<td>2,330</td>
<td>4,660</td>
</tr>
</tbody>
</table>

1 Fair value of the maximum amount receivable over a total of 3 years (2021, 2022 and 2023), which was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.

2 Ceased to be a member of the board on 28 November 2017 and senior executive vice president on 2 January 2017. Long-term salary remuneration between that date and December 31, 2017 is included in the relevant section.

2.5 Director remuneration policy for 2018, 2019 and 2020 that is submitted to a binding vote of the shareholders

A) INTRODUCTION: principles of the remuneration policy and remuneration system

(a) Remuneration of directors in their capacity as such
The director remuneration system is regulated by article 58 of the Bylaws of Banco Santander and article 33 of the Rules and Regulations of the Board. Pursuant to such system, the remuneration of the directors in their capacity as such will consist of a fixed annual amount determined by the shareholders, which shall remain in effect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such reduction appropriate. Such compensation shall have two components: (a) an annual allotment, and (b) attendance fees.

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

In addition, the company shall obtain a civil liability insurance policy for its directors upon customary terms that are proportionate to the circumstances of the company.

The directors may be entitled to receive compensation by means of the delivery of shares or option rights thereon, or by any other compensation system tied to the value of shares, provided the application of such compensation systems is previously approved by the shareholders at the general shareholders’ meeting.

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

The most notable principles of the Bank’s remuneration policy for the performance of executive duties are as follows:

1. Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with a rigorous risk management and with the company’s long-term strategy, values and interests.

2. Fixed remuneration must represent a significant proportion of total compensation.

3. Variable remuneration must compensate for performance in terms of the achievement of agreed goals, in line with the role
and responsibilities of the individual and within the framework of prudent risk management.

4. The global remuneration package and the structure thereof must be competitive, in order to appeal to and retain professionals.

5. Conflicts of interest and discrimination must be avoided in decisions regarding remuneration.

B) REMUNERATION OF DIRECTORS FOR 2018

1. Remuneration of directors in their capacity as such

In 2018, the directors, in their capacity as such, shall continue to receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to 6 million euros as authorised by the shareholders at the 2017 annual general shareholders’ meeting (and again subject to approval by the shareholders at the 2018 general shareholders’ meeting), with two components:

(i) annual allocation; and

(ii) attendance fees.

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

In addition, as stated in the description of the director remuneration system, in 2018 the company will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the company.

2. Remuneration of directors for the performance of executive duties

2.1. Fixed components of remuneration

2.1.1. Gross annual salary

At the proposal of the committee, the board approved for Ms Ana Botín and Mr José Antonio Álvarez to maintain in 2017 the same gross annual salaries in 2018 than in 2017, although it will be increased in the amount equivalent to the reduction of the fixed pensions contributions in the terms describe in section D (6), without the total compensation being increased as a result of this change.

The Board has approved to increase the gross annual salary of Mr Rodrigo Echenique on consideration of the new responsibilities assumed in relation with the integration of Banco Popular in Grupo Santander. His annual gross salary will now be 1,800 thousand euros (1,500 thousand euros in 2017).

2.1.2. Other fixed components of remuneration

(i) Benefits systems: defined contribution plans (see section D below)\(^{13}\).

(ii) Social welfare benefits: executive directors will also receive certain social welfare benefits such as life insurance premiums, medical insurance and, if applicable, the allocation of remuneration for employee loans, in accordance with the customary policy established by the Bank for senior management. Additional information in this regard is included in section D below.

2.2. Variable components of remuneration

The variable remuneration policy for executive directors for 2018, which was approved by the board at the proposal of the remuneration committee, is based on the principles of the remuneration policy described in section A above.

The variable remuneration of executive directors consists of a single incentive\(^{14}\), linked to the achievement of short- and long-term goals, structured as follows:

- The final amount of the incentive shall be determined at the start of the following year (2019) based on the benchmark amount and subject to compliance with the short-term objectives described in section (ii) below.

- 40% of the incentive shall be paid immediately once the final amount has been determined and the remaining 60% shall be deferred in equal parts over five years, as follows:

  - The payment of the amount deferred over the first two years, payable in the two following years, 2020 and 2021, shall be conditional on none of the malus clauses described in section (v) being triggered.

  - The amount deferred over the next three years (36% of the total), payable in 2022, 2023 and 2024, shall be conditional not only on the malus clauses not being triggered but also on the executive achieving the long-term objectives described in section (iv) below (deferred incentive subject to long-term performance objectives).

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy, to which section (v) below refers.

The variable components of executive directors’ total remuneration for 2018 must not exceed a limit of 200% of the fixed components.

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\(^{13}\) As stated in section D below, contributions to the benefits systems for two executive directors include both fixed components and variable components.

\(^{14}\) Likewise, and as stated in section D below, contributions to the benefits systems for two executive directors include both fixed components and variable components, which become part of the total variable remuneration.
(i) Benchmark incentive

Variable remuneration for 2018 for executive directors shall be determined based on a standard benchmark incentive conditional on compliance with 100% of the established targets. The board of directors, at the proposal of the remuneration committee and based on market and internal contribution criteria, may review the benchmark variable remuneration.

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

Based on the aforementioned benchmark standard, the 2018 variable remuneration for executive directors shall be set on the basis of the following key factors:

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

The detailed quantitative metrics, qualitative assessment factors and weightings are indicated in the following scorecard:

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Category</th>
<th>Quantitative metrics</th>
<th>Qualitative assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>Customers</td>
<td>Customer satisfaction</td>
<td>Effective compliance with the objectives of the rules on risk conduct in respect of customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Loyal customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risks (10%)</td>
<td>Cost of lending</td>
<td>Appropriate management of risk appetite and excesses recognised</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-performing loans</td>
<td>Adequate management of operational risk</td>
</tr>
<tr>
<td>80%</td>
<td>Shareholders</td>
<td>Compliance with the Group’s capital target</td>
<td>Efficient capital management</td>
</tr>
<tr>
<td></td>
<td>Return (50%)</td>
<td>ONP¹</td>
<td>Sustainability and submitted results and efficient cost management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RoRWA</td>
<td>Suitability of business growth considering the market environment and competitors</td>
</tr>
</tbody>
</table>

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

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

- If the Group’s ONP for 2018 is less than 50% of the ONP for 2017, the incentive would in no case exceed 50% of the benchmark incentive for 2018.
- If the Group’s ONP is negative, the incentive would be zero.

When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

(iii) Form of payment of the incentive

Variable remuneration is paid 50% in cash and 50% in shares, one portion in 2019 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% of the incentive is paid in 2019 net of taxes, half in cash and half in shares.
b) 60% is paid, if applicable, in five equal parts in 2020, 2021, 2022, 2023 and 2024, net of taxes, half in cash and half in shares, subject to the conditions stipulated in section (v) below.

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

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

(iv) Deferred performance-based incentive

As indicated above, the amounts deferred in 2022, 2023 and 2024 shall be conditional upon, in addition to the terms described in section (v) below, compliance with the Group's long-term objectives for 2018-2020. The long-term metrics are as follows:

a) Compliance with the consolidated EPS growth target of Banco Santander in 2020 vs. 2017. The EPS ratio relating to this target is obtained as shown in the table below:

<table>
<thead>
<tr>
<th>EPS growth in 2020 (% versus 2017)</th>
<th>EPS Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 25%</td>
<td>1</td>
</tr>
<tr>
<td>0% but &lt; 25%</td>
<td>0 – 1 (*)</td>
</tr>
<tr>
<td>&lt; 0%</td>
<td>0</td>
</tr>
</tbody>
</table>

(*) Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2020 represents with respect to 2017 EPS within this bracket of the scale.

b) Relative performance of the Bank's total shareholder return ("TSR") in 2018-2020 compared to the weighted TSR of a peer group comprising 17 credit institutions (the "Peer Group"), applying the appropriate TSR ratio according to the Bank's TSR within the peer group.

<table>
<thead>
<tr>
<th>Ranking of Santander TSR</th>
<th>“TRS Ratio”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above percentile 66</td>
<td>1</td>
</tr>
<tr>
<td>Between percentiles 33 and 66 (both inclusive)</td>
<td>0-1 (*)</td>
</tr>
<tr>
<td>Below percentile 33</td>
<td>0</td>
</tr>
</tbody>
</table>

(*) Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

TSR15 measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

The peer group comprises the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit

c) Compliance with the Santander Group’s consolidated fully loaded target common equity tier 1 ratio (CET1) for 2020. The CET1 ratio relating to this target is obtained as described below:

<table>
<thead>
<tr>
<th>CET1 in 2020</th>
<th>CET1 ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 11.30%</td>
<td>1</td>
</tr>
<tr>
<td>&gt; 11.00% but &lt; 11.30%</td>
<td>0.5-1</td>
</tr>
<tr>
<td>&lt; 11.00%</td>
<td>0</td>
</tr>
</tbody>
</table>

(*) Linear increase in the CET1 ratio based on the CET1 ratio for 2020 within this bracket of the scale.

To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2020 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

To determine the annual amount of the deferred incentive tied to performance corresponding, if applicable, to each executive director in 2022, 2023 and 2024, the following formula shall be applied to each of these payments ("Final annuity") without prejudice to any adjustment deriving from the application of the malus policy described in section (v) below:

\[
\text{Final annuity} = \text{Amt.} \times \left( \frac{1}{3} \times A + \frac{1}{3} \times B + \frac{1}{3} \times C \right)
\]

where:

"Amt." is one third of the incentive amount deferred conditional on performance (i.e., Amt. will be 12% of the total incentive set in early 2019).

"A" is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2020 vs. 2017.

"B" is the TSR ratio according to the scale in section (b) above, according to the relative performance of the TSR within its peer group in 2018-2020.

"C" is the CET1 ratio according to compliance with the CET1 target for 2019 described in section (c) above.

---

15 TSR is the difference (expressed as a percentage) between the end value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2018 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2021 (exclusive) (to calculate the final value).
(v) Other terms of the incentive

a) Continuity, malus and clawback terms

Accrual of the deferred incentive (whether or not linked to performance) is also conditional upon the beneficiary’s continued service in the Group16, and upon none of the circumstances arising in the period prior to each payment, that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group’s remuneration policy. Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions therein provided.

Malus and clawback clauses are triggered in situations in which there is poor financial performance of the bank as a whole or a specific division or area thereof or of the exposure generated by staff, taking into account at least the following factors:

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

(ii) An increase in capital requirements at the bank or one of its business units not planned at the time that exposure was generated.

(iii) Regulatory penalties or legal convictions for events that might be attributable to the unit or staff responsible for them. Likewise, failure to comply with the Bank’s internal codes of conduct.

(iv) Improper conduct, whether individual or collective. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

b) Other rules applicable to the incentive

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

• When the deferred amount is paid in cash, and subject to the same requirements, the director may be paid an amount in cash that offset the effect of inflation on the aforementioned deferred amount in cash, pursuant to the terms of the plan regulations.

2.3. Holding shares

Following a proposal submitted by the remuneration committee, in 2016 the board of directors approved a share holding policy aimed at strengthening the alignment of executive directors with shareholders’ long-term interests.

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

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

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

In the case of death, the right shall pass to the successors of the beneficiary. In cases of justified temporary leave due to temporary disability, suspension of the contract due to maternity or paternity leave, or leave to care for children or a relative, there shall be no change in the rights of the beneficiary. If the beneficiary goes to another Santander Group company (including through international assignment and/or expatriation), there shall be no change in the rights thereof. If the relationship terminates by mutual agreement or because the beneficiary obtains a leave not referred to in any of the preceding paragraphs, the terms of the termination or temporary leave agreement shall apply. None of the above circumstances shall give the right to receive the deferred amount of the incentive in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred amount of the incentive, it shall be delivered within the periods and under the terms provided in the rules for the plans.
C) REMUNERATION OF DIRECTORS FOR 2019 AND 2020

1. Remuneration of directors in their capacity as such

No changes to the remuneration of directors in their capacity as such for 2019 and 2020 with respect to the remuneration described for 2018 are expected, without prejudice to the fact that shareholders at the 2019 or 2020 annual general meeting may approve an amount higher than the six million euros currently in force, or that the board may determine, within such limit, a different distribution thereof among directors.

2. Remuneration of directors for the performance of executive duties

Remuneration of executive directors shall conform to principles similar to those applied in 2018, with the differences described below.

2.1. Fixed components of remuneration

2.1.1. Gross annual salary

The annual gross fixed remuneration may be revised each year depending on the criteria approved at any given time by the remuneration committee, whereby the maximum increase for 2019 and 2020 for each executive director may not exceed 5% of their annual gross salary for the previous year. Nonetheless, this increase may be higher for one or several directors provided that, when applying the rules or requirements or supervisory recommendations that may be applicable, and if so proposed by the remuneration committee, it is appropriate to adjust their remuneration mix and, in particular, their variable remuneration in view of the functions they perform, without these increases possibly leading to an increase in the total remuneration of these directors for this reason. Should these circumstances arise, they will be described in detail in the corresponding report of the remuneration committee and in the annual report on director remuneration submitted each year to an advisory vote at the general shareholders’ meeting.

2.1.2. Other fixed components of remuneration

No changes planned with respect to 2018.

2.2. Variable components of remuneration

The policy on variable remuneration for executive directors for 2019 and 2020 will be based on much the same principles as in 2018, following the same single-incentive scheme described above, and subject to the same rules of operation and limitations.

(i) Setting the incentive

Variable remuneration for 2019 and 2020 for executive directors shall be determined based on a benchmark incentive approved for each year which takes into account:

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

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

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

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

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

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

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

- When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

(ii) Form of payment of the incentive

No changes in form of payment are planned with respect to the terms in place for 2018.

(iii) Deferred performance-based incentive

The last three annual payments of the deferred amount of each incentive shall be conditional upon, in addition to the terms described in section (iv) below, compliance with the Group’s long-term objectives for at least a three-year period, compliance with which may only confirm or reduce the amounts and number of deferred shares.

Long-term metrics shall at least include objectives relating to value creation and return for shareholders and capital in a multi-year period of at least three years. These metrics shall be aligned with the Group’s strategic plan and reflect its main priorities from its stakeholders’ perspective.

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

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

(iv) Other terms of the incentive

- Accrual of the deferred amounts, including amounts linked to performance, shall also be conditional upon the beneficiary’s continued service in the Group and upon none of the circumstances arising that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group’s remuneration policy, all under terms similar to those indicated for 2018. Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period
set forth in said policy, all under the terms and conditions therein provided.

- The hedging of Santander shares received during the retention and deferral periods is expressly prohibited.
- The effect of inflation on the deferred amounts in cash may be offset.

The sale of shares is also prohibited for at least one year from the receipt thereof.

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances due to internal or external factors, such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies. These adjustments shall be described in detail in the corresponding report of the remuneration committee and in the annual report on director remuneration submitted each year to an advisory vote of the shareholders at the general shareholders’ meeting.

2.3. Holding shares
The share holding policy approved in 2016 shall apply in 2019 and 2020, unless the remuneration committee, under exceptional circumstances such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies, were to propose amendments to this policy to the board. Any potential amendments would be described in detail in the corresponding remuneration committee report and in the annual report on director remuneration submitted each year to an advisory vote at the general shareholders’ meeting.

D) TERMS AND CONDITIONS OF EXECUTIVE DIRECTORS’ CONTRACTS
The terms for the provision of services by each of the executive directors are governed by the contracts signed by each of them with the Bank.

The basic terms and conditions of the contracts of the executive directors, besides those relating to the remuneration, are the following, which include certain amendments envisaged for 2018:

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

Likewise, the contracts of the executive directors provide for certain prohibitions against competition and the poaching of clients, employees and suppliers that may be enforced for two years after the termination thereof for reasons other than pre-retirement or a breach by the Bank. The compensation to be paid by the Bank for this prohibition against competition is, in the case of Ms Ana Botín-Sanz de Sautuola y O’Shea and Mr José Antonio Álvarez Álvarez, 80% of the fixed remuneration of the corresponding director, 40% payable on termination of the contract and 60% at the end of the two-year period. In the case of Mr Rodrigo Echenique Gordillo, the compensation payable by the Bank as of 2018 will be twice his fixed remuneration, 50% payable on termination of the contract and 50% at the beginning of the second year of non-applicability.

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

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

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

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

- Ms Ana Botín-Sanz de Sautuola will be entitled to pre-retirement in the event of leaving her post for reasons other than breach of duty. In this case, she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of her last variable remunerations, to a maximum of three. This allotment shall be reduced by 16% in the event of voluntary termination prior to the age of 60. This allotment is subject to the malus and clawback provisions in place for a period of five years.

- Mr José Antonio Álvarez Álvarez will be entitled to pre-retire in the event of leaving his post for reasons other than his own free will or breach of duty. In that case, he will be entitled to an annual allocation equivalent to the fixed remuneration corresponding to him as a senior executive vice president. This allotment is subject to the malus and clawback provisions in place for a period of five years.

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of the of their executive directors. The annual contributions are calculated in proportion to the respective pensionable bases of the executive directors, and shall continue to be made until they leave the Group or until their retirement within the Group, or their death or disability (including, if applicable, during pre-retirement). The pensionable base for the purposes of the annual contributions for Ms Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez is the sum of fixed remuneration plus 30% of the average of their last three variable remunerations (or, in the event of Mr José Antonio Álvarez’s pre-retirement, his fixed remuneration as a senior executive vice president). Starting in 2018, their contributions will be 22% of the pensionable bases in both cases, instead of the 55% in force until the end of 2017.

The pension amount corresponding to contributions linked to variable remuneration will be invested in Santander shares for a period of five years on the retirement date or, if earlier, the cessation date, and shall be paid in cash after five years have elapsed or, if subsequent, on the retirement date. Moreover, the malus and clawback clauses corresponding to contributions linked to variable remuneration shall be applied for the same period as the bonus or incentive upon which said contributions depend.
The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. As stated in section c) above, the contracts of these directors do not provide for any severance payment in the case of termination other than as may be required by law.

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

In 2018, the supplementary benefits scheme in cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín-Sanz de Sautoula y O’Shea and Mr José Antonio Álvarez Álvarez will be eliminated, which entitles the widow/widower and any children under the age of 25 in the case of death, or the director in case of disability, the right to a pension supplemental to that which they would be entitled to receive from Social Security up to an annual maximum amount equal to their respective pensionable bases, as indicated above in connection with pre-retirement (in Mr Álvarez Álvarez’s case, referring to his fixed remuneration as chief executive officer), with certain deductions. With regard to this change, a fixed remuneration supplement will be attributed to the corresponding executive directors, consisting of a fixed amount in cash, that is exceptional and may not be consolidated, and shall not be considered fixed salary for the purposes of the contract, for determining the pensionable base of the benefits plan, for cases of early retirement, for life insurance or for determining compensation due to post-contractual non-applicability. The Bank will no longer pay the aforementioned amounts if the director ceases to provide their services for any reason different to pre-retirement, or at the ordinary date of retirement (even if the director continues to perform their duties at that time). An insurance premium will be contracted so that, in case of death or disability whilst in active or at pre-retirement, the director or whoever they appoint, will receive the amounts of the fixed remuneration supplement that were to be paid until the retirement date. This change will not represent any increase in costs for the Bank, it is estimated that will mean a cost reduction for the institution that will be reported in the report of remuneration for 2019 and completes the process of reducing the risks arising from the pension obligations mentioned in section 2.3.2 iv).

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

The premiums for 2018 corresponding to this insurance amount to 940 thousand euros, which includes an increase in life insurance coverage for executive directors for which the supplemental benefits scheme will be eliminated in cases of death (death of spouse and death of parent) and permanent disability of serving directors, without increasing the total cost for the Bank, as described in the section above. In 2019 and 2020, these premiums could vary in the event of a change in the fixed remuneration of directors or in their actuarial circumstances.

Similarly, executive directors are covered by the Bank’s civil liability insurance policy.

Finally, executive directors may receive other benefits in kind (such as employee loans) in accordance with the Bank’s general policy and the corresponding tax treatment.

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

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

<table>
<thead>
<tr>
<th>Director</th>
<th>By decision of the Bank (months)</th>
<th>By decision of the director (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautoula y O’Shea</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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

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

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

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

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

Additionally, if the new director comes from an entity that is not part of the Santander Group, they could be the beneficiary of a buyout to offset the loss of variable remuneration corresponding to their prior post if they have not accepted a contract with the Group. According to the buyout policy approved by the board, following a proposal by the remuneration committee, compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders’ meeting. Therefore, authorisation is expected to be sought at the next general shareholders’ meeting to deliver a specified maximum number of shares as part of any hires to which the buyout policy applies.
2.6 Preparatory work and decision-making process with a description of the participation of the remuneration committee and the identity of the external advisors

Remuneration committee
At its meeting of 13 February 2018, the remuneration committee prepared this report, section 2.5 of which contains the remuneration policy for 2018, 2019 and 2020, to be submitted for approval at the annual general shareholders’ meeting of 2018.

Likewise, the committee prepared the annual report on directors’ remuneration for 2017, in accordance with the regulatory model. These two reports were approved by the board at its meeting of 13 February 2018.

The annual report on directors’ remuneration is expected to be submitted for approval at the annual general meeting of 2018 as a separate item of the agenda and on a consultative basis.

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

ANNEX

Below is a report on the deferred variable remuneration payments for financial years prior to 2017.


Deferred and conditional variable remuneration plan
In 2013, 2014, 2015 and 2016, the Bank’s board of directors, at the proposal of the appointments and remuneration committee (or, after their separation, the remuneration committee), approved the third, fourth and fifth cycle of the variable remuneration plan and the first cycle of the deferred variable remuneration plan linked to multi-year targets corresponding to 2013, 2014, 2015 and 2016, respectively, of the executive directors and certain executives (including senior management) and employees whose professional activities have a material impact on the risk profile, who exercise control or receive global remuneration that includes them in the same remuneration bracket as senior management and employees whose professional activities have a material impact on the risk profile (collectively known as the identified staff or material risk takers in accordance with the Guidelines on Remuneration Policies and Practices approved by the Committee of European Banking Supervisors on 10 December 2010 and the Commission Delegated Regulation (EU) 604/2014, of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution’s risk profile). Since these cycles entail the delivery of shares in the Bank, the shareholders at the general shareholders’ meetings of 22 March 2013, 28 March 2014, 27 March 2015 and 18 March 2016, respectively, approved the application of the third, fourth and fifth cycle of the deferred conditional variable remuneration plan and the first cycle of the deferred variable remuneration plan linked to multi-year targets.

The purpose of these cycles is to defer payment of a portion of the variable remuneration or bonus of the beneficiaries thereof for a period of three or five years, in cash and in Santander shares, and to pay upon commencement the other portion of such variable remuneration in cash and in Santander shares (or shares in listed Group subsidiaries), in accordance with the rules described below.
The deferred percentage of the bonus is paid in a period of three or five years, in thirds or fifths, in the fifteen days immediately following the anniversaries of the initial date (date on which the immediate payment is made); payment is 50% in cash and 50% in shares, provided the conditions described below are fulfilled.

In the case of variable remuneration for 2013, 2014 and 2015, accrual of the deferred remuneration was conditional upon continued service of the beneficiary with the Group and upon the absence, in the opinion of the board and at the proposal of remuneration committee, of any of the following circumstances during the period prior to each of the deliveries under the terms set down in the corresponding plan: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, particularly those relating to risks; (iii) material restatement of the Group’s financial statements, when deemed necessary by the external auditors, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group’s economic capital or risk profile.

These circumstances were amended for variable remuneration for 2016, whereby deferred remuneration for this year is conditional, in addition to the beneficiary remains in the Group, on the adequate financial performance of the Bank as a whole or a specific division or area thereof, or of the exposure generated by staff, with at least the following factors being taken into account: significant failures in risk management by the bank, or by a business or risk control unit; an increase in capital requirements at the bank or one of its business units not planned at the time that exposure was generated; regulatory penalties or legal convictions for events that might be attributable to the unit or staff responsible for them. Likewise, failure to comply with the Bank’s internal codes of conduct, improper conduct, whether individual or collective. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

All this, in each case, according to the regulations of the corresponding cycle of the plan.

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

The maximum number of shares deliverable is calculated based on the amount resulting from applying applicable taxes and the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to the date on which the board approves the bonus for the Bank’s executive directors for the relevant years, as detailed in the regulations governing them.

Seeking to mitigate the dilutive effect (and, therefore, not linked to Group performance) that the capital increase with pre-emptive rights completed by the Bank in July 2017 would have on the cycles of the deferred remuneration plans and long-term incentives, an increase in the number of shares to be allocated to beneficiaries was approved, based on a valuation of pre-emptive rights equivalent to their theoretic value, i.e., 0.1047 euros per right. The effect of increasing the number of shares is detailed in of the variable remuneration plans.
## 1. Ms Ana Botín-Sanz de Sautuola y O’Shea

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

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 March 2013</td>
<td>33,120</td>
<td>33,120</td>
<td></td>
<td></td>
<td>-</td>
<td>214</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 March 2014</td>
<td>12,630</td>
<td>60,814</td>
<td></td>
<td>905</td>
<td>61,721</td>
<td>358</td>
</tr>
</tbody>
</table>

### Variable remuneration in 2015 (fifth cycle of deferred conditional variable remuneration plan)

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>317,300</td>
<td>63,460</td>
<td></td>
<td>3,777</td>
<td>257,617</td>
<td>252</td>
</tr>
</tbody>
</table>

### Variable remuneration in 2016 (first cycle of deferred variable remuneration plan linked to multi-year targets)

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 March 2016</td>
<td>592,043</td>
<td>236,817</td>
<td></td>
<td>5,286</td>
<td>360,512</td>
<td>1,205</td>
</tr>
</tbody>
</table>
2. MR JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ

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

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 March 2013</td>
<td>19,561</td>
<td>19,561</td>
<td>-</td>
<td></td>
<td>-</td>
<td>131</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 March 2014</td>
<td>52,484</td>
<td>26,242</td>
<td>-</td>
<td>390</td>
<td>26,632</td>
<td>162</td>
</tr>
</tbody>
</table>

### Variable remuneration in 2015 (fifth cycle of deferred conditional variable remuneration plan)

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>210,914</td>
<td>42,183</td>
<td>-</td>
<td>2,511</td>
<td>171,242</td>
<td>168</td>
</tr>
</tbody>
</table>

### Variable remuneration in 2016 (first cycle of deferred variable remuneration plan linked to multi-year targets)

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 March 2016</td>
<td>399,607</td>
<td>159,843</td>
<td>-</td>
<td>3,568</td>
<td>243,332</td>
<td>814</td>
</tr>
</tbody>
</table>
### 3. MR. MATÍAS RODRÍGUEZ INCIARTE

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

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 March 2013</td>
<td>34,547</td>
<td>34,547</td>
<td>-</td>
<td>-</td>
<td>231</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 March 2014</td>
<td>92,725</td>
<td>46,363</td>
<td>-</td>
<td>690</td>
<td>47,052</td>
<td>287</td>
</tr>
</tbody>
</table>

**Variable remuneration in 2015 (fifth cycle of deferred conditional variable remuneration plan)**

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>216,671</td>
<td>43,334</td>
<td>-</td>
<td>2,579</td>
<td>175,916</td>
<td>172</td>
</tr>
</tbody>
</table>

**Variable remuneration in 2016 (first cycle of deferred variable remuneration plan linked to multi-year targets)**

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 March 2016</td>
<td>352,455</td>
<td>140,982</td>
<td>-</td>
<td>3,147</td>
<td>214,620</td>
<td>718</td>
</tr>
</tbody>
</table>

### 4. MR RODRIGO ECHENIQUE GORDILLO

**Variable remuneration in 2015 (fifth cycle of deferred conditional variable remuneration plan)**

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>156,233</td>
<td>31,247</td>
<td>-</td>
<td>1,860</td>
<td>126,846</td>
<td>124</td>
</tr>
</tbody>
</table>

**Variable remuneration in 2016 (first cycle of deferred variable remuneration plan linked to multi-year targets)**

<table>
<thead>
<tr>
<th>Implementation date</th>
<th>Shares 01/01/2017</th>
<th>Shares delivered in 2017</th>
<th>Shares retired in 2017</th>
<th>Shares due to July 2017 capital increase</th>
<th>Shares pending delivery at 31/12/2017</th>
<th>Cash paid in 2017 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 March 2016</td>
<td>295,972</td>
<td>118,389</td>
<td>-</td>
<td>2,643</td>
<td>180,226</td>
<td>603</td>
</tr>
</tbody>
</table>
### 3. Remuneration of non-director members of senior management

At its meeting of 29 January 2018, the committee agreed to propose to the board of directors the approval of the variable remuneration for 2017 of members of senior management who are not directors. The committee’s proposal was approved by the board at its meeting of 30 January 2018.

The Bank’s general remuneration policy was applied in order to determine this variable remuneration, as well as the specificities corresponding to senior management. In general, their variable remuneration packages were calculated on the following basis:

<table>
<thead>
<tr>
<th>Category and weighting</th>
<th>Quantitative metrics</th>
<th>Qualitative assessment</th>
</tr>
</thead>
</table>
| Customers (20%)        | • Customer satisfaction  
                          • Number of loyal customers | • Effective compliance with the objectives of the rules on risk conduct in respect of customers |
| Risks (10%)            | • Non-performing loans ratio  
                          • Cost of lending ratio | • Appropriate management of risk appetite and excesses recognised  
                          • Adequate management of operational risk |
| Capital (15%)          | • Capital ratio (CET1) | • Efficient capital management |
| Shareholders (80%)     | • Ordinary net profit (ONP)*  
                          • RoRWA: return on risk weighted assets | • Suitability of business growth compared to the previous year, considering the market environment and competitors  
                          • Sustainability and solidity of results  
                          • Efficient cost management and achievement of efficiency goals |

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

The table below shows the amounts of short-term remuneration (immediately payable) and deferred remuneration (excluding that linked to multi-year targets) for members of senior management at 31 December 2017 and 2016, excluding that corresponding to the executive directors shown previously:
The following table shows a breakdown of the salary remuneration linked to multi-year targets for members of senior management at 31 December 2017 and 2016. This remuneration will only be received if the terms of continued service, non-applicability of the malus clauses, and compliance with long-term goals are met in the corresponding deferral periods.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of people</th>
<th>Thousands of euros¹</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>In cash</td>
<td>In shares</td>
</tr>
<tr>
<td>2017</td>
<td>19</td>
<td>4,255</td>
<td>4,255</td>
</tr>
<tr>
<td>2016</td>
<td>18</td>
<td>3,933</td>
<td>3,933</td>
</tr>
</tbody>
</table>

¹ In 2017, this corresponds to the fair value of the maximum annual payments for 2021, 2022 and 2023 of the second cycle of the deferred variable remuneration plan linked to multi-year targets. In 2016, this corresponds to the estimated fair value of the maximum annual payments for 2020, 2021 and 2022 of the first cycle of the deferred variable remuneration plan linked to multi-year targets.

Additionally, those senior executive vice presidents that ceased to carry out their duties in 2017 and who were not members of senior management at year-end, received salary remuneration and other remuneration relating to the cessation of their duties for a total amount of 5,237 thousand euros during the year (4,064 thousand euros for those leaving their posts in 2016), while maintaining their long-term salary remuneration rights for a total amount of 999 thousand euros (523 thousand euros for those leaving 2016).

In 2017, the ratio between the variable components of remuneration to the fixed components was 95% of the total for senior executive vice presidents, in all cases respecting the upper limit of 200% set by the shareholders.

See note 5 of the Group’s 2017 annual financial statements for further details.
4. Prudentially significant disclosures document

The Board of Directors is responsible for approving, at the proposal of the Remuneration Committee, the key elements of the remuneration of managers or employees who, while not belonging to senior management, take on risks, carry out control functions (i.e. internal audit, risk management and compliance) or who receive global remuneration that places them in the same remuneration bracket as senior management and employees who take on risk, and whose professional activities may have an important impact on the Group’s risk profile (all of these together with the senior management and the Company’s Board of Directors form the so called Identified Staff or Material Risk Takers).

Every year, the remuneration committee reviews and, if applicable, updates the composition of the identified staff in order to identify the persons within the organisation who fall within the previously mentioned parameters. The Remuneration Policies chapter of the 2017 Pillar III disclosures report17 describes the criteria used for identifying staff and the applicable regulation for the same purpose.

According to these criteria, at year-end 2017, this group comprised 1,255 executives across the Group (including executive directors and non-director senior managers), accounting for 0.62% of total staff.

The directors within the identified staff other than executive directors are subject to the same remuneration standards applicable to the latter (described in sections 2.3.2 and 2.5), except for:

- The various deferral percentages and terms that apply based on their category.
- The possibility that in 2017 the deferred part of the incentive of certain categories of managers is not conditional upon performance but only to the malus clause.
- As happened with the bonuses in previous years, the variable remuneration amount that is paid or deferred in shares to the executives of the Group in Brazil, Chile, Mexico, Poland, and Santander Consumer USA is delivered in shares or similar instruments of their own entities.

In the financial year 2018, the board of directors will maintain its flexibility for agreeing total or partial payment in shares or similar instruments of Banco Santander and/or the respective subsidiary in the proportion it considers appropriate in each case (subject, in any event, to the maximum number of Santander shares to be delivered as agreed by shareholders at the general meeting and any regulatory restrictions applicable in each jurisdiction).

The aggregate amount of the 2017 variable remuneration of identified staff, the amounts deferred in cash and in instruments and the ratio between the variable components of remuneration to the fixed components are detailed in the remuneration policies chapter of the 2017 Pillar III disclosures report mentioned above.

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17 The 2017 Pillar III disclosures report is published at www.santander.com
5. Self-assessment

Annual assessment of the functioning and performance of the committee
Pursuant to article 19.4.g) of the Rules and Regulations of the Board, and as part of its annual assessment, at its meeting of 29 January 2018, the remuneration committee assessed its operations, the quality of its work throughout 2017 and its performance of the tasks assigned to it in the Bank’s Bylaws and the Rules and Regulations of the Board. The assessment was carried out in collaboration with an external consultant, whose independence was verified by the appointments committee.

As a result of this assessment, it was concluded that the committee effectively performed its functions in supporting and advising the board, having held an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making. Furthermore, the reporting to the board on remuneration issues was considered to be adequate.

Moreover, the external consultant made positive comments with respect to the autonomy and independence of the committee, and noted its high level of engagement and commitment. They also commented positively on the willingness of its members, both individually and as a group, to challenge executives and to hold them accountable. Lastly, coordination and communication with other committees was considered to be satisfactory, especially with the risk supervision, regulation and compliance committee, which has made information sharing more efficient and has enabled remuneration to be brought into line with the risk policy.

Fulfilment of the goals set by the committee for 2017
In 2017 the remuneration committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2016.

The committee continued to bring the compensation structures and mechanisms into line with the corporate culture (simple, personal and fair), thereby enhancing the Bank’s ability to attract and keep professionals and increase their level of commitment.

The committee has also continued developing remuneration policies in line with international best practices, that foster diversity without incurring in any kind of discrimination and facilitate recognition of the best contributions.

In this regard, action plans were submitted at the committee meetings held in June and November 2017 for the purpose of implementing two projects that cover the areas for improvement identified: (i) continue focusing on the simplification and transparency of the remuneration structures, to the extent possible, in order to ensure that employees understand them and feel motivated; and (ii) pay greater attention to salary imbalances as a result of gender and any associated remuneration policies.

With regard to the first goal, a project was launched to identify the remuneration structures, on a global level, and employees’ opinion of these structures, to enable the committee to assess their effectiveness. Additionally, certain improvements have been made, such as the elimination of certain benefits or the alignment of the pension contributions with market practice. With regard to the second, the Human Resources Department carried out a global analysis of any salary imbalances that may exist as a result of gender. The committee approved the main actions that were implemented to reduce these imbalances, and agreed to review annually the situation and of the improvement plans on a global and local level.

The committee consolidated collaboration with the risk supervision, regulation and compliance committee in the establishment of remuneration policies and practices that take into account the long-term interests of shareholders, investors and other stakeholders and, in particular, the analysis of the criteria used to determine compensation and the ex ante risk adjustment.

Among other measures, the remuneration committee held joint meetings with the risk supervision, regulation and compliance committee, at which they analysed the risk adjustment in the determination of the bonus pools, the remuneration schemes for the commercial banking sales team and the local action plans defined to cover the areas for improvement identified.
6. Challenges in 2018

The committee's self assessment identifies the following areas to enable it to continue to strengthen its performance in 2018:

- Increase supervision of the application of the corporate remuneration policy at the Group’s most significant subsidiaries, in coordination with their respective remuneration committees.

- Continue developing and implementing internal policies and plans for the purpose of reducing salary imbalances that may exist as a result of gender.

- Consolidate collaboration with the risk supervision, regulation and compliance committee and the audit committee, in verifying that the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability of and opportunity for profit, and, with regard to supervising the compliance function, and in the annual assessment of the performance of the heads of the control functions.

This report was prepared by the remuneration committee on 12 February 2018 and approved by the board of directors on 13 February 2018.
Report of Risk supervision, regulation and compliance committee 2017

1. Introduction
2. Activities in 2017
3. Self-assessment
4. Challenges in 2018
1. Introduction

**Regulation**

In compliance with applicable legislation as a listed company and credit institutions, the bylaws contain the basic rules and regulations for the risk supervision, regulation and compliance committee, which are supplemented and further developed by the Rules and Regulations of the Board and which define the committee's composition, operation and powers. In addition to meeting legal requirements, the committee rules and regulations adhere to the main principles and recommendations established in the Good Governance Code of Listed Companies of the National Securities Market Commission of February 2015 and the corporate governance guidelines for banks of the Basel Committee on Banking Supervision of July 2015, thereby reinforcing its specialist and independent nature.

The rules and regulation of the risk supervision, regulation and compliance committee also adhere to the guidelines established in the EBA “Guidelines on internal governance under Directive 2013/36/EU”, published on 26 September 2017, which will come into force on 30 June 2018.

**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 aligning it with the recommendations and best practices published in 2017 by different Spanish and international bodies. The changes to the rules and regulations governing the functions and responsibilities of the risk supervision, regulation and compliance committee are as follows:

- The role of the committee supervisor is strengthened with respect to risk and compliance functions, as these will now report to the committee, while continuing to report periodically to the board and maintaining direct access thereto when deemed necessary.

- The committee has also been allocated the responsibility of reporting the proposals made by the appointments committee in relation to the appointment of the heads of each of these corporate functions (Group Chief Risk Officer (CRO) and Group Chief Compliance Officer (CCO)), and performing annual assessments thereof, which will be submitted to the remuneration committee and the board in order to establish their variable remuneration.

- It has also been tasked with the responsibility of supervising the existing whistleblowing mechanism that allows Group employees to confidentially and anonymously report any breaches in regulatory or internal governance requirements.

- The committee’s power to summon the bank’s management team or employees to attend its meetings is expressly regulated, in addition to the power to contract external advisors with a charge to the company, when necessary.

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1. The rules and regulations of the committee are set down in article 54 ter of the bylaws and article 20 of the Rules and Regulations of the Board. Articles 3.2 and 15 of these rules and regulations also contain specific provisions regarding certain aspects of its activity. The bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group’s corporate website (www.santander.com).
Duties

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

1. Risk:
   - Support and advise the board in defining and assessing the risk policies affecting the Group and in determining the current and future risk appetite, and the strategy and culture in this regard, in addition to proposing any appropriate changes given the internal and external circumstances affecting the Group.
   - Help the board in supervising implementation of the established risk strategy, appetite and limits and their alignment with the Group’s strategic plans, targets, culture and corporate values.
   - Ensure that the pricing policy of the assets, liabilities and services offered to customers fully takes into consideration the business model, risk appetite and risk strategy of the bank, and if this is not the case, present a plan to rectify this situation to the board of directors.
   - Ascertain and measure the risks resulting from the macroeconomic environment and economic cycles pertaining to the activities of the bank and its Group.
   - Systematically review the exposures of major customers, economic sectors, geographical areas and types of risk.
   - Supervise the risk function and, in particular:
     i. Report the appointments committee’s proposals for the head of the risk function (Chief Risk Officer or CRO).
     ii. Ensure the independence and efficacy of the function.
     iii. Ensure that the function has the material and human resources that it requires.
     iv. Receive regular information on its activities, including possible deficiencies detected and breaches of established risk thresholds, and
     v. Annually assess the risk function and the performance of the CRO, which will be transmitted to the remuneration committee and the board in order to establish his/her variable remuneration.
   - Support and assist the board in conducting stress tests. In particular, assessing the scenarios and assumptions to be used in such tests, analysing the results and the measures proposed by the risk function as a result.
   - Ascertain and assess the management tools, improvement initiatives, project implementation and any other relevant activity linked to risk control, including the policy on internal risk models and the internal approval thereof.
   - Help establish rational remuneration policies and practices. For this purpose, without prejudice to the duties of the remuneration committee, the committee examines whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability and opportunity of profit. In conjunction with the remuneration committee, the committee will also conduct a subsequent analysis of the criteria used to determine compensation and the ex-ante risk adjustment, based on how risks previously assessed actually materialised.

2. Capital and liquidity:
   - Assist the board in approving the capital and liquidity strategies and supervise their implementation.

3. Compliance and conduct
   - Supervise the compliance function and, in particular:
     i. Report the appointments committee’s proposals for the head of the compliance and conduct function (Chief Compliance Officer or CCO).
     ii. Ensure the independence and efficacy of the function.
     iii. Ensure that the function has the material and human resources that it requires.
     iv. Receive periodic information on its activities.
     v. Regularly evaluate how the bank’s compliance programme works, its governance regulations and the compliance function, and make any necessary proposals for improvement and annually assess the performance of the CCO, which will be transmitted to the remuneration committee and the board in order to establish his/her variable remuneration.
   - It will also supervise the operations of and compliance with the corporate defence model approved by the board in line with article 3.2 of its rules and regulations. To perform this task, the committee will have independent powers of initiative and control. These include, but are not limited to, the power to collect any information it deems necessary and call on any Group manager or employee, particularly the heads of the compliance function and the different committees that operate in this area to assess their performance, in addition to the power to initiate and direct any internal investigations it deems appropriate on events relating to a potential breach of the aforementioned criminal risk prevention model.

The committee will also periodically assess the operation of this model and its efficacy in preventing or mitigating criminal offences, seeking external advice when deemed appropriate, and proposing to the board of directors any changes in the corporate defence model and, in general, the compliance programme, that it deems appropriate based on this assessment.
vi. Report approvals and modifications of the compliance policy, the General Code of Conduct, anti money laundering and terrorist financing manuals, and all other sector codes and rules that must be approved by the board of directors, ensuring that they are aligned with the corporate culture and overseeing compliance therewith.

vii. Establish and supervise a mechanism to allow Group employees to confidentially and anonymously report any breaches of regulatory or internal governance requirements, real or potential, using special procedures to receive and monitor reports that guarantee the employee’s protection.

viii. Receive information and, where applicable, issue reports concerning any disciplinary measures applied to members of senior management, and

ix. Supervise the implementation of actions and measures that are the result of reports and inspections by the administrative supervisory and control authorities.

4. Relations with stakeholders, sustainability and communication:
   - Supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized investors, as well as to supervise and assess the processes for relations with the various stakeholders.
   - Review the company’s corporate social responsibility policy, ensuring that it is aimed at the creation of value for the bank, and monitoring of the strategy and practices in this field, evaluating the level of adherence thereto.
   - Coordinate the process of communication of non-financial and diversity information, in accordance with applicable regulations and leading international standards.

5. Corporate governance and internal governance:
   - Support and advise the board in the area of the corporate governance policy and internal governance of the bank and the Group, and periodically assess the adequacy of the bank’s corporate governance system, to ensure it fulfils its mission of promoting social interest and takes into account, as appropriate, the legitimate interests of the remaining stakeholders.
   - Report proposals for modifying the Rules and Regulations of the Board prior to their approval by that body.

6. Regulation and relations with supervisors:
   - Support and advise the board in its relations with supervisors and regulators in the various countries where the Group operates.
   - Monitor and assess the regulatory proposals and new regulations that may be applicable and their potential consequences for the Group.

### Composition of the committee

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

**Chairman**

Mr Bruce Carnegie-Brown  
(independent director)  
He became chairman on joining the committee in 2015

**Members**

Mr Ignacio Benjumea  
Cabeza de Vaca  
(non-executive director, nor independent)  
Joined the committee in 2015

Mr Guillermo de la Dehesa Romero  
(non-executive director, nor independent)  
Joined the committee in 2014

Ms Belén Romana García  
(indirect director)  
Joined the committee in 2016

Ms Esther Giménez-Salinas i Colomer  
(indirect director)  
Joined the committee in 2016

Mr Ramiro Mato García-Ansorena  
(independent director)  
Joined the committee in 2017

**Secretary**

Mr Jaime Pérez Renovales  
general secretary and board secretary)
In 2017, the committee’s composition changed as follows:

- On 26 June 2017, the bank’s board of directors, at the proposal of the appointments committee, agreed to appoint Ms Esther Giménez-Salinas as member of the committee, in place of Mr Juan Miguel Villar Mir, who stepped down as a member of the committee at the same date.

- On 28 November 2017 the board of directors of the bank, also at the proposal of the appointments committee, resolved to appoint Mr Ramiro Mato García-Ansorena as member of the committee, in place of Ms Isabel Tocino Biscarolasaga, who stepped down as director at the same date.

- Mr Carlos Fernández González resigned as member of the committee on 28 November 2017 and joined the remuneration committee on the same date.

The bylaws and Rules and Regulations of the Board provide that the risk supervision, regulation and compliance committee be comprised by a minimum of three and a maximum of nine directors, all of which must be external or non-executive, with a majority of independent directors, and that it be chaired by an independent director. At present, all six members of the committee are non-executive directors, and four of them (including the chairman) are independent.

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

For further information on the skills, knowledge and experience of each of the committee member, see the corporate governance section of the Group’s corporate website (www.santander.com).

The post of secretary to the committee corresponds, in a non-voting capacity, to the secretary to the board of directors, who is also the bank’s senior executive vice president of the General Secretariat and Human Resources, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.

### Committee meetings: meetings attended by members and dedication

The risk supervision, regulation and compliance committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings, and an annual work plan. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman.

In 2017, the audit committee held 12 meetings. Attendance was as follows:

### NUMBER OF MEETINGS AND ATTENDANCE*

<table>
<thead>
<tr>
<th>Director</th>
<th>Meetings/Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>12/12</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>12/12</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>11/12</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>10/11</td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
<td>12/12</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
<td>11/11</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>4/6</td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas</td>
<td>6/6</td>
</tr>
<tr>
<td>Mr Ramiro Mato García-Ansorena</td>
<td>1/1</td>
</tr>
</tbody>
</table>

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

In 2017, the average estimated time dedicated by each committee member to preparing for and participating in meetings was approximately ten hours per meeting, with the chairman estimated to have spent double that time per meeting.

The following chart shows a breakdown of the approximate time spent by the committee in carrying out the key functions described above in 2017:

![Chart showing time spent on various functions]
How the committee works

The rules governing the committee establish the valid constitution thereof, with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees, either present or represented, and the chairman has the deciding vote in the event of a tie.

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documentation) is provided to committee members sufficiently in advance to the meeting date, using the channels available for this purpose, which ensure the confidentiality of the information.

The committee has the power to require any of the bank’s managers or employees to attend its meetings, who must accept any invitation from the chairman to attend under the terms stated therein. As reflected in the summary of activities below, the committee is in constant and seamless contact with the heads of the Risks division, particularly with the Group Chief Risk Officer and the Group Chief Compliance Officer, who regularly attend committee meetings and supply the information required of them, without prejudice to the fact that, as independent units, they report regularly to the board of directors and have direct access thereto whenever they need it. Other Group managers heading up areas that carry out functions supervised by this committee also attend meetings, to report on any items on the agenda they are required to do so.

The committee may contract legal, accounting or financial advisors or other experts, with a charge to the bank, to assist in the exercise of its functions.

Pursuant to section 10 of article 20 of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee holds regular meetings with the audit committee and with the remuneration committee, so as to facilitate an exchange of information and the effective supervision of all risks affecting the Group. In 2017, a meeting was held with the audit committee (on 23 June 2017), and two meetings were held with the remuneration committee (on 17 July 2017 and 18 December 2017).

Without prejudice to the fact that the committee reports on the content of its meetings, through its chairman, at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.
2. Activities in 2017

This section contains a summary of the risk supervision, regulation and compliance committee’s activities in 2017, classified in accordance with its basic functions.

2.1 Risks

To comply with the duties and functions attributed to this committee, the Risk division regularly presented the committee with both a comprehensive overview of the risks, and specific analyses by unit and risk type, as well as various proposals, matters and projects relating to risk management and control, including a review of risk appetite.

This information and analysis is supplied to effectively provide the board with the advice that it needs in its decision-making duties, and to help it carry out its supervisory function.

Governance

The governance of the risk function aims to provide a suitable and efficient decision-making process and effective control over all risks, and ensures that they are managed in accordance with the level of risk appetite set by each unit.

In 2017, the board approved a general risk framework that replaces the previous corporate frameworks in this area (risk appetite, credit risk, model risk, market risk, structural and liquidity risk, operational risk and risk information and data), to provide knowledge, understanding, effective application and integration in the management of these governance regulations.

Comprehensive overview of the Group’s risks

With a view to providing the committee with a comprehensive overview of all the risks, a monthly Group risk report is presented, containing a full outline of all the risks identified in the risk map. The report is aimed at showing the main points of attention which the risk consolidation area considers to be relevant.

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

Overview by risk type

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

- **Credit risk**: monitoring of the risk profile by segment and country.
- **Market trading risk**: the most notable aspects in regard to the management of trading books (risk profile, organisation of the function in the Group, measurement and analysis method, among others) and aspects requiring special attention (liquidity risk, model risk and operational risk associated with market activity).
- **Structural and capital risks**: monitoring of liquidity, financial interest rate and exchange rate structural risk across the Group; monitoring of the capital profile (in addition to the monitoring carried out by the Group’s capital committee).
- **Operational risk**: monitoring of losses, status of the AORM—advance operational risk management—project and strategy, model, plans, events, priorities and actions in relation to cyber-security.
- **Compliance risk, conduct risk, anti money laundering and terrorist financing**: see section 2.3 of this report. The committee verifies that, in line with the Group’s risk culture, the bank treats its customers, markets, employees and society at large fairly.
- **Model risk**: monitoring progress in the concept and model of management and control thereof.
- **Strategic risk**: monitoring of the events effecting the conduct of the business and compliance with the Group’s strategic goals.

Overview by unit

In order to facilitate a proper view of risk in the various units, the committee is informed in regard to the risk profile of the Group’s main units. The reports generally contain an overview of the macroeconomic environment in which the respective unit operates, a comprehensive look at all the risks, monitoring of the unit’s risk appetite, the main points of attention considered relevant by the risk function, potential and emerging risks, and proposed risk mitigation actions.
**Risk appetite**
In 2017, the committee paid particular attention to formulating, establishing and monitoring risk appetite (risk appetite framework - RAF and the risk appetite statement), including proposals for new metrics. The Group’s risk appetite was reviewed on a quarterly basis, and remained within established levels.

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

The committee was informed in regard to other matters relating to the proper management and control of risks within the Group, most notably:

(i) **Risk Identification and Assessment (RIA):** The bank performs a corporate test called Risk Identification & Assessment (RIA) as part of its ordinary management procedures. This exercise allows the main risks affecting the different areas where the entity operates, the associated control environment and the factors that could eventually pose a threat to the Group achieving the targets of its strategic plan, to be identified, assessed and evaluated.

(ii) **Advanced Risk Management (ARM) programme:** A report was made to the committee on the successful completion of Group’s advanced risk management programme, the purpose of which was to implement an advanced risk management model in the Group for the identification and integrated management of all risks, and facilitate compliance with new regulatory requirements.

(iii) **Risk and Control Self-Assessment (RCSA):** The operational risk self-assessment is one of the main tools to control this risk and consists of analysing the processes underlying the Group’s various operations and quantifying their main risks and vulnerabilities. The committee is periodically apprised of the conclusions of the RCSA.

(iv) **Advanced Operational Risk Management (AORM) programme:** The Group’s head of operational risk reported periodically to the committee regarding the progress of the AORM programme, one of the main initiatives for improving operational risk management and control within the Group. This programme, which was completed in 2017, kicked off in 2014 with the aim of raising operational risk management capacity within an advanced risk management approach, contributing to reducing the future exposure levels and losses.

(v) **Advanced cyber risk plan:** In 2017, the committee continued to pay special attention to cyber-security risk, considered to be one of the bank’s main non-financial risks. The committee was informed of the most serious vulnerabilities and threats and the cyber-security plans existing within the Group, which include preventive measures against attacks of this nature, which are updated to defend it from emerging risks.

Therefore, the committee informed of the preparation a new corporate cyber-security framework, based on the principles of defence, anticipation and collaboration, which was approved by the board of directors, the start up of the Group cyber-security response and transformation plan, which sets targets for the next two years, and the appointment of a new global head of cyber-security and technology risk, which strengthens the Group’s governance in the area of cyber risk management and control.

(vi) **Recovery Plan:** As part of its risk management tools, the bank keeps its corporate viability plan (or recovery plan according to the wording of Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services firms) up to date in order to assess the Group’s reactions and viability in scenarios of severe stress. The most important part of this plan includes the options that would be available to the entity to overcome an extremely adverse crisis situation without external assistance.

The Group Chief Financial Officer presented the 2017 Recovery Plan to the committee for discussion. After being endorsed by the committee it was submitted to and approved by the board of directors at its meeting of 26 September.

(vii) **Project to implement IFRS 9:** In 2017, the committee was informed of the progress made on the plan to implement this accounting standard that has been in force since 1 January 2018, indicating that the established implementation periods are expected to be met. The target of increasing training and commitment among staff to learn about the implications of the new standard and include them in their day-to-day business activities was reiterated.

(viii) **Project to implement MIFID II:** During 2017, the Group Chief Compliance Officer reported to the committee about the status, context and risks of the project to implement MIFID II across the Group. This project was initiated in 2015, and its key components were implemented at year-end 2017. Some of the investment and market components will come into play during the course of 2018.

(ix) **Corporate transactions:** The committee was informed of the different risks associated with the main corporate transactions analysed by the bank, in addition to the different mitigating measures proposed to address these.

(x) **Capital plan (ICAAP) and liquidity plan (ILAAP):** These are described in section 2.2 below.
**P-20 strategic plan (3-year plan, 2018 to 2020)**
The committee also helped the board in supervising the risk strategy and its alignment with the strategic plan.

The P-20 was presented to the committee for discussion. After being endorsed, it was submitted to and approved by the board of directors at its meeting of 28 November. This plan is one of the Group’s management tools and provides the framework for developing three-year business plans (in the case of P-20, from 2018 to 2020) for all units and the consolidated Group. This is a bottom-up exercise in which all the Group’s units prepare their own three-year plans, which must be aligned with the risk appetite and the liquidity and capital plans of each unit and of the Group. Based on these local plans, a corporate plan is developed, which covers, in qualitative terms and for the entire Group, the management priorities and projects for the next three years and, in quantitative terms, a financial plan for that period.

**2.2 Capital and liquidity**

**Capital plan (ICAAP)**
In 2017, the committee evaluated the annual capital self-assessment report, which was discussed and, once endorsed by the committee, submitted to and then approved by the board at its meeting of 25 April.

The report was prepared by the Finance division and the Risk division in accordance with industry best practices and supervisory guidelines.

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

Moreover, a capital plan is drawn up in accordance with the scenarios envisaged over a three-year time frame.

**Pillar III disclosures**
At its meeting of 17 February 2017, the committee endorsed the Pillar III disclosures report, which was approved by the board, highlighting the fact that, pursuant to section eight of Regulation (EU) 575/2013 of the European Parliament and the Council, of 26 June 2013, on prudential requirements of credit institutions, this document describes in qualitative and quantitative detail various aspects of the Group’s management of capital and risks: overview of the function and management of capital; base capital and prescribed capital requirements; policies for managing the various risks undertaken by the bank, from the standpoint of capital consumption; composition of the Group’s portfolio and its credit quality, measured in terms of capital and roll-out of advanced internal models.

**Liquidity Plan (ILAAP)**
In 2017, the committee evaluated the liquidity plan, which was discussed and, once endorsed, submitted to and approved by the board at its meeting of 25 April.

The liquidity plan is an internal self-assessment process of the Group’s liquidity adequacy, which must be integrated with the rest of strategic processes, such as the ICAAP, risk appetite or strategic plans. The adequacy of available liquidity is usually examined over a time frame, taking into account not only stressed scenarios, but also quantitative (metrics and ratios) and qualitative aspects (governance, policies and procedures). The ILAAP has also been developed in the context of the Group’s business model and new culture.

**2.3. Compliance and conduct**

The compliance function, represented by the Group Chief Compliance Officer, attended 10 of the 12 meetings held by the committee in 2017 to report on matters within its sphere of competency.

**Compliance programme**
In 2015, the new target operating model (TOM) was approved, involving a plan to transform the compliance function over a three-year term, in order to situate it as an independent control function in second line of defence, in accordance with the expectations of supervisory bodies and the Group’s organisational models comprising three lines of defence.

In 2017, the TOM was rolled out at corporation level and in the different units, in line with the established schedule, and delivery is expected to be completed in late 2018.

**Regulatory compliance**
The Group Chief Compliance Officer reported to the committee on the implementation of the 2016 annual regulatory risk assessment, the objective of which is to identify and assess regulatory compliance risks and propose improvements to the decision-making process.

Additionally, the committee was informed about the Group’s corporate defence model, which comprises a system of policies, procedures and controls aimed at corporate defence. In 2017, this model was reinforced, including, among other initiatives, training courses at different levels. Three management indicators have also been established, relating to (i) the number of communications received through the Group’s whistleblowing channels; (ii) training on the General Code of Conduct; and (iii) irregularities presented to committees and the corresponding sanctions imposed.
Product governance and consumer protection
On 27 March 2017, the committee was presented with the annual report from the Santander Group’s customer services department, explaining its work in 2016, in line with the minimum content provided in article 17 of Finance Ministry Order ECO/734/2004, of 11 March, and in article 37 of the regulations of the Santander Group customer services department. This report was submitted to the board of directors.

Additionally, the committee was informed of some of the conclusions reached from the activities carried out by the product governance and consumer protection unit, highlighting the implementation of the new corporate marketing framework for products and services and consumer protection, approved in December 2016, establishing robust governance for approving and monitoring new products.

At the joint meeting with the remuneration committee on 17 July, the overall conclusions from the review of the governance and remuneration schemes for retail and commercial banking in the Group’s main units and retail segments were presented - from the standpoint of managing conduct risk in marketing.

Anti money laundering and terrorist financing
In 2017, the committee was presented with the annual monitoring report by the external expert required under article 28 of Law 10/2010, of 28 April, on anti money laundering and terrorist financing, and article 38 of Royal Decree 304/2014, of 5 May. This report was also submitted to the board of directors.

Reputational risk
Reputational risk was added to the Group’s risk map in July 2014 and has been managed since it was assigned to the compliance function as a first level risk and, accordingly, following the process to redefine the compliance and conduct function, has been included in the corporate compliance framework approved in December 2015 and reviewed in 2017.

In 2017 the committee was informed of the first reputational risk appetite proposal, subsequent to its approval by the compliance and conduct committee and the executive risk committee, completing coverage of the Group’s appetite for reputational risk.

In order to provide an overview of reputational risk within the Group, the Group Chief Compliance Officer reported to the committee on the management of reputational risk, including information relating to events, country supervision and projects in the area of reputational risk.

Annual compliance report
At the committee meeting of 24 April 2017, the Group Chief Compliance Officer presented the annual compliance report, prepared in accordance with the requirements of Spanish National Securities Market Commission Circular 1/2014, of 3 April, on internal organisation requirements and control functions of entities which provide investment services.

In order to provide a broad and detailed vision of the compliance and conduct function, in both the corporation and the organisational unit in Spain, annual reports have been prepared for each to meet the requirements of rule five, section 4 of this Circular. Consequently, the Group’s report comprises both these documents, which should be considered jointly.

Communications received from supervisors and regulators and the regulatory environment
In 2017, the Group Chief Compliance Officer made monthly reports to the committee on the most relevant communications received from supervisory bodies in the area of compliance and conduct, in addition to the main sanctions imposed on Group entities.

The committee was also informed of the new regulations identified by the regulatory radar and the most significant internal and external events.

Treasury shares
The compliance department reports to the committee in regard to the bank’s treasury shares, which comply with applicable regulations.

2.4. Sustainability, communication and relationship with stakeholders

Corporate social responsibility
In 2017, the committee was apprised of the application of Group policies in the area of corporate social responsibility and sustainability. It was also informed in regard to the position and results of the bank in 2016 on the Dow Jones Sustainability Index, the relevant aspects for investors and analysts in this regard, and progress in the metrics of contribution to and social impact on the community and of the Group’s financial inclusion and volunteer programmes.

In connection with the environment, the plans to reduce the internal footprint were presented, in addition to the Group’s activities in the area of climate finance with the aim of identifying potential risks and opportunities from the transition to a low-carbon economy and defining a strategy of transition towards an increasingly environmentally-friendly economy.
2.5. Corporate governance and internal governance

Rules and Regulations of the Board
On 29 January 2018, the committee reported favourably on the proposed amendment to the Rules and Regulations of the Board, in order to adapt them to (i) the 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, both published on 26 September 2017, which will come into force on 30 June 2018.

Further, the creation of a new responsible banking, sustainability and culture committee was approved, which is governed by article 21 of the Rules and Regulations of the Board. The purpose of this committee is to assist the board in this area, in particular, providing advice on preparing and reviewing the corporate culture and values and on its relations with various stakeholders, especially with employees, customers and communities with which the Group carries out its activities. As long as the new committee is not formally constituted, its functions will continue to be carried out by the risk supervision, regulation and compliance committee.

This change to the Rules and Regulations of the Board represents a new development in strengthening its corporate governance system and shows the Group’s commitment to complying with the highest corporate governance standards at all times.

Annual corporate governance report
A more detailed account of the bank’s corporate governance rules and procedures is provided in the section on corporate governance included in the Group’s annual report and in the annual corporate governance report for 2017, which is prepared in accordance with the Spanish Limited Liability Companies Law, Order ECC/2575/2015, dated 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and Circular 5/2013, dated 12 June, issued by the Spanish Securities Market Commission (as amended by Circular 7/2015, of 22 December), establishing model annual corporate governance reports for listed corporations, savings banks and other entities that issue securities accepted for trading in official securities market.

On 12 February 2018 the committee assessed the suitability of the bank’s corporate governance system, concluding that the board fulfils its mission of promoting social interest and takes stakeholders’ interests into account, thereby ratifying the content of the 2017 annual corporate governance report.

Corporate Governance Roadshow
During 2017 the committee was informed of the different meetings held with institutional investors in Europe, Canada and the US between October 2016 and March 2017 to explain the main initiatives implemented by the board in the area of corporate governance. The overall investors’ response was positive, reporting a positive perception of the improvements made in this sphere since 2015.
3. Self-assessment

- **Annual assessment of the functioning and performance of the committee**

Pursuant to article 20.4.q) of the Rules and Regulations of the Board, and as part of its annual assessment, at its meeting of 29 January 2018, the risk supervision, regulation and compliance committee assessed its operations, the quality of its work throughout 2017 and its performance of the tasks assigned to it in the bank’s bylaws and the Rules and Regulations of the Board. The assessment was carried out in collaboration with an external consultant, whose independence was verified by the appointments committee.

As a result of this assessment, it was concluded that the committee effectively performed its functions in supporting and advising the board, having held an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making. Further, the reporting to the board on credit risk issues was considered to be effective, with full information provided on the most significant risks, in addition to operational, regulatory and technological risk. The committee is also deemed to have monitored and reported in detail to the board on contingency plans and business continuity.

Moreover, the external consultant made positive comments with respect to the autonomy and independence of the committee and its high level of engagement and commitment. They also commented positively the willingness of its members, both individually and as a group, to challenge executives and the hold them accountable. Lastly, coordination and communication with other committees was considered to be satisfactory, especially with the audit and remuneration committees, which has made information sharing and coverage of all risks more efficient.

- **Fulfilment of the goals set by the committee for 2017**

In 2017 the risk supervision, regulation and compliance committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2016.

In this regard, the committee provided support to the innovation and technology committee in the monitoring of technology and cyber-security risk, shoring up reporting to the board of directors. This collaboration is expected to be strengthened in the future through joint meetings of the two committees.

Progress was also made on the implementation of the governance model regulating relations between the parent and its subsidiaries, and on the simplification and communication of the Group’s corporate frameworks, especially the General Risk Framework, which facilitates risk governance, in addition to supervising the adherence and compliance of the Group's subsidiaries thereto, thereby meeting the legal and regulatory requirements of each country, and the Group’s corporate governance and internal governance system.

The committee also reinforced the supervision and control over the disclosure of non-financial information and information on diversity, playing an active role in defining the strategy for this area and monitoring compliance with the CSR policy, pursuant to applicable regulations and the highest international standards.

Lastly, follow up of the supervisory and regulatory requirements and recommendations with respect to risks, led to enhancements to the committee’s oversight of non-financial risks, with monthly reporting to the committee by the head of the compliance and conduct function, helping to build a robust risk culture, driven by the governing bodies, and ensuring that this culture is suitably disseminated and known throughout the organisation. The committee also supervised the risks associated with financial products and services offered to customers, ensuring they are aligned with the bank’s risk strategy and with best conduct practices.
4. Challenges in 2018

The committee’s self-assessment identifies the following areas to enable it to continue to strengthen its performance in 2018:

- To expand collaboration and coordination with the innovation and technology committee, holding joint meetings to allow technology and cybersecurity risk to be suitably managed, ensuring the necessary resources are provided and these risks are disseminated throughout the organisation and reported to the board.

- To consolidate the support and assistance provided to the board as a committee specialised in the control and supervision of the risk and compliance functions, and increase collaboration with the audit committee in the supervision of internal audit activities.

- To strengthen the relationship with the risk supervision, regulation and compliance committees of the Group’s various companies.

This report was prepared by the risk supervision, regulation and compliance committee on 12 February 2018 and approved by the board of directors on 13 February 2018.