REPORT OF THE COMMITTEES
2016
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Report of the audit committee
2016

Report of the appointments committee
2016

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1. Introduction

» Regulation

The Bylaws contain the basic rules and regulations for the audit committee, which are supplemented and further developed by the Rules and Regulations of the Board and which define the committee’s composition, functioning and powers.

» Duties

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

1. Annual financial statements

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

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

2. Internal audit

• Supervise the internal audit function and, in particular:

  i. Propose the selection, appointment and removal of the Group’s Chief Audit Executive.

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

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

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

  v. Receive periodic information on its activities.

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

1. The Bank’s audit committee is regulated by articles 53 of the Bylaws and 16 of the Rules and Regulations of the Board of Directors. Articles 17 ter, 27, 33, 34.1 and 35 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. Internal control and financial information

• Supervise the financial information process 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, as well as ensuring that such information is complete, reviewing compliance with regulatory requirements, the proper demarcation of the consolidation scope and the correct application of accounting criteria.

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

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

  iv. 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 and standards as the annual financial statements.

4. 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 legal regulations—and the latter’s contract conditions, and regularly compile from the external auditor information regarding the audit plan and the execution thereof. The committee will favour the Group’s external auditor’s also undertaking the responsibility for auditing the financial statements of companies belonging to the Group.

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

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

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

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

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

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

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

The committee must receive from the external auditor, on an annual basis, written confirmation of the latter’s independence in respect of the company or parties directly or indirectly related thereto, as well as detailed, 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 accounts auditing.

The committee shall issue a report annually, prior to publication of the audit report, expressing an opinion on the independence of the external auditor. The report must include a reasoned assessment of the services provided in addition to those of account auditing.
5. Related-party and other transactions

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

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

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

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

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

7. Complaints

• Know and, in the event, respond to the initiatives, suggestions and complaints filed by shareholders in respect of 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 its sphere of competency and, in particular, financial and accounting matters

8. Others

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

• The remaining functions attributed to it pursuant to the Rules and Regulations of the Board of Directors and applicable legislation.

» Composition of the committee and attendance at its meetings in 2016

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

<table>
<thead>
<tr>
<th>Chairman</th>
<th>Ms Belén Romana García (Independent director)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td></td>
</tr>
<tr>
<td>Mr Carlos Fernández González (Independent director)</td>
<td>Ms Isabel Tocino Biscarolasaga (Independent director)</td>
</tr>
<tr>
<td>Secretary</td>
<td>Mr Jaime Pérez Renovales</td>
</tr>
</tbody>
</table>
In 2016, the committee’s composition changed as follows:

On 26 April 2016, the Bank’s board of directors, at the proposal of the appointments committee, agreed to appoint Ms Belén Romana García as chairman of the audit committee, in place of Mr Juan Miguel Villar Mir, who continues to sit on the committee.

Mr Ángel Jado Becerro de Bengoa ceased to be a director and, accordingly, a member of the committee, on 27 September 2016.

At the annual general shareholders’ meeting of 18 March 2016, a proposal was put forward to amend article 53 of the Bylaws in order to increase the maximum number of members of the audit committee from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for this committee at any given time.

The Bylaws and Rules and Regulations of the Board provide that the audit committee comprise solely non-executive directors and that its chairman and the majority of directors be independent. All four directors currently sitting on the audit committee are external and independent.

The board of directors has appointed the members of the audit committee, bearing in mind their knowledge, aptitude and experience in accounting, auditing or risk management, so that, overall, the members of the committee are in possession of all the relevant technical knowledge in relation to the sector of activity to which the Bank belongs. In particular: 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 Law, based on her training and expertise in accounting, auditing and risk management.

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

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. In 2016, the audit committee held 10 meetings.

Members’ attendance to meetings of the audit committee in 2016 was as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Meetings and Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Belén Romana García</td>
<td>10/10</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>8/10</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
<td>10/10</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>8/10</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa</td>
<td>7/7</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 in which the director has or had been a member of the committee.

In 2016, the estimated time devoted by each member of the audit committee to preparing and taking part in these meetings was approximately ten hours per meeting.

The chart below shows a breakdown of the approximate time dedicated to each task at the meetings held by the committee in 2016.
How the committee works

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

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Without prejudice to the audit committee, through its chairman, reporting on its activities to the board of directors, a copy of the minutes of the audit committee’s meetings is provided to all board members.

The committee is empowered to require managers and any other Bank employees and the external auditor to attend its meetings. Furthermore, it may request the assistance of experts to properly discharge its duties, in accordance with article 27 of the Rules and Regulations of the Board of Directors.

As stated in the summary of activities in 2016, in the following section of this report, the audit committee is in fluent and constant contact with the external auditor, and the Group Chief Accounting Officer and Group Chief Audit Executive regularly attend its meetings; the committee has been able to verify the quality and transparency of the Group’s periodic financial reporting and the efficacy of its internal control systems.
2. Activities in 2016

This section contains a summary of the audit committee's activities in 2016, classified in accordance with its basic functions.

» 2.1 Financial information

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

Heads of the Financial Accounting and Control division of the Group attended all the meetings held by the committee in 2016, 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 situation and results for the relevant period of both the Bank and its Group.

At its meetings of 20 April, 20 July and 20 October 2016 and at the meeting of 18 January 2017, the committee endorsed the financial statements dated 31 March, 30 June, 30 September and 31 December 2016, respectively, prior to their approval by the board and their disclosure to the market or to supervisory bodies. The Group’s interim financial statements expressly state that the committee has worked to ensure that the financial information is prepared in accordance with the same principles and practices as applied to the annual financial statements.

In compliance with the Code of Good Tax Practice to which the Bank has subscribed since 2010, the committee – at its meeting of 15 February 2017 – was informed by the Group’s tax advisory service, prior to approval of the annual financial statements by the board, in regard to the tax policies applied thereto.

Moreover, in 2016, the committee endorsed the Group's annual report, annual corporate governance report (in the part relating to its competencies), share registration document filed with the CNMV on 14 July 2016, Form 20-F filed with the US Securities and Exchange Commission (SEC) and the Group’s consolidated financial statements specific to Brazil. Specifically, at the committee’s meetings of 17 March and 20 April 2016, the external auditor reported on the 20-F format review process of the 2015 report 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. Said Form 20-F was filed with the SEC on 21 April 2016.

Moreover, at its meeting of 17 March 2016, the internal auditor presented the report on the internal control system on the Group’s financial information (ICSFI), as at 31 December 2015, concerning Section F of the annual corporate governance report.
2.2 External auditor

Appointment
The decision to change the external auditor was taken by the board of directors at its meeting of 6 July 2015, in accordance with the corporate governance recommendations regarding the rotation of the external auditor, at the proposal of the audit committee and as a result of a selection process conducted with full transparency, independence and objectivity, involving the leading audit firms present in the markets where the Group operates.

The audit committee was actively involved in designing and conducting this process and was notified of its progress on a regular basis, as well as the plans to ensure that PricewaterhouseCoopers Auditores, S.L. complied with the applicable regulatory requirements with regard to independence and incompatibility and to ensure a smooth transition between the previous audit firm and PricewaterhouseCoopers Auditores, S.L. with the least possible impact on the Group’s daily activities and on the quality of the financial information that must be published.

As a result, at the proposal of the board of directors, the annual general shareholders’ meeting held on 18 March 2016 approved the designation of PricewaterhouseCoopers Auditores, S.L. as the new external auditor of Banco Santander, S.A. and its Group for verification of the annual financial statements corresponding to the financial years 2016, 2017 and 2018.

Participation in the committee and the board
The external auditor attended all ten meetings held by the committee in 2016, enabling the latter to properly discharge its duties, pursuant to the Rules and Regulations of the Board of Directors, of serving as a channel of communication between the board and the external auditor. The external auditor also reported to the board in plenary session on two occasions.

At the committee meetings held in 2016, the external auditor provided detailed information regarding the planning and progress of its work. With the assistance of the auditor, the committee analysed the audit reports for the individual and consolidated annual financial statements of 2016, as well as the audit report for the consolidated financial statements referring to the first half of 2016.

In 2017, the committee has audited the individual and consolidated financial statements for 2016 assisted by the external auditor. In the opinion of the committee, the annual financial statements for the year ended 31 December 2016 express, in all material aspects, a true and fair view of the equity and financial situation of the Bank and the consolidated Group on that date, and a true and fair view of their results, changes in net equity and cash flows in the financial year 2016, containing the information necessary for their proper interpretation and understanding. Said individual and consolidated financial statements were audited by the external auditor. Similarly, the individual and consolidated management reports for 2016 include an analysis of the performance and results of the corporate earnings, and the position of the Bank and Group, along with a description of the main risks and uncertainties they face. The audit committee obtained the external auditor’s confirmation that it has had full access to all the necessary information, having received adequate cooperation from the Group’s teams to conduct its activity.

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

Non-audit related services policy
In order to properly exercise its decision-making powers in connection with commissioning the external auditor to provide non-audit services, at its meeting of 20 April 2016, the audit committee approved the Policy for endorsing the non-audit services provided by the external auditor which, in line with the latest national and international practices, regulates the procedure for endorsing said services provided by the Group’s external auditor, as well as the system for capping fees. The committee must endorse any decision to hire services other than audit services, not prohibited by applicable regulations, having first properly assessed any threats to the auditor’s independence and the safeguard measures applied in accordance with said regulations.
Fees

The fees for the audit services provided by the external auditor of Banco Santander, S.A. to the various Group companies were as follows (figures from PwC for 2016 and Deloitte in 2015 and 2014):

<table>
<thead>
<tr>
<th>Fees 2016 Million euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Audit</td>
</tr>
<tr>
<td>Audit-related services</td>
</tr>
<tr>
<td>Tax advisory services</td>
</tr>
<tr>
<td>Other services</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

The “Audit” heading includes fees paid for:

1. Auditing the individual and consolidated financial statements of Banco Santander, S.A., and where appropriate the Group companies.
2. The integrated audit carried out to for the filing with the US SEC of the financial statements in Form 20-F for those companies currently obliged to make such a filing.
3. The internal control audit for the required Group companies required to do so.
4. 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, as well as the compulsory regulatory reports from the auditor for the various locations in which the Santander Group operates.

The main items included in “Audit-related services” refer to aspects such as the issuance of comfort letters, due diligences and other services required by other regulations in relation to aspects such as, for example, securitisations or the Corporate Social Responsibility Report.

The services commissioned to our auditors meet the independence requirements provided in the Spanish Audit Law (Ley de Auditoría de Cuentas) and the US Securities and Exchange Commission (SEC) and Public Accounting Oversight Board (PCAOB) rules, and do not include services that are incompatible with the audit function.

Lastly, in 2016 the Group commissioned services from auditors other than PwC in the amount of 127.9 million euros (117.4 and 97.3 million euros to audit firms other than Deloitte in 2015 and 2014, respectively).

Independence

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

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

2. Has verified the ratio of fees received by the auditor during the year for non-audit, audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio standing at 5.6%.

As a benchmark and according to available information on the leading listed companies, average fees paid to auditors in 2016 for non-audit and related services account for 15% 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 2016. The Group’s total fees paid account for less than 0.3% of PwC’s total revenues.

At its meeting of 15 February 2017, the audit 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 accounts auditing.

Similarly, at its meeting of 15 February 2017, 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 accounts auditing.

Said report, issued prior to the auditor’s report on the financial statements, includes the content required under section 4.f) of article 259 quaterdecies of the Spanish Companies Act, and under article 16.4.(c)(iii) of the Rules and Regulations of the Board of Directors.
» 2.3 Internal audit

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

Representatives of the Internal Audit division attended all ten meetings held by the audit committee in 2016, in which, among other matters, the committee was informed in regard to the internal quality control process for this function and the evaluation thereof, in accordance with the corporate framework governing this function.

At its meeting of 18 January 2017, the audit committee reviewed and approved the internal audit plan for this year and assessed the adequacy and effectiveness of the function in implementing its mission. At its meeting of 24 January 2017, the board was informed regarding the internal audit activities conducted in 2016 and the aforementioned audit plan, which it approved.

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

At its meeting of 17 March 2016, the committee approved the strategic internal audit plan for the 2016-2018 period, aimed at contributing both to the proper governance of the organisation, and, as a third line of defence, to the proper management and control of risks. The plan is intended to constantly adapt the function to the Group’s strategic priorities and transformation plans and to ensure ongoing improvement and adaptation to new regulatory, technical and supervisory requirements. The plan takes into account the applicable regulations in this connection and also international best practices.

At the committee’s meeting of 22 June 2016, a report was presented outlining the findings of the assessment of the Internal Audit function conducted by the heads of the division and the country managers for the main business units, within the framework of the internal audit quality management system. Among other strengths, the report highlighted the quality of the work carried out by internal audit, the usefulness of its reports, its alignment with the Group’s new culture, its objectivity and independence and, in general, its value contribution to the Group.

» 2.4 The Group’s internal control systems

Evaluation and certification of the internal control model

The committee was presented with the report on the evaluation and certification of the internal control model (ICM) for 2016, in which connection no material weaknesses were detected at Group level.

The Sarbanes-Oxley Act – Internal Control Model

Within the framework of auditing internal controls on financial information as required by the Sarbanes-Oxley Act, the external auditor reviewed the effectiveness of the Bank’s internal controls on the generation of financial information contained in the Group’s consolidated financial statements filed in the United States (Form 20-F) for the year ended on 31 December 2015, concluding, as the auditor explained in the committee meeting of 20 April 2016, that, in its opinion, the Group maintained effective internal control over said financial information, in all material aspects.

Receipt of complaints and allegations of questionable accounting or auditing practices

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

No complaints of this kind were received in 2016.

2.5 Report on related-party transactions

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

In accordance with the provisions of Law, article 529.ter of the Spanish Companies Act, article 53 of the Bylaws and articles 16 and 33 of the Rules and Regulations of the Board, the board of directors of the entity will be aware of any transactions that the company or companies of its Group carry out with directors, under the terms envisaged by Law and in the Rules and Regulations of the Board; with shareholders, either individually or in concert with other shareholders, holding a significant ownership interest, including shareholders represented on the board of directors of the company or of other Group companies; or with persons related thereto.

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

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

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

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

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

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

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

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

During 2016 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 in that year 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 positive 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 2016

Information for the general shareholders’ meeting

At the annual general shareholders’ meeting of 18 March 2016, Mr Juan Miguel Villar Mir, chairman of the audit committee on that date, reported on the matters within the purview of the audit committee, making reference to the report that the committee had prepared on its activities in 2015. Said document had been approved by the committee at its meeting of 10 February 2016.

Corporate documentation for 2016

At its meeting of 15 February 2017, in accordance with the provisions of article 16.4.(i)(i) of the Rules and Regulations of the Board, the committee reviewed the information to be approved by the board and included in the annual public documentation for 2016.

This documentation includes this report on the activities of the audit committee in 2016, prepared by the committee at said meeting of 15 February 2017 and the Group’s annual report for 2016, approved by the board at its meeting of 21 February 2017.

In accordance with the provisions of the Code of Good Tax Practices approved by the Foro de Grandes Empresas (Forum of Large Companies), the Bank’s annual report on corporate governance for 2016 reflects effective compliance by the Bank with said code.

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.
3. Self-assessment

Pursuant to article 16.4.j) of the Rules and Regulations of the Board, at its meeting of 18 January 2017, the audit committee assessed the quality of the committee’s work and its performance of the tasks assigned to it in the bank’s Bylaws and the Rules and Regulations of the Board.

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

Moreover, the process welcomed the committee’s autonomy and independence and the improvement in the debates as a result of the quality of the presentations by senior management and the latter’s access to the committee. The committee therefore considers that it has properly discharged the responsibilities assigned to it in the Bylaws and the Rules and Regulations of the Board.

The committee’s monitoring of the external auditor’s work, high level of access thereto, review of its findings and evaluation of its independence were compliant with the internally established policies and with the committee’s own expectations. The external auditor’s conclusions on the financial statements of the Group and the parent Bank ratify the quality of the financial reporting and internal control systems.
4. Challenges in 2017

The main challenges for the committee in 2017 are as follows:

- To consolidate the Group’s internal control model.
- To increase the interaction between the audit committee and the risk supervision, regulation and compliance committee by holding joint meetings.
- To strengthen the relationship with the audit committees of the Group’s various companies.
Report of the appointments committee 2016

1. Introduction
2. Activities in 2016
3. Self-assessment
4. Challenges in 2017
1. Introduction

» Regulation

The Bylaws contain the basic rules and regulations for the appointments committee, which are supplemented and further developed by the Rules and Regulations of the Board1 and which define the committee’s composition, operation and powers.

» Duties

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

1. Appointment and removal of directors and designation of positions on the board and its committees

• Propose and review the selection policy for directors and the internal procedures to be followed to select persons to be put forward as directors, as well as for the ongoing assessment of directors, and report on said ongoing assessment. In particular, the committee shall: i) assess the balance of knowledge, skills, capacity, diversity and experience necessary and existent in the board of directors, and prepare a skills matrix and a description of the tasks and aptitudes necessary for each specific appointment, taking into account the time and dedication necessary to properly discharge the duties inherent to the position; ii) receive for consideration proposals from directors of potential candidates to cover vacancies; and iii) establish a target for the representation of the least represented gender on the board of directors, and provide guidelines as to how to increase the representation of persons of that gender with a view to achieving that target.

• Prepare reasoned proposals for the appointment, re-election and ratification of directors, proposals for the removal of directors, and proposals for the designation of members of the board of directors’ committees and positions on the board and its committees. The chairman and any other director may submit suggestions to the committee in relation to the matters within its sphere of competencies. Likewise, the committee shall consult the chairman and the chief executive officer, especially in regard to matters relating to executive directors.

• In cases of re-election or ratification of directors, it shall draft a proposal containing an assessment of the work and effective dedication to the position during the final period in which the proposed director has occupied the post.

• Report to the board, previously, in cases where the board believes it is advisable for directors to offer their resignation and formally resign as a result of circumstances that might negatively affect the proper functioning of the board or the Bank’s credit and reputation and, in particular, when they are involved in any of the legally applicable scenarios of incompatibility or ban.

• Notify, prior to their being submitted to the board, proposed appointments or removals of the board’s secretary and, in the event, 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 executive vice presidents and other similar positions and other employees responsible for the internal control functions or occupying key posts for the daily course of the banking business.

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

3. Annual verification of the status of directors

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

1. The committee is regulated by articles 54 of the Bylaws and 17 of the Rules and Regulations of the Board of Directors. Articles 6, 8, 9, 11, 12, 13, 21, 23, 24, 27 and 30 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).
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, and the succession plan, presenting recommendations to the board for potential changes.

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

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

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

5. Directors’ obligations

• Seek to ensure compliance with the obligations of diligent administration, loyalty and inactivity provided for the directors in the Rules and Regulations of the Board 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 executive vice presidents and persons in similar posts, and of other employees in charge of internal control functions or occupying key positions for the daily conduct of the banking business, as well as notifying their appointment and removal, and conducting the ongoing assessment of their performance, and presenting any recommendations the committee deems appropriate.

The committee may hire external firms or experts to help in the process of selecting candidates and in its other duties.
Mr Ángel Jado Becerro de Bengoa ceased to be a director and, accordingly, a member of the committee, on 27 September 2016.

At the annual general shareholders’ meeting of 18 March 2016, a proposal was passed to amend article 54 of the Bylaws in order to increase the maximum number of members of the appointments committee from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for the committee at any given time.

The Bylaws and the Rules and Regulations of the Board of Directors provide that the appointments committee comprise solely external or 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 external directors and three of them are independent (including the chairman).

Members of the appointments committee are designated by the board of directors, based on their knowledge, aptitudes and experience in relation to the committee’s mission. The duties of the secretary to the committee correspond, in a non-voting capacity, to the secretary to the board of directors, who is also the Bank’s secretary general, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The appointments committee held 10 meetings in 2016.

Members’ attendance to meetings of the appointments committee in 2016 was as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Meetings and Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>10/10</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>10/10</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>10/10</td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>10/10</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>6/10</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa</td>
<td>8/8</td>
</tr>
</tbody>
</table>

The estimated average time devoted by each of these directors in preparing and taking part in the meetings held in 2016 was approximately four hours per meeting.

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

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

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Without prejudice to the committee, through its chairman, reporting on its activities to the board of directors, a copy of the minutes of the appointments committee’s meetings is provided to all board members.

The committee is empowered to require managers and any other Bank employees to attend its meetings. Furthermore, it may request the assistance of experts to properly discharge its duties, in application of the special provisions in article 27 of the Rules and Regulations of the Board of Directors for this purpose.
2. Activities in 2016

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

Renewal of board members
At its meeting of 11 February 2016, the committee proposed that the board submit for approval at the general shareholders’ meeting of 18 March 2016 the re-election of Ms Sol Daurella Comadrán, Mr Ángel Jado Becerro de Bengoa, Mr Javier Botín-Sanz de Autuola y O’Shea, Ms Isabel Tocino Biscarolasaga and Mr Bruce Carnegie-Brown, and the ratification of the appointment of Mr Ignacio Benjumea Cabeza de Vaca and Ms Belén Romana García, designated by co-option on 30 June 2015 (effective from 21 September 2015) and 22 December 2015, respectively. The committee’s grounded proposal, prepared in compliance with the provisions of article 529 decies of the Spanish Companies Act and articles 17.4 and 21 of the Rules and Regulations of the Board, comprised an assessment of the work and effective dedication to the post of each of them.

Furthermore, on 27 September 2016, the board of directors agreed to appoint Ms Homaira Akbari as an independent director, on the proposal of the appointments committee and after having obtained the necessary regulatory clearance, to fill the vacancy left by Mr Ángel Jado Becerro de Bengoa, who resigned from his post on the same date.

Finally, at its meeting of 21 February 2017, the committee proposed to the board for consideration at the general shareholders’ meeting on 6 and 7 April 2017 (at first and second call, respectively), 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, Ms Esther Giménez-Salinas i Colomer, and the ratification of the appointment of Ms Homaira Akbari, by co-option. The committee’s grounded proposal, prepared in compliance with the provisions of article 529 decies of the Spanish Companies Act and articles 17.4 and 21 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 meeting of 18 April 2016, the committee unanimously agreed to propose to the board of directors the appointment of Ms Belén Romana García as chairman of the audit committee, in place of Mr Juan Miguel Villar Mir, who continues to sit on the committee. Subsequently, on 26 April 2016, the Bank’s board of directors agreed to appoint Belén Romana García as chairman of the audit committee. Ms Romana is considered to be a financial expert, as defined in Securities Exchange Commission (SEC) of the United States Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Law, based on her training and expertise in accounting, auditing and risk management.

Furthermore, at its meeting of 26 September 2016, the appointments committee proposed the appointment of Ms Homaira Akbari as a member of the innovation and technology committee; this appointment was approved by the board on 27 September 2016.

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

Whenever a new director is appointed, the appointments committee conducts the relevant analysis on their suitability,reporting favourably, where appropriate, in regard to their commercial and professional integrity and on the suitability of their knowledge and experience for the post.

During the process of appointing new 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 and a description of the duties and aptitudes necessary for each specific appointment, taking into account the time and dedication envisaged to properly fulfil the duties required of the office.

In 2016, the appointments committee commenced selection processes for new directors, in partnership with an external firm, which drew up a list of candidates based on an assessment of the board’s capacities to determine the profiles best suited to join the board based on the Group’s strategic goals.

Pursuant to the analysis of competencies and diversity, the skills sought to be strengthened on the board were those relating to new technologies; strategy, international experience, financial and regulatory knowledge and diversity.

The committee analysed the various candidates, and their curriculum vitae, and examined the assessment of the skills and suitability of the pre-selected candidates, and proposed to the board, to fill the vacancy left by Mr Ángel Jado Becerro de Bengoa, the appointment as independent director of Ms Homaira Akbari, whose professional profile is included in the Group’s annual report and the corporate website.
In Ms Homaira Akbari’s case, the decision regarding her appointment took into account her international experience, built over a consolidated professional career in France and the United States, and her knowledge of new technologies, linked primarily to Big Data and the Internet of Things.

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

<table>
<thead>
<tr>
<th>Skills matrix of the members of the board and diversity analysis*</th>
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<tbody>
<tr>
<td><strong>Group executive chairman</strong></td>
</tr>
<tr>
<td>Senior management</td>
</tr>
<tr>
<td>Experience in the financial sector</td>
</tr>
<tr>
<td>General</td>
</tr>
<tr>
<td>Banking</td>
</tr>
<tr>
<td>International diversity</td>
</tr>
<tr>
<td>International experience</td>
</tr>
<tr>
<td>Spain</td>
</tr>
<tr>
<td>LatAm</td>
</tr>
<tr>
<td>UK/US</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Accounting and financial background</td>
</tr>
<tr>
<td>Other Commercial</td>
</tr>
<tr>
<td>Risks</td>
</tr>
<tr>
<td>Government/ Academic/ Research</td>
</tr>
<tr>
<td>IT/Digital</td>
</tr>
<tr>
<td>Strategy</td>
</tr>
<tr>
<td>Regulation/ Regulatory relations</td>
</tr>
<tr>
<td>Experience in corporate governance</td>
</tr>
<tr>
<td>Gender diversity</td>
</tr>
</tbody>
</table>

*Data in February 2017

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 40% of seats.
» 2.2 International advisory board

On 17 March 2016, the board of directors approved new Bylaws for the Santander Group’s international advisory board, and, on the proposal of the appointments committee, appointed the following members to the advisory board: Mr Larry Summers (chairman, 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 (executive vice president at IBM Watson), Ms Marjorie Scardin (former CEO of Pearson and director of Twitter) and Mr James Whitehurst (CEO of Red Hat). At the committee meeting of 27 June 2016, the appointment was put forward of Ms Blythe Masters (CEO of Digital Assets Holding) as a member of the advisory board. The appointment was approved by the board on 28 June 2016, and so were the new Bylaws of the advisory board.

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 Board of Directors, at its meeting of 21 February 2017, 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 21 February 2017, was as follows:

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

The above are considered executive directors in accordance with section 1 of article 529 duodecies of the Companies Act and article 6.2.a) of the Rules and Regulations of the Board of Directors.

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

Mr Botín-Sanz has been considered to be an external proprietary director, in accordance with the provisions of section 3 of article 529 duodecies of the Spanish Companies Act and article 6.2.b) of the Rules and Regulations of the Board of Directors, which specifies that external or non-executive directors who hold or represent shareholdings equal to or greater than the one legally considered as significant, or who have been designated due to their position as shareholders, despite their shareholdings not reaching the threshold to be considered significant, as well as anyone representing such shareholders, shall be considered proprietary directors.

Since 2002, the appointments committee and the board of directors have stipulated that having or representing at least 1% of the Bank’s share capital is a necessary condition, though not the only condition, to be appointed a non-executive director. This percentage was established by the Bank in accordance with its self-regulatory powers and is less than that deemed significant by law, although the Bank believes it is sufficient so as to enable the board to classify directors that hold or represent a shareholding equal to or greater than such percentage as proprietary directors.

The board, taking into account the prevailing circumstances of each case, and following a report by the committee, appointed Mr Javier Botín-Sanz de Sautuola y O’Shea as an external proprietary director representing shareholders with a percentage of voting rights which, 2016 year-end, amounted to 1.0338% of the Bank’s total share capital.

iii. External independent directors:
Ms Homaira Akbari
Mr Bruce Carnegie-Brown
Ms Sol Daurella Comadran
Mr Carlos Fernández González
Ms Esther Giménez-Salinas i Colomer
Ms Belén Romana García
Ms Isabel Tocino Biscarolasaga
Mr Juan Miguel Villar Mir

The above are considered independent directors in accordance with section 4 of article 529 duodecies of the Companies Act and article 6.2(c) of the Rules and Regulations of the Board of Directors.

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

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

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

Accordingly, of the fifteen current members of the board, four are executive directors and eleven are external directors. Of the latter, eight are independent, one proprietary and another two are, in the opinion of the board and the committee, neither proprietary nor independent. This composition is considered adequate to ensure the proper representativeness and efficient functioning of the board, in accordance with the provisions of article 4.2 of the Bylaws and articles 6 and 7 of the Rules and Regulations of the Board.
» 2.4 Evaluation of the suitability of directors and other key personnel

Pursuant to the provisions of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Royal Decree 84/2015, of 13 February, implementing Law 10/2014, and 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 accordance with the internal on-going selection and assessment procedure approved by the board at its meeting of 24 June 2013, the committee has assessed the members of the board, the senior executive vice presidents or persons holding similar positions, those responsible for internal control functions and those holding key positions for the daily conduct of the banking business of the Group (365 people in total at year-end 2016), 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 on the date of this report are 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 Matías Rodríguez Inciarte, Mr Guillermo de la Dehesa Romero, Mr José Antonio Álvarez Álvarez, Mr Ignacio Benjumea Cabeza de Vaca and Ms Isabel Tocino Biscarolasaga.
Secretary: Mr Jaime Pérez Renovales.

Audit committee
Chairman: Ms Belén Romana García
Members: Mr Carlos Fernández González, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.
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 Ms Isabel Tocino Biscarolasaga.
Secretary: Mr Jaime Pérez Renovales.

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

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

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

In 2016, the Bylaws and Rules and Regulations of the Board of Directors were modified, in order, among other things, to adapt the board’s committees to the latest regulatory reforms and best practices in connection with good governance.

» 2.6 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 the divisions or departments of corporate support and control (in particular, Risk, Internal Audit, Compliance, Finance and General Audit) 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 envisages the roles of country manager, 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, where applicable, the subsidiary. It also contains aspects of internal governance relating to key functions: of the most senior executives at those subsidiaries in regard to control –CRO (Group chief risk officer), CCO (Group chief compliance officer), CAE (Group chief audit executive)–, of the CFO (Group chief financial officer), controller and certain support and business functions.

Furthermore, in 2016 the appointments committee was informed, and issued an opinion, concerning the initiatives spearheaded by the corporate functions to prepare the internal regulations on appointments and the suitability assessment of posts at subsidiaries.
Pursuant to article 19.7 of the Rules and Regulations of the Board, the board shall conduct a yearly assessment of its own functioning and the quality of its work. An assessment must also be conducted by an independent advisor once every three years, the last one having been completed in 2015.

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

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

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

The assessment is based on the information collected from board members via a questionnaire, as part of a confidential and anonymous process that also included personal interviews between the directors and the chairman of the appointments committee.

All non-executive directors were involved in the process of assessing the lead director. In turn, the lead director oversaw the process of assessing the chairman.

The assessment process focused on the following aspects:

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

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

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

**Action plan 2017**

The report containing the conclusions and results of the assessment process for the board and its committees in 2016 was presented at the meeting of the board held on 21 February 2017. In view of these findings and the results of the business reports of the various committees in 2016, the board approved on 21 February 2017 an action plan that envisages improvements in the following areas, among others:

- Increase the time dedicated to digital transformation and technology, human resources, succession and talent, strategic, cyber-security, competitor landscape and innovation.
- Strengthen coordination among committees of the Group entities, especially regarding the audit, appointments and risk supervision, regulation and compliance committees.
- Monitoring and updating verified and robust succession plans for the board of directors, its committees and the senior management.
2.8 Succession plans for executive directors and senior management

In addition to the policy for the selection and succession of directors set forth in section 2.1 above, in 2016 the appointments committee continued the talent review and succession planning process for executive directors and senior management, receiving proposals from the talent committees responsible for assessment and succession plans.

In this connection, the committee, at its meeting of 18 November 2016, reviewed the Group’s policy on the succession of executives, as a key element for management and corporate governance, as well as to foster the development and retention of talent. The new policy will help safeguard business continuity and programme an adequate succession in the main functions, identify potential replacements for key posts, to prepare them and afford them the right skills sufficiently in advance, and mitigate the impact of rotation risk.

2.9 Appointments of non-director members of senior management

In 2016, the committee issued favourable opinions, among others, regarding the following appointments, agreed by the board of directors:

• Mr Peter Jackson, as senior executive vice president of the Bank and head of the corporate and innovation area.
• Mr Keiran Foad, as senior executive vice president of the Bank.
• Ms Jennifer Scardino, as senior executive vice president of the Bank and head of global communication and deputy director of the communication, corporate marketing and research division.

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 the Bank’s ongoing director training programme, ten sessions were held in 2016 with an average attendance of eight directors. Various issues were covered in depth at such meetings, including: multi-channel and digital transformation; corporate defence; non-financial risks: model risk and reputational risk; regulatory developments relating to capital; risk appetite in relation to compliance and conduct risk, and approval systems for the marketing and sale of products.

Moreover, the Rules and Regulations of the Board of Directors (article 21.7) establishes that the board will provide all new directors with an information and induction programme to afford them swift and sufficient knowledge of the Bank and its Group, including their governance rules. In this connection, the director appointed in 2016, Ms Homaira Akbari, attended a specific training programme for new board members, at which the following matters were addressed:

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

% Of board members with relevant experience

<table>
<thead>
<tr>
<th>Accounting and financial</th>
<th>Banking</th>
<th>Risk</th>
<th>Information technology</th>
<th>Latam</th>
<th>UK/US</th>
</tr>
</thead>
<tbody>
<tr>
<td>80%</td>
<td>73%</td>
<td>87%</td>
<td>27%</td>
<td>60%</td>
<td>73%</td>
</tr>
</tbody>
</table>

International experience

2.11 Civil liability insurance

A proposal to renew the civil liability insurance policy for directors and executives of the Group was approved by the board at its meeting of 20 December 2016, a report on said renewal having been presented to the committee at its meeting of 18 November 2016.

2.12 Institutional documentation

At the meeting of 21 February 2017, the committee endorsed this report and, in respect of the section that affects its sphere of competencies, the Group’s 2016 annual report on corporate governance, which were approved by the board.

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

3. Subject to clearance from the supervisor.

4. Subject to clearance from the supervisor.
3. Self-assessment

Pursuant to article 17.4.i) of the Rules and Regulations of the Board, at its meeting of 23 January 2017, the appointments committee assessed the quality of the committee’s work in 2016 and its performance of the tasks assigned to it in the bank’s Bylaws and said Rules and Regulations in the year.

As a result of this self-assessment, the committee expressed its conviction that it effectively performed all of its functions, having held an appropriate number of meetings, with agendas that encompass all the areas it is expected to review, and having been offered presentations on the various topics discussed at its meetings, which were adequate and of sufficient quality and time so as to enhance the debate and decision-making. The committee also considered senior management’s access to the committee’s meetings to be adequate.

Lastly, the process welcomed the committee’s autonomy and independence, its qualitative and quantitative composition, the functions attributed to it, the high degree of engagement of its members, and in particular its support to the board in the discharging of its duties.
4. Challenges in 2017

The main challenges for the appointments committee in 2017 are as follows:

- Continue to develop the Directors’ training plan, providing further detailed contents and training over time.
- Fully implement the parent-subsidiary governance model as it relates to the appointment of directors and executives in the Group subsidiaries.
- Continue to extend the scope of the succession plans in the context of the application of the policies and procedures for continued selection and evaluation.
Report of the remuneration committee 2016

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 2017
1. Introduction

» Regulation

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

» Duties

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

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

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

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

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

   • 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. Other
   • 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.

1. The committee is regulated by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board. Articles 28, 28.bis and 29 of these Rules and Regulations also contain specific provisions regarding certain aspects of its activity. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group’s website www.santander.com.
Composition of the committee and attendance at its meetings in 2016

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

**Chairman**

Mr Bruce Carnegie-Brown  
*(independent director)*

**Members**

- Mr Guillermo de la Dehesa Romero  
  *(non-executive director, neither proprietary nor independent)*
- Mr Ignacio Benjumea Cabeza de Vaca  
  *(non-executive director, neither proprietary nor independent)*
- Ms Sol Daurella Comadrán  
  *(independent director)*
- Ms Isabel Tocino Biscarlasaga  
  *(independent director)*

**Secretary**

Mr Jaime Pérez Renovales

In 2016, the committee’s composition changed as follows:

On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank at a meeting held on that date.

At the annual general shareholders’ meeting of 18 March 2016, a proposal was passed to amend article 54 bis of the Bylaws in order to increase the maximum number of members of the remuneration committee from seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for the committee at any given time.

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

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

In addition, since the committee members sit on other committees of the board (executive, audit, appointments and risk supervision, regulation and compliance committees), continuously updated information is available on the Group’s risks, capital base and liquidity, which is particularly significant, 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 two of the five committees: 20%
- Percentage of directors that are members of four of the five committees: 80%

2. The composition of the remuneration committee is regulated by article 54 bis of the Bylaws and article 17 bis of the Rules and Regulations of the Board.
The duties of the secretary to the committee correspond, in a non-voting capacity, to the secretary to the board of directors, who is also the Bank’s general secretary, fostering a fluid and efficient relationship with the different units of the Group that are expected to collaborate with or provide information to the committee.

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The committee held nine meetings in 2016.

Attendance at meetings of the remuneration committee in 2016 was as follows:

<table>
<thead>
<tr>
<th>Number of meetings and attendance*</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>9/9</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>9/9</td>
</tr>
<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
<td>9/9</td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>9/9</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
<td>9/9</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa**</td>
<td>7/7</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.

** Mr Ángel Jado attended seven meetings, until tendering his resignation as a director of the Bank on 27 September 2016.

The estimated average time devoted by each of these directors in preparing and taking part in the meetings held in 2016 was approximately four hours per meeting.

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

** How the committee works **

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

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

Minutes are taken of all meetings of the remuneration committee, and copies thereof are delivered to all members of the board. At the next meeting of the board, the chairman of the committee also reports on the matters addressed at the meeting and the conclusions and resolutions adopted regarding such matters.

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

Furthermore, the chairman and any director may submit suggestions to the committee in relation to the matters within their sphere of competencies, and the committee will consult the chairman and the chief executive officer in regard to matters concerning executive directors and senior management, and the proposals prepared regarding them.
2. Report on the director remuneration policy

The remuneration committee has prepared this report\(^1\) 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 2016 and 2017, the remuneration committee has prepared the annual report on director remuneration required by article 541 of the Companies Act (Ley de Sociedades de Capital) following the 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 2017 is called and shall be submitted to a consultative vote as a separate item on the agenda.

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 directors whose activities may have a substantial impact on the assumption of risks by the Group. The aforementioned professionals, together with the executive directors, the other members of senior management and the employees receiving remuneration similar to that of the senior management make up what is known as the Identified Staff Group (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 applicable to the performance of executive duties are as follows:

  - 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.
  - Fixed remuneration must represent a significant proportion of total compensation.
  - 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.
  - The global remuneration package and the structure thereof must be competitive, in order to appeal to and retain professionals.
  - 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.

\(^{2.2}\) Principles of corporate governance regarding remuneration

- **a) Engagement of the board**
  
  The board of directors, 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 of corporate governance that is applicable to the topic of remuneration, and has acted in advance of the regulatory requirements that now apply in this regard.

3. Note 5 to the Group’s legal report provides information regarding director remuneration for 2016.
2.3 Remuneration policy applied in 2016

This document contains quantitative and qualitative information concerning the remuneration of executive and non-executive directors for the years 2016 and 2015. Said information refers to persons who have been directors at any time during those years, regardless of whether or not they are no longer directors.

In 2016, the Bank’s board of directors approved a series of appointments and organisational changes to simplify the Group’s organisation and make it more competitive. There follows a summary of the remuneration to executive directors and senior management serving on governing bodies at close of the financial years 2016 and 2015:

<table>
<thead>
<tr>
<th>Thousands of euros</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive directors active on 31 December each year</td>
<td>25,790</td>
<td>24,692</td>
</tr>
<tr>
<td>Senior management active on 31 December each year</td>
<td>53,296</td>
<td>56,076</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>79,086</td>
<td>80,768</td>
</tr>
</tbody>
</table>

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 2016 was EUR 6 million, with two components: (a) annual allotment; and (b) attendance fees.

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

Bylaw-stipulated emoluments earned by the board in 2016 amounted to EUR 4.6 million, which is 23.9% less than the amount approved at the 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.

4. The information contained in this section will be included in the annual remuneration report for 2016 and 2017, which will be submitted to a consultative vote of the shareholders at the 2017 annual general shareholders’ meeting.
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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Members of the board of directors</td>
<td>85,000</td>
<td>84,954</td>
<td>84,954</td>
<td>84,954</td>
<td>84,954</td>
<td>99,946</td>
</tr>
<tr>
<td>Members of the executive committee</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>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</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</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>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>-</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>-</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>-</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>26,164</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lead director*</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>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 —23,730 euros in 2012 and 2013 and 27,918 euros 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, 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 2016 was as follows:

<table>
<thead>
<tr>
<th>Attendance fees per meeting *</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of directors</td>
<td>2,500</td>
</tr>
<tr>
<td>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>

* In 2015, the attendance fees per meeting for directors residing in Spain amounted to 2540 euros per board meeting; to 1650 euros per meeting of the executive risk committee (disbanded by resolution of the board of 1 December 2015; the committee held its last meeting on 29 October), risk supervision, regulation and compliance committee; and to 1270 euros for the other committees (except the executive committee). For directors not residing in Spain, the amounts were 2057, 1335 and 1028, respectively.
iv) Breakdown of bylaw-stipulated emoluments
The total accrued amount for bylaw-stipulated emoluments and attendance fees was 4.6 million euros in 2016 (5.2 million in 2015). The individual accrued amount for each director for these items is as follows:

<table>
<thead>
<tr>
<th>Directors</th>
<th>Executive</th>
<th>Non-executive</th>
<th>Board committees</th>
<th>Total bylaw-stipulated emoluments and attendance fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
</tr>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
<td>375,000</td>
<td>—</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
<td>115,000</td>
<td>25,000</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Ms Homaira Akbari</td>
<td>22,194</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Ignacio Benjumeda Cabeza de Vaca</td>
<td>85,000</td>
<td>—</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Mr Javier Botín-Sanz de Sautuola y O’Shea</td>
<td>85,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ms Sol Daurella Comadrán</td>
<td>56,000</td>
<td>40,000</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Mr Carlos Fernández González</td>
<td>85,000</td>
<td>—</td>
<td>40,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
<td>191,000</td>
<td>—</td>
<td>7,123</td>
<td>219,133</td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
<td>100,890</td>
<td>—</td>
<td>40,000</td>
<td>234,790</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</td>
<td>53,900</td>
<td>—</td>
<td>40,000</td>
<td>234,790</td>
</tr>
<tr>
<td>Mr Javier Marín Romano</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Fernando de Asúa Álvarez</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ms Sheila C. Bair</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Ángel Jado Becerro de Bengoa</td>
<td>62,806</td>
<td>—</td>
<td>29,556</td>
<td>231,062</td>
</tr>
<tr>
<td>Mr Abel Matutes Juan</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Juan Rodríguez Inciarte</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>1,645,000</td>
<td>1,360,000</td>
<td>189,556</td>
<td>2,036,719</td>
</tr>
</tbody>
</table>

1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Executive director since 16 January 2015.
4. Director since 27 September 2016.
5. Director since 21 September 2015.
6. All amounts received were reimbursed to Fundación Botín.
7. Director since 18 February 2015.
8. Director since 22 December 2015.
9. Ceased to be a director on 12 January 2015.
10. Ceased to be a director on 12 February 2015.
11. Ceased to be a director on 1 October 2015.
12. Ceased to be a director on 27 September 2016.
13. Ceased to be a director on 18 February 2015.
14. Ceased to be a director on 30 June 2015.
<table>
<thead>
<tr>
<th></th>
<th>Board committees</th>
<th>Total bylaw-stipulated emoluments and attendance fees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board</td>
<td>EC</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>84,954</td>
<td>170,383</td>
<td></td>
</tr>
<tr>
<td>374,448</td>
<td>170,383</td>
<td>–</td>
</tr>
<tr>
<td>84,954</td>
<td>170,383</td>
<td>–</td>
</tr>
<tr>
<td>84,954</td>
<td>170,383</td>
<td>–</td>
</tr>
<tr>
<td>113,431</td>
<td>170,383</td>
<td>–</td>
</tr>
<tr>
<td>33,596</td>
<td>47,326</td>
<td>–</td>
</tr>
<tr>
<td>84,954</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>84,954</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>84,954</td>
<td>–</td>
<td>39,551</td>
</tr>
<tr>
<td>84,954</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2,327</td>
<td>–</td>
<td>1,084</td>
</tr>
<tr>
<td>84,954</td>
<td>170,383</td>
<td>39,551</td>
</tr>
<tr>
<td>84,954</td>
<td>–</td>
<td>39,551</td>
</tr>
<tr>
<td>2,793</td>
<td>5,602</td>
<td>–</td>
</tr>
<tr>
<td>43,189</td>
<td>20,073</td>
<td>4,659</td>
</tr>
<tr>
<td>63,715</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>84,954</td>
<td>–</td>
<td>39,551</td>
</tr>
<tr>
<td>11,405</td>
<td>–</td>
<td>5,310</td>
</tr>
<tr>
<td>42,477</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,611,875</strong></td>
<td><strong>1,265,682</strong></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 2016 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 18 March 2016, with 91.467% of the votes in favour. Said policy was implemented in 2016 with the following results:

- Fixed remuneration represented a significant proportion of total compensation.

- The variable components of the total remuneration of executive directors in 2016 amount to less than 200% of the fixed components, as provided by agreement at the general shareholders’ meeting of 18 March 2016.

- The variable remuneration of the executive directors is grouped together as a single figure, including the old bonuses and long-term incentives (LTI). The inclusion of these elements by means of the new structure had the following objectives:
  - To simplify the structure by combining the bonus and LTI in a single incentive.
  - To give more importance to long-term goals, which is more in line with shareholders’ interests.
  - To combine short-term and long-term goals more effectively.

- At the proposal of the remuneration committee, the board of directors approved the final amount of the 2016 incentive at the beginning of 2017 based on the individual target variable remuneration figure, as per the following scheme:
  - A group of short-term quantitative metrics measured against annual objectives.
  - A qualitative assessment supported by substantiated evidence which cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.
  - If applicable, an exceptional adjustment that must be supported by substantiated evidence.

<table>
<thead>
<tr>
<th>Target incentive</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Customers</td>
<td>Shareholder</td>
<td></td>
</tr>
<tr>
<td>2 People</td>
<td>Risk</td>
<td></td>
</tr>
<tr>
<td>3 Communities</td>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Profitability</td>
<td></td>
</tr>
</tbody>
</table>

- The approved incentive is paid 50% in cash and 50% in shares, part in 2017 and part deferred and linked to multi-year goals. 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:

  - The payment of the amount deferred over the first two years (24% of the total), payable in the two following years, 2018 and 2019, 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 goals, payable in 2020, 2021 and 2022, shall be conditional not only on the malus clauses not being triggered but also on the achievement of the long-term goals described below.

5. Likewise, and as stated in section (iv) 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.
In addition, as a result of entry into force of Bank of Spain Circular 2/2016, incentive amounts that have already been paid shall be subject to possible recovery (clawback) by the Bank, in the situations and during the periods defined in the malus and clawback policy of the Group.

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>2017</td>
<td>40%</td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>2018</td>
<td>12%</td>
<td>12%</td>
<td>24%</td>
</tr>
<tr>
<td>2019</td>
<td>100%</td>
<td></td>
<td>36%</td>
</tr>
<tr>
<td>2020</td>
<td>12%</td>
<td>12%</td>
<td>36%</td>
</tr>
<tr>
<td>2021</td>
<td>12%</td>
<td></td>
<td>36%</td>
</tr>
<tr>
<td>2022</td>
<td>12%</td>
<td></td>
<td>36%</td>
</tr>
</tbody>
</table>

The 2016 incentive was set taking into account the following additional quantitative metrics and qualitative factors, which have been approved:

<table>
<thead>
<tr>
<th>Category and weighting</th>
<th>Quantitative metrics</th>
<th>Qualitative assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (15%)</td>
<td>• Customer satisfaction rankings • Number of loyal customers • Number of digital customers</td>
<td>• Effective development of the franchise • Compliance with adequate sales and loyalty conduct</td>
</tr>
<tr>
<td>Employees (10%)</td>
<td>• Results of engagement survey</td>
<td>• Evidence of a strong Simple, Personal &amp; Fair culture</td>
</tr>
<tr>
<td>Society (5%)</td>
<td>• Santander Universities Programme*</td>
<td>• Support for the society of the future</td>
</tr>
<tr>
<td>Risks (10%)</td>
<td>• Non-performing loans ratio • Cost of lending ratio</td>
<td>• Effective risk appetite management • Reinforcing culture and risk control • Operational risk management • Progress towards risk management (Pillar II)</td>
</tr>
<tr>
<td>Shareholders (10%)</td>
<td>• Capital ratio • RWA cap</td>
<td>• Management of regulatory changes affecting capital • Effective capital management in business decisions • Progress in the capital plan to achieving Pillar III objectives</td>
</tr>
<tr>
<td>Return (50%)</td>
<td>• Net ordinary net profit (NOP)** • RoRWA: return on risk weighted assets</td>
<td>• Growth compared to the previous year, considering the market environment and competitors • Sustainable profits and capital management • Cost management • Effective capital allocation</td>
</tr>
</tbody>
</table>

* Measured based on the result of the application of these programmes in the Group.

** For this purpose, NOP 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 multi-year goals linked to the payment of the deferred amounts payable in 2020, 2021 and 2022 are as follows:

  (a) Compliance with the consolidated earnings per share (EPS) growth target of Banco Santander in 2018 vs 2015 as per the following table:

<table>
<thead>
<tr>
<th>EPS growth 2018</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 2018 represents with respect to 2015 EPS within this bracket of the scale.

  (b) Relative performance of the total shareholder return (TSR) of the Bank in 2016-2018 compared to the weighted TSRs of a peer group comprising 35 credit institutions, 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.


  (c) Compliance with the fully loaded common equity tier 1 (CET1) capital ratio goal set for 2018, which must be over 11% as of 31 December 2016. If this goal is achieved, a ratio (CET1 ratio) of 1 will be assigned to this metric; if it is not achieved, the CET1 ratio will be 0. To verify compliance with this goal, possible increases in CET1 derived from capital increases will not be taken into account (except those set out by the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2018 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

  (d) Compliance with the growth target in the underlying return on risk-weighted assets or RoRWA of Grupo Santander for 2018 measured against 2015. The corresponding ratio (RoRWA ratio) shall be obtained using the following table:

<table>
<thead>
<tr>
<th>RoRWA growth 2018</th>
<th>RoRWA ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 20%</td>
<td>1</td>
</tr>
<tr>
<td>≥ 10% but &lt; 20%</td>
<td>0,5 – 1*</td>
</tr>
<tr>
<td>&lt; 10%</td>
<td>0</td>
</tr>
</tbody>
</table>

* Straight-line increase in the RoRWA ratio based on the specific percentage that RoRWA growth in 2018 represents with respect to 2015 RoRWA within this bracket of the scale.

To determine the annual amount of the deferred portion linked to objectives corresponding to each board member in 2020, 2021 and 2022, the following formula shall be applied to each of these payments (Final Annuity) without prejudice to any adjustment deriving from the malus clauses:

\[
\text{Final annuity} = \text{Amt.} \times (0.25 \times A + 0.25 \times B + 0.25 \times C + 0.25 \times D)
\]

Where:

- “Amt.” corresponds to one fifth of the deferred amount.
- “A” is the EPS ratio according to the scale in section (a) above, according EPS growth in 2018 vs 2015.
- “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 2016-2018.
- “C” is the CET1 ratio according to compliance with the CET1 goal in section (c) above.
- “D” is the RoRWA ratio according to the scale in section (d) above according to the level of RoRWA growth in 2018 vs 2015.

---

6. For this purpose, 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. TSR is calculated by considering the average weighted daily volume of the average weighted listing prices of the fifteen trading sessions prior to 1 January 2016 (not inclusive) (to calculate the initial value) and of the fifteen trading sessions prior to 1 January 2019 (not inclusive) (to calculate the final value).
In addition to the continuity of the beneficiary within the Group, the accrual of the deferred amounts (linked to multi-year goals or not) is conditional upon none of the circumstances arising that give rise to the application of the malus policy, during the period before each delivery, as per the provisions of the chapter on malus and clawback in the Group’s remuneration policy. In addition, the incentive amounts that have already been paid shall be subject to possible recovery (clawback) by the Bank, in the situations and during the periods defined in such policy, in accordance with the terms and conditions therein.

The malus and clawback policies are applied in situations in which there is poor financial performance of the company as a whole, or of a specific division or department thereof, or of the retail exposure generated by personnel, taking at least the following factors into account:

- Poor financial performance of the Group;
- Violation by the beneficiary of internal regulations, particularly those relating to risks;
- Material restatement of the Group’s financial statements, when so considered by the external auditors, except when appropriate pursuant to a change in accounting standards; or
- Significant changes in the financial capital or risk profile of the Group.

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 the malus of clawback policies to executive directors shall be determined by the board of directors at the proposal of the remuneration committee, and cannot be proposed once in 2022 the final payment in cash or in shares has been made in accordance with the plan. Therefore, the board of directors, at the proposal of the remuneration committee, and depending on the level of compliance of the aforementioned conditions regarding malus, shall determine the specific amount for completing the deferred incentive or, as 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 2016 annual general shareholders’ meeting, which so approved, the application of the first cycle of the Deferred Share Delivery Plan Linked to Multi-Year Goals, through which the described variable remuneration to executive directors is instrumented.

(ii) Gross annual salary
The executive directors’ gross annual salary for 2016 was as follows:

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>2016</th>
<th>2015</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>1,710</td>
<td>1,710</td>
</tr>
<tr>
<td>Mr Javier Marín Romano1</td>
<td>-</td>
<td>165</td>
</tr>
<tr>
<td>Mr Juan Rodríguez Inciarte1</td>
<td>-</td>
<td>600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,710</td>
<td>8,475</td>
</tr>
</tbody>
</table>

1. Ceased to be a director on 12 January 2015.
2. Figure includes remuneration for service until cessation as a director on 30 June 2015.

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

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

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

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

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

None of the above circumstances shall give the right to receive the deferred amount of the incentive in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred amount of the incentive, it shall be delivered within the periods and under the terms provided in the rules for the plans.
(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 109.5%.

The board approved this percentage to be applied to the target variable remuneration incentives of the 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 the following:

— Customers: the goals set for customer satisfaction and loyalty were exceeded, with a quantitative metrics result of 103.4%, which was raised to 105% for the application of the qualitative aspects.

— Employees: the outcome of the commitment survey provided a result of 99% with regard to the established goal, which was taken as 98% for the application of the qualitative aspects.

— Society: the goals associated with this metric obtained a result of 100%, and was not modified for qualitative factors.

— Risk: the quantitative results obtained from the evaluated metrics provided a result of 94%, and was not modified for qualitative purposes.

— Capital: the Group achieved the capital goal set out for the year, therefore the quantitative results obtained from the evaluated metrics provided a result of 100%, and was not modified for qualitative purposes.

— Profitability: the ONP was at 104% of the annual goal at the end of the year, and the RoRWA was at 106% of the goal. Qualitative factors were evaluated, including comparison with similar companies, and it was approved to not modify the quantitative evaluation. Therefore the final figure of this category is 105%.

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 and capital management

Finally, and as an exception, the good results obtained by the Group regarding the efficiency ratio were evaluated positively, reaching the final percentage of 109.5% as indicated above.

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, audit and management 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.
The application of the aforementioned metrics to the sum of the individual target variable remunerations of the executive directors, together with the level of compliance of 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 net operating profit (NOP)\(^9\) for 2016 was not less than 50% of that for 2015. If this had occurred, the incentive would not have been greater than 50% of the target incentive.

- The Group’s NOP has not been negative. If this had occurred, the incentive would have been zero.

As a result of the process described, 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:

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>1,928</td>
<td>3,856</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez(^2)</td>
<td>1,302</td>
<td>2,604</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo(^2)</td>
<td>965</td>
<td>1,930</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>1,149</td>
<td>2,298</td>
</tr>
<tr>
<td>Mr Juan Rodríguez Inciarte(^3)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,344</strong></td>
<td><strong>10,688</strong></td>
</tr>
</tbody>
</table>

1. Member of the board and chief executive from 13 January 2015.
2. Executive director since 16 January 2015.
3. Figure is for service until cessation as a director on 30 June 2015. The portion corresponding to variable remuneration for duties as senior executive vice-president from 1 July is included in the corresponding section.
4. The share amounts in the table correspond to a total of 1,050 thousand shares in Banco Santander.

The deferred portion of the variable remuneration that will only be paid in 2020, 2021 and 2022 if the aforementioned multi-year or long-term goals are met, and provided the beneficiary continues to serve at the Group and that the circumstances that give rise to the malus clauses do not occur, is as follows\(^10\):

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>759</td>
<td>1,518</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez(^2)</td>
<td>513</td>
<td>1,026</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo(^2)</td>
<td>380</td>
<td>760</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>452</td>
<td>904</td>
</tr>
<tr>
<td>Mr Juan Rodríguez Inciarte(^3)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,104</strong></td>
<td><strong>4,208</strong></td>
</tr>
</tbody>
</table>

1. Member of the board and chief executive from 13 January 2015.
2. Executive director since 16 January 2015.
3. Figure is for service until cessation as a director on 30 June 2015. The portion corresponding to variable remuneration for duties as senior executive vice-president from 1 July is included in the corresponding section.
4. The share amounts in the table above correspond to a total of 413 thousand shares in Banco Santander.

9. For this purpose, NOP 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.

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 provided for, 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.
The total number of shares corresponding to the plan, 1,463 million shares, is within the maximum limit of 2.75 million shares authorised for executive directors by the shareholders at the general shareholders’ meeting of 18 March 2016, which was 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 24 January 2017 (the date on which the board approved the bonus for the executive directors of the Bank for 2016), which was 5.09 euros per share.

B) Ratio of variable to fixed components of remuneration in 2016

Shareholders at the general shareholders’ meeting of 18 March 2016 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 2016:

<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>126%</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>83%</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>159%</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>165%</td>
</tr>
</tbody>
</table>

For these purposes:

- The variable components of remuneration include all items of this kind, 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 system 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, variable deferred remuneration and/or deferred variable remuneration linked to multi-year goals) of the directors performing executive duties (red) as compared with attributable net profit (brown).

(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.

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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.
Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement). No contributions will be made with respect to executive directors or senior executives who exercised the option to receive their pension rights as capital prior to the transformation of the defined benefits pension commitments into the current defined forecast contribution system mentioned in footnote 11 of this report.

In application of the provision of 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 his/her 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 2016 is as follows:

<table>
<thead>
<tr>
<th>Thousands of euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

* 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.

As of 31 December 2015, the Group also had pension obligations to other directors amounting to EUR 2.4 million. The payments made in 2016 to the members of the board entitled to post-employment benefits amounted to EUR 0.9 million (EUR 1.2 million in 2015). The payments made in 2016 to the members of the board entitled to post-employment benefits amounted to EUR 0.9 million (EUR 1.2 million in 2015).

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 regime for the contingency of death (surviving spouse and child benefits) and permanent disability of serving directors.

The provisions recognised in 2016 for retirement pensions and supplementary benefits (surviving spouse, child benefits, and permanent disability) were 4,770 thousand euros (6,312 thousand euros in provisions for 2015), as broken down below:

<table>
<thead>
<tr>
<th>Thousands of euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
</tr>
<tr>
<td><strong>Total</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 of the Group’s annual report 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 his/her personal assets include an investment in the Bank’s shares equivalent to twice the net tax amount of his/her gross annual salary at the same date.

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 42,000 euros in 2016 as a non-executive director of U.C.I., S.A. (42 thousand euros in 2015).
» 2.4 Individual remuneration of directors for all items in 2016

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 2016 and 2015 is provided below. The Annex to this report contains disclosures on the shares delivered in 2016 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>Board</th>
<th>Executive委员会</th>
<th>Audit</th>
<th>Appointment</th>
<th>Remuneration</th>
<th>Risk supervision, regulation and compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>85</td>
<td>170</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>85</td>
<td>170</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>85</td>
<td>170</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>85</td>
<td>170</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
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<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
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<td>170</td>
<td>-</td>
<td>25</td>
<td>25</td>
<td>40</td>
</tr>
<tr>
<td>Mr Francisco Javier Botín-Sanz de Sautuola y O’Shea</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Ms Sol Daurella Comadrán</td>
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<td>-</td>
<td>-</td>
<td>25</td>
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</tr>
<tr>
<td>Mr Carlos Fernández González</td>
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<td>-</td>
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<tr>
<td>Ms Esther Giménez-Salinas i Colomer</td>
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<tr>
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<tr>
<td>Mr Juan Miguel Villar Mir</td>
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<td>40</td>
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<td>Ms Homaira Akbari</td>
<td>22</td>
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</tr>
<tr>
<td>Mr Fernando de Asúa Álvarez</td>
<td>-</td>
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<tr>
<td>Ms Sheila Bair</td>
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<tr>
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<tr>
<td>Mr Abel Matutes Juan</td>
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<td>-</td>
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<tr>
<td>Mr Juan Rodríguez Inciarte</td>
<td>-</td>
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</tr>
</tbody>
</table>

Total 2016: 1,645, 1,360, 190, 143, 143, 277

Total 2015: 1,612, 1,266, 169, 131, 128, 282

1. Appointed chief executive officer with effect from 13 January 2015.
2. Executive director since 16 January 2015.
3. Appointed director with effect from 12 February 2015.
4. Appointed director with effect from 21 September 2015.
5. All amounts received were reimbursed to Fundación Marcelino Botín.
6. Appointed director with effect from 18 February 2015.
7. Appointed director with effect from 12 February 2015.
8. Ceased to be a director on 27 September 2016.
10. Appointed director with effect from 27 September 2016.
11. Ceased to be a director on 12 February 2015.
12. Ceased to be a member of the board on 1 October 2015.
13. Ceased to be a member of the board and chief executive on 12 January 2015.
14. Ceased to be a member of the board on 18 February 2015.
15. Ceased to be a member of the board on 30 June 2015. Salary remuneration between that date and the date of cessation as executive vice-president (1 January 2016) is included in the relevant section.

(a) Includes life insurance and medical insurance costs borne by the Group relating to Bank directors.
### Short term salary remuneration of executive directors

<table>
<thead>
<tr>
<th>Attendance fees</th>
<th>Variable - immediate payment</th>
<th>Variable - deferred</th>
<th>Other remuneration*</th>
<th>Total remuneration</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>Board Fixed</td>
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<td>In cash</td>
<td>In shares</td>
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<td>-</td>
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<td>701 894</td>
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<td>2,605</td>
<td>3,908</td>
<td>3,908</td>
<td>21,501</td>
</tr>
</tbody>
</table>

1. Appointed chief executive officer with effect from 13 January 2015.
2. Executive director since 16 January 2015.
3. Appointed director with effect from 12 February 2015.
4. Appointed director with effect from 21 September 2015.
5. All amounts received were reimbursed to Fundación Marcelino Botín.
6. Appointed director with effect from 18 February 2015.
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13. Ceased to be a member of the board and chief executive on 12 January 2015.
14. Ceased to be a member of the board on 18 February 2015.
15. Ceased to be a member of the board on 30 June 2015. Salary remuneration between that date and the date of cessation as executive vice-president (1 January 2016) is included in the relevant section.

(a) Includes life insurance and medical insurance costs borne by the Group relating to Bank directors.
In addition, the following provides the individualised detail of the salary remuneration of the executive directors linked to multi-year goals, 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 goals 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>Executive directors</th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
<th>Total(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O’Shea</td>
<td>759</td>
<td>759</td>
<td>1,518</td>
<td>512</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>513</td>
<td>513</td>
<td>1,026</td>
<td>346</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>380</td>
<td>380</td>
<td>760</td>
<td>256</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>452</td>
<td>452</td>
<td>904</td>
<td>400</td>
</tr>
<tr>
<td>Mr Juan Rodríguez Inciarte(^3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>141</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,104</td>
<td>2,104</td>
<td>4,208</td>
<td>1,655</td>
</tr>
</tbody>
</table>

\(^1\) Fair value of the maximum amount receivable over a total of 3 years: 2020, 2021 and 2022, 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.

\(^2\) Corresponding to the estimated fair value of the 2015 LTI or Performance Share Plan.

\(^3\) Ceased to be a member of the board on 30 June 2015 and chief executive on 1 January 2016. Long-term salary remuneration between that date and the date of cessation as executive vice-president (1 January 2016) is included in the relevant section.
2.5 Exhibit director remuneration policy for financial years 2017, 2018 and 2019 which is submitted to the 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 28 of the Rules and Regulations of the Board. Pursuant to such system, the remuneration of the directors in their capacity as such will consist of a fixed annual amount determined by the shareholders, which shall remain in effect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such reduction appropriate. This remuneration will have two components: (a) annual allotment and; (b) attendance fees.

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

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

Independently of the directors’ right to receive remuneration in their capacity as such, they are also entitled to receive other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the remuneration committee and upon resolution by the board of directors, may be deemed appropriate in consideration for the performance of other duties in the company, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties for a collective amount of up to EUR 6 million as authorised by the shareholders at the 2016 annual general shareholders’ meeting (and again subject to approval by the shareholders at the 2017 general shareholders’ meeting), with two components:

(i) annual allotment; and
(ii) attendance fees.

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

In addition, as stated in the description of the director remuneration system, in 2017 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.

(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.

Among the principles of the remuneration policy of the Bank applicable to the remuneration of directors for the performance of executive duties the following should be highlighted:

- Fixed remuneration must represent a significant proportion of total compensation.
- Variable remuneration must compensate directors’ performance in achieving the agreed objectives, bearing in mind the role and responsibilities of the individual, and in the context of a prudent risk management.
- The overall remuneration package and the structure thereof must be competitive, facilitating attraction and retention.
- Conflicts of interest and discrimination must be avoided in decisions regarding remuneration.

**B) REMUNERATION OF DIRECTORS FOR 2017**

1. Remuneration of directors in their capacity as such

In 2017, the directors, in their capacity as such, shall continue to receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to EUR 6 million as authorised by the shareholders at the 2016 annual general shareholders’ meeting (and again subject to approval by the shareholders at the 2017 general shareholders’ meeting), with two components:

- (a) annual allotment; and
- (b) attendance fees.

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

In addition, as stated in the description of the director remuneration system, in 2017 the company will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the company.

2. Remuneration of directors for the performance of executive duties

2.1. Fixed components of remuneration

2.1.1. Gross annual salary

At the proposal of the committee, the board approved the following amounts as gross annual salary for executive directors in 2017:

<table>
<thead>
<tr>
<th>Directors</th>
<th>2017</th>
<th>2016</th>
<th>Var (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Ana Botín-Sanz de Sautuola y O'Shea</td>
<td>2,500</td>
<td>2,500</td>
<td>-</td>
</tr>
<tr>
<td>Mr José Antonio Álvarez Álvarez</td>
<td>2,000</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>1,500</td>
<td>1,500</td>
<td>-</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>1,710</td>
<td>1,710</td>
<td>-</td>
</tr>
</tbody>
</table>

During the financial year, the board of directors may revise the fixed components of the directors’ remuneration for the performance of executive duties, based on market standards and internal contribution. In particular, during financial year 2017, the board of directors shall have the power to revise said fixed components in an absolute amount equal to 5% of current fixed remuneration.
### 2.1.2. Other fixed components of remuneration

(i) Benefits systems: defined contribution plans (see section D below)³.

(ii) Company benefits: executive directors shall also receive certain company benefits such as life insurance premiums, medical insurance and, if applicable, the imputation of income 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 2017, 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.

Executive directors’ variable remuneration consists of a single award¹, linked to the achievement of short- and long-term objectives, structured as follows:

- The final amount of the award shall be determined at the start of the following year (2018) based on the target amount and subject to compliance with the short-term objectives described in section (iii) below.

- 40% of the resulting award shall be paid immediately and the remaining 60% shall be deferred in equal parts over five years, as follows:
  - The payment of the amount deferred over the first two years (24% of the total), payable in the two following years, 2019 and 2020, 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 2021, 2022 and 2023, 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) (deferred incentive subject to long-term performance objectives).

Likewise, amounts of the award already paid shall be subject to possible clawback by the Bank in the instances and for the period described in the Group’s malus and clawback policy referred to in section (v) below.

The variable components of executive directors’ total remuneration for 2017 must not exceed a limit of 200% of the fixed components.

#### (i) Target award

The 2017 variable remuneration for executive directors shall be determined based on a standard target bonus conditional on compliance with 100% of the established targets. In response to a proposal submitted by the remuneration committee and having regard to market practices and internal contributions, the board may review the target variable remuneration.

#### (ii) Setting the final award based on results for the year

Based on the standard target described, the 2017 variable remuneration for executive directors shall be set on the basis of the following key factors:

- A group of short term quantitative metrics measured against annual objectives.
- A qualitative assessment supported by substantiated evidence which cannot adjust the quantitative result by more than 25 percentage points 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, which has been simplified with respect to the one used in 2016:

<table>
<thead>
<tr>
<th>Category</th>
<th>Weighting</th>
<th>Qualitative measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders (55%)</td>
<td>- Customer satisfaction - Loyal customers</td>
<td>- Effective compliance with the objectives of the rules of conduct risk with clients</td>
</tr>
<tr>
<td>Profitability (15%)</td>
<td>- Cost of lending - Delinquencies</td>
<td>- Appropriate use of risk appetite absence of non-compliances</td>
</tr>
<tr>
<td>Capital (15%)</td>
<td>- Compliance with the Group’s capital target</td>
<td>- Appropriate management of operating risk</td>
</tr>
<tr>
<td>NOP* (5%)</td>
<td>- Sustainability and strength of results</td>
<td>- Suitability of business growth taking into account the context and competitors</td>
</tr>
<tr>
<td>RoRWA (5%)</td>
<td>- Efficient cost management and achievement of efficiency goals</td>
<td>- Efficient cost management and achievement of efficiency goals</td>
</tr>
</tbody>
</table>

* For this purpose, NOP 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.

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13. As stated in section D below, the contributions for the two executive directors with contributions to benefit systems include both fixed 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.
The component of the current system related to employees will now determine part of the individual remuneration of each executive director, which will allow for a better individual allotment of the impact of the results of the commitment survey and other factors related to this component. In addition, the society category will also be considered as an additional factor for the final allotment of the individual variable remuneration.

Lastly, and as additional conditions, the occurrence of the following circumstances shall be verified in determining the award:

- If the Group’s NOP for 2017 is less than 50% of the NOP for 2016, the award would in no case exceed 50% of the target award for 2017.
- If the Group’s NOP is negative, the award would be zero.

(iii) Form of payment of the award

Variable remuneration is paid 50% in cash and 50% in shares, one portion in 2018 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% of the award is paid in 2018 net of taxes, half in cash and half in shares.

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

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

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

(iv) Deferred performance-based incentive

As mentioned, the amounts deferred in 2021, 2022 and 2023 shall be conditional upon, in addition to the terms described in section (v), compliance with the Group’s long-term objectives for 2017-2019. The long-term metrics are as follows:

(a) Compliance with Banco Santander’s consolidated EPS per share growth target in 2019 vs 2016. The coefficient corresponding to this target (the EPS Coefficient) shall be obtained from the following table:

<table>
<thead>
<tr>
<th>EPS growth 2019 (% vs 2016)</th>
<th>EPS Coefficient</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 EPS Coefficient based on the specific percentage of growth of 2019’s EPS with respect to 2016’s EPS within this bracket of the scale.

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

<table>
<thead>
<tr>
<th>TSR position of Santander</th>
<th>TSR Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding 66 percentile</td>
<td>1</td>
</tr>
<tr>
<td>Between 33 and 66 percentiles</td>
<td>0–1*</td>
</tr>
<tr>
<td>Below 33 percentile</td>
<td>0</td>
</tr>
</tbody>
</table>

* Proportional increase in TSR Coefficient according to the number of positions moved up in the ranking within this bracket of the scale.

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 Dividendo Elección scrip dividend scheme) that shareholders may receive during the period in question.

The Peer Group shall be made up of 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 y Unicredit.

15. TSR means 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. The calculation of TSR shall take into account the average weighted daily volume of the average weighted listing prices for the fifteen trading days prior to 1 January 2017 (exclusive) (to calculate the initial value) and the fifteen trading days prior to 1 January 2020 (exclusive) (to calculate the final value).
Compliance with the fully-loaded common equity tier 1 (CET1) ratio target of the Santander Group for financial year 2019. The coefficient corresponding to this target (the CET1 Coefficient) shall be obtained from the following table:

<table>
<thead>
<tr>
<th>CET1 in 2019</th>
<th>“CET1 Coefficient”</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 11.30%</td>
<td>1</td>
</tr>
<tr>
<td>≥ 11% but &lt; 11.30%</td>
<td>0.5 – 1*</td>
</tr>
<tr>
<td>&lt; 11%</td>
<td>0</td>
</tr>
</tbody>
</table>

* Straight-line increase in CET1 Coefficient based on 2019’s CET1 within this bracket of the scale.

In order to verify if this target has been met, any potential increase in CET1 deriving from share capital increases (other than those implemented under the Santander Dividendo Elección scrip dividend scheme) will be disregarded. Moreover, the CET1 ratio at 31 December 2019 may be adjusted in order to remove the effects of any regulatory change on the calculation rules thereof that may occur until such date.

To determine the annual amount of the deferred incentive tied to performance, corresponding, if applicable to each executive director in 2021, 2022 and 2023 (each of these payments a Final Annual Payment) and without prejudice to any adjustment deriving from application of the malus policy described in section (v) below, the following formula shall be applied:

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

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 2018).
- “A” is the EPS Coefficient according to the scale in section (a) above, according EPS growth in 2019 vs 2016.
- “B” is the TSR Coefficient according to the scale in section (b) above according to the relative performance of TSR in 2017-2019 vs the Peer Group.
- “C” is the CET1 Coefficient resulting from compliance with the CET1 target for 2019 described in section (c) above.

(v) Other terms of the award

(a) Continuity, malus and clawback terms

In addition to continuity of the beneficiary within the Group, the accrual of the deferred award (whether or not subject to performance) is subject to none of the circumstances giving rise to the application of malus provisions as set out in the malus and clawback chapter of the Group’s remuneration policy having occurred during the period before each of the deliveries. Likewise, amounts of the award already paid shall be subject to possible clawback by the Bank in the instances and for the period described in said policy, all upon the terms and conditions set forth therein.

The application of malus and clawback provisions are activated in those events in which there is a deficient financial performance of the entity as a whole or of a specific division or area thereof or exposures generated by the staff, and which must take into account at least the following factors:

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

(ii) An increase in the capital needs of the entity or a business unit that was not expected at the time the exposures were generated.

(iii) Regulatory sanctions or court sentences for facts that might be attributable to the unit or to the staff responsible for them. Also a breach of the entity’s internal codes of conduct.

(iv) Improper conduct, whether individual or collective. Negative effects from the sale of unsuitable products and the responsibilities of the persons or bodies making such decision shall be especially considered.

16. If the relationship with Banco Santander or another entity of Grupo Santander is terminated due to retirement, early retirement or pre-retirement of the beneficiary, a dismissal considered by the courts to be improper, unilateral withdrawal for good cause by an employee (which includes, in any case, the situations set forth in section 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 the award shall remain under the same conditions in force as if none of such circumstances had occurred.

In the event 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 employment contract due to maternity or paternity leave, or leave to care for children or a relative, there shall be no change in the rights of the beneficiary.

If the beneficiary goes to another company of the Santander Group (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 award in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred amount of the award, it shall be delivered within the periods and under the terms provided in the rules for the plans.
2. Remuneration of directors for the performance of executive duties

Remuneration of executive directors shall conform to principles similar to those applied in 2017, subject to 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 each moment. The maximum increase for the 2018 and 2019 fiscal years for each executive director may not exceed 3% of his or her gross annual salary for the previous financial year, as the case may be. Nonetheless, this increase may be higher for one or several directors provided that, when applying the rules or requirements or supervisory recommendations that may be applicable and if so proposed by the remuneration committee, it is appropriate to adjust their remuneration mix and, particularly, their variable remuneration in view of the functions they perform, without these increases possibly leading to an increase in the total remuneration of the mentioned directors for this reason. In the event this circumstance occurs, it shall be described in the corresponding remuneration committee report and in the annual director remuneration report that is put to an advisory vote each year at the general shareholders’ meeting.

2.1.2. Other fixed components of remuneration

No changes planned with respect to 2017.

2.2. Variable components of remuneration

Our policy on variable remuneration to executive directors for 2018 and 2019 will be based on much the same principles as in 2017, following the same single-incentive scheme described above, and subject to the same rules of operation and limitations.

(i) Determination of the award

The 2018 and 2019 variable remuneration for executive directors shall be determined based on a target 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 the Group level, and, where applicable, at the division level if the executive director is responsible for managing a specific business division. The results of each metric may be compared to both the budget established for the financial year as well as to growth compared to the prior year.

- A qualitative assessment supported by substantiated evidence which cannot adjust the quantitative result by more than 25 percentage points 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 result in amendments deriving from deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.
The quantitative metrics, qualitative assessment and potential extraordinary adjustments will ensure that the main objectives are considered from the perspective of different stakeholders, a suitable balance between quantitative metrics and qualitative assessment, and that the importance of risk and capital management is factored in.

Additionally, the occurrence of the following circumstances shall be verified in determining the award:

- If the quantitative metrics linked to profit do not reach a certain compliance threshold, the award may not be greater than 50% of the target award for the given year.
- If the results of the metrics linked to profit are negative, the award shall be zero.

(ii) Form of payment of the award
No changes in form of payment are planned with respect to the terms in place for 2017.

(iii) Deferred performance-based award
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.

Long-term metrics shall at least include objectives relating to value-creation and return for shareholders and capital in a multi-annual period of at least 3 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 awards may not be sold until at least one year has elapsed from delivery thereof.

(iv) Other terms of the award
- Accrual of the deferred amounts, including performance-linked amounts, shall also be conditional upon the beneficiary’s continuity with the Group and the absence of the circumstances giving rise to the application of the malus provisions as set forth in the Group’s remuneration policy in the malus and clawback chapter, all under terms similar to those indicated for 2017. Likewise, amounts of the award already paid shall be subject to possible clawback by the Bank in the instances and for the period described in said policy, all upon the terms and conditions set forth therein.
- The hedging of Santander shares received during the retention and deferral periods is expressly prohibited.
- The sale of shares is also prohibited for at least one year from the receipt thereof.

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances due to internal or external factors and such as regulatory requirements or requests or recommendations issued by regulators or supervisory authorities. If that were the case, such adjustments 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 a consultative vote of the shareholders at the general shareholders’ meeting.

2.3. Holding shares
The share holding policy approved in 2016 shall apply in financial years 2018 and 2019, unless the remuneration committee, under exceptional circumstances such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies, were to propose amendments to this policy to the board. Any eventual amendments would be described in detail in the corresponding report of the remuneration committee and in the annual director remuneration report submitted each year to a consultative vote at the general shareholders’ meeting.

D) TERMS AND CONDITIONS OF EXECUTIVE DIRECTORS’ CONTRACTS
The terms for the provision of services by each of the executive directors are governed by the contracts signed by each of them with the Bank. As a result of the entry into force of Circular 2/2016 of 2 February from Banco de España to credit institutions on supervision and solvency, which completes the adjustment of the Spanish legal system to Directive 2013/36/EU and to Regulation (EU) no 575/2013, the rules on pre-retirement and benefits for certain executive directors have been changed.

The basic terms and conditions of the contracts of the executive directors, besides those relating to the remuneration, are the following:

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

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

(b) Code of Conduct
There is an obligation to strictly observe the provisions of the Group’s General Code and of the Code of Conduct in Securities Markets, in particular with respect to rules of confidentiality, professional ethics and conflicts of interest.
(c) Termination

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

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

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

(d) Pre-retirement and benefit plans

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

- Ms Ana Botín-Sanz de Sautuola will be entitled to pre-retirement in the event of leaving her post for reasons other than breach of duty. In this case, she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of 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 shall be subject to the malus and clawback conditions in effect for a period of 5 years.

- Mr José Antonio Álvarez Álvarez shall be entitled to pre-retire in the event of cessation for reasons other than his own free will or breach of duty. In such case, he shall be entitled to an annual allocation equivalent to the fixed remuneration corresponding to him as a senior executive vice president. This allotment shall be subject to the malus and clawback conditions in effect for a period of 5 years.

- Mr Matías Rodríguez Inciarte may elect to retire at any time and hence claim any benefits due to him under the benefits system from the insurer to whom that system (described in earlier sections) has been outsourced. In that event, there would be no obligation to be borne by the Bank.

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans for the benefit of the other executive directors, except in the case of Mr Matías Rodríguez Inciarte, for whom new contributions are not made. The annual contributions are calculated in proportion to the respective pensionable bases of the executive directors, and shall continue to be made until they leave the Group or until their retirement within the Group, or their death or disability (including, if applicable, during early 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 early retirement of Mr José Antonio Álvarez, his fixed remuneration as executive vice president), their contributions being 55% in both cases.

The amount of the pension corresponding to contributions linked to variable remuneration shall be invested in Santander shares for 5 years on the date of retirement, or if before then, on the date of cessation in office, and shall be collected in cash after the passage of such term, or if subsequently, on the date of retirement. The malus and clawback clauses corresponding to the variable contributions shall apply for the same period as the bonus or award 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 thereunder belong to them regardless of whether or not they are active in the Bank at the time of their retirement, death or disability. As stated in section c) above, the contracts of these directors do not provide for any severance payment in the case of termination other than as may be required by law.

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

Finally, the contracts of Ms Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez Álvarez include a supplemental benefit scheme for the contingencies of death (surviving spouse and child benefits) and permanent disability of serving directors, which entitles the widow/widower and any children under the age of 25 in the case of death, or the director in case of disability, the right to a pension supplemental to that which they would be entitled to receive from Social Security up to an annual maximum amount equal to their respective pensionable bases, as indicated above in connection with the pre-retirement (in Mr Álvarez’s case, referring to his fixed remuneration as chief executive officer). The income receivable from the aforementioned benefits scheme and the potential income from the payments on account from contributions to the benefits scheme shall be deducted from the supplementary pension amount, which may reach zero (but never less than zero).

The Bank contemplates the possibility of modifying the benefit system and/or the rules for supplemental benefits in cases of death or disability during 2017.

In the case of the benefits system, the rights vested through such system would be maintained on the terms in effect through the date hereof and described above, and would end upon the making of future contributions to this system, which would be replaced by contributions to medium- or long-term savings systems (such as systematic savings plans, investment funds or other savings products). In any event, if the modification occurs, it would not entail an increase in the Bank’s cost of the corresponding contributions.

Regarding the supplementary benefit regime for the contingency of death and disability, the modification would include an elimination of the supplemental benefits system, with a payment of compensation to the beneficiaries thereof that could not exceed the cost to the Bank of maintaining such system.
The decision to proceed with one or more of the above changes, as well as the determination of the final terms thereof, subject to the above, shall be the responsibility of the board of directors, upon a proposal of the remuneration committee and with the approval of the directors affected. If the change is made, the board shall approve the changes to be made in the contracts of the above-referenced directors.

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

In 2017, the premiums for this insurance amounted to 578 thousand euros. In 2018 and 2019, 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>Name</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 Sautuola y O’Shea</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Mr José Antonio Alvarez Álvarez</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Rodrigo Echenique Gordillo</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr Matías Rodríguez Inciarte</td>
<td>4</td>
<td>4</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 remuneration policy will apply to any new director that is given executive functions, notwithstanding the possibility of amending specific terms of agreements so that, overall, they have conditions similar to those previously described.

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

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

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

Additionally, if the new director comes from an entity not included within the Santander Group, he/she could be the beneficiary of a buy out to offset the loss of variable remuneration corresponding to his/her prior post if he/she had not accepted the engagement offer of the Group. According to the buy-out policy approved by the board, following a proposal by the remuneration committee, compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders’ meeting. Therefore, at the next meeting, authorisation is expected to be sought to deliver a specified maximum number of shares as part of any hires to which the 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
The remuneration committee prepared this report, section 2.5 of which contained the remuneration policy for the years 2017, 2018 and 2019, to be submitted for approval at the annual general shareholders’ meeting of 2017.

Likewise, the committee prepared the annual report on directors’ remuneration for 2016, in accordance with the regulatory model.

The annual report on directors’ remuneration is expected to be submitted for approval at the annual general meeting of 2017 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 2016.


Deferred and conditional variable remuneration plan
In 2012, 2013, 2014 and 2015, the Bank’s board of directors, at the proposal of the appointments and remuneration committee (or, after its split into two committees, the remuneration committee), approved the second, third, fourth and fifth cycle of the variable remuneration plan or bonus corresponding to 2012, 2013, 2014 and 2015, 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 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 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, respectively, approved the application of the second, third, fourth and fifth cycle of the deferred conditional variable remuneration plan.

The purpose of these cycles is to defer payment of a portion of the variable remuneration or bonus of the beneficiaries thereof for a period of three 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 thirty 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. Accrual of the deferred remuneration was conditional upon continued service of the beneficiary with the Group and upon the absence, in the judgement of the board and at the proposal of remuneration committee, of any of the following circumstances during the period prior to each of the deliveries under the terms set down in the corresponding plan: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly in regard to risks; (iii) a material restatement of the Group’s financial statements, except if such restatement is made pursuant to a change in accounting rules, or (iv) significant changes in the Group’s financial capital or risk profile. All this, in each case, according to the regulations of the corresponding cycle of the plan.

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

The maximum number of shares deliverable is calculated based on the amount resulting from applying applicable taxes and the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions preceding 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.

Below is the number of shares (taking gross amounts into account) that corresponded to each of the executive directors under cycles two to five (since in the first cycle all the shares pending were already delivered in 2015) of this plan in early 2016, the amount delivered during the year and the balance at year-end. Also shown is the amount in thousands of euros paid in 2016 under said cycles of this plan.

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

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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 preceding 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.

Below is the number of shares (taking gross amounts into account) that corresponded to each of the executive directors under cycles two to five (since in the first cycle all the shares pending were already delivered in 2015) of this plan in early 2016, the amount delivered during the year and the balance at year-end. Also shown is the amount in thousands of euros paid in 2016 under said cycles of this plan.

Accrual of the deferred remuneration was conditional upon continued service of the beneficiary with the Group and upon the absence, in the judgement of the board and at the proposal of remuneration committee, of any of the following circumstances during the period prior to each of the deliveries under the terms set down in the corresponding plan: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly in regard to risks; (iii) a material restatement of the Group’s financial statements, except if such restatement is made pursuant to a change in accounting rules, or (iv) significant changes in the Group’s financial capital or risk profile. All this, in each case, according to the regulations of the corresponding cycle of the plan.
### 1. Ms Ana Botín-Sanz de Sautuola y O’Shea

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 March 2012</td>
<td>34,958</td>
<td>34,958</td>
<td>-</td>
<td>-</td>
<td>223</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 March 2013</td>
<td>66,241</td>
<td>33,121</td>
<td>-</td>
<td>33,120</td>
<td>230</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 March 2014</td>
<td>182,444</td>
<td>60,814</td>
<td>-</td>
<td>121,630</td>
<td>373</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>528,834</td>
<td>211,534</td>
<td>-</td>
<td>317,300</td>
<td>840</td>
</tr>
</tbody>
</table>

### 2. Mr José Antonio Álvarez Álvarez

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 March 2012</td>
<td>24,046</td>
<td>24,046</td>
<td>-</td>
<td>-</td>
<td>155</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 March 2013</td>
<td>39,121</td>
<td>19,560</td>
<td>-</td>
<td>19,561</td>
<td>131</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 March 2014</td>
<td>78,726</td>
<td>26,242</td>
<td>-</td>
<td>52,484</td>
<td>162</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>351,523</td>
<td>140,609</td>
<td>-</td>
<td>210,914</td>
<td>558</td>
</tr>
</tbody>
</table>
3. Mr Matías Rodríguez Inciarte

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 March 2012</td>
<td>41,529</td>
<td>41,529</td>
<td>-</td>
<td>-</td>
<td>267</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 March 2013</td>
<td>69,093</td>
<td>34,546</td>
<td>-</td>
<td>34,547</td>
<td>231</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 March 2014</td>
<td>139,088</td>
<td>46,363</td>
<td>-</td>
<td>92,725</td>
<td>287</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>361,118</td>
<td>144,447</td>
<td>-</td>
<td>216,671</td>
<td>574</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>Date of implementation</th>
<th>Shares 01/01/2016</th>
<th>Shares delivered in 2016</th>
<th>Shares retired in 2016</th>
<th>Shares pending delivery in 2016</th>
<th>Cash paid in 2016 (thousands of euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 March 2015</td>
<td>260,388</td>
<td>104,155</td>
<td>-</td>
<td>156,233</td>
<td>414</td>
</tr>
</tbody>
</table>
3. Remuneration of non-director members of senior management

At its meeting of 23 January 2017, the committee agreed to propose to the board of directors the approval of the variable remuneration for 2016 of members of senior management who are not directors. The committee’s proposal was approved by the board at its meeting of 24 January 2017.

The Bank’s general remuneration policy was applied in order to determine these variable remuneration components, 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>
<tbody>
<tr>
<td>Customers (15%)</td>
<td>• Customer satisfaction rankings</td>
<td>• Effective development of the franchise</td>
</tr>
<tr>
<td></td>
<td>• Number of loyal customers</td>
<td>• Compliance with adequate sales and loyalty conduct</td>
</tr>
<tr>
<td></td>
<td>• Number of digital customers</td>
<td></td>
</tr>
<tr>
<td>Employees (10%)</td>
<td>• Results of engagement survey</td>
<td>• Evidence of a strong Simple, Personal &amp; Fair culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Comparison with high-performance organisations’ standards</td>
</tr>
<tr>
<td>Society (5%)</td>
<td>• Result of implementing social programmes*</td>
<td>• Support for the society of the future</td>
</tr>
<tr>
<td>Risks (10%)</td>
<td>• Non-performing loans ratio</td>
<td>• Effective risk appetite management</td>
</tr>
<tr>
<td></td>
<td>• Cost of lending ratio</td>
<td>• Reinforcing culture and risk control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Operational risk management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Progress towards risk management (Pillar II)</td>
</tr>
<tr>
<td>Capital (10%)</td>
<td>• Fully loaded CET1 Ratio</td>
<td>• Management of regulatory changes affecting capital</td>
</tr>
<tr>
<td></td>
<td>• RWA cap</td>
<td>• Effective capital management in business decisions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Progress in the capital plan to achieving Pillar III objectives</td>
</tr>
<tr>
<td>Shareholders (70%)</td>
<td>• Ordinary net profit (NOP)**</td>
<td>• Growth compared to the previous year, considering the market environment and competitors</td>
</tr>
<tr>
<td></td>
<td>• RoRWA: return on risk weighted assets</td>
<td>• Sustainable profits and capital management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cost management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Effective capital allocation</td>
</tr>
</tbody>
</table>

* In the executive’s geographical location.
** For this purpose, NOP 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.
In 2016, the Bank’s board of directors continued making the appointments and organisational changes aimed at simplifying the Group’s organisation and make it more competitive. The table below shows the amounts of short-term remuneration (immediately payable) and deferred remuneration (excluding that tied to multiannual targets) for members of senior management at 31 December 2016 and 2015, excluding that corresponding to the executive directors shown previously:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of people</th>
<th>Fixed</th>
<th>In cash</th>
<th>In shares*</th>
<th>In cash</th>
<th>In shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>18</td>
<td>17,258</td>
<td>8,126</td>
<td>8,126</td>
<td>3,745</td>
<td>3,745</td>
<td>4,430</td>
</tr>
<tr>
<td>2015</td>
<td>21</td>
<td>17,838</td>
<td>6,865</td>
<td>6,865</td>
<td>7,880</td>
<td>7,880</td>
<td>5,016</td>
</tr>
</tbody>
</table>

* The amount of immediate payment in shares for 2016 is of 1,596,248 Santander shares (1,726,893 Santander shares in 2015).

** Includes other items of remuneration such as life insurance premiums in the amount of 577 thousand euros (1,309 thousand euros in 2015), health insurance and relocation packages.

The following table shows a breakdown of the salary remuneration tied to multiannual targets for members of senior management at 31 December 2016 and 2015. 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 the corresponding deferral periods.

<table>
<thead>
<tr>
<th>Long-term salary remuneration*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

* In 2016, this corresponds to the fair value of the maximum annual payments for 2020, 2021 and 2022 of the first cycle of the deferred remuneration plan linked to multi-year goals. In 2015, this corresponds to LTI estimated fair value. The accrual and amount of the LTI is subject to, among other things, compliance with the multi-year goals provided for in the plan. This LTI shall be received, if applicable, wholly in shares and on a deferred basis in 2019.

Additionally, executive vice-presidents ceasing to carry out their duties in 2016 and who were not members of senior management at the close of the year, received salary remuneration and other remuneration relating to the cessation of their duties for a total amount of 4,064 thousand euros (17,803 thousand euros for those leaving their posts in 2015), while maintaining their long-term salary remuneration rights for a total amount of 503 thousand euros (7,123 thousand euros for those leaving in 2015).

In 2016, the ratio between the variable components of remuneration to the fixed components was 113% of the total for executive vice presidents, in all cases respecting the upper limit of 200% set by the shareholders.

See note 5 of the Group’s 2016 annual financial statements for further details.
4. Remuneration of identified staff

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).

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 2016 Pillar III disclosures report describes the criteria used for identifying staff and the applicable regulation for the same purpose17.

According to these criteria, at year-end 2016, this group comprised 1,130 executives across the Group (including executive directors and non-director senior managers), accounting for 0.59% 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 2016 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 2017, 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 2016 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 2016 Pillar III disclosures report mentioned above.

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17. The 2016 Pillar III disclosures report is published at www.santander.com
5. Self-assessment

Pursuant to article 17 bis 4.g) of the Rules and Regulations of the Board, at its meeting of 21 February 2017, the remuneration committee assessed the quality of the committee’s work in 2016 and its performance of the tasks assigned to it in the Bank’s Bylaws and the Rules and Regulations of the Board.

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

Moreover, the process applauded the composition, autonomy and independence of the committee and the high level of expertise and engagement of its members, and, in particular, its support for the board.

Also noteworthy were the committee’s debates, as a result of the quality of the presentations by senior management, and suitable access by senior officers to committee meetings, concluding that performance was excellent and that there was a clear commitment to ongoing improvement.
6. Challenges in 2017

The main challenges for the committee in 2017 are as follows:

- To continue aligning the compensation structures and mechanisms with the corporate culture (Simple, Personal and Fair), thereby enhancing the Bank's ability to attract and keep professionals and increase levels of commitment.

- To continue developing remuneration policies in line with international best practices, that foster diversity without incurring in any kind of discrimination and facilitating recognition of the best contributions.

- To firmly establish a cooperative relationship with the risk supervision, regulation and compliance committee to put in place remuneration policies and practices that protect the long-term interests of shareholders, investors and other stakeholders, and, in particular, analysis of the criteria applied to determine the ex ante risk adjustment of the remuneration.
Report of the risk supervision, regulation and compliance committee 2016

1. Introduction
2. Activities in 2016
3. Self-assessment
4. Challenges in 2017
1. Introduction

» Regulation

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 of Directors and which define the committee’s composition, operation and powers.

» Duties

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

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

   The Group’s risk policy must include:
   (i) Identification of the various types of risk, whether financial or non-financial, facing the Bank, including, among financial or economic risks, contingent and other off-balance liabilities.

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

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

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

   • To systematically review the exposures of major clients, economic sectors, geographical areas and types of risk.

   • To oversee the risk function, without prejudice to the board of directors’ direct access thereto.

   • To support and assist the board in conducting stress tests. In particular, assessing the scenarios and assumptions to be used in such tests, analysing the results and the measures proposed by the risk function.

   • To ascertain and assess the management tools, improvement initiatives, project implementation and any other relevant activity linked to risk control, including the policy on internal risk models and the internal approval thereof.

   • To determine, along with the board of directors, the nature, amount, format and frequency of information regarding risk to be received by the committee itself and by the board. In particular, the committee will receive periodic information from the Group Chief Risk Officer (CRO).

   • To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the remunerations committee, the risk supervision, regulation and compliance committee examines whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability and opportunity of profit. In conjunction with the remunerations committee, the risk supervision, regulation and compliance 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.

   • Help the board in supervising implementation of the risk strategy and its alignment with commercial strategic plans.

   • To ensure that the pricing policy of the assets and liabilities offered to customers fully takes into consideration the business model, risk appetite and risk strategy of the Bank.

   • To ascertain and measure the risks resulting from the macroeconomic environment and economic cycles pertaining to the activities of the Bank and its Group.

1. The committee is regulated by articles 54 ter of the Bylaws and 17 ter of the Rules and Regulations of the Board. Articles 3.3 and 27 of the Regulations also contain specific provision 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).
2. Capital and liquidity:
• To assist the board in approving the capital and liquidity strategies and to supervise their implementation.

3. Compliance:
• To supervise and regularly evaluate how the Bank’s compliance programme works, its governance regulations and the compliance function, and to make any necessary proposals for improvement. For this purpose, the committee:
  (i) Shall supervise compliance with the General Code of Conduct, manual and procedures to prevent money laundering and terrorist financing and any other codes and regulations that apply to the industry.
  (ii) Shall receive information and, in the event, issue reports concerning any disciplinary measures applied to members of senior management.
  (iii) Shall supervise the implementation of actions and measures that are the result of reports and inspections by the administrative supervisory and control authorities.
• Shall supervise and periodically assess the operation of the criminal risk prevention model and its efficacy in preventing or mitigating criminal offences, seeking external advice when deemed appropriate, and proposing to the board any changes in the criminal risk prevention model and, in general, the compliance programme, that it deems appropriate based on said assessment.

4. Sustainability, communication and relations with stakeholders:
• To review the Bank’s corporate social responsibility policy, seeking to ensure that it is oriented towards the creation of value for the Bank, and to follow the strategy and practices established in this connection, assessing the degree of compliance therewith.
  • To supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized investors, as well as to supervise and assess the processes for relations with the various stakeholders.
  • To coordinate the process of communicating non-financial information and information in regard to diversity, in accordance with applicable regulations and accepted international standards.

5. Corporate governance and regulation
• To periodically assess the adequacy of the Bank’s corporate governance system, in order that it should fulfil its mission of promoting social interest and that it should take into account, as appropriate, the legitimate interests of the remaining stakeholders.
  • To monitor and assess the regulatory proposals and new regulations that may be applicable and their potential consequences for the Group.
  • To report proposals for modifying the Rules and Regulations of the Board of Directors prior to their approval by the board.

6. Supervisors and regulators
• To support and advise the board in relation to supervisors and regulators in the various countries where the Group operates.
Composition of the committee and attendance at its meetings in 2016

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)

**Members**

Mr Guillermo de la Dehesa Romero (external director, neither proprietary nor independent)

Mr Ignacio Benjumea Cabeza de Vaca (external director, neither proprietary nor independent)

Mr Carlos Fernández González (independent director)

Ms Belén Romana García (independent director)

Ms Isabel Tocino Biscarolasaga (independent director)

Mr Juan Miguel Villar Mir (independent director)

**Secretary**

Mr Jaime Pérez Renovales

On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank.

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

At the annual general shareholders’ meeting of 18 March 2016, a proposal was passed to amend article 54 ter, section two, of the Bylaws in order to increase the maximum number of members of the risk supervision, regulation and compliance committee from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for each committee at any given time.

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

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

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

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The committee held twelve sessions in 2016.

Members’ attendance to meetings of the risk supervision, regulation and compliance committee in 2016 was as follows:

<table>
<thead>
<tr>
<th>Number of meetings and attendance*</th>
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<tbody>
<tr>
<td>Mr Bruce Carnegie-Brown</td>
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<tr>
<td>Mr Ignacio Benjumea Cabeza de Vaca</td>
</tr>
<tr>
<td>Mr Guillermo de la Dehesa Romero</td>
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<tr>
<td>Mr Carlos Fernández González</td>
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<tr>
<td>Mr Ángel Jado Becerro de Bengoa</td>
</tr>
<tr>
<td>Ms Belén Romana García</td>
</tr>
<tr>
<td>Ms Isabel Tocino Biscarolasaga</td>
</tr>
<tr>
<td>Mr Juan Miguel Villar Mir</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 2016, the estimated time devoted by each member of the risk supervision, regulation and compliance committee to preparing and taking part in these meetings was approximately ten hours per meeting.

The chart below shows a breakdown of the approximate time dedicated to each task at the meetings held by the committee in 2016.
How the committee works

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

The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

Without prejudice to the risk supervision, regulation and compliance committee, through its chairman, reporting on its activities to the board of directors, a copy of the minutes of the committee’s meetings is provided to all board members.

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

As the following summary of activities shows, the committee is in constant and seamless contact with the Group’s management team, and persons heading the risk division regularly attend its meetings, in particular, the Group Chief Risk Officer, and the Group Chief Compliance Officer.

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

In line with international best practices, and pursuant to section 7 of article 17 ter of the Rules and Regulations of the Board, the interaction between the risk supervision, regulation and compliance committee and the audit committee has been intensified, as well as the interaction between the former and the remuneration committee, so as to facilitate an exchange of information and the effective supervision of all risks affecting the Group. In this connection, a joint meeting of this committee and the remuneration committee was held on 11 February 2016.

Approximate time devoted to each task

- Risk: 40%
- Compliance: 20%
- Corporate governance and regulation: 25%
- Evaluation of capital and liquidity: 10%
- Others: 5%
2. Activities in 2016

This section contains a summary of the risk supervision, regulation and compliance committee’s activities in 2016, classified in accordance with the committee’s basic functions.

» 2.1 Risks

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

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

Governance
The new governance model, approved by the board at the proposal of the committee, entered into force on 1 November 2015. The new model is based on the following principles:

• Separate decision-making functions from control functions;

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

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

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

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

• To simplify the committee structure.

The new model resulted in the creation of two internal risk committees, the executive risk committee, as the body in charge of global risk management, which replaces the board’s executive risk committee (dismantled by order of the board on 1 December 2015), and the risk control committee, as the body in charge of global risk supervision and management, without prejudice to the powers in connection with risk that correspond to the board and its committees.

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

In 2016, the board also granted annual approval of the corporate risk frameworks, introducing minor adjustments to the general risk framework, the risk appetite framework and the operating risk framework. Progress was also made in developing and updating risk policies, through the issuance of reference documents by the Group, which are adopted by the Group’s units through processes of local transposition and corporate checks.

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

This report takes into account regulators’ recommendations in regard to accuracy (the information included must be correct, accurate and have been checked), thoroughness (it must cover all risks, including risk limits and appetite, and it must include forecasts), identification of potential and emerging risks, orientation towards decision-making (it must include the actions proposed to mitigate risks) and usefulness (there must be an adequate balance between data, analysis and qualitative comments).
Overview by risk type
To ensure a proper degree of analysis, the committee is presented with specific overviews by risk type. Accordingly, the committee receives information concerning the following risks:

- **Credit risk**: monitoring of the risk profile by 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 operating risk associated with market activity). At the behest of the committee, it has been informed in detail in regard to the trading risk control metrics and processes, as well as the scenarios used in stress testing and any existing measures to increase operating risk control in the treasury desk.
- **Structural and capital risks**: the committee has been informed in regard to structural liquidity, financial risks, and interest rate and exchange rate risks for the entire Group, without prejudice to the competencies of the global asset and liabilities committee (ALCO), as the body in charge of coordinating and monitoring the management of this type of risk for the entire Group. The capital profile was also monitored, without prejudice to the monitoring performed by the Group’s capital committee.
- **Operating risk**: monitoring of losses, status of the AORM —advance operational risk management— project and strategy, model, plans, events, priorities and actions in relation to cybersecurity.
- **Compliance, conduct, prevention of money-laundering and terrorist financing and reputational risk**: the committee has been regularly informed about this kind of risk, as detailed in section 2.3 herein, with actions focusing on ensuring that the Bank conducts itself in a fair manner with its customers, markets, employees and society at large.
- **Model risk**: progress in the concept and model of management and control 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 unit operates, a comprehensive look at all the risks, monitoring of the unit’s risk appetite, the main focuses of attention considered relevant by the risk function, potential and emerging risks, and proposed risk mitigation actions.

Risk appetite
The committee has paid particular attention to establishing and monitoring —including proposals for new metrics— the risk appetite framework (RAF) and risk appetite statement. It has reviewed the Group’s risk appetite on a quarterly basis, and has verified compliance with the established risk appetite indicators. Risk reports for the Group’s main units presented to the committee contain detailed information regarding each unit’s risk appetite.
Matters or projects pertaining to risk management and control within the Group

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

(i) Risk Identification and Assessment (RIA): In order to improve the identification and management of risks, the Bank conducted a risk identification and assessment (RIA), which is a systematic exercise to assess the Group’s risk profile, in both granular terms, gauging risk per activity and segment, and in Group terms, obtaining a global risk profile for the Group. From the methodological standpoint, the exercise comprised three sections: risk level, control environment and sensitivity to risk factors. The result for the year was presented at the committee meeting held on 18 April 2016.

(ii) Risk and control self-assessment (RCSA): The operating risk self-assessment is one of the main tools to control this risk and consists of assessing the processes underlying the Group’s various operations and quantifying their main risks and vulnerabilities.

(iii) Risk data aggregation and risk reporting framework (RDA-RRF): At the committee meeting held on 13 June 2016, the risk data aggregation and risk reporting framework (RDA-RRF) project was updated. This project is aimed at creating a technological infrastructure that provides support to the Group’s risk reporting framework, to ensure compliance with the principles for the efficient input of data regarding risks and presentation of Basel Committee on Banking Supervision risk reports. The project includes four basic elements: risk reporting framework, data bases, records clean-up and process re-engineering. A control model has also been implemented for the process for certifying compliance with the RDA-RRF, and a certification model based on questionnaires applicable to each project sphere and category is used.

(iv) Advanced risk management (ARM) programme: At the meeting of 5 January 2016, the heads of the Group’s risk division reported on the performance of this programme, which serves as a guide for all the transformation projects, the purpose of which is 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.

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

(vi) Santander Cyber-Security Programme: Although the Group has implemented a solid cyber-security model based on the most stringent standards and on regulators’ guidelines, it has commenced development of a strategic and recurring cyber-security programme for the Group, known as Santander Cyber-Security Programme (SCSP) aimed at rolling out controls, tools and best practices to protect IT assets and developed advanced capacities to detect and react to attacks against the Group. The committee was informed regarding the implementation of the cyber-security model. This is a programme pertaining to the Technology and Operations division, that is structured around the division’s key functions (technology, operations, processes and technological and operating risk).

Cyber-risk has become a global and systemic risk that is particularly significant in the financial sector. It refers to risks that manifest in cyber-space, in other words, threats that make use of external communications, and including sabotage and attacks, industrial espionage and intelligence and cyber-crime.

The Group’s senior management is fully engaged in preparing and periodically monitoring the content of the plan, by holding specific technical meetings, as well as through monitoring at institutional level, to ensure that the content and structure of the plan adapt to local and international regulations on crisis management.

(vii) Recovery plan: At the committee meeting of 14 July 2016, the Group Chief Financial Officer presented the recovery plan with a view to assessing the Group’s response and viability in severely stressed scenarios.

As part of the risk management instruments, the Bank constantly updates its recovery plan, the most significant part of which comprises the measures available to it in order to overcome a very severe crisis without external assistance.
Brexit: On 14 July 2016, the committee was informed by the Group chief financial officer in regard to the actions undertaken in light of the result of the referendum held on 23 June 2016 in the United Kingdom, in which the Leave vote prevailed.

The contingency plan presented at that meeting, and prepared in coordination with Santander UK, describes the Group’s activities before and after the referendum, taking into account the various results and scenarios in the short and medium term, with the goal of being ready to respond quickly and in concerted fashion to the events after the referendum, and to mitigate any negative impact in all the relevant spheres: customers, shareholders and investors, supervisors and employees.

Capital plan (ICAAP) and liquidity plan (ILAAP): These are described in section 2.2 below.

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

P-19 strategic plan (3-year plan, 2017 to 2019)
At its meeting of 18 November 2016, the committee endorsed the P-19, with a view to its approval by the board of directors. This plan is one of the Group’s management tools and includes a cluster of activities and processes aimed at developing three-year business plans (in the case of P-19, from 2017 to 2019) for all units and the consolidated Group. This is a bottom-up exercise in which all the Group’s units prepare their own three-year plans, which must be aligned with the strategy, risk appetite and the liquidity and capital plans of each unit and of the Group. Based on these local plans, a corporate plan is developed, which covers, in qualitative terms and for the entire Group, the management priorities and projects for the next three years and, in quantitative terms, a financial plan for that period.

2.2 Capital and liquidity

Capital plan (ICAAP)
At its meeting of 18 April 2016, the committee endorsed the annual capital self-assessment report for 2016, which was then approved by the board at its meeting of 26 April.

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

Once the report was issued, the mandatory annual capital self-assessment process at Group level 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.

At its meeting of 11 February 2016, the committee endorsed the prudentially significant report document, which 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)
At its 18 April 2016 meeting, the committee endorsed the liquidity plan, which was approved by the board at its meeting of 26 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, has attended 11 of the 12 meetings held by the committee in 2016 to report on matters within its sphere of competency.

Governance

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 2016, reports on this transformation plan were submitted to the committee on a quarterly basis. At its meeting of 26 September, the committee was informed that the first phase of development of the TOM, approved by the board, had been successfully completed at 10 units. At present, it is in the design phase for the United Kingdom, United States and the Global Corporate Banking division (GCB).

Once the design of TOM has been completed at each unit, its implementation will be accompanied by a set of support tools that the Group has developed, including a governance framework and a progress report, both for the units and the Group. The aim is to ensure coordinated implementation so as to share the best practices among the units and the Group and to take timely mitigating actions to abide by the schedule. At its meeting of 18 November, the committee received the latest update on this project.

Regulatory compliance

Regulatory requirements and the development of best practices require an adequate control of activities, so as to prevent civil and criminal liability suits for conduct in the Bank.

Under these circumstances, it is necessary to be availed of a corporate defence model to raise awareness and control in this connection.

A robust and efficient corporate model requires a “tone from the top” commitment from the Bank’s senior management in respect of the criminal prevention goals, helping to generate an ethical corporate culture integrated within the organisation. Accordingly, in 2016 the corporate defence model was strengthened to include training actions aimed at various echelons of the Group.

In April 2016, the Group chief compliance officer made a presentation to the committee on the corporate defence model which comprises a system of policies, procedures and controls aimed at corporate defence.

For three consecutive years, the aforementioned model has obtained a favourable report from Internal Audit (B rating), and the Bank is also the first in Spain to have obtained Aenor certification in this connection. Furthermore, the corporate defence model was the starting point for other major projects in the Group, such as implementation of a corporate programme to prevent corruption or the creation of a disciplinary system to prevent criminal risks at the Group.

With regard to implementation of the Volcker Rule compliance programme, the Group Chief Compliance Officer outlined the impact of the Volcker Rule and the process of implementing the programme for compliance therewith within the Santander Group. The Group Chief Compliance Officer also provided an update on the status of the Volcker Rule compliance programme and indicated that a governance structure and programme have been set up, so as to fulfil the requirements of this Rule and identify any potential infringements.

Product governance and consumer protection

On 17 March, the committee was presented with the annual report from the Santander Group’s customer services department, explaining its work in 2015, in line with the minimum content provided in article 17 of Finance Ministry Order ECO/734/2004, dated 11 March, and in article 37 of the Regulations of the Santander Group Customer Services Department. Said report was presented to the board of directors.
Risk appetite
Compliance and Conduct has submitted a risk appetite proposal through the governing bodies and in alignment with the Risk function, within the Group’s RAS, taking into account: (i) compliance and conduct risk within the Group’s business strategy; (ii) the corporate Risk Appetite Framework approved by the board; and (iii) the principles established by the Financial Stability Board (FSB). This was approved by the board at its meeting of 25 July 2016.

This new methodology is aligned with the Group’s Risk Appetite Framework (RAF), and will be inserted therein. It takes into account not only the corporate Risk Appetite Framework approved by the board of directors, but also the principles established by the Financial Stability Board (FSB).

Annual compliance report
At the committee meeting of 13 June 2016, the Group Chief Compliance Officer presented the annual compliance report, prepared in accordance with the requirements of CNMV Circular 1/2014, of 26 February, 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 said Circular. Consequently, the Group’s report comprises both these documents, which should be considered jointly.

The highlights of the report are as follows:

I) Corporation:
   a. Organisational and governance model.
   b. Risk management model in compliance and conduct.
   c. Compliance risk assessment (RA).
   d. Materialisation of compliance and conduct risks.
   e. Material changes in the regulations and the measures agreed in adapting to the new requirements.
   f. Resources.
   g. Conclusions.

Lastly, reference is made to the main goals for 2016.

II) The Group’s unit in Spain:
   a. Introduction.
   b. Resources.
   c. Activities in 2015.
   e. Material changes in the regulations and the measures agreed in adapting to the new requirements.
   f. Other considerations.

Prevention of money-laundering and terrorist financing
At its meeting of 14 July 2016, 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 the Prevention of Money-Laundering and Terrorist Financing, and article 38 of Royal Decree 304/2014, of 5 May. Said report was presented to the board on 25 July 2016.

Reputational risk
At its meeting of 18 April 2016, the committee was informed in regard to the focus of the reputational risk model, which takes a similar approach to how other non-financial risks are managed in the Group. 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 in the Group’s risk map and, accordingly, following the process to redefine the compliance and conduct function, has been included in the corporate compliance framework approved in December 2015.

Corporate social responsibility
At the meeting of 18 November 2016, the committee was apprised of the degree 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 in the Group’s financial inclusion and volunteer programmes. In connection with the environment, the plans to reduce the internal footprint were presented, and there was an outline on the creation of a working group on climate finance to identify potential risks and opportunities from the transition to a low-carbon economy in the wake of the Paris climate summit. Lastly, those initiatives in regard to the reporting of non-financial aspects that are most relevant to the Bank were outlined.
Communications from supervisors and penalties
The Group Chief Compliance Officer reported to the committee in regard to the main communications from supervisory bodies to Group entities in connection with compliance and conduct, and on the main penalties imposed on the Group in relation to regulatory compliance. The Chief Compliance Officer also outlined to the committee the main regulatory developments published, external events knowledge of which might help hone the control environment, internal events and reputational risk events and, since October, matters discussed in the compliance function’s internal committees.

Treasury shares
The compliance department reports to the committee in regard to the Bank’s treasury shares.

» 2.4 Corporate governance and regulation

Rules and Regulations of the Board of Directors
In 2016, the committee issued favourable reports regarding the following proposed amendments to the Rules and Regulations of the Board of Directors:

(i) At its meeting of 25 January, the modification of section 3 of article 17 of the Rules and Regulations of the Board, to broaden the functions of the innovation and technology committee; this proposal was approved by the board on 26 January 2016.

(ii) At its meeting of 27 June, the modification of various articles of the Rules and Regulations of the Board, to align them with the modifications of the Bylaws approved at the annual general shareholders meeting held on 18 March 2016, and to implement other regulatory and operating changes. These reforms further the Group’s efforts in corporate governance with a swathe of measures, including the following:

• Increase the goal of having a majority of independent directors on the board, notwithstanding the Bank’s effective compliance with this goal at present.

• Adjust the functions of the audit committee.

• Adjust the operating rules and, in particular, the rules on convening meetings of the board’s committees.

• Improve the definition of the functions of the remuneration committee so as to align them with the ECB guidelines and reflect the actual content of its competencies; and similarly adjust those of the risk supervision, regulation and compliance committee and the board in connection with remuneration.

• Ensure that the chairman of the board informs the annual general meeting concerning the most salient aspects of corporate governance.

Annual corporate governance report
The finer detail of the Bank’s corporate governance rules and procedures are provided in the annual corporate governance report for 2016, which is prepared in accordance with the Spanish Companies Act, Order ECC/2575/2015, dated 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and Circular 5/2013, 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, and in the corporate governance section of the Group’s annual report.

Public policy and regulation
The committee is periodically informed by heads of the research and public policy services regarding the macroeconomic environment and the economic and political performance and outlook in various countries, as well as in regard to the main regulatory principles, new regulations and matters being debated in the financial sector that could affect the Group’s activity and its position in their connection.

Assessment meeting
In its meeting of 17 February 2017, in accordance with the provisions of article 17 ter.4.p) of the Rules and Regulations of the Board, the committee assessed the efficiency and compliance with the Bank’s corporate governance rules and procedures, and concluded that the Bank fulfils its mission of promoting the social interest and takes into account the interests of its stakeholder groups.

» 2.5 Relations with supervisors and regulators

In 2016, the committee read the main reports issued by supervisory authorities in both Spain and other countries where the Group operates. Furthermore, monitoring reports have periodically been delivered in regard to the main matters, including their status, the action plan associated with them and those responsible for their implementation.

The director of the corporate area for relations with supervisors and regulators reported to the committee on the priorities published by the European Central Bank that will guide the Single Supervisory Mechanism (SSM).
3. Self-assessment

Pursuant to article 17.4.t) of the Rules and Regulations of the Board, at its meeting of 23 January 2017, the risk supervision, regulation and compliance committee assessed the quality of the committee’s work in 2016 and its performance of the tasks assigned to it in the Bank’s Bylaws and the Rules and Regulations of the Board.

As a result of this self-assessment, the committee expressed its conviction that it effectively performed all of its functions, having held an appropriate number of meetings, with agendas that encompass all the areas it is expected to review, and having been offered presentations on the various topics discussed at its meetings, which were adequate and the quality and time devoted to which served to enhance the debate and decision-making.

Lastly, the process welcomed the quality of the proposals presented by senior management in the meetings, and the autonomy and independence of the committee, its quantitative and qualitative composition, as well as the high standard of knowledge and involvement of its members. Also applauded was the senior management’s access to the committee’s meetings.
4. Challenges in 2017

The main challenges for the committee in 2017 are as follows:

- To work with the innovation and technology committee in monitoring technology and cybersecurity risk.
- To make progress in the implementation of the governance model that regulates the parent-subsidiary relationship, and in the corporate frameworks.
- Continue to strengthen the process of communication of non-financial and diversity information, in accordance with applicable regulations and leading international standards.
- Increase the monitoring of the requirements and recommendation of the supervisors and regulators in relation with non-financial risks, with the aim of further contributing to the creation of a solid risk culture for the Group.
- Ensure the alignment between all financial products and services offered to clients and the business model as well as the risk strategy of the institution, and assess the risks associated with the offered financial products and services and examine the alignment with the prices assigned and profits gained from those products and services.