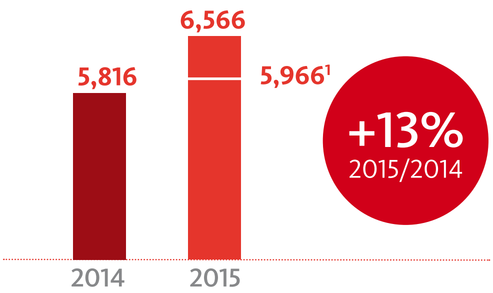
2015
Annual report

We want to
help people and
businesses prosper

Santander

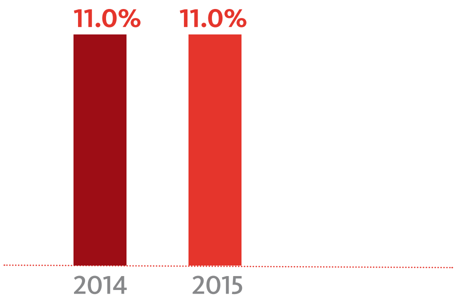
Meeting our commitments with shareholders

Underlying attributable profit
Million euros

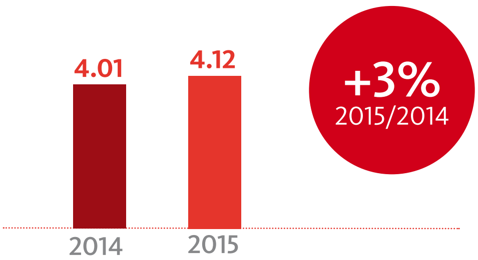


1. Attributable profit, including non-recurring net capital gains and provisions, +3%.

Ordinary RoTE
%

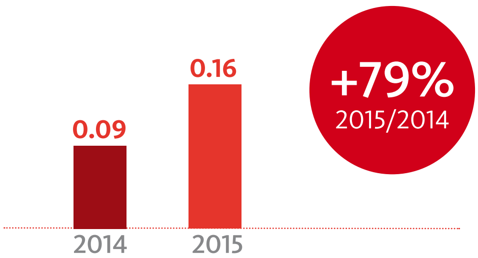


TNAV/share[1]
€

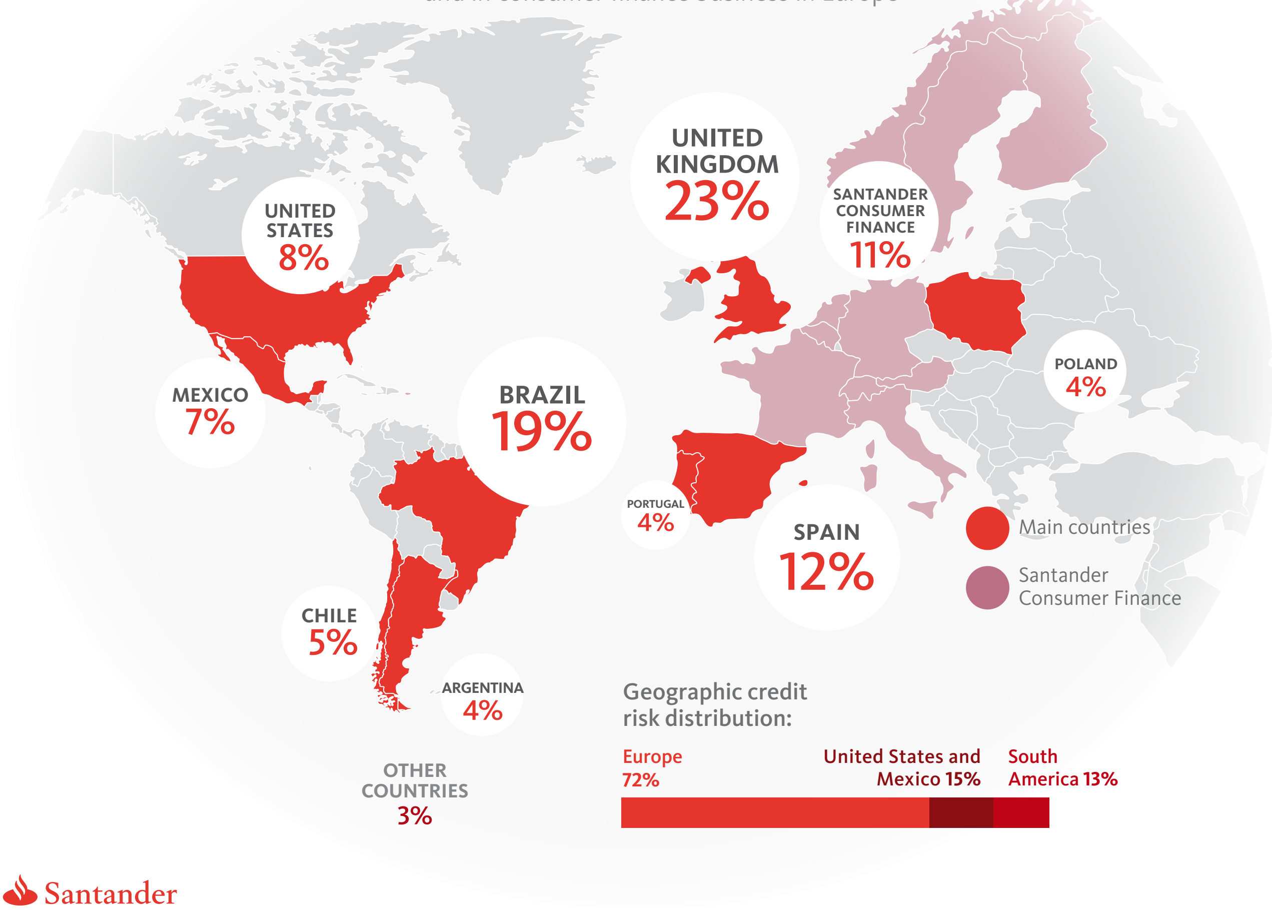


1. Calculated on a like-for-like basis with 2014.

Cash dividend
€/share



Geographic diversification:
97% of underlying profit generated in nine countries and in consumer finance business in Europe



Helping people and businesses prosper in 2015

75%
of employees perceive Banco Santander as Simple, Personal and Fair

82%
of employees are proud to work at Banco Santander

13.8 (+10%)
million loyal customers

16.6 (+17%)
million digital customer

Business growth

+6%
loans

+7%
customer funds

People
193,863
employees

Customers
121
million

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

Communities
1.2
million people helped

Shareholders
3.6
million

35,349
scholarships granted

1,229
agreements with universities and academic institutions in 21 countries

10.05%
fully loaded CET1 ratio

+79%
cash dividend per share

Simple | Personal | Fair

In 2015, we delivered on everything we promised a year ago and delivered in the right way. We increased our earnings and used them to pay a higher cash dividend, to invest in our business and to strengthen our capital base organically. **This success has put us ahead of our strategic plan.**

“The second half of this year's disappointing share price does nothing to undermine **my belief in our diversified structure** which has been built to provide predictable earnings with lower volatility through the cycle. **Our critical mass, our personal relationships with customers and our geographical diversification combine to create the large, deep moat around us.**”

“**We are focused on becoming more efficient and more transparent.** At the corporate centre, we have reduced the number of divisions from 15 to 10 as well as the number of **top executives and executive board directors at the Group level. This has allowed us to reduce the total cost of compensation for those at this level by 23%.**”

Ana Botín
Group Executive Chairman

“From our centre in Spain, we offer products and best practices, ranging from technology systems to control, which enable our subsidiaries to capture significant economies of scale. **The synergies created by this system are worth 3 points of our cost-to-income ratio that remains one of the best in the industry at 47.6%.**”

“**The strong, underlying signal coming from Santander is of steady growth and value-building.** We derive enormous benefits from the way our diverse geographies and retail and commercial banks with critical mass minimize our risks and **even out our revenues.**”

The foundations of our transformation

Corporate governance and team

What do we want?	What have we done?
Strengthen the Bank's corporate governance incorporating the best international practices and complying with the highest standards	• Significant renewal of the board with the appointment of new independent directors. Consolidation of the position of lead director and of the board committees. • New remuneration policy for executive directors and senior management aligned with our Simple, Personal and Fair culture. • Changes in the corporate governance of the risk function and a new parent-subsidiary relationship framework.
Configure the executive team for the Bank's new phase	New country heads have been appointed in five of the Group's main local units and leadership in the corporate centre enhanced.
Foster the role of the corporate centre in the creation of value for the Group	Simplified the organisational structure and reduced the number of divisions (from 15 to 10), strengthened the compliance function and improved the transparency and efficiency of the corporate centre.

Capital

What do we want?	What have we done?
Prepare the Bank for stronger organic growth, while comfortably meeting the new regulatory requirements	• €7,500 million capital increase. • Meeting the fully loaded CET1 capital ratio of more than 10% in 2015, and commitment to the market to raise it to above 11% in 2018.
Offer shareholders an attractive and sustainable return and a dividend that reflects our profits	New dividend policy that increases cash dividend pay-out to 30-40% of profits. Cash dividend per share increased 79% in 2015.

Strategy and culture

What do we want?	What have we done?
Improve the Bank's profitability, grow earnings and dividend per share in a sustainable way	Given a new focus to the strategy to transform us into the best retail and commercial bank for our employees, customers, shareholders and communities: • 10% growth in loyal customers. • Enhanced operational excellence. • Created a new innovation area and developed the Santander Innoventures fund.
Ensure that our more than 190,000 professionals in all countries and businesses have a common purpose and way of doing things	Began to install a new culture throughout the Group, involving senior management and all employees in building an increasingly Simple, Personal and Fair bank.

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Message from Ana Botín

Dear fellow shareholders,

In 2015, we delivered on everything we promised a year ago and delivered in the right way. We increased our earnings and used them to pay a higher cash dividend, to invest in our business and to strengthen our capital base organically. This success has put us ahead of our strategic plan.

2015 At a Glance

We have increased our number of loyal customers by 1.2 million and improved customer satisfaction so that we are now in the top 3 in 5 of the countries where we operate, which is our aim in all markets. According to our internal surveys, we are all feeling more engaged in our work.

The results of more loyal customers and a more engaged team are a strong operating performance and a net statutory profit in 2015 of €6 billion:

- Customer **loans grew by 6.4%.**
- Customer **revenues grew by 7.6%** to €42 billion.
- **Underlying profit after tax** (excluding PPI and other one-off effects) **grew by 13%.**
- This growth in revenues and profitability has allowed us also to **grow our capital organically by 40 basis points,** to 10.05% (10.15% excluding PPI) and to **grow our cash dividend per share by 79%.**
- Finally, our company is more valuable than 1 year ago, as measured by our **tangible net asset value (TNAV) per share, which grew by €0.11.**

Those of you who acquired shares at the time of our capital raise on January 8 2015 and still hold them, have received a **cash dividend per share of €0.11 and a total dividend per share of €0.40, equivalent to 6% of your investment.**

But since that date our market valuation has fallen by 36%. This is probably related to a different perception of the strength of our capital and the extent of our regulatory capital buffers and to the concern about our presence in certain emerging markets.

The purpose of capital buffers is to protect our customers, shareholders and employees. We take this responsibility extremely seriously.

Our prudential minimum capital requirement today is to maintain a Common Equity Tier1 (CET1) of 9.75%. Our capital adequacy currently stands at 12.55%, a buffer of 280 bps, equivalent to €16 billion.

The reason we have these excess buffers is to get ready for 2019 when we will converge to the regulatory requirements known as Basel III.

As we announced to investors last September, our goal is to have a CET1 capital ratio fully compliant with Basel III criteria of more than 11% by December 2018, when our regulatory requirement will be 10.5%. I am confident that with the uplift we achieved in 2015 and our current growth and capital generation, we will meet our target.

GROWING CUSTOMER LOANS

Customer loans
+6.4%

GROWING CUSTOMER REVENUES

Customer revenues
+7.6%
(€42,000 million)

INCREASING OUR PROFIT

Net profit
€6,000
million (+3%)

AND GROWING OUR CAPITAL

+40 bps
organic capital growth

Since 2007, our preprovision profit has been on average 2.3 times the provisions we incurred

Our Brazilian team delivered strong recurring profits and made significant one-off positive contributions.

IN BRAZIL

Profit
+33%
(+13% in euros)

RoTE
14%

NPLs
3.2%
Best among private banks

We have set this **goal of above 11% to align with the highest prudential standards for two reasons. First, our required minimum is less because our model is considered less interconnected, and easy to resolve. Second, we need lower management buffers over this minimum because of the relatively low volatility of our earnings and our better relative performance under stress scenarios.**

The key factors in favor of Santander are:

- Our business is less volatile than that of our peers. **We have paid a dividend every year for 50 years.**
- We went through the financial crisis without reporting any quarterly loss. We paid dividends every year and at the lowest point, in 2012, we delivered a net statutory profit of €2.3 billion, as our retail and commercial banking activities continued to be profitable practically in every market.
- Our subsidiaries are autonomous in managing their capital and liquidity. We have more than sufficient capital to operate safely, to satisfy regulators in all of our markets and at the Group level, and to provide the returns expected by our investors.
- Since 2007 we have generated profits before taxes of €93 billion. Our pre-provision profit has been on average 2.3 times the provisions we incurred. We are now transforming our bank to expand our capacity to generate capital. This will make us even more resilient throughout the business cycle.

However, what best explains our market underperformance since our historical high valuation of €100 billion in April last year are concerns about the future of Brazil.

Brazil is going through a challenging period, but our bank performed excellently there this year. **Our team delivered strong recurring profits and made significant one-off positive contributions. Net statutory profit grew by 33% in local currency and by 13% in euros in 2015. Our return on tangible equity (RoTE) in Brazil was a healthy 14%.** Finally, our balance sheet in Brazil –which represents 8% of total Group customer loans- shows the **lowest non-performing loan ratio among the top Brazilian private banks: 3.2%.**

Today in Banco Santander, as our performance in 2015 shows, we have the people, the vision and the resources to deliver for our shareholders.

We will manage the business to deliver on earnings per share (EPS), dividends per share (DPS) and TNAV per share as I laid out in my letter last year and at our Investor Day in September.

The Santander "Moat" is large and deep

In summary, today's market is not considering the full value and strength of our model and our diversification.

Warren Buffett often says that he likes to invest in companies with a "moat", a competitive advantage which protects profits and market share over time.

Our moat is our critical mass in every one of our 9+1 (Santander Consumer Finance Europe) core markets, where we serve a total of 121 million customers. This provides consistent earnings, quarter after quarter and through the cycle.

We have earned the trust of our customers over many years, through hard work and careful stewardship of their financial affairs. Our relationship managers talk to many of these customers every day. They have helped them through difficult times, supporting when others who know them less well might have walked away.

We also operate in a carefully assembled mix of developed and developing markets. When one or two markets are struggling, others are thriving.

Santander Consumer Finance is the top consumer bank in Europe. In Mexico, we are the main bank for small and medium sized enterprises. In Poland, our bank is the most profitable among its peers. We have the second largest private bank and the most profitable one in Portugal. And that doesn't take into account the continued strength of our most important banks in Spain and the UK, which have performed well despite continued low interest rates.

The combined growth of our continental **European business this year has delivered €2.2 billion attributable profit, or 35% growth**; our **UK and US businesses delivered €2.6 billion attributable profit, 10% more**, representing **31% of total attributable profit[1].**

The second half of this year's disappointing share price does nothing to undermine my belief in our diversified structure which has been built to do exactly what it is doing: providing predictable earnings with lower volatility through the cycle.

Our critical mass, our personal relationships with customers and our geographical diversification combine to create the large, deep moat around us.

These are the sources of our unique competitive advantage and what give us confidence that we can deliver earnings at the same time as we adapt our business for the future.

They are the foundations upon which we are building Santander for the next 50 years.

We have scale and financial strength on our side and we are learning how to think and act like a challenger at the same time.

OUR "MOAT":

Critical mass in
9+1
markets

Personal relationships:
121
million customers

Geographical diversification

Consistent earnings through the cycle

1. Excluding the corporate centre and Spain's Real Estate activity.

We have made great strides in helping people and businesses, our customers, prosper

Loyal customers
+1.2MM
(+10%)

We want more of our customers to do more of their banking with us

Digital customers
+2.5MM
(+17%)

Customers

When I wrote to you last year and laid out my vision and plans to transform Santander, I said that the **"measure of our success will be that wherever we operate our customers are the ones who champion our services and bring in new customers."** We have made great strides in helping people and businesses, our customers, prosper. I would like to review in detail what we have achieved in 2015.

Banking is an industry which will look very different very soon because of technology. But it remains at its heart a personal business. It is about satisfying the needs and aspirations of our customers, of families wanting to buy homes and businesses wanting to expand. Our daily work is about serving our 121 million customers today and to anticipate what they will need tomorrow: a loan as well as the latest mobile app to fit seamlessly into their digital lives.

Our focus this year and going forward, will be to earn the loyalty of our customers and encouraging greater use of our digital banking services. In simple terms: **we want more of our customers to do more of their banking with us.** And we are ready for them to do more of their banking digitally.

Progress in 2015

- In the UK, one out of every three new accounts is now opened via our digital channels.
- In Poland, our customers can now apply for a cash loan using their phones and receive a response within 60 seconds.
- In Spain, a new 1|2|3 account is opened every minute through our digital channels.

As a result of these efforts, we have reached our targets and grown our number of loyal customers by 1.2 million and our digital customers by 2.5 million.

In the markets where our number of loyal customers has increased the most, so has our revenue. And this progress is reflected in rising customer satisfaction. In five of the markets we serve, we are ranked among the top three banks for customer satisfaction. We care a lot about these customer satisfaction rankings and loyalty numbers because they set the pulse of our business. If they are strong and healthy, our company is too.

People

Santander built a strong, successful culture over many years. This culture was at the root of our expansion and growth. Now we need to change. This is going to take hard work and time, but we are well on our way.

Internally, we have been undergoing a process of profound cultural change. We are reevaluating every one of our processes to ensure that we can be true to our values, purpose and aim, and be ready to embrace new technology sweeping through financial services.

I want every member of our global team to feel motivated and inspired by these changes, to know that we will do everything we can to support them in their work. I am asking for the same commitment to change from myself, my board and my most senior executives, as I am from those who work in our branches and help our customers every day.

Our latest survey of our global team showed that many more of us believe in this process today than when we started a year ago. We are rethinking how we measure performance and create incentives. Our program of *flexiworking* has been especially popular. We want our teams to guide us, to let us know how they can contribute most to our organization.

During 2015 we have worked to agree on the behaviours that will help us build a bank that is more Simple, Personal and Fair.

Many more of our people believe in cultural change than they did when we started one year ago

There are eight of them: show respect; truly listen; talk straight; keep promises; actively collaborate; bring passion; support people; and embrace change. It is a short list on purpose. It is meant to be achievable.

We value honesty, energy and directness in our families and friends, and we should expect no less from our colleagues at work.

Across the organization, we are focused on becoming more efficient and more transparent. At the corporate centre, we have reduced the number of divisions from 15 to 10 as well as the number of top executives and executive board directors at the Group level.

This has allowed us to reduce the total cost of compensation for those at this level by 23%.

Good governance has taken on fresh importance since the financial crisis, and we are working harder than ever to appoint the best people and create the clearest lines of accountability between all of our operations. Our industry is complex by nature, but our business should never be more complex than necessary.

Corporate centre value added:
The synergies created by this system are worth 3 points of our cost-to-income ratio

We are constantly seeking the ideal balance between our corporate centre and our countries. We trust our local teams because they are closest to our customers. But we also want them to take advantage of being part of a global Group.

From our centre in Spain, we offer products and best practices, ranging from technology systems to control, which enable our subsidiaries to capture significant economies of scale. **The synergies created by this system are worth 3 points of our cost-to-income ratio.** Our in-country teams can stay close to their markets while operating more efficiently than their competitors. There are no intermediate levels between our country heads and the Group CEO, because we believe that a lean corporate structure, with the fewest possible layers of management, is the best guarantee of simplicity and transparency, and will deliver for both our customers and our shareholders.

This relationship between the centre and our subsidiaries is essential to continue to improve our cost-to-income ratio, a key measure of efficiency that remains one of the best in the industry at 47.6%. And our simple, geographically ring-fenced subsidiary model results in the lowest Financial Stability Board additional capital recommendation among our peers.

Shareholders

Until the situation in Brazil began to deteriorate in mid year, the relative performance of our share price was comparable to that of our peers and the major indexes.

The long-term story of Brazil is the growth and development of one of the largest emerging economies in the world. We are going to endure the current situation, be patient and be strongly positioned when Brazil resumes its upward journey.

It is important that our shareholders recognize this, and consider the growth in our TNAV per share in 2015. **There is always a lot of noise in finance, but the strong, underlying signal coming from Santander is of steady growth and value-building. I am convinced that our share price will eventually come to reflect this and our shareholders patience will be rewarded.**

% of Group underlying attributable profit

THE DIVERSITY OF OUR GEOGRAPHIES WITH CRITICAL MASS (profit growth in euros)

Spain: +18%

SCF: +18%

UK: +27%

Portugal: +63%

Brazil: +13%

Mexico: +4%

We derive enormous benefits from the way our diverse geographies and retail and commercial banks with critical mass minimize our risks and even out our revenues.

During 2015, we grew our net profits (in euros) in Spain and SCF by 18%, in the UK by 27%, in Portugal by 63%, in Brazil by 13% and in Mexico by 4%. **These businesses represent 81% of our customer loans and 76% of our Group profits.** Chile reduced its profit by 9%, US by 21% and Poland by 15%. These three businesses represent 16% of our customer loans and 17% of our profits.

We see great potential for us to grow in Poland where we are leaders in digital channels and where loans are growing by 11%. We are working to improve our operations in the USA: we have put in place a new team in recent months, composed of top talent at both the executive and board levels. **We know what we have to do in the USA to succeed on all fronts.**

Our model proved its worth during the financial crisis, throughout which **we never posted a single quarter of losses.** We never required a bail-out in any of the countries where we operate. Though designated a global SIFI (Systemically Important Financial Institution) we have the lowest capital charge among global SIFIs. And for these reasons, we need lower capital buffers, as noted previously, than other international banks with different models.

It was not an easy decision to change our dividend policy, as we did last year. But we have to pay a dividend that reflects the reality of the macro-regulatory situation and our earnings, and is consistent with our strategy. **What is important, is that our model delivers enough profits to reinvest further in: profitable growth; a strengthened capital base; and an increased dividend per share.**

Communities

We continued our support for higher education through our Santander Universities programme which now reaches more than **1,200 universities** around the world. Last year, we awarded around **35,000 scholarships to students** attending these universities, as well as investing in programmes to improve financial inclusion and education.

We have launched the UK Discovery Project, helping people prosper through enhanced education, skills and innovation, which will **support a million people by 2020.**

We also supported around **7,000 entrepreneurs and 500 start-ups** through our community programs to promote job creation.

Our target is to **support 4.5 million people between now and 2018.**

Looking ahead

It is said that strategy rarely survives first contact with adversity. But after eighteen months in charge of Santander, **I am confident that the plan we have in place is the right one.**

We are building from a strong and diverse base. Santander built a reputation over the past three decades as an expansive, acquisitive bank, venturing from Spain to markets across Europe and the Americas. I cannot rule out future bolt-on acquisitions in our 9+1 core markets, provided they make both strategic and financial sense, but **for the immediate future we are focused on growing loyal customers and organic growth.**

We are overhauling our operations and our management to make them more Simple, Personal and Fair. We want our employees to feel happier and prouder than ever to work for Santander. We are building and learning new technologies so that we can revamp our internal processes

and develop better products and services for our customers, whilst remaining best-in-class in efficiency.

And we are lowering our cost of risk with an average target for 2015-2018 of 1.2%.

Our goal is to grow earnings and dividends per share annually, reaching double digit EPS growth by 2018, from a stronger, more resilient capital base with a CET1 above 11%.

Over the coming year, we anticipate different contexts for the developed and developing economies where we operate. In the developed economies, we envisage steady low GDP growth and falling unemployment. Low oil prices and low interest rates will be good for both individual and corporate customers.

Interest rates in the United States seem to be moving upwards, but the return to normality in the credit markets after years of quantitative easing is going to take time. Political uncertainty persists in parts of Europe, and a new president will be elected in the United States in November. Our base case scenario is low and flat yield curves in the developed markets for quite some time.

In the developing economies, we are always braced for greater volatility. But the underlying trends remain hugely promising. **We are well placed in markets with young and growing populations, low banking penetration and low borrowing levels, where we can earn returns on equity far higher than those we earn in the developed markets. As I mentioned above, diversification is our strength.**

Listening to our customers and anticipating what they want from us; fixing things fast when we make mistakes; making their interactions with us Simple, Personal and Fair, each and every time - these are our main goals, today, tomorrow and as far into the future as we can see.

To guide us, we will focus on our purpose: to help people and businesses prosper. This is the Santander Way. It is the foundation for our success. And we have a clear aim: to be the best retail and commercial bank, earning the lasting loyalty of our people, customers, shareholders and communities.

Strong corporate governance is vital to all of our work. Banco Santander's board is fully involved in the Group's oversight. I would like to thank Juan Rodríguez Inciarte and Sheila Bair for their invaluable contribution to the bank.

We have strengthened our boards both centrally and in our regional subsidiaries, drawing on strong independent directors to provide fresh perspectives and advice.

2015 has been a year of tremendous learning and progress for me personally and for Santander. We can see a clear path to the objectives we have set ourselves for 2018. **But we still have to walk that path and turn the unforeseen bumps ahead into opportunities if we want to deliver on our purpose of helping people and businesses prosper.**

We still have to act each day in a way that is more Simple, Personal and Fair. The digital revolution in finance won't happen by itself. We aspire to lead in ensuring that it delivers on its promise for our customers above all.

With the support of our nearly 4 million shareholders, a Board committed to our objectives and an excellent team, I am confident we will succeed.

Ana Botín
Group Executive Chairman

We are well placed in markets with young and growing populations, low banking penetration and low borrowing levels, where we can earn returns on equity far higher than those we earn in the developed markets

2018 TARGETS:

- Increase EPS reaching double digit growth in 2018
- CET1 >11%
- Average cost of credit 2015-2018: 1.2%
- Increase DPS and TNAV per share

Message from José Antonio Álvarez

We are living in a time of significant change. Technology is generating a new way of relating to one another and is increasing the information and decision-making capacity of all economic agents. In the financial sector, other challenges add to these changes, such as new regulations, the entry of new competitors, an environment of low interest rates and uneven growth between mature and emerging economies.

Developed economies continued in 2015 to show signs of recovery but emerging countries, as a whole, grew at a slower pace, because of their internal dynamics as well as the fall in commodity prices and China's slowdown.

The markets were volatile. Emerging currencies depreciated against the dollar and interest rates remained low in mature markets. The Federal Reserve waited until December to announce the first increase in interest rates of only 25 b.p.

This environment continued to put pressure on banks' profitability, added to which were regulatory requirements in two directions. Firstly, greater capital requirements, which have doubled in the last few years. Secondly, regulatory requirements hit income statements as they limited the capacity to generate revenues, required higher costs and investments in technology and personnel, while producing a higher tax charge.

Competition from banks and non-banks was also stronger in various countries and business areas.

Santander is facing these challenges with a business model that has proved its strength in recent years and which we are adapting to the new environment, in order to maximise our profitability goals.

Santander has a business model that has proved its strength in recent years and which we are adapting to the new environment

2015 Group results

2015 was a year of transition in which we posted good results and the Bank advanced in its commercial transformation.

We want to have more loyal customers and make transaction banking the key element. We are analysing which products have opportunities for improvement in each market and we are working on them. We are launching the 1|2|3 strategy, as well as other global Group proposals such as *Santander Advance, International Desk, Santander Passport* and *Santander Trade* for the corporate world.

The number of digital customers reflect the boost provided by the multichannel strategy. Of note were Mexico, Spain, UK and Portugal, which grew at rates of around 20% or more.

Digitalisation is key for adapting to the new form of customer relationships. Handling big data will provide us with better knowledge on our customers and enable us to respond to their needs. Moreover, it is an effective way to cut costs, enhance efficiency of processes

and simplify our structure. We are making significant progress in this direction and have been recognised in the sector as pioneers in the launch of various apps and services.

This strategy is reflected in increased customer satisfaction and in balanced growth in business volumes.

Lending increased 6%, with gains in market share, mainly in SMEs and companies. Customer funds rose 7%.

These dynamics spurred revenues and enhanced their quality, as the most commercial and recurring income (+8%) increased its percentage of the total:

+8%
Commercial revenues

- In an environment of very low interest rates in some countries where we operate, **net interest income increased 9%** thanks to commercial and spread management.

- **Fee and commission income rose 4%,** absorbing the negative impact of regulatory requirements. We have improvement plans for the coming years.

In contrast, trading gains fell 16% as they were hit by market volatility. Other income was affected by higher allocations to deposit guarantee and resolution funds, to which the Group assigned close to €800 million in 2015.

The efficiency plans and discipline in costs enabled **growth in costs to be almost flat in real terms and on a like-for-like basis.** We met the efficiency plan goals (€2,000 million) one year ahead of schedule, thereby making austerity in operating costs compatible with investment in regulatory requirements and in digitalisation and the multichannel strategy.

+1%
Costs
(in real terms and on a like-for-like basis)

We are one of the international financial system's most efficient banks, and in order to continue being so, we announced at the Investor Day that we had increased the efficiency plan by €1,000 million to €3,000 million of cost savings for 2018. These will enable us to make investments and improvements while continuing to achieve excellent cost-to-income ratios.

Revenue growth and cost control were accompanied by a **4% decline in loan-loss provisions.** This was made possible by the improvement in credit quality in almost all countries, thanks to an adequate risk management policy. With the launch of the advanced risk management programme (ARM) and strengthening of the risk culture throughout the Group under a common identity (risk pro), we are continuing to advance toward prudent and sustainable risk management.

-4%
Loan-loss provisions

These measures also **pushed down the NPL ratio to 4.36% at the end of 2015,** 83 basis points lower than in 2014, while coverage was six percentage points higher at 73%.

Underlying attributable profit increased 13% to €6,566 million.

+13%
Underlying attributable profit

In addition, in 2015 we recorded the impact of the net of non-recurring positive and negative results of €600 million. Even after absorbing this impact, profit was 3% higher.

The year's results contributed significantly to the generation of capital, where we have a comfortable position consistent with the stability and recurrence of our business model. In fully loaded terms, the ratio was above the 10% target we set at the start of the year, as optimisation of capital is one of our strategic objectives.

And we combined an increase of 3% in the tangible book value per share with a cash dividend distribution of more than €2,200 million compared to €1,143 million in 2014.

In underlying terms, the RoTE remained at 11% and the RoRWA rose to 1.30%.

In short, we progressed in 2015 toward our main goals, demonstrating our strength and the efforts to earn the lasting loyalty of our employees, customers, shareholders and communities.

I will now devote the rest of my message to the performance by the main units in 2015 and the management priorities for 2016.

>€2,200
million in cash dividend

Performance by business areas in 2015[1]

In **Spain,** we focused on forging long-term relations with our customers. For example, launching the 1|2|3 strategy with which we attained 860,000 accounts. We want to be the bank of choice for companies and so we launched the 1|2|3 account for SMEs, and other programmes with differentiated offers. This increased our market share in the segment, and we are leaders in wholesale banking. We also achieved a significant improvement in customer satisfaction surveys. Lastly, we strengthened the corporate governance model, aligning it with the rest of the Group's subsidiaries.

In an environment of tough competition, attributable profit was 18% higher than in 2014 at €977 million, thanks to lower provisions and control of costs.

860,000
1|2|3 accounts

In the **United Kingdom,** the positive trend continued in individual customers with the 1|2|3 strategy, as well as in companies where we continued to gain market share. We focused on mobile and online channels, launching a range of solutions that was well received by the market. The number of digital customers rose 22%. We also continued to increase the number of loyal customers. In companies, we gained more market share with sustained growth in a market that as a whole is not growing.

Underlying attributable profit was 14% higher at £1,430 million thanks to good commercial dynamics, reflected in revenues and in an improvement in credit quality that led to lower provisions.

+22%
digital customers

In **Brazil,** we continued to improve the bank and carry on the commercial transformation, based on a multichannel approach and growth in digital customers, improving and simplifying processes and in operations such as Getnet and Bonsucesso, with which we increased our fee and commission income. All of this is reflected in a more sustainable business model.

Attributable profit was €1,631 million, up 33%, and driven by commercial revenues, enhanced efficiency and provisions growing at a slower pace than lending.

Although it is not possible to isolate oneself completely from the country's current recession, the improvement in the franchise over the last few years, the better quality of the balance sheet and gains in productivity and efficiency enable us to face the current environment with guarantees.

+33%
attributable profit

In the **United States,** we continued to strengthen the governance structure. We bolstered the risk management and control models in order to meet the regulator's expectations. We are creating the holding company that will integrate businesses in the country, which impacted costs. We are investing in improving the banking franchise, in order to enhance the customer relationship and increase profitability.

The priority at Santander Consumer USA is auto finance, as we are discontinuing the business of personal loans.

All these measures are temporarily impacting results and largely explain the drop in profit to $752 million.

1. All changes in this section are calculated in local currency terms.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander's strategy

Santander Consumer Finance is Europe's consumer credit leader, with a unique business model and excellent credit quality. Geographic and product diversification was strengthened by the latest operations, such as the integration of GE Nordics and development of the agreement with Banque PSA Finance, which is meeting the timetable set. Attributable profit rose 18% to €938 million.

In **Mexico,** we completed the expansion plan begun in 2012, which was reflected in a faster pace of business growth and gains in market share. Pre-tax profit grew 8% thanks to the positive trend in revenues, mainly net interest income.

In **Chile,** the focus was on business growth in companies and in target segments of individual customers, as well as in improving the quality of customer attention. The result was better than expected despite the 13% fall in profit, which was due to lower UF inflation than in 2014 and a higher tax charge.

In **Argentina,** profit grew by more than 20%, thanks to progress in the new commercial strategy and the expansion plan, which produced higher net interest income, and fee and commission income.

In **Poland,** we are the best bank in terms of profitability and continued to be the leader in cards, and mobile and online banking. Profit fell 15% because of the drop in interest rates and the introduction of maximum rates for consumer credit and cards.

In **Portugal,** we gained market share, mainly in companies. We are in a process of normalising profits, which rose 63%. In December, Santander Totta was awarded most of assets and liabilities of Banco Internacional do Funchal (Banif), making us the country's second largest private sector bank.

Business areas priorities for 2016

Looking to 2016, the outlook for the global economy points to a slight and uneven recovery. This improvement will come from advanced economies, which will consolidate their moderate recovery, while emerging economies will struggle to stabilise their growth.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander's strategy. Firstly, because of their higher growth potential, in view of their demographic dynamics, and their more vigorous productive capacity; secondly, the considerable gap they still have to fill in terms of banking penetration, based on the improvement of their levels of development, and the substantial growth in their middle classes; and thirdly, the diversification and stability that these countries provide to our balance sheet and income statement from businesses in economies with different cycles, as shown once again in the extreme conditions of the last few years.

In this context, we will continue to focus on improving customer satisfaction in all the Group's units, on advancing in the digital transformation process and on increasing the number of loyal customers. We will also continue to centre selectively on key businesses in order to gain market share in them. At the same time, setting priorities on the basis of the features and the circumstances of each market:

- In **Spain**, we want to have 2 million 1|2|3 accounts, continue to improve customer satisfaction, reduce the cost of credit and gain market share in SMEs.

- The **UK** will continue to focus on customer satisfaction, the digitization process, increase the range of services and grow again at a faster pace than the market in SMEs.

- In **Brazil,** the improvement in our franchise in the last few years, the enhanced quality of the balance sheet and further gains in productivity and efficiency should enable us to face the year with guarantees. We have management tools to take advantage of the high interest rate environment and we will concentrate on selective business growth, operational efficiency and control of risk.

- **Santander Consumer Finance** will complete the agreement with Banque PSA Finance, strengthen consumer business through Pan-European agreements and step up its presence in digital channels.

- In the **United States**, we will continue to bolster the franchise with differentiated strategies for each entity, while integrating the main units in the country into Santander Holding USA.

- In the rest of units, the priorities are the following. In **Mexico,** we will strengthen our position by consolidating key segments. In **Chile,** we will focus on improving customer attention and on transforming our commercial and retail banking, while renewing our branches. We have a very similar strategy in **Argentina,** where we are also expanding the network and advancing in digitization. Lastly, in **Portugal** we will manage Banif's integration and in **Poland** we will continue to be the reference point bank in innovation and leaders in digital channels, with a clear objective of gaining more market share in companies.

Conclusions

We made progress in 2015 in the main strategic objectives and our financial variables performed well.

We will continue in 2016 to advance in the Group's commercial transformation. We have clear goals for the year, as announced at the Investor Day, both for the whole Group and for countries:

- Raise the number of loyal customers, both individuals and companies, and digital customers.

- Increase market share in SMEs and companies.

- Reduce the cost of credit.

- Grow fee and commission income at a faster pace.

- Maintain the year-end cost-to-income ratio stable.

- Boost dividend and earnings per share.

These objectives are part of **our medium-term priorities: grow in business volumes, increase revenues and improve profitability, with capital levels in line with business needs and regulatory requirements.**

None of this would be possible without the help, work and motivation of Santander Group's highly professional and experienced team. We want to continue to strengthen it through our talent management model that enables us to identify employees' potential and develop a career plan that is individually tailored. In addition, we are implementing new ways of working, with more flexible models that are adapted to current life, in order to consolidate our bank as one of the best companies to work for.

I firmly believe that, with the commitment of our employees and the trust of our customers and shareholders, we can attain our goals and continue to help people and businesses prosper in a Simple, Personal and Fair way.

José Antonio Álvarez
Chief executive officer

We made progress in 2015 in the main strategic objectives and our financial variables performed well. We will continue in 2016 to advance in the Group's commercial transformation

Corporate governance

Santander strengthened its corporate governance, focusing, in particular, on the role and functioning of the board of directors and leadership in the Group's main policies and strategies, as well as the key role it plays in risk management, in accordance with the highest international standards.

Balanced and committed board

- Of the 15 directors, 11 are non-executive and 4 executive.
- A diverse board (33% of women) with international experience.

Equality of shareholders' rights

- The principle of one share, one vote, one dividend.
- The Bylaws do not contain anti take-over measures.
- Encouragement of informed participation at shareholders' meetings.

Maximum **transparency,** particularly in terms of remuneration

- This is key for generating shareholder and investor confidence and security.
- New remuneration policy for executive directors and senior management, aligned with our Simple, Personal and Fair culture.

At the forefront of **international** best **governance practices.** In 2015:

- The position of lead director gains importance and the role of the board's committees is strengthened.
- Enhancement of risk management governance.
- Internal governance framework for relations between the parent bank and subsidiaries.

Board of directors

The board of directors is the Group's highest decision-making body, except for matters reserved for the general shareholders' meeting. Santander has a first-class, highly qualified board; experience, knowledge, dedication and diversity are its main assets.

In line with the Bank's aim and purpose and as part of its general oversight function, the board leads the decisions regarding the Group's main policies, strategy and corporate culture. It defines the Group's structures and promotes the appropriate policies in relation to corporate social responsibility. In particular, in the exercise of its responsibility and involvement in managing all risks, it must approve and monitor the risk appetite and framework and ensure that the "three lines of defence" model (business and risk origination; risk control and compliance and internal audit) are respected.

Its functioning and activities are regulated by the Bank's internal rules, which are governed by the principles of transparency, responsibility, justice, effectiveness and defence of shareholders' interests. The board also ensures compliance with the best international practices and continues to advance in attaining the highest corporate governance standards, for which several changes were made to the board's rules and regulations during 2015.

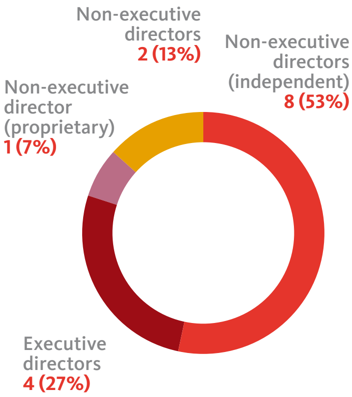
The composition of Banco Santander's board is balanced between executive and non-executive directors. The board was strengthened in 2015 with more non-executive directors (most of them independent) who ensure appropriate control of the business and decision-taking, fostering, furthermore, debate that is more challenging and of higher quality on these issues.

Robust corporate governance is key for guaranteeing a sustainable business model over the long term

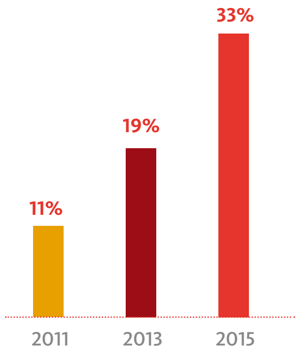
For more information on corporate governance see pages 74 to 111 of Banco Santander's Annual Report

Banco Santander's board

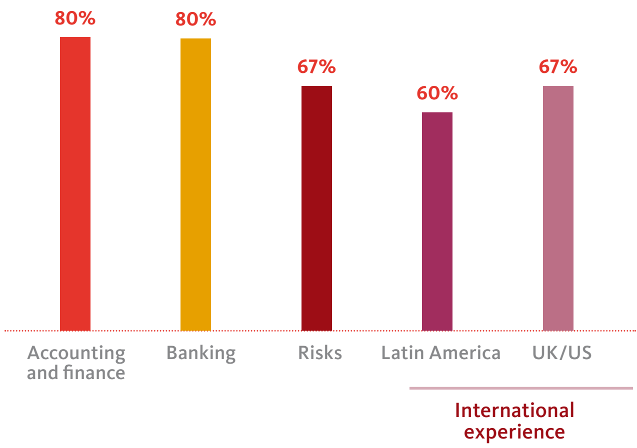
Composition of the board
Number and % of directors



Diversity in the board
% of female directors



Relevant expertise of board members
%



All board members are recognised for their professional capacity, integrity and independence and, individually and collectively meet the conditions, experience and necessary dedication for attaining the goal of turning Santander into the best retail and commercial bank. The non-executive directors' profile includes professionals with extensive financial experience, wide knowledge of the markets where the Group has businesses and of the different sectors and customer service models from top-level executive positions.

At the end of 2014, Santander granted bylaw-stipulated status to the position of lead director and consolidated it further in 2015 through the appointment of Mr Bruce Carnegie-Brown.

Remuneration policy

The Bank's remuneration policy for directors and senior management is based on the following principles:

1. Remuneration must be consistent with rigorous and prudent risk management.

2. Anticipating and adapting to the regulatory changes in remuneration matters. The executive directors' variable remuneration deferred period, as well as that of other executives within the Group's identified category, are consistent with the provisions of the CRD IV.

3. Involvement of the board, as, at the proposal of the remuneration committee, it approves the annual remuneration report for directors and submits it to the general shareholders' meeting on a consultative basis and as a separate item on the agenda.

4. Transparent information.

The board held
21
meetings in 2015.

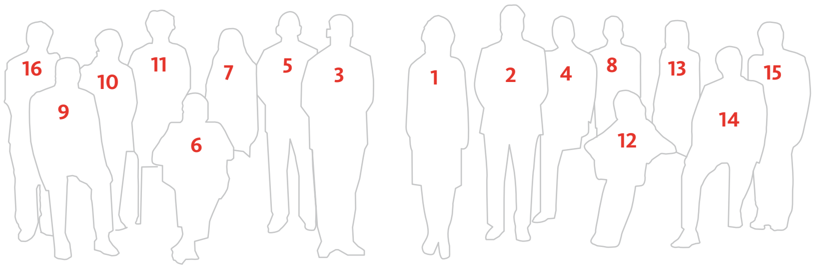
Changes in the composition of the board

- At its meeting on 30 June 2015, the board agreed to appoint Mr Ignacio Benjumea, until then general secretary and secretary of the board, as non-executive director of Banco Santander. At the same date, Mr Jaime Pérez Renovales was appointed as the new general secretary and secretary of the board, and Mr Juan Rodríguez Inciarte tendered his resignation as director.
- Ms Sheila Bair resigned as director as of October 1 after she was appointed president of Washington College. In order to fill this vacancy, the board, at the proposal of the appointments committee and after obtaining the corresponding regulatory authorisations, agreed to appoint Ms Belén Romana as an independent director.
- The appointments of Mr Ignacio Benjumea and Ms Belén Romana will be submitted to the next general shareholders' meeting for ratification.

New auditor

At its meeting of 6 July 2015, the board selected PricewaterhouseCoopers Auditores, S.L. (PwC) to be the external auditor of Banco Santander and its consolidated Group and verify the financial statements for 2016, 2017 and 2018. This decision was adopted in line with the corporate governance recommendations with regard to rotation of the auditor, at the proposal of the audit committee and as a result of a fully transparent selection process. The board submitted this appointment for approval by the ordinary general shareholders' meeting.

Board of directors of Banco Santander



1.
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
Group executive chairman and executive director

2.
Mr José Antonio Álvarez Álvarez
Chief executive officer and executive director

3.
Mr Bruce Carnegie-Brown
Vice chairman. Non-executive director (independent) and coordinator of the non-executive directors (lead director)

4.
Mr Rodrigo Echenique Gordillo
Vice chairman and executive director

Pereda building, Santander Group city, Boadilla del Monte, Madrid, Spain.
22 December 2015.

9.
Mr Juan Miguel Villar Mir
Non-executive director (independent)

10.
Ms Belén Romana García
Non-executive director (independent)

11.
Mr Javier Botín-Sanz de Sautuola y O'Shea
Non-executive director (proprietary)

12.
Ms Esther Giménez-Salinas i Colomer
Non-executive director (independent)

● Executive committee

▲ Audit committee
● Appointments committee
■ Remuneration committee

● Risk supervision, regulation and compliance committee (board risk committee)
■ International committee
▲ Innovation and technology committee

5.
Mr Matías Rodríguez Inciarte
Vice chairman and executive director
● ▲

6.
Mr Guillermo de la Dehesa Romero
Vice chairman and non-executive director
● ● ■ ● ■ ▲

7.
Ms Isabel Tocino Biscarolasaga
Non-executive director (independent)
● ▲ ■ ●

8.
Mr Ignacio Benjumea Cabeza de Vaca
Non-executive director
● ● ■ ● ■ ▲

13.
Ms Sol Daurella Comadrán
Non-executive director (independent)
● ■

14.
Mr Ángel Jado Becerro de Bengoa
Non-executive director (independent)
▲ ● ■ ●

15.
Mr Carlos Fernández González
Non-executive director (independent)
▲ ● ●

16.
Mr Jaime Pérez Renovales
General secretary and secretary of the board

Banco Santander's structure and internal governance

Subsidiary model

Santander Group is structured using a subsidiary model of which the parent is Banco Santander, S.A. Its registered office is in the city of Santander (Cantabria, Spain) and its corporate centre is in Boadilla del Monte (Madrid, Spain).

The Group's subsidiary model is characterised by the following:

- The governing bodies of each subsidiary are responsible for rigorous and prudent management, ensuring economic soundness and overseeing the interests of shareholders and other stakeholders.
- The subsidiaries are managed on the basis of local criteria and by local teams that contribute considerable knowledge and experience of customer relationships in their markets, while benefiting from the synergies and advantages of belonging to Santander Group.
- They are subject to the regulation and supervision of their local authorities, in addition to the supervision performed globally by the European Central Bank on the Group.
- Their deposits are guaranteed by the respective deposit guarantee schemes of the countries where they are located.

The subsidiaries are funded autonomously in terms of capital and liquidity. The Group's capital and liquidity positions are coordinated in the corporate committees. The intragroup exposures are limited, transparent and at market prices. The Group, moreover, has listed subsidiaries in some countries in which it retains a controlling stake.

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

Corporate centre

Banco Santander's subsidiary model is complemented by a corporate centre that has support and control units which carry out functions for the Group in matters of risk, auditing, technology, human resources, legal affairs, communication and marketing, among others. The corporate centre adds value to the Group by:

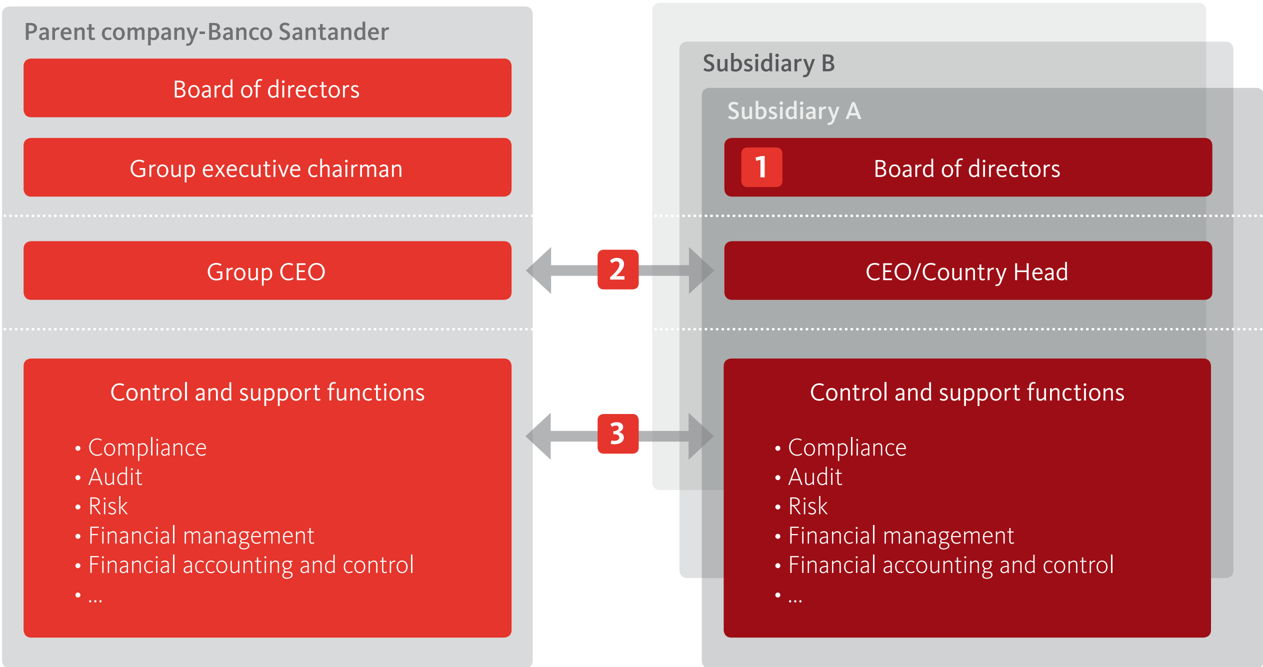
- Making the Group's governance more solid, through global control frameworks and supervision, and taking strategic decisions.
- Making the Group's units more efficient, fostering the exchange of best practices in cost management, economies of scale and a common brand.
- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation, the corporate centre contributes to the Group's revenue growth.

Changes in the boards of the subsidiaries in 2015

Since the end of 2014 there have been changes in the boards of the Group's subsidiaries with the appointment of new non-executive chairmen and new country heads in the US, UK, Brazil, Spain and Mexico. Of note was the creation of the Santander Spain board, which did not involve any corporate change, thereby making its governance structure similar to the subsidiary model used in the Group's other markets. Banco Santander also strengthened its presence and oversight of local units with the appointment of new Group directors to the boards of its main subsidiaries.

Santander Group is structured using a subsidiary model of which the parent is Banco Santander, S.A.

Parent company-subsidiary relations



The board agreed a series of changes during 2015 to simplify the structure of the corporate centre in order to enhance responsiveness to internal customers and reinforce risk control. As a result, the number of divisions at the corporate centre was reduced from 15 to 10.

Santander Group's internal governance

Santander has an internal governance framework that includes a governance model that establishes the principles defining relations between the Group and its subsidiaries, and the interaction that must exist between them, at three levels:

- the subsidiaries' governing bodies, in accordance with the Group's composition, creation and functioning guidelines of the subsidiaries' boards;
- between the chief executive officers and country heads and the Group, as well as;
- between the teams deemed significant with regard to control functions, as well as certain support and business functions, both at the corporate centre and the subsidiaries.

Santander also has an internal governance framework with thematic frameworks, developed as common operating frameworks for those matters considered important, due to their influence on the Group's risk profile-notable among which are risks, capital, liquidity, corporate governance, audit, accounting and information, financial management, technology, marketing of products and services, anti-money laundering, brand and communication - and which specify:

- the way of exercising oversight and control by the Group over the subsidiaries and;
- the Group's participation in certain of the subsidiaries' important decisions.

Both documents, which comprise the governance framework, have been approved by the board of directors of Banco Santander, S.A. for subsequent adoption by the subsidiaries' governing bodies, bearing in mind the local requirements applicable to them.

Governance of the risk function

During 2015, Banco Santander's board agreed significant changes to the way in which governance of the risk function is structured, clearly defining the responsibilities of the various committees and separating the units that take decisions and manage risks from those responsible for control. In this way, governance of the risk function at its highest level in the Group is structured via a board risk committee (the risk supervision, regulation and compliance committee) and two committees, one executive and the other of control.

For more information on corporate governance of the risk function, see pages 182 to 193 of Banco Santander's Annual Report


Crecemos
contigo a
cada paso
Bonificación
pagos y recibos

1

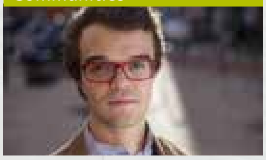
Business model and strategy

We want to earn the lasting loyalty of our people, customers, shareholders and communities.

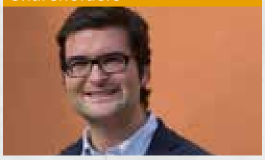
Employees

Customers

Communities



Shareholders



Purpose and business model

Santander has a customer-focused business model that enables it to fulfil its purpose of helping people and businesses prosper.

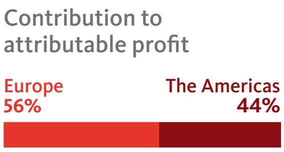
A large yet simple bank

1 Geographic diversification, focused on Europe and the Americas

Santander Group's geographic footprint is balanced between mature and emerging markets, with a significant presence in Argentina, Brazil, Chile, Spain, United States, Mexico, Poland, Portugal, United Kingdom and consumer finance business in Europe[1].

As well as local services, Santander has global businesses that develop products that are distributed through the Group's retail networks and provide services to customers worldwide.

Critical mass in 10 core markets



1. Santander Consumer Finance develops its business mainly in Germany, France, Italy, the Nordic countries, Poland and other Central and Eastern European countries.

2 Focus on retail and commercial banking

Banco Santander's commercial model is designed to satisfy the needs of all types of customers: individuals with different income levels; companies of any size and different sectors of activity; private companies and public institutions. Earning their lasting loyalty is the Bank's main objective. The Bank has high market shares in retail and commercial banking in its core markets where its principal business is to attract deposits and provide loans. The Bank focuses its wholesale banking offer on providing services to its main customers in local markets.

Retail and commercial banking generates 81% of profits

3 Subsidiary model

Santander Group is structured using a subsidiary model that are autonomous in capital and liquidity terms,and are subject to regulation and supervision by local authorities, as well as that exercised on the consolidated Group by the European Central Bank.

These subsidiaries are managed according to local criteria and by local teams that contribute substantial knowledge and experience with customers in their markets, while also benefiting from the synergies and advantages of belonging to Santander Group. The subsidiaries' autonomy limits contagion between the Group's units and reduces the risk.

A value-adding corporate centre

4 International talent, with a shared culture and a global brand

Santander's employees share a corporate culture focused on fulfilling the Group's purpose and aim.

The Santander brand synthesises the Group's identity and expresses a corporate culture and unique international positioning that is consistent and coherent with a way of doing banking that helps people and businesses prosper in a Simple, Personal and Fair way.

5 A strong balance sheet, prudent risk management and global control frameworks

Santander has a medium-low risk profile and high asset quality, with a risk management culture that strives to improve every day. It has a solid capital base consistent with its business model, balance sheet structure, risk profile and regulatory requirements.

The corporate centre adds value and maximises subsidiaries' competitiveness, helping them to become more efficient, generate revenues and implement the most demanding standards in terms of corporate governance through operating frameworks, corporate policies and global control systems. This enables the Group to obtain better results and contribute greater value than that which would come from the sum of each of the local banks.

47.6%
Cost-to-income ratio

6 Innovation, digital transformation and best practices

Innovation has been one of Santander Group's hallmarks since it was founded. On many occasions the Bank has revolutionised the financial industry with new products and services. The Group's size enables it to identify and quickly and efficiently transfer its best practices between the different markets in which it operates, adapting them to local features.

Santander is carrying out an intense digital transformation which affects not only services provided to customers but also all its operations, both internal and external; how to use data to spur business growth; updating and modernising systems and streamlining processes and the organisation as a whole.

Aim and value creation

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

We have set ambitious targets...

	Strategic priorities	Key indicators
EMPLOYEES	Be the best bank to work for and have a strong internal culture	Number of core markets where the Bank is among the top 3 banks to work for (according to the relevant local rankings)
CUSTOMERS	Earn the lasting loyalty of our individual and corporate customers: improve our franchise	Loyal individual customers (million)
		Loyal corporate banking customers and SMEs (thousand)
		Growth in loans and advances to customers (%)
	Operational excellence and digital transformation	Number of countries where the Bank is among the top 3 in customer satisfaction
		Number of digital customers (million)
		Growth in fee and commission income (%)
SHAREHOLDERS	Capital strength and risk management	Fully loaded CET1 capital ratio (%)
		Cost of credit (%)
	Improve profitability	Cost-to-income ratio (%)
		Growth in earnings per share (%)[4]
		Return on tangible equity (RoTE, %)[4]
		Cash dividend pay-out (%)
COMMUNITIES	Santander Universities	Number of scholarships (thousand)
	Support people in the local communities in which the Bank operates	Number of beneficiaries of the Bank's social investment programmes (million)

2014	2015	2018	Pages with more info
3	3	>5	34-37
11.6	12.7	17	38-39
968	1,049	1,646	38-39
5%	6%	> peers	64
5	5	All[2]	43
14.1	16.6	30	40-41
5.4	4.3	c. 10%[1]	18
9.65%	10.05%	>11%	44-64
1.43%	1.25%	1.2%[1]	64
47.0%	47.6%	<45%	63
24.4%	-7.0%	double digit	62
11.0%	11.0%	C. 13%	62
20%	38%	30-40%	45
30	35	130[3]	50-51
—	1.2	4.5[3]	49

1. 2015-2018 average.
2. Except in the US where it will likely be close to competitors.
3. Total amount 2016-2018.
4. Calculated on ordinary profit.

... and we have defined how to attain them.

Simple | Personal | Fair

Simple, Personal and Fair is the essence of the Bank's corporate culture. It reflects how all Santander's teams think and act and what our customers demand of us as a bank. It defines the behaviours that guide our actions and decisions and the way in which we should interact with our employees, customers, shareholders and communities.

Simple

We offer an accessible service for our customers, with simple, easy-to-understand products. We use plain language and improve our processes every day.

Personal

We treat our customers in an individualised and personalised way, offering them the alternatives that best suit their needs. We want each and everyone of our employees and customers to feel unique and valued.

Fair

We treat our employees and customers fairly and equally, are transparent and keep our promises. We establish relations in such a way that the Bank as well as its employees, customers and shareholders obtain benefits. Because we understand that what is good for them is also good for the Bank.

According to the engagement survey carried out in 2015 and which had a response rate of 84%, only eight months after the launch of the new corporate culture 75% of Santander's professionals perceive the Bank as Simple, Personal and Fair.

Employees

In order to be the best retail and commercial bank for our customers, we have to begin with our employees. If they feel proud of belonging to Santander and are more committed, they will be able to earn the lasting loyalty of our customers.

Santander aspires to be one of the top 3 banks to work for in most of the countries where it operates and continue strengthening its corporate culture.

Working differently

New ways of working at Santander were developed during 2015, based on the new corporate culture. We established more flexible corporate behaviour and work systems that allow for a better work-life balance.

- **Corporate behaviours.** Employees in all countries participated in a process to define eight corporate behaviours that will shape the way we work and make Santander an increasingly Simple, Personal and Fair bank. These behaviours have been adapted to the local reality of each country.

Corporate behaviours for a more Simple, Personal and Fair bank

Show respect

"I show respect and I treat others as I would like to be treated, acknowledging and appreciating one another's differences".

Truly listen

"I listen and have empathy, to understand others' needs".

Talk straight

"I talk straight and adapt to others and the specific context, speaking out constructively".

Keep promises

"I keep my promises and I am consistent in everything I do".

Actively collaborate

"I actively encourage co-operation to find the best solution for my customers and colleagues".

Bring passion

"I bring passion and energy and I give my best to earn the lasting loyalty of my customers and colleagues".

Support people

"I give support to people in their development, providing feedback and appreciating their contribution".

Embrace change

"I embrace change, bringing innovative solutions and learning from mistakes".

1 **Corporate flexibility policy**
A framework valid for all countries, adapted and implemented locally.

2 **Leadership and culture**
Management of people and teams that allows for a work-life balance and improves efficiency.

3 **Objectives and planning**
A work system planned with clear goals, where working hours no longer mark the way we work.

4 **Spaces and collaboration**
More open and collaborative workspaces.

5 **Technology and resources**
Tools for working remotely, at any moment and from anywhere.

6 **Processes**
Streamlining processes in order to make more productive use of time.

- ***Flexiworking.*** This is a new way of working in the Bank which aims to:
  - Improve the organisation and planning of work, making it more efficient and collaborative, getting more out of technology, eliminating bureaucracy and making better use of meetings and e-mails.
  - Give executives the autonomy to facilitate to their teams flexibility measures that help them to attain a better work-life balance.
  - Acknowledge employees' engagement and dedication.

  The first initiative was the flexibility policy. A total of 939 flexibility plans were formalised in 2015 in the corporate centre, which led to 34,446 measures enjoyed by 93% of employees.

  One of the keys of the success of Flexiworking is the ambassadors, professionals chosen in various divisions and countries to help to drive and implement the new culture.

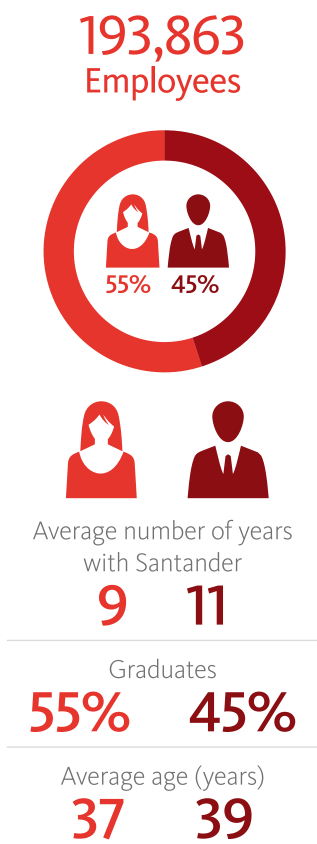
- **New relationship model between countries and the corporation,** to identify and share the best practices for managing people and take advantage of the Group's diversity. There are three areas of activity: regulation and governance, to ensure compliance with the regulatory requirements in matters of compensation, succession planning, training, etc; policies, to design the basic lines of managing the Group's employees, but with the autonomy to adapt and execute depending on each particular situation; and additional support of the corporation, contributing value-added, for example, ensuring that best practices are shared and promoting global projects.

- **Digital transformation.** Digital Days were launched in 2015, held in the corporate centre as well as in almost all countries, with the aim of turning employees into opinion leaders of digital banking.

  Mobile phone apps were also launched, such as the app for expenses and problem-solving in the corporate centre, which, respectively, facilitate settlement of expenses and reporting of various types of incidents; and the É Conmigo Santander in Brazil, which also reports incidents.

- **Corporate volunteer policy.** Approved by the board in December in order to organise and highlight the current volunteer initiatives. Education will be the focal point of this policy and there will be two key events: the We are Santander Week in June and the International Volunteer Day in December. Each country also has its own initiatives. Santander had 55,254 volunteers worldwide in 2015.

- **We are Santander Week.** Under the slogan of "A Simple, Personal and Fair Week", the new corporate culture was the central element of the We are Santander Week in 2015. Corporate and local activities were developed to foster commitment among employees, education, listening and pride in belonging to the Group.



Town hall meeting of Ana Botín with employees at Santander Group City, June 2015.

Talent management

The following measures were added to talent management in 2015, in order to align it with the transformation that the Group is undergoing.

- **Succession planning policy and process:** to establish the management and monitoring guidelines of possible replacements in key positions of senior management and control functions.
- **Inclusion of customer satisfaction metrics:** to calculate employees' variable remuneration.
- **Open offer policy:** as of April the Group's employees were able to choose the training courses they preferred on the basis of their interests and professional training needs.
- **Employee Relationship Management (ERM):** this tool allows our HR teams to improve its knowledge of the corporate centre's professionals, segmenting them with a customer focus according to their profiles so as to adjust the training and development actions of human resources to their specific needs.
- **Performance appraisal:** 180-degree appraisal for executives, and new corporate behaviours included in this appraisal.

Various projects put into effect during 2014 were also consolidated:

- **Talent Assessment Committees:** bodies that regularly meet and involve senior management. The performance of professionals and their potential is analysed. More than 1,350 executives were assessed during 2015, of which close to 35% have an individual development plan.
- **Global Job Posting:** corporate platform that gives all professionals the possibility of knowing and opting to apply for job openings in the Group. In 2015, 381 offers were made.

Transparent communication

Progress was made in 2015 in the process of listening to and dialoguing with employees.

- **Santander Ideas,** the first internal social network enabling professionals in all countries to share their ideas on strategic issues for the Bank, vote on them and comment.

  Since the platform's launch in 2014, 27,850 users contributed more than 13,000 ideas.

  Santander Ideas received 3,046 ideas in 2015 and held seven challenges in six countries: Argentina, Chile, Portugal, Poland, the corporate centre (Spain) and Germany. Employees made suggestions on how to achieve an increasingly Simple, Personal and Fair bank for them, customers, shareholders and communities.

Annual engagement survey

- The 2015 results were better compared to 2014, particularly in two aspects: work-life balance, which rose from 50% to 72%, thanks to the launch of Flexiworking, and the role of executives as people managers, especially in terms of respect and recognition, which improved from 61% to 72%.
- Moreover, there were still areas of improvement regarding organisational support, such as the speed with which decisions are taken, the simplification of processes and the improvement in the organisation of positions, although in general it increased from 63% to 66%.

84%
participation

75%
engaged employees

82%
of employees feel proud to work for Santander

Of note among the ideas implemented in 2015, in addition to Flexiworking, was Best4us, which puts Group employees in touch with one another so that they can share common interests (language learning, cultural exchanges); Santander Benefits, an online space that promotes offers and services for the Group's professionals in Spain; and ideas related to the Branch of the Future, a new branch model that allows simpler processes, a more intuitive technology and differentiated spaces according to the customers' needs.

- Various **town hall meetings** were held, both in the corporate centre and in countries, led by our Group executive chairman, the Group CEO and country and division heads, in order to enhance the information on of the progress made in executing the strategy and fostering the corporate culture.

Recognitions

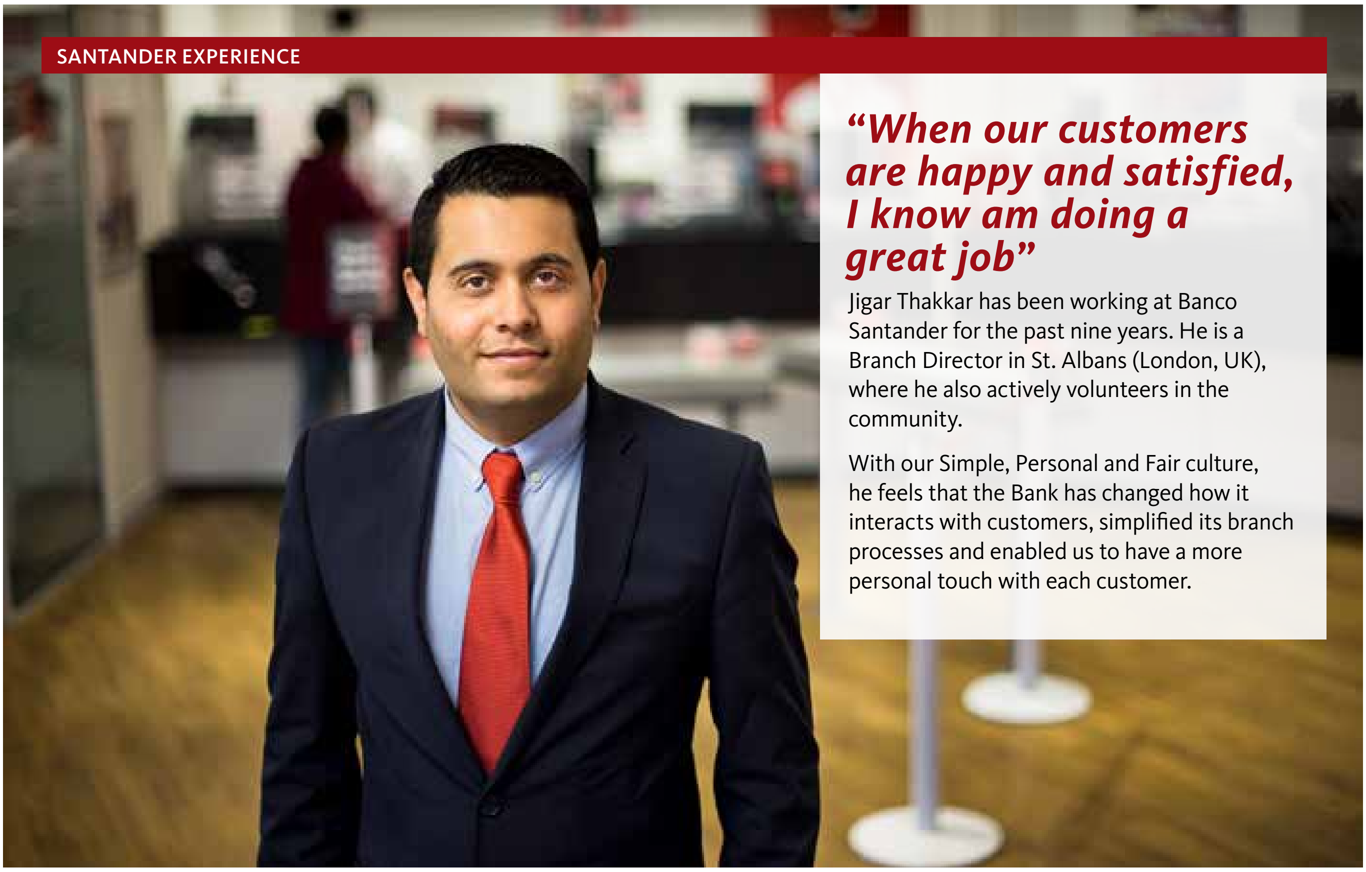
Among the recognitions obtained by Banco Santander during 2015 were the following:

- The annual Most Attractive Employers study carried out by the Swedish consultancy Universum, which gathers the opinions of more than 16,000 Spanish students, places Banco Santander among the four best companies to work for by business students and business schools that also consider it their preferred bank.
- The 2015 Latam ranking of Universum puts Banco Santander as the most preferred bank to work for and the eighth company among business students in Latin America.
- The study by the consultancy Randstad among more than 8,000 potential candidates aged between 18 and 65 recognises Santander as one of the preferred banks to work for in Spain.

SANTANDER ideas:)

27,850
users of the Santander Ideas platform

3,046
ideas received from employees in 2015



SANTANDER EXPERIENCE

"When our customers are happy and satisfied, I know am doing a great job"

Jigar Thakkar has been working at Banco Santander for the past nine years. He is a Branch Director in St. Albans (London, UK), where he also actively volunteers in the community.

With our Simple, Personal and Fair culture, he feels that the Bank has changed how it interacts with customers, simplified its branch processes and enabled us to have a more personal touch with each customer.

Customers

We want to help our customers progress day by day: with simple and tailor-made solutions that increase their loyalty to the Bank; a fair and equal treatment based on trust and excellent service through our branches and digital channels.

Santander continued to make progress in 2015 in transforming its commercial model with three clear priorities:

- **Customer loyalty,** with specific programmes in all countries that enable us to reach our target of 18.6 million loyal customers by 2018.
- **Digital transformation,** with an end-to-end strategy to reach 30 million digital customers by 2018.
- **Operational excellence,** with initiatives that improve customer experience so that Santander is among the top 3 banks in 2018 in customer satisfaction in its core markets.

Customer loyalty

Developing value propositions by customer type and having a long-term strategy is the way to increase customer loyalty in the Group's core markets. Among the main initiatives in 2015 were:

- **1|2|3 World.** In Spain, the 1|2|3 Account for individual customers was launched in May and rewards balances with interest rates of 1%, 2% and 3% up to €15,000 and cashback on household bills. This product has also been adapted and extended to the SME segment, reimburses in cash part of payroll and social security payments, taxes and supplies related to business activity and provides loans on preferential terms.

  In Portugal, 1|2|3 World was launched in March and offers discounts on purchases made with the 1|2|3 card, cashback on household bills and discounts on petrol, among other benefits.

  In the United Kingdom, the 1I2I3 value proposition consolidated as the first choice of customers who decide to switch their bank.

- **Santander Select.** The Group's differentiated value proposal for high income customers is already installed in all countries and has more than 2 million customers. It is a specialised attention model, with a global and exclusive offer tailored to the needs of these customers, which during 2015 was improved and extended. Of note among these practices is Select Expat in Mexico, which exploits the Group's global scale to accompany customers in their internationalisation process; the launch of a range of profiled funds in several countries; and the consolidation of the Débito Global card.
- **Santander Private Banking.** A comprehensive and specialised service model for higher income customers, which during 2015 received important awards, such as those given by *Euromoney* magazine in Argentina, Chile and Portugal; and *Global Finance* in Spain, Mexico and Portugal. The volume of funds managed by the private banking business increased 5% during 2015.
- Santander has specific **programmes for SMEs** which combine a strong financial offer with non-financial solutions that help spur internationalisation, connectivity, training, talent attraction, etc. This programme was extended to Uruguay, Argentina, Brazil and Chile in 2015 and is now in place in eight of the Group's markets. Santander Advance and Breakthrough are the main hallmarks of this programme.

1|2|3 World in figures

UK

4.6
million 1|2|3 customers

1
million new 1|2|3 World customers in 2015

96%
of 1|2|3 current account holders have a primary banking relationship

Spain

860,000
accounts

237,000
payroll accounts captured

Portugal

>110,000
customers

53,920
customers with full 1|2|3 which includes account, card and insurance protection

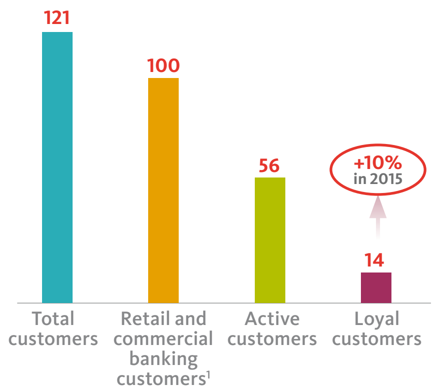
Group customers

Million

Spain	12.7
Portugal	3.8
UK	26.0
Poland	4.3
Germany	6.1
Rest of Europe	10.8
Total Europe	**63.7**
Brazil	32.4
Mexico	12.4
Chile	3.6
Argentina	2.8
Rest of Latin America	0.8
Total Latin America	**52.0**
United States	**5.1**
Total customers	**120.8**

Santander has a significant potential in customer loyalty

Million customers



1. Excluding consumer finance customers.

A loyal customer is much more profitable

x4 retail
x4 SMEs
x5 corporates

Moreover, by harnessing its synergies and international presence, Santander has specific solutions to **support the internationalisation** of its customers. Among the main initiatives are:

- **Santander Passport.** A customer service model with a consistent offer for global companies in all the countries where the Group operates. It has more than 6,000 registered customers and is installed in eight countries. The rest of countries where the Bank has a commercial presence are due to join the model during 2016.

- **Santander Trade.** A portal dedicated to foreign trade that provides information, tools and resources to help companies grow their business abroad. It is already available in 14 countries and has received more than two million visits since its creation and more than 35,000 registered exporters and importers.

  As part of this portal, the Santander Trade Club is an innovative social platform that enables the Bank's customers from various countries to contact one another and expand their international activity. There are currently more than 11,000 members.

- **International Desk.** A service established in 14 countries with over 8,000 registered customers and offering support to companies that want to enter markets where the Bank is operating, thereby facilitating their entry into a new country.

Progress was made in defining trade corridors within the Group (for example, UK-Spain, Mexico-Spain). Its international trade tools, products and services are also being improved in order to offer our customers the best solutions.

Know customers' needs

- In order to deepen knowledge of customers and have a 360º view of their behaviour and preferences with regard to the Bank, the NEO CRM was developed further during 2015. This tool uses business intelligence methodology to compile more than 500 relationship instances with the Bank and learn how customers behaved. On the basis of this knowledge, commercial actions can be launched and customers' opinions collected, thereby improving commercial effectiveness and customer satisfaction.

- NEO CRM was launched in Chile in 2012 and then extended to Spain, Brazil, United States and Uruguay. In 2016, it will be installed in Mexico, Argentina and Poland.

Multichannel customer profile

Our customers increasingly use their mobile phone to bank with Santander.

Digital users:

16.6 million digital users — 17% more than in 2014

6.9 million mobile banking users — 50% more than in 2014

Number of accesses/ month per customer:

Internet — 9 accesses/month

Mobile — 13 accesses/month

Sales:

15% in digital channels

Monetary transactions (except cash+direct debit)

58% in digital channels

Digital transformation

The multichannel transformation of the commercial model is one of Santander's strategic priorities. Digital channels offer new opportunities to personalise customer relationships, facilitate greater availability and proximity and contribute to improving satisfaction and loyalty with the Bank.

Santander has **four basic drivers** for this transformation:

1. **Incorporate digital channels** in the day-to-day commercial activity, without forgetting personal attention.

2. **Offer a first-class customer experience,** with new and different multichannel relationship models for each segment.

3. Develop new functionalities, in order to have **best-in-class digital channels**, particularly in the area of mobile banking.

4. Foster a **multichannel culture** that involves and engages all teams in our transformation plans.

Our local units have developed specific projects for each of these drivers and all have their own **Multichannel Transformation Plans.**

The ***M programme*** was launched during 2015 in order to drive change. This programme has a global-local collaborative approach and is based on the best practices implemented in our local markets to incorporate multichannel services in day-to-day retail and commercial banking.

Among the major developments achieved by our local units during 2015 in our digital transformation agenda were:

- **Santander UK** is participating in the first group of Apple Pay issuers in the UK and has developed new apps such as Cash Kitti, a group money management app, and Spendlytics, a card expenses tracking app.

Digital initiatives


Cash Kitti

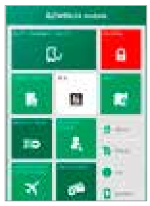

Spendlytics


Santander Watch


Mobile Deposit Capture


Apple Pay


App Spain


App Poland

Others

The new Santander branch

- Barrier-free entry to the self-service area.
- Multichannel zone. (a)
- ATM with extended operating hours. (b)
- Personalised reception.
- Waiting area with digital display and queue management.
- Flexible customer service desks not assigned to staff. (c)
- Out-of-sight tills.
- Executive rooms and meeting rooms. (d)
- Specialised attention in exclusive zones.


a


b


c


d

- In **Spain**, Santander renewed its commercial website and launched a new mobile app for SMEs and companies, and Santander Watch, which allows customers to check their accounts and card transactions from smart watches.

- **Brazil** launched a strong plan for digital customers (“Vale a pena ser digital”) in order to inform customers of the Bank’s digital offer. A new version of the Bank’s mobile app was also launched.

- In **Argentina**, *Global Finance* magazine chose Santander Río as the country’s best digital bank for the 16th consecutive year.

- Bank Zachodni WBK’s mobile banking app is considered to be the best in **Poland** and the second in Europe, according to a study by the consulting firm Forrester. The Bank was also awarded the prize by *Global Finance* magazine as the best mobile bank and the best app in Central and Eastern Europe.

- In the **United States**, Santander launched its online bank for SMEs and companies, as well as Mobile Deposit Capture, which enables cheques to be easily and safely processed via a mobile phone.

- **Santander Mexico** carried out a project to simplify credentials, which allows access to various digital channels from a single password.

As a result of these initiatives, the number of digital customers is growing at a brisk pace: 17% since December 2014 to 16.6 million.

The Bank has an **innovation area** whose purpose is to research and anticipate market trends, and design businesses and solutions for customers from a global, disruptive and long-term standpoint. The Group also fosters innovation via **Santander Innoventures,** a corporate $100 million venture capital fund that holds minority stakes in financial sector start-ups, helping

Examples of simplified processes - Customer Journeys

Brazil
Process for opening a current account

BEFORE...
Account: D+8
Card: D+16
Channels: D+22
Access code: D+28

TODAY...
D+1*.

*D+1 = 24H.

Portugal
Process for opening a current account

BEFORE...
The customer was asked **to sign six/eight pages** in the contract to open an account (paper-based process)

TODAY...
Only **two signatures** (digital process on a **tablet**)

United Kingdom
Process for opening a current account

BEFORE...
It took **six days** to complete the process for opening an account

TODAY...
The customer leaves the branch with the account activated and operating from the day it is arranged

Mexico
Requesting a loan (SMEs)

BEFORE...
13 days to complete the process

TODAY...
Digital process: **48 hours** between requesting the loan and receiving it

them to grow and, in turn, learning about the new technologies they develop in order to use them for the Group and its customers. The Retail and Commercial Banking, and Technology and Operations divisions carry out the day-to-day digital transformation, improving the Bank's offer and responding to business needs.

In order to drive the process of change and ensure coordination between all the involved areas of the Bank, a **committee to coordinate digital transformation** was created in 2015. It involves the areas of Strategy and Innovation and the divisions of Retail and Commercial Banking, Technology and Operations and the Group's main local units. This committee reports to the Bank's management and strategy committees.

In addition, while making progress in the digital world, we continued to work to improve customer experience in traditional channels. **Branches are the key channel for maintaining and strengthening long-term relations with our customers**. Our Spanish and Brazilian units launched their new Santander branch model in 2015, which responds to the current form of customer relations with technological developments to simplify processes and make them easier and intuitive, and differentiated spaces that allow the advantages of technology to be combined with the proximity of personal treatment by the Bank's professionals. Argentina inaugurated its first digital branch. Other countries such as Mexico and the UK will soon open their new spaces.

Operational excellence
Santander made progress in the following three key areas:

- Transform the customer experience for the main customer journeys, such as, customer onboarding (opening and activating accounts, applying for loans, etc).
- Improve customer experience and customer satisfaction.
- Create value for customers by reducing costs. The Group aims to generate €3,000 million of cost savings by 2018 through greater efficiency in technology and operations and at its corporate centre, and through the digitalisation of the commercial distribution model.

Transform customer journeys
A best-in-class customer experience is essential to achieve more satisfied and loyal customers. In order to incorporate customers' suggestions and improve their experience in their main processes and interactions with the Bank,

Customer satisfaction

% of active satisfied customers

Bank	2015	2014
Argentina	87.6%	86.8%
Brazil	71.6%	70.6%
Chile	92.6%	88.4%
Spain	87.6%	85.0%
Mexico	94.0%	95.0%
Poland	96.4%	93.5%
Portugal	93.1%	94.1%
UK	95.7%	94.5%
US	81.8%	80.8%
Uruguay	94.3%	90.0%
TOTAL	**86.6%**	**85.3%**

Source: Corporate Benchmark of Customer Experience and Satisfaction of active individual customers. (Figures at the end of 2015, corresponding to the results of surveys in the second half of the year).

Santander strives to continuously improve customer journeys.

In 2015, all countries made progress in the customer journey transformation programme, a project that involves all the Bank's areas and entails redesigning and streamlining all its processes.

Improve customer experience and customer satisfaction

Santander has several initiatives to measure and monitor customer satisfaction. Every year more than one million surveys are conducted and work continues to incorporate the voice of more customers and at more moments in their relationship with the Bank.

As a result of these initiatives, customer satisfaction improved at Group level in 2015.

In 2015, Spain, UK, Mexico, Argentina and Portugal were among the top 3 in customer satisfaction in their markets, in line with the target set for 2018

SANTANDER EXPERIENCE

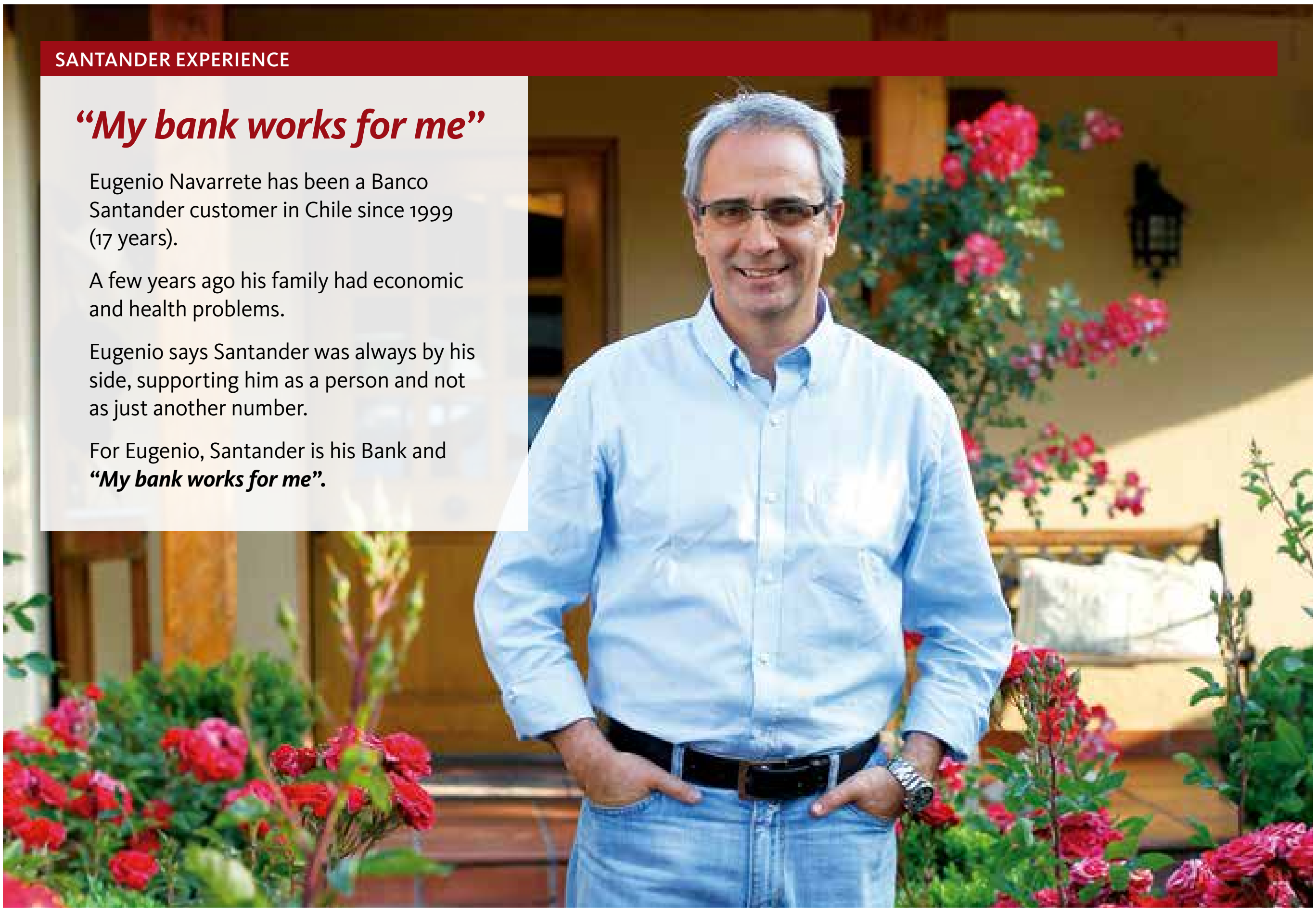
"My bank works for me"

Eugenio Navarrete has been a Banco Santander customer in Chile since 1999 (17 years).

A few years ago his family had economic and health problems.

Eugenio says Santander was always by his side, supporting him as a person and not as just another number.

For Eugenio, Santander is his Bank and ***"My bank works for me"*.**



Shareholders and investors

With more committed employees and more satisfied customers, Banco Santander can offer its shareholders an attractive and sustainable return, and maintain their loyalty in the long term.

Banco Santander has set the following strategic priorities for its shareholders:
- Obtain an attractive and sustainable return.
- Attain high recurring income.
- Maintain prudent risk management.
- Manage capital in a disciplined way.

The Bank made significant progress during 2015 in all of these aspects:

A good return was maintained:
- 13% increase in underlying attributable profit.

- 11.0% ordinary RoTE and 3% improvement in the net tangible book value per share on a like-for-like basis.

Increased remuneration in cash and payment of the four usual dividends maintained:
- The remuneration in cash rose from 20% to 38% of profit, in line with the aim of maintaining a cash pay-out of between 30% and 40% of the recurring profit.

- The total shareholder remuneration out of 2015 profit was €0.20 per share. Three of these dividends have already been paid (€0.05 per share each). The fourth and final dividend is scheduled to be paid in May 2016.

Strengthened its capital position:
- As a result of the organic capital generation and the accelerated book-building process carried out in January. Three scrip dividends were also paid, two of which were charged to 2014´s earnings and one to 2015´s.
- Santander has a comfortable capital position, with a Basel III capital ratio (fully loaded CET1 ratio) of 10.05% at the end of 2015, which will enable it to take advantage of the organic growth opportunities in its core markets. The Santander regulatory capital ratio (12.55%) is 280 basis points above that required by the ECB for 2016 (9.75%).

Improved risk management:
- The NPL ratio dropped by 83 b.p. to 4.36% and the cost of credit stood at 1.25%.

- By implementing Santander Advanced Risk Management, the Bank wants to lay the foundations for having the industry's best comprehensive risk management model.

Established the groundwork for a new commercial model which will enable organic capital growth:
- This model is based on four main drivers: an increase in loyal customers; more digital customers; enhanced customer satisfaction; and a focus on higher growth businesses such as SMEs, consumer finance and private banking.

Increased the number of shareholders:
- The total number of Banco Santander shareholders was 3.6 million from more than 100 countries at the end of 2015.

Santander's goal is to increase its dividend per share every year

10.05%
fully loaded CET1 ratio

11.0%
Ordinary RoTE

Banco Santander has set the following objectives for the next three years

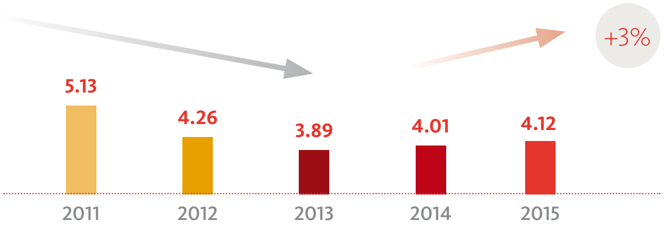
- **Obtain a cost-to-income ratio below 45%, which will mean managing assets even more efficiently.**
- **Maintain an average cost of credit of 1.2%.**
- **Increase profitability, raising RoTE to around 13%.**
- **Continue to generate capital organically, in order to have a fully loaded CET1 ratio of more than 11%, which will increase the dividend and earnings per share.**

3.6
million shareholders

38%
payment of dividend in cash

TNAV/share[1]

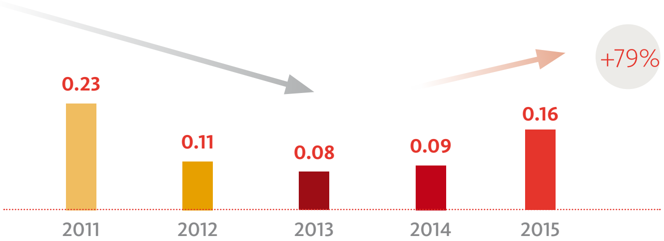
€



1. Calculated on a like-for-like basis with prior years.

Cash dividend

€/share



The Santander share in 2015

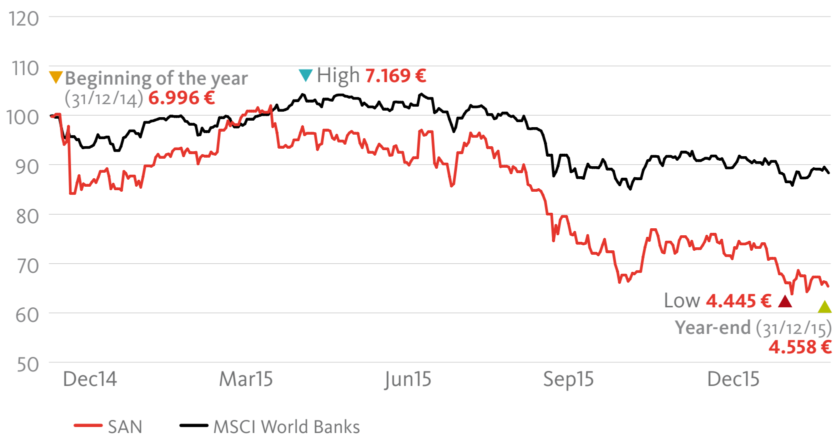
Share performance

In an environment of volatility marked by the Greek crisis, the slowdown of the Chinese economy, lower expectations in emerging markets (particularly Brazil) and falling oil prices, total shareholder return in 2015, taking into account the change in the share price and the remuneration received (with reinvestment of the dividend) was 31% negative. In the same period, the MSCI World Banks, the main global index for banks, registered a total return that was also negative (9%).

Banco Santander was the largest bank in the euro zone by market capitalisation at the end of 2015 and the 19th in the world, with a value of €65,792 million.

Comparative performance of the Santander share

December 2014 vs. December 2015

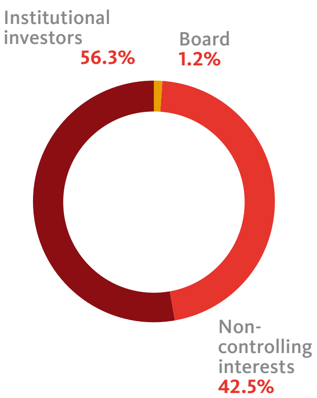


Shareholder base and capital

At the end of 2015, Banco Santander had 3.6 million shareholders in more than 100 countries.

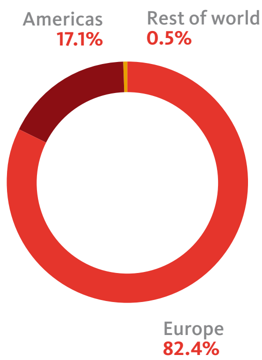
Distribution of share capital by type of shareholder

31/12/15



Geographic distribution of share capital

31/12/15



Shareholder base and capital

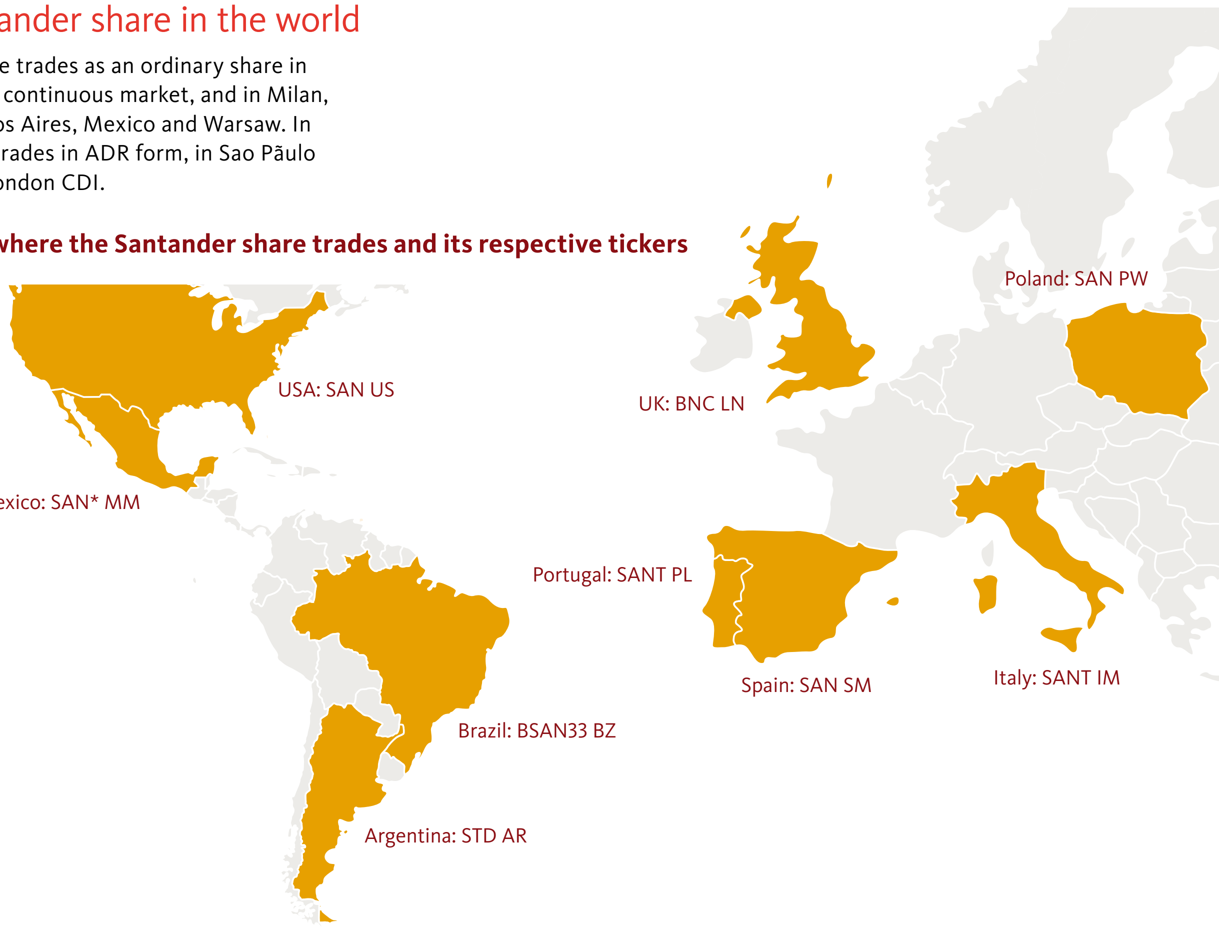
31 December 2015

	Dec 2015	Dec 2014
Shareholders (number)	3,573,277	3,240,395
Outstanding shares (number)	14,434,492,579	12,584,414,659
Average daily trading (number of shares)	103,736,264	77,340,428

The Santander share in the world

The SAN share trades as an ordinary share in Spain, via the continuous market, and in Milan, Lisbon, Buenos Aires, Mexico and Warsaw. In New York, it trades in ADR form, in Sao Pāulo BDR and in London CDI.

Countries where the Santander share trades and its respective tickers



Milestones in 2015

8 January: €7,500 million capital increase

3 February: presentation of 2014 results

February: third interim dividend, 2014

27 March: general shareholders' meeting

28 April: presentation of first quarter 2015 results

May: final dividend, 2014

30 July: presentation of second quarter 2015 results

August: first interim dividend, 2015

23-24 September: *Investor Day*

29 October: presentation of third quarter 2015 results

November: second interim dividend, 2015

Held in London, UK.

+350 analysts and investors attended

59 members of the Bank's senior management gave presentations

More than 150 questions from investors and analysts were answered

Commitment to shareholders via the Shareholder and Investor Relations area

The Shareholder and Investor Relations area implemented initiatives in 2015 to improve transparency with shareholders and facilitate the exercise of their rights. These included:

1 Communications

- **Communications** via channels selected by the shareholders to inform them of material facts, shareholders' meetings, dividends, performance of the share price and the Group, marketing campaigns, promotions and events.
- **Quarterly shareholders' report:** print and online versions in seven countries.
- Sending of **daily and weekly financial newsletters.**
- Launch of communication channels with shareholders based on new technologies: **a new corporate website, a new commercial website and an app for Santander shareholders and investors.**

2 Attention

- 42,805 **e-mails** handled.
- 241,553 **telephone enquiries** received.
- 22,336 **personal formalities.**

3 Exclusive benefits

- Financial products for shareholders.
- Waiver of fees.
- Promotions in products and services via the "Yo Soy Accionista" website.
- Delivery of study scholarships to disabled university students.
- Participation in charity projects worldwide.

4 Shareholders' meeting

- Record participation in the meeting held in March 2015, in terms of both share capital and number of shareholders.

5 Quality studies

- Ongoing assessment of the various services provided. Nine out of ten shareholders would recommend the telephone and Internet helpline services.

SANTANDER EXPERIENCE

"I am a businessman who invests and manages on a long-term basis, which is why I trust in Santander"

Josep Rosàs owns Masia Rosàs in Barcelona and has been a Banco Santander shareholder for more than 12 years.

He invests in Santander because of its three great strengths. First, the attractive geographic diversification of its assets. Second, its permanent focus on the shareholder which makes him feel he is a real owner of the bank. Third, Santander's proven track record throughout its history when measuring risk, while continuing to take courageous decisions.

A bank which, for Josep, has never failed at the most difficult times.

Communities

Santander carries out its business in a responsible and sustainable way while contributing to the economic and social progress of the communities in which it operates, and is particularly committed to fostering higher education.

Banco Santander has a business model and a corporate culture focused on creating long-term value for all its stakeholders: employees, customers, shareholders and communities.

The Bank voluntarily assumes certain ethical, social and environmental commitments which go beyond the related legal obligations, and makes a large social investment mainly via Santander Universities.

Sustainability governance

Santander has a well defined sustainability governance structure, at both corporate and local level, which facilitates the involvement of all the Bank's business and support areas in the Group. The board is the highest governing body in sustainability matters, and is responsible for approving the sustainability strategy and policies.

The sustainability committee, chaired by the CEO and comprising the heads of divisions and/or areas, proposes the strategy and the initiatives in sustainability.

Santander has a working group, chaired by the chief compliance officer, which analyses and assesses the social, environmental and reputational risks of financing operations in sensitive sectors.

Lastly, the board risk committee is responsible for reviewing the sustainability policy ensuring that it is focused on creating value for the Bank; monitoring the related strategy and practices, and assessing its degree of compliance.

There are also local sustainability committees in most of the Bank's local units, chaired by the corresponding country head. This committee proposes and develops, using common corporate frameworks, the sustainability strategy and initiatives adapted to each country's needs and features.

Corporate sustainability policies

In December 2015, the Bank's board approved an update to the social and environmental policy. This policy, now called the **general policy of sustainability**, defines Banco Santander's main lines of action in this area and it is the reference framework in corporate social responsibility and in social and environmental risk management.

The Bank's **climate change** and **human rights** policies were also updated and a new **corporate volunteer** policy drawn up.

The Group also defined **sector-specific environmental policies** which incorporate the criteria for analysing social and environmental risk in sensitive sectors (defence, energy and soft commodities).

Santander fosters ethical behaviour both among its employees, in accordance with the Group's general

Santander is part of the main stock market indices that analyse and value companies' actions in matters of sustainability

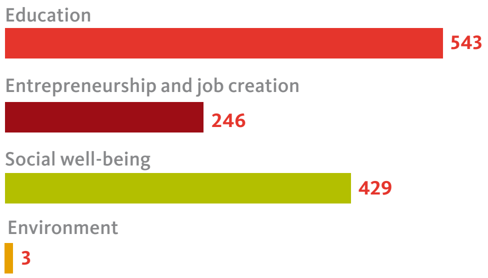
FTSE4Good

Member of Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

International initiatives in sustainability to which Banco Santander adheres

- United Nations Global Compact
- Banking Environment Initiative (BEI)
- World Business Council for Sustainable Development (WBCSD)
- UNEP Finance Initiative
- Wolfsberg Group
- Equator Principles
- Round Table on Responsible Soy
- Principles for Responsible Investment (PRI)
- Working Group on Sustainable Livestock
- Carbon Disclosure Project

Beneficiaries of social programmes
Individuals (thousand)



Closing ceremony of the seventh edition of the *Euros from your payroll* social project programme.

code of conduct, and among its suppliers, who are requested to comply with the ten principles of the Global Compact.

Santander, a bank committed to society and its environment

Banco Santander also contributes to the economic and social progress of communities through many social investment programmes in areas such as education, entrepreneurship, social well-being and culture, in a large number of which the participation of the Group's professionals is fostered as a way to promote solidarity and pride in working for Santander.

Education

Banco Santander supports education as a catalyst for developing and growing the communities and countries in which it operates, with a specific focus on higher education via Santander Universities, the Group's hallmark of social investment.

The Bank is also firmly committed to financial literacy and children's education, as it is conscious of the need to promote better knowledge of the basic aspects of finance for the different stages of life.

Entrepreneurship

The creation of social companies, social inclusion and fostering entrepreneurial capacity are some of the Bank's lines of action in this area.

Banco Santander has significant microcredit programmes in Brazil, Chile and El Salvador that enable the most disadvantaged groups to access loans and improve their social inclusion, standard of living and environment.

Social well-being

The Bank has a wide array of programmes that aim to eradicate the social exclusion of the most vulnerable groups, foster research to improve people's health and make life easier for the disabled.

Environment

The Group conducts its activity while preserving the environment, and promoting initiatives and projects that require protection and mitigate the environmental impact. The Bank's environmental initiatives focus on reducing consumption and emissions derived from its activity, developing financial solutions to combat climate change (leadership position in financing renewable energy projects), and integrating social and environmental risks into the process of granting loans.

Art and culture

Santander is very active in protecting, preserving and disseminating art and culture, mainly via the Banco Santander Foundation in Spain and Santander Cultural in Brazil.

1.2
million beneficiaries in 2015[1]

207
million of social investment in communities

7,125
partnerships with NGOs

7,362
megawatts financed in renewable energy projects

1. People who have benefited from the programmes, services and products of Banco Santander, its employees and customers which have a social and/or environmental component in the 10 core countries where the Bank operates. It does not include those who benefit from the Santander Universities Programme or from cultural programmes.

Santander Universities

Investing in higher education is the hallmark of the Bank's social commitment, which is organised and managed through Santander Universities.

Santander cooperates with more than 3,900 projects to improve education, such as programmes to internationalise universities, encourage mobility by academics, provide students with access to the labour market, foster an entrepreneurial culture, research and innovation, and to increase financial literacy.

The main initiatives in 2015 included the following:

- **The largest scholarship programme provided by a private company**. A total of 35,349 were granted in 2015. These include:
  - 15,553 travel scholarships for university students, with programmes such as *Becas Iberoamérica. Jovenes Profesores e Investigadores* and the *Top* programmes.
  - 10,865 Santander internship scholarships in SMEs to facilitate the insertion of students in the labour market. This programme is carried out in Argentina, Spain, UK, Puerto Rico and, for the first time, in Brazil, Chile and Uruguay.
  - 7,536 study scholarships, with initiatives such as the Itaca-Salary Scholarships of the Autonomous University of Barcelona and training scholarships and aid to university entrepreneurs in Babson College.
- **Entrepreneurship** is another of the main lines of action, with programmes such as YUZZ jóvenes con ideas, managed by the Santander International Entrepreneur Centre which, in its sixth edition, supported and trained more than 900 young people who presented 710 business projects in 41 high performance centres throughout Spain. Also of note were the initiatives promoted by RedEmprendia such as the SOLA project (Spin-Off Lean Acceleration), as well as the Santander University prizes for Entrepreneurship in Brazil which in 2015 set a new record of entries: almost 24,000 university projects throughout the country. These awards were also held in Argentina, Chile, Spain, Portugal and UK.
- **Research and innovation** is supported by an annual investment of €24 million and is used to support research groups on cancer, stem cells, biomaterials, protection of endangered species, innovation and digital transformation, protection of human rights, as well as science parks and Chairs of excellence in universities.

  Some of this investment goes to the Santander Universities Prizes for Innovation which are awarded in Brazil, Mexico, US and Puerto Rico; and to the University Scientific Research Prize in Chile, among others. Initiatives such as the ComFuturo Programme (CSIC) are also supported, which helps to retain talent in Spain through grants to highly qualified young scientists.
- The **Universia** network also helps young people to join the labour market with one million jobs created in 2015. It acted as the intermediary through its job community, which includes websites where 17.3 million job applications were registered.

Banco Santander joined the Ibero-American General Secretariat (SEGIB) in 2015 to foster mobility by students, teachers and researchers in Latin American countries via the Alliance for Latin American Academic Mobility. The aim is to boost academia, contribute to sustainable growth and reduce inequality in the region. At least 200,000 Latin American students, teachers and researchers are expected to further their studies and knowledge in other countries of the region by 2020. Santander joins this commitment through international mobility programmes.

This commitment follows the path established by the 2014 Universia Río Declaration, which set out the conclusions of the III International Meeting of Chancellors organised by Universia in Rio de Janeiro in July 2014 was attended by 1,109 university chancellors from 32 countries.

universia

1,401
universities form part of Universia

1
million jobs intermediated

Santander UNIVERSITIES

Banco Santander is **the company that invests the most in education in the world**, according to a Varkey Foundation report in cooperation with Unesco

€160 million contributed to universities

35,349 scholarships and grants in 2015

1,229 agreements with universities and academic institutions in 21 countries

Santander Universities. Strategic priorities 2016-2018

- **Innovation and entrepreneurship:** fostering the entrepreneurial culture and university innovation will be key in cooperation with universities.
- **University digitalisation:** encouraging the digitalisation and modernisation of universities will be another priority in Santander's commitment to education, with projects to incorporate new technologies to the teaching process, virtual campuses, and the creation of digital academic university services.
- **Internationalisation:** international mobility scholarships, exchange programmes and driving transversal cooperation projects between the universities of various countries.
- **Employability:** initiatives to help university students access the labour market, with scholarship programmes for internships in cooperation with universities.
- **Objective:** 130,000 scholarships in 2016-2018.

SANTANDER EXPERIENCE

"Santander offered me the gift of getting to know other entrepreneurs who like me are eager to change the world"

Miguel Ruiz Capella was one of 5,000 winners of the Santander Scholarship programme for work practice in SMEs and participated in Universia's 2015 Jumping Talent contest.

He is currently COO and legal advisor of Rivekids Technology, an engineering company that develops child retention systems in cars.

He says the opportunities that Santander makes available to students and those who have recently graduated go well beyond simple practices. "Its firm conviction in allowing talent to prosper, without any conditions, is impressive. Always."

Risk management

Santander Group aims to build the future through forward-looking risk management, protecting the present via a robust control environment.

During its more than 150 years of activity, Santander has combined prudence in risk management with the use of advanced techniques that have proven to be decisive in generating recurring economic results.

Santander Group's risk policy is focused on maintaining a medium-low and predictable risk profile. Its risk management model is a key factor for achieving the Group's strategic objectives.

Risk governance

Responsibility for risk management and control, particularly in setting the Group's risk apetite, lies ultimately with the board of directors, which delegates powers to the committees. The board is supported by the board risk committee, an independent risk control and supervision committee. The Group's executive committee also devotes particular attention to managing the Group's risks.

The following committees form the top level of risk governance.

Independent control bodies

- The purpose of the **board risk committee** is to assist the board in the supervision and control of risk, through defining the group's risk policies, developing relationships with regulatory and supervisory authorities and overseeing the group's management of regulation, compliance, sustainability and corporate governance.

- **The risk control committe** is in charge of the effective control of risks. It ensures that risks are managed in accordance with the risk appetite approved by the board, taking a comprehensive view, at all times, of all the risks included in the general risk framework. This involves the identification and monitoring of current and emerging risks, and their impact on the Group's risk profile.

Pillars of the risk function

Integration of the risk culture and involvement of senior management in managing and taking decisions on risks

A risk function independent of the business functions

Management of all risks with a forward-looking and comprehensive view at all levels

Formulating and monitoring the risk appetite of the Group and its subsidiaries

Best-in-class processes and infrastructure

risk pro

All the Santander team engaged in risk

"Risk pro" risk culture

Responsibility
All units and employees must know the risk they incur and be responsible for identifying, assessing, managing and reporting them.

Resilience
All employees must be prudent, avoid risks they do not know or which exceed the established risk appetite, and be flexible, adapting to new environments and unforeseen scenarios.

Challenge
Promote continuous debate within the Bank on how to manage risk in order to be able to anticipate future challenges.

Simplicity
Clear processes and decisions, easy for employees and customers to understand.

Customer focus
Sound risk management helps people and businesses prosper.

Decision-making bodies

- **The executive risk committee** is the collective body responsible for risk management, in accordance with the powers assigned to it by the board. It is involved with all risks.

  It participates in making decisions on risk assumption at the highest level, ensuring that they are within the limits set in the Group's risk appetite, and it informs the board and its committees of its activity when required.

Lines of defence

Banco Santander follows a risk management and control model based on three lines of defence.

The business or activity functions that assume or generate risk exposure constitute the **first line** of defence. The assumption or generation of risk in this line must be aligned with the pre-defined risk appetite and limits.

The **second line** consists of the risk supervision and control function and the compliance function. It ensures that risks are controlled effectively and are managed in line with the set risk appetite.

Internal audit, as the **third line** of defence and the last layer of control, regularly assesses that the policies, methods and procedures are adequate and tests their effective implementation.

Risk culture

Having a solid risk culture is one of the keys that has enabled Santander Group to respond to the changes in economic cycles, customers' new requirements and to increased competition, and to position itself as a bank in which employees, customers, shareholders and communities can trust.

This culture, called risk pro, is aligned with the general principles of Simple, Personal and Fair, and is the series of behaviours that each employee must develop to proactively manage the risks that arise from daily activity.

1.25%
Cost of credit

4.36%
NPL ratio

Santander Group's risk profile

The risks that Santander faces as a result of its activity are: credit, market, liquidity, structural and capital, operational, conduct, compliance and legal, model, reputational and strategic. We set out below a brief description of the main risks and their evolution in 2015.

Credit risk

See pages199-229 of Banco Santander's Annual Report

Definition

This risk comes from the possibility of losses derived from total or partial failure to perform the financial obligations contracted with the Group by its customers or counterparties.

Other credit risk standpoints:

- Credit risk from activity in the financial markets.
- Concentration risk.
- Country risk.
- Sovereign risk and that with the rest of public administrations.
- Environmental risk.

Risk profile

- More than 80% of Santander Group's credit risk comes from retail and commercial banking activities.
- High degree of geographic diversification of risks.
- Limited concentrations in customers, business groups, sectors, products and countries.
- The exposure to Spain's sovereign risk is maintained at adequate levels from the regulatory and management standpoint.
- Very limited cross-border risk exposure, in line with the model of autonomous subsidiaries in terms of capital and liquidity.
- High credit quality of the Group's assets.

Evolution in 2015

- Customer credit risk increased 6% to €850,909 million.
- The trend toward reducing the cost of credit, which stood at 1.25%, and loan-loss provisions continued.
- The NPL ratio reduced to 4.36% and the coverage ratio increased to 73%.
- The net exposure to run-off real estate risk in Spain reduced by €1,017 million to €6,303 million.
- In Brazil (8% of the Group´s loan portfolio) the NPL ratio remains below the average of private banks.

Liquidity and funding risk

See pages250-260 of Banco Santander's Annual Report

Definition

Liquidity risk is that incurred from potential losses that could arise as a result of a bank's inability to obtain funding in the market and/or from the higher financial cost of accessing new sources of funding.

Management of this risk aims to ensure the availability of the funds needed in adequate time and cost to meet obligations and develop operations.

Risk profile

- Liquidity management and funding is a basic element of the business strategy.
- The funding and liquidity model is decentralised and based on autonomous subsidiaries that are responsible for covering their own liquidity needs.
- The needs derived from medium and long-term activity must be funded by medium and long-term instruments.
- High participation of customer deposits, as a result of an essentially retail and commercial banking balance sheet.
- Diversification of wholesale funding sources by: instruments/investors, markets/currencies, and maturities.
- Limited recourse to short-term wholesale funding.
- Availability of a sufficient liquidity reserve, which includes the discounting capacity in central banks to be used in adverse situations.

Evolution in 2015

- Early compliance with regulatory ratios, with a liquidity coverage ratio (LCR) of 146% at the end of the year.
- Net loan-to deposit ratio in the Group at very comfortable levels (116%).
- High medium and long-term capturing of wholesale funds (issues and securitisations): €56,609 million via 18 issues in 15 countries and 14 currencies.
- High liquidity reserve, strengthened in quantity (€257,740 million) and quality (52% of the total are high quality liquid assets) over 2014.

Market risk

See pages 230-249 of Banco Santander's Annual Report

Definition

Market risk covers those financial activities where equity risk is assumed as a result of a change in market factors. This rise stems from changes in interest rates, the inflation rate, exchange rates, equities, credit spreads, commodity prices and volatility in each of these factors, as well as the liquidity risk of the various products and markets in which the Group operates.

Risk profile

- Santander maintains a moderate exposure to market risk.
- Diversification in terms of both risk factors and geographic distribution.
- Trading activity centred on customer business.
- The average VaR in trading activity remained in a low range, in line with previous years.
- Limited exposure to complex structured assets.

Evolution in 2015

- The VaR of trading activity in markets fluctuated in 2015 between €10 million and €31 million.
- The main fluctuations were due to changes in the exposure to exchange rates and interest rates, as well as market volatility.

Operational risk

See pages 261-269 of Banco Santander's Annual Report

Definition

The risk of losses resulting from defects or failures in internal processes, human resources or systems, or from external circumstances. In general, and unlike other types of risk, it is not a risk associated with products or businesses. It is found in processes and/or assets and is internally generated (people, systems, processes) or as a result of external risks, such as natural disasters.

Risk profile

- Santander expressly assumes that although certain volumes of expected operational losses can occur, severe unexpected losses are not acceptable as a result of failures in controls on activities.
- In operational risk control and management, the Group focuses on identifying, measuring/assessing, monitoring, controlling, mitigating and reporting this risk.
- Organisational model of control and management based on three lines of defence and on an evolution to advanced management standards (AORM programme to be completed in 2016).
- Risk profile aligned with the business model and geographic presence. No significant events in particular at the Bank.

Evolution in 2015

- Improvement in the operational risk management and control model in its evolution toward advanced standards (Advanced Operational Risk Management programme).
- Launch of the project to install a new common application (Heracles) for operational risk functions in general and compliance risks, and documentation of the internal control model.
- Encouragement for operational risk training and culture throughout the Group.
- Promotion of key initiatives for mitigating risk: control of suppliers, information security and cyber risk.

Compliance and conduct risk

See pages 270-276 of Banco Santander's Annual Report

Definition

Compliance risk embraces control and management of the following risks:

- Regulatory compliance risk: understood as that due to failure to meet the legal framework, internal rules or the requirements of regulators and supervisors.
- Product and consumer protection risk: understood as that caused by inadequate practices in the dealings between the Bank and its customers, the treatment and products offered to them and whether they are sufficiently tailored to each particular customer.
- Reputational risk: understood as that derived from damage in the eyes of public opinion, customers, investors or any other stakeholder in the perception of the Bank.

Risk profile

- In formulating its risk appetite in relation to compliance, the Group includes a statement that it does not have any appetite for this type of risk and that it has the clear objective of minimising the occurrence of any economic, regulatory or reputational impact on the Group.
- To this end, the compliance function promotes Santander Group's adherence to rules, supervisory requirements, the principles and values of good conduct, acting as a second line of defence, through setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and society in general.

Evolution in 2015

- With regard to regulatory compliance, 2015 saw an increase in new and complex relations, with a high impact: Volcker, Market Abuse, MiFID II, EMIR, Corporate Defence, etc.
- In the field of governance of products and consumer protection, 2015 witnessed the addition of a new scope for defining conduct, beyond the traditional definition, and new implications of the stress test in this area, as well as regulatory pressure in matters of consumer protection.
- In the prevention of money laundering and terrorist financing, supervisory pressure with global regulations was stepped up in 2015, and there was an increase in the impact of the sanctions regime.
- In reputational risk, 2015 saw the development of a new model with the aim of defining the scope, management and control of this risk, as well as an update to policies to attain the highest standards, in accordance with stakeholders' expectations.

2

2015 results

Santander maintained **a high level of revenues and a strong generation of capital,** while advancing its commercial transformation.

Economic, banking and regulatory environment

Santander developed its activity in 2015 in an environment of uneven growth across the countries in which it operates and increasing regulatory pressure.

International economic environment

The global economy slowed in 2015 (3.1% vs. 3.4% in 2014). The upswing in developed economies could not offset the downturn in emerging economies. The fall in commodity prices and the slowdown of the Chinese economy had a bigger relative impact on emerging economies, although the degree of slowdown varied according to each market's domestic situation.

- The **US** is in a phase of moderate but solid growth. GDP grew 2.5% in 2015 and the unemployment rate continued to fall to levels regarded as full employment (5%). Inflation came down as a result of the fall in oil prices, although the underlying rate (1.3%) remained below the target (2%). The Federal Reserve raised its interest rates in December 2015 to 0.25-0.5%.

- The **United Kingdom** maintained the robust pace of growth (2.2%) of the last few years, accompanied by a decline in the jobless rate close to pre-crisis levels. Inflation was around 0% without signs of salary tensions. The Bank of England held its rate at 0.5%.

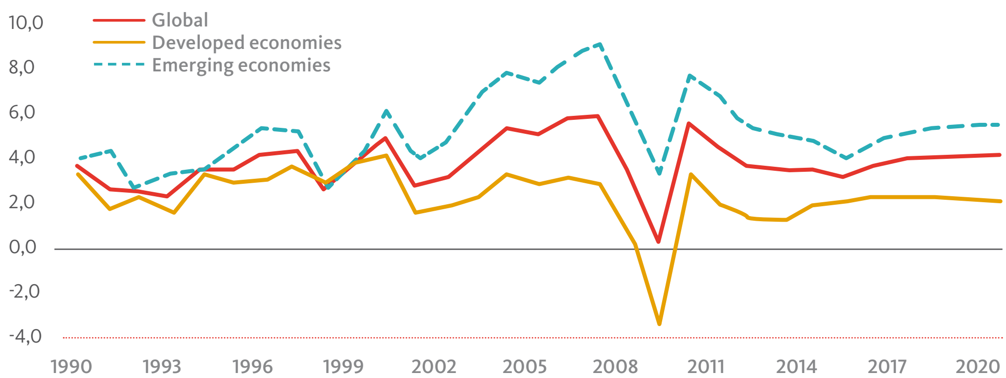
- The **euro zone** economy accelerated. Inflation continued to be close to 0%, which led the European Central Bank to further cut its rates and launch new quantitative easing measures, with an increased programme of purchasing public sector securities.

  - **Spain** grew by around 3.2% with a well diversified base that lowered the unemployment rate to 21% at the end of 2015. The budget deficit continued to decline and the current account remained in surplus. Inflation was negative for most of the year due to the impact of lower oil prices, although the underlying rate remained positive.

  - **Germany** expanded at a faster pace as the year progressed. Domestic demand remained strong and unemployment low.

The global economy slowed in 2015, with an upturn in developed economies and a slowdown in emerging markets

GDP
% change



Source: IMF, World Economic Outlook.

GDP 2015

% change

Source: IMF.

» US consolidated growth, the Fed raised interest rates

» UK maintained solid growth without inflationary pressures

» Euro zone growth accelerated but remained moderate. Spain grew faster than the European average

» Uneven growth in Latin America

- **Poland** grew briskly (3.6%) and inflation (-0.9%) was well below the the target (2.5%) of the National Bank of Poland, which cut interest rates to 1.5% in March.

- **Latin America's** GDP shrank 0.4% after growing 1.2% in 2014, in a complex international environment with the prospect of a rise in US interest rates, the slowdown in international trade and lower growth in China. The evolution of countries varied between recession in some countries and a gradual recovery in others. Inflation increased slightly, mainly due to the impact of the depreciation of Latin American currencies.

  - **Brazil** entered recession, with consumption and private investment falling and the unemployment rate higher. The cut in subsidies and the increase in prices for public services pushed up inflation to 10.7%. The central bank reinforced its commitment to control inflation and raised the Selic rate by 250 b.p. to 14.25%.

  - The **Chilean** economy recovered in 2015, spurred by increased investment and private consumption, which led the central bank to begin to normalise its monetary policy and raise its benchmark rate by 50 b.p. to 3.5%.

  - **Mexico** improved in the second half of the year, fuelled by stronger domestic demand and exports. Although inflation remained low, the central bank decided to raise its key rate in response to the Fed's move, in order to anticipate possible bouts of volatility given the strong trade and financial links with the US.

Financial markets and exchange rates

The performance of the markets in 2015 can be divided into two parts. Stock market indices rose in the first half of the year and risk premiums on sovereign and private debt fell significantly, particularly in developed economies. Access to capital markets was more fluid and lending conditions in developed economies eased.

This performance was supported by central banks' monetary policies, which injected plenty of liquidity, and thus made investors' search for profitability easier. The European Central Bank's quantitative easing contained any contagion effect during the worst moments of Greece's bailout negotiations.

MSCI World Banks index
-9%
total return in 2015

€/$ 1.09
-10%
in 2015

Brent crude oil $37 a barrel
-35%
in 2015

The summer saw an episode of increased volatility in the markets linked to concern over the slowdown in the Chinese economy and in emerging markets. Although the beginning of monetary policy normalisation in the US was put back to December, share prices took a tumble, which eroded a significant part of the year's cumulative gains. The main stock markets, however, rallied slightly in the last part of the year.

Exchange rates fluctuated considerably during 2015. The dollar appreciated significantly against the euro and the main Latin American currencies, reaching a 12-year high in effective terms. Emerging market currencies were affected by the ongoing slide in commodity prices, as well as the outflows of capital into developed economies.

Banking sector environment

The banking environment of the countries where Santander operates continued to feel the impact of regulatory changes and a challenging economic situation, which posed a major management challenge for increasing profitability.

In developed countries, banks continued to bolster their balance sheets and their capital levels. The return on capital improved. According to the European Banking Authority, the profitability of european banks increased from 0% on average at the end of 2014 to 7.3% in mid-2015, thanks to the improvement in net interest income and reduced needs for provisions.

Even so, banks continued to face important challenges to spur profitability. Interest rates remained at extraordinarily low levels; business volumes, despite gradually recovering, were still low; and competition was much tougher in most markets.

Competition was high among banks as well as with new players. Shadow banking continued to gain weight and non-banking financial institutions, which are focusing on niches in sectors such as means of payment, financial advice and credit, carried on growing.

In this context, the restructuring process cannot be considered over. Most banks are embarking on changes to their culture, in order to regain the confidence of society and, in general, all need to adapt to the digital revolution, which is going to mark the way that banks relate to their customers, the level of services provided and the efficiency of processes.

International banks are also facing divergent socio-demographic changes, against a backdrop of ageing in developed economies and a sharp rise in middle classes in emerging economies, which will require differentiated strategies for each market.

Supervisory and regulatory context

The regulatory agenda remained intense in 2015. While progress was made in reviewing the prudential framework and developing crisis management plans, attention increased on issues related to consumer and investor protection. All of these areas will be addressed while at the same time driving economic growth.

With regard to capital, the Basel Committee is reviewing its initial proposals for the standard calculation of capital consumption derived from credit, market and operational risks, scheduled to be completed in 2016. The objective is to ensure simplicity, comparability and sensitivity to risk, while not involving an increase in capital for all players. In 2016, the Basel Committee will also present the final proposal on the regulatory treatment of interest rates in the banking book, and will review the treatment of sovereign debt in the prudential framework. The committee will also review the prudential framework in its entirety, in order to assess the impact of the package of regulatory reforms.

In 2015, the Financial Stability Board finalised the framework needed to address the "too big to fail" issue in the banking industry. The last piece —the **Total Loss Absorbing Capacity (TLAC)** that will be required of global systemically important banks— was finalised in November.

In developed countries, financial institutions continued to strengthen their balance sheets and increase their capital levels in 2015

Milestones of the construction of European Banking Union

November 2014
The European Central Bank takes on the single supervision of banks in the euro zone.

January 2015
The Bank Recovery and Resolution Directive (BRRD) comes into effect.

Third quarter of 2015
The ECB establishes the minimum capital requirements for 2016 as the conclusion of the supervisory review evaluation process.

December 2015
The European Commission presents its single deposit guarantee fund proposal.

January 2016
The European resolution authority fully assumes its functions and the bail-in comes into force as the resolution tool for banks.

Europe continued to progress in implementing the crisis management framework. The **Single Resolution Board (SRB)** was scheduled to be fully operational as of 1 January 2016. The SRB will set this year the Minimum Requirement for own funds and Eligible Liabilities (MREL) for banks.

In order to finalise the establishment of a Banking Union, the European Commission published in November its proposal for the creation of a single deposit guarantee fund, with a gradual framework until 2024. The European Banking Authority (EBA) meanwhile continued to publish standards and guidelines that help to guarantee harmonised implementation in the European Union of the minimum capital requirements and improve the level playing field.

2015 marked a turning point in the European regulatory agenda. The European Commission stated that, after making progress in forging a more robust and solid financial system, its priority now was to finance growth and support the creation of a capital markets union, analyse the evidence for assessing the impact of regulations and conduct a consultation on the impact of the CRD IV capital requirements directive on financing the economy.

In relation to retail financial services, the European Commission presented a green paper for consultation with the aim of increasing transparency in pricing and eliminating trade barriers inside Europe. It backs digitalisation in particular as a means for achieving this. The Commission also unveiled its Digital Agenda initiative in order to address the launch of the single digital market. In 2016, certain complementary regulatory initiatives are planned, such as the cyber security and data protection directives.

Banking supervision via the Single Supervisory Mechanism (SSM)

Since its launch in November 2014, the SSM has enabled the **European Central Bank (ECB)** to assume **comprehensive supervision of banks in the euro zone.** In 2015, the SSM consolidated its functioning and the 129 most important banks came under the ECB's direct supervision.

Each bank has a joint supervisory team formed by ECB staff and those who work for the national authorities of member states. The Joint Supervisory Team for Banco Santander worked intensely and held more than 100 meetings in 2015 with the Bank.

At the end of 2015, the ECB sent to each bank its decision, establishing the prudential minimum capital requirements for the following year. In 2016, at consolidated level, Santander Group must maintain a minimum CET1 phase-in capital ratio of 9.75% (9.5% is required by Pillar 1, Pillar 2 and the capital conservation buffer and 0.25% is the requirement for being a global systemically important financial institution).

The Joint Supervisory Team

Comprising staff from the European Central Bank as well as the Bank of Spain, the Bank of Portugal, the Bank of Italy, the Bundesbank, BaFin and the French Prudential Supervisory Authority, among other national authorities.

Santander Group key data

Balance sheet (million euros)	2015	2014	% 2015/2014	2013
Total assets	**1,340,260**	1,266,296	5.8	1,134,128
Net customer loans	**790,848**	734,711	7.6	684,690
Customer deposits	**683,122**	647,628	5.5	607,836
Managed and marketed customer funds	**1,075,565**	1,023,437	5.1	946,210
Shareholders' equity	**88,040**	80,806	9.0	70,327
Total managed and marketed funds	**1,506,520**	1,428,083	5.5	1,270,042

Underlying income statement[1] (million euros)	2015	2014	% 2015/2014	2013
Net interest income	**32,189**	29,548	8.9	28,419
Gross income	**45,272**	42,612	6.2	41,920
Pre-provision profit (net operating income)	**23,702**	22,574	5.0	21,762
Profit before taxes	**10,939**	9,720	12.5	7,362
Attributable profit to the Group	**6,566**	5,816	12.9	4,175

Underlying EPS, profitability and efficiency[1] (%)	2015	2014	% 2015/2014	2013
EPS[2] (euro)	**0.45**	0.48	(7.0)	0.39
RoE[3]	**7.2**	7.0		5.8
RoTE[3]	**11.0**	11.0		9.6
RoA	**0.6**	0.6		0.4
RoRWA[4]	**1.3**	1.3		–
Efficiency ratio (with amortisations)	**47.6**	47.0		48.1

Solvency and NPL ratios (%)	2015	2014	% 2015/2014	2013
CET1 fully loaded[3,4]	**10.05**	9.65		–
CET1 phase-in[3,4]	**12.55**	12.23		–
NPL ratio	**4.36**	5.19		5.61
Coverage ratio	**73.1**	67.2		64.9

Market capitalisation and shares	2015	2014	% 2015/2014	2013
Shares (million)	**14,434**	12,584	14.7	11,333
Share price (euros)	**4.558**	6.996	(34.8)	6.506
Market capitalisation (EUR million)	**65,792**	88,041	(25,3)	73,735
Book value (euro)	**6.12**	6.42		6.21
Price/Book value (x)	**0.75**	1.09		1.05
P/E ratio (x)	**10.23**	14.59		16.89

Other data	2015	2014	% 2015/2014	2013
Number of shareholders	**3,573,277**	3,240,395	10.3	3,299,026
Number of employees	**193,863**	185,405	4.6	186,540
Number of branches	**13,030**	12,951	0.6	13,781

Information on total profit[5] (euros million)	2015	2014	% 2015/2014	2013
Attributable profit to the group	**5,966**	5,816	2.6	4,175
EPS (euro)[2]	**0.40**	0.48	(15.9)	0.39
RoE[3]	**6.6**	7.0		5.8
RoTE[3]	**10.0**	11.0		9.6
RoA	**0.5**	0.6		0.4
RoRWA[4]	**1.2**	1.3		–
P/E ratio	**11.3**	14.6		16.9

Variations w/o exchange rate: Quarterly: net interest income: +8.0%; Gross income: +5.6%; Pre-provision profit: +4.4%; Attributable profit: +9,4%.
1. Excluding non-recurring capital gains and provisions (2015: -€600 million).
2. EPS: Attributable profit including the AT1 cost recorded in shareholders' equity/average number of shares for the period excluding treasury shares.
3. In 2014, pro-forma taking into account the January 2015 capital increase.
4. Due to applying the new CRD IV directive, the 2013 figure is not included because it is not homogeneous with the other figures.
5. Including net capital gains and provisions.

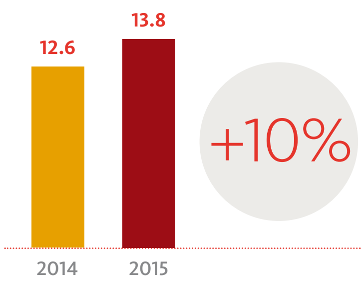
Results

For more information on results, see pages 116-121 of Banco Santander's Annual Report

Customers: more loyal

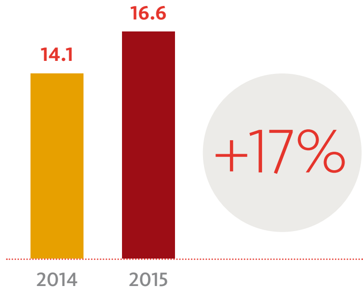
The commercial transformation and multichannel initiatives enable us to achieve significant growth in the number of loyal and digital customers. Of note among these initiatives was the launch of differentiated value propositions for individual customers and companies in various countries; improvements in commercial websites, apps and functionalities for mobile phones; and streamlining of processes.

Loyal customers
Million



Individual customers: +10%
Companies: +8%

Digital customers
Million



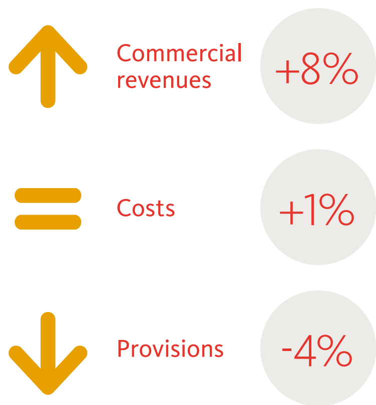
31% of active digital customers

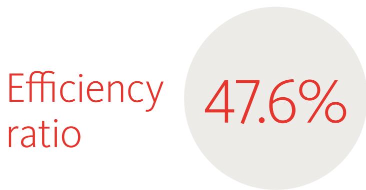
Revenues: quality growth

The improvement in customer loyalty and customer satisfaction was reflected in notable growth in commercial revenues: net interest income was up 9% and fee and commission income 4%.

Costs were almost flat (+1% excluding the inflation and perimeter impact). The €2,000 million cost savings plan was met one year ahead of schedule, which enabled the investments in transforming the Bank and regulatory costs to be absorbed.

Loan-loss provisions continued to decline and fell 4% in 2015.



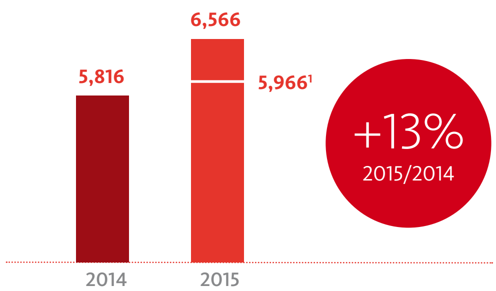


Results: profit growth

As a result of all these factors, underlying attributable profit grew 13%.

Discounting non-recurring results, attributable profit rose 3%.

Underlying attributable profit
Million euros



1. Attributable profit, including non-recurring net capital gains and provisions, +3%.

Balance sheet

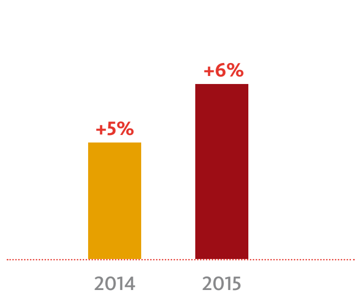
For more information on balance sheet, see pages 122 to 128 of Banco Santander's Annual Report

Commercial activity: robust growth

Santander continued to help its customers prosper, as reflected by the growth in loans to individual customers and companies in most countries.

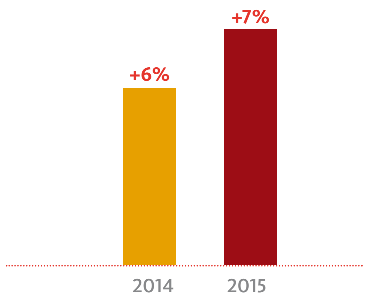
The increased activity pushed up the volume of customer funds managed, spurred by more current accounts and investment funds.

Loans[1]



1. Without repos.

Customer funds[1]



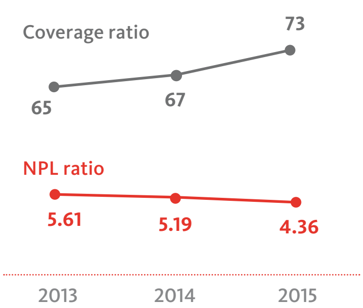
1. Without repos.

Credit quality: further improvement

Enhanced credit quality, with a decline in the NPL ratio in almost all countries and higher coverage. The cost of credit, calculated as loan-loss provisions over the last 12 months/average lending, declined in nine of the Group's ten core units.

NPL and coverage ratios

%



Cost of credit

+1.25%

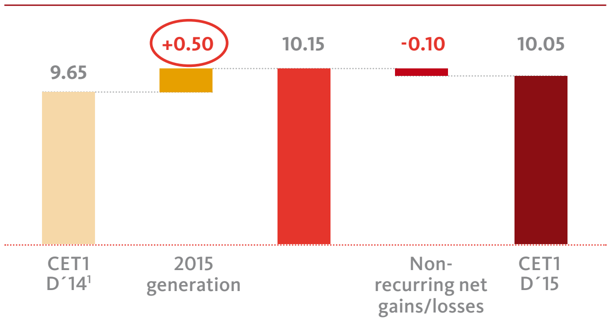
(-18 b.p.)

Capital: 10% goal met

The growth in the Bank's revenues and profitability fuelled strong organic generation of capital, bringing the fully loaded CET1 ratio to 10.05%, meeting the goal set at the start of the year and compatible with an increase in the shareholder return.

Fully loaded CET1 ratio

%



CET1 phase-in

12.55%

Surplus of

280 b.p.

over the capital ratio required by the ECB for 2016

1. Pro-forma, incorporating the January 2015 capital increase.

Results by countries and businesses

Spain

Santander Spain operates in retail, commercial and wholesale banking and has market shares of 13.2% in loans and 14.2% in savings.

New Santander branch model in Madrid, Spain.

Employees
24,216

Customers (million)
12.7

Loans[1,2]
155,204 (-3%)

Attributable profit[1]
977 (+18%)

1. Million euros.
2. Change without repos.

Main 2016 objectives

- Reach 2 million 1|2|3 accounts.
- Increase the market share of SMEs from 20% to 22%[1].
- Cost of credit below 0.60%.

1. As main bank.

> In 2015, Santander Spain made significant progress in its new strategy which, based on the Simple, Personal and Fair culture, rests on five pillars:

- **Building long-term relations with customers.** To this end, the 1/2/3 accounts for individual customers and SMEs were launched. This strategy proposes a new concept of relationship that rewards loyalty for transactions and enhances customers' relationship with the Bank. The 1|2|3 account had more than 860,000 customers at the end of 2015 and captured 237,000 payroll accounts. The 1|2|3 SME account, which offers cashback on salaries deposited at the Bank and payment of social security contributions, taxes and supplies related to business activity, was opened by more than 50,000 small and medium-sized firms.

- **Be the bank of choice for companies in Spain.** The commercial team specialised in the segment for SMEs and businesses was strengthened. New lending to companies grew 18% and the Bank consolidated its leadership in global corporate banking.

- **Achieve excellence in service quality.** The operational excellence plan aims to increase customer satisfaction through digital transformation, reviewing the processes and improving the customer experience in all channels. Santander Spain also began to implement a new branch model in 2015 which, with an innovative and functional design, integrates digital technology into the branch.

- **Develop advanced risk management** through comprehensive management. The new 1|2|3 strategy facilitates greater knowledge of customers for risk analysis and the possibility of increasing the customer vision from the risk area. The NPL ratio was reduced in 2015 to 6.53%.

- **Maintain a sustainable level of profitability,** based on stable results and a more efficient capital model.

> Corporate governance of this Group unit was also strengthened in 2015 with the creation of the Santander Spain board, equating its governance structure to the subsidiary model of the Group's other local units. This board will oversee the actions of Santander Spain in policies and strategies, risk-taking, human resources and senior management appointments.

Poland

Bank Zachodni WBK is one of the largest and most modern Polish banks and the leader in digital banking.

Bank Zachodni WBK branch in Poland.

2015 highlights

- Bank Zachodni WBK aims to maintain a leading position in banking for individual customers and become the best bank for businesses in Poland, through a range of modern products for SMEs, helping customers to internationalise (specifically in the food, agriculture and automotive sectors) and provide comprehensive services for the largest financial projects in Poland.
- BZ WBK is Poland's leader in mobile and online banking and cards.
  - The BZWBK app for mobile phones (666,000 users) is one of the best in Europe, having won several local and international prizes (for example, the 2015 World's Best Digital Bank Awards from *Global Finance* magazine and first place in the Polish *Newsweek* ranking).
  - 2 million customers use electronic banking services. 6.72 million transactions were made in 2015.
  - Card sales amounted to PLN 1.2 million at the end of the year and included 903,700 prepaid cards, 736,800 credit cards and 3.22 million debit cards.
  - The bank also launched innovative card payments using HCE technology. The cloud card is available via the BZ WBK24 mobile application for Android (NFC) phone users.
- Lending in 2015 increased by 11%, driven by strategic segments such as mortgages, direct credit, SMEs and corporates.
- *Euromoney* magazine named Bank Zachodni WBK the Best Bank in Poland in 2015.

Employees
11,474

Customers (Million)
4.3

Loans[1 2]
18,977 (+11%)

Attributable profit[1]
300 (-15%)

1. Million euros, change in local currency.
2. Change without repos.

Portugal

Santander Totta is the bank in Portugal that grew the most in lending to companies and is the leader in terms of attributable profit generated in the country.

Santander Totta branch in Portugal.

2015 highlights

- The Bank's strategy focused on managing lending rates, increasing market shares, particularly in companies, controlling NPLs and enhancing efficiency. From its position of strength and profitability, Santander Totta was able to benefit from the improvement in the economic cycle and so keep on helping people and businesses prosper.
- At the end of the year, the Bank announced its acquistion of Banco Banif, which added 2.5 percentage points to its market share and turned it into the country's second largest private sector bank.
- Santander Totta increased its market share in lending to companies to 9.7% in 2015 (+1 p.p.) and its share of new loans was 15.3%, up from 11.7% in 2014. This performance was in contrast to the sector's shrinkage in this business segment.
- Of note in banking for individual customers was the launch of the 1|2|3 World. Since its launch in March, the number of 1|2|3 accounts has risen to 110,000. In mortgages, Santander Totta grew at a much faster pace than the sector average, gaining 3.2 p.p. in market share of new lending to 17.9%. Deposits amounted to €29,000 million (including Banif), 21% more than in 2014.
- In 2015, Santander Totta was named Best Bank in Portugal by *Euromoney* and *Global Finance*, and Bank of the Year by *The Banker*.

Employees
6,568

Customers (Million)
3.8

Loans[1 2]
28,221 (+26%)

Attributable profit[1]
300 (+63%)

1. Million euros.
2. Change without repos.

Santander Consumer Finance

With a strong position of leadership in Europe's consumer finance market, SCF specialises in auto finance, loans to buy durable goods, personal loans and credit cards.

Santander Consumer Finance branch in Benelux.

Employees
14,533

Customers (Million)
16.8

Loans[1,2]
73,709 (+21%)

Attributable profit[1]
938 (+18.0%)

1. Million euros.
2. Change without repos.

- SCF is among the top three consumer finance providers in the main markets in which it operates. Its geographic diversification is well balanced between countries in north and south Europe.
- It operates through 130,000 associated points-of-sale (car dealers and shops), and has a large number of finance agreements with car and motorcycle manufacturers, as well as major retail distribution groups.
- In an environment of fledgling consumer recovery and car sales (+9% in the footprint), SCF continued to gain market share backed by a business model based on: geographic and product diversification with leadership positions and critical mass in key markets; higher efficiency than that of its competitors; strong analytical capabilities; and management of risks and recoveries that enables it to maintain high credit quality.
- The trend in profits (+18%) reflects revenue growth (+23%) higher than the rise in costs (+21%) and loan-loss provisions that were 1% lower. The cost of credit was 0.77%. **SCF shows a consistent profitability and set a new profit record in 2015 (€938 million).**
- The NPL ratio (3.42%) and coverage (109%) were clearly better than the consumer business standards.
- Of note, by unit, was Germany whose profit was €393 million, the Nordic countries (€234 million) and Spain (€169 million).

The agreements coming into effect in 2015 strengthen SCF's position in its markets:

- More than 60% of the agreement with Banque PSA was completed in 2015, enabling SCF to consolidate its leadership in auto finance.
- The integration of GE Nordics countries increased the weight of direct loans in the product mix, reinforcing profitable and diversified growth in the region. Nordics, which operates in economies with the highest credit ratings, is one of SCF's key units.
- Growth in new lending in the main countries: Germany, Nordic countries and Spain.

Main 2016 objectives

- **Reach 17 million active customers.**
- **Increase lending from €77,000 million to €87,000 million.**
- **Maintain a cost-to-income ratio of 45% despite the integration of PSA.**

United Kingdom

Santander UK aims to deepen customer relationships and continue to improve its service proposition, achieving consistent and growing profitability and a strong balance sheet.

Santander UK headquarters in London.

Employees
25,866

Customers (Million)
26.0

Loans[1,2]
282,673 (+5%)

Attributable profit[1]
1,971 (+14%)

1. Million euros, change in local currency.
2. Change without repos.

Main 2016 objectives

- Increase digital customers from 3,7 million to 4,3 million.
- Credit growth to companies 5 p.p. higher than the market.
- CAGR of fee and commission income 5-10%.

> Santander UK wants to grow customer loyalty and market share, deliver operational and digital excellence, and achieve consistent, growing profitability and a strong balance sheet. The Bank continues to deliver a culture that is Simple, Personal and Fair, while supporting the communities in which it operates.

2015 highlights

> 1I2I3 customers increased by one million to 4.6 million in 2015. Retail banking current account balances increased by an average of £1 billion per month in the same period, ending the year at £53.2 billion.

> Santander UK continued to support the UK housing market. Gross mortgage lending amounted to £26.5 billion, of which £4.5 billion related to first time home buyers. Net mortgage lending was £2.7 billion.

> Santander UK continued to support UK companies utilising a broader product suite and expanded footprint. Customer loans increased 10% to £26.4 billion, despite market weakness. New facilities increased 14% and bank account openings grew 4%.

> Customer satisfaction scores improved significantly in 2015 to 62.9%, according to the Financial Research Survey (FRS). The top three bank peers have an average of 62%.

> Santander UK increased net interest income by 5% in local currency, driven by liability margin improvement and increased retail and corporate lending. Banking NIM remained broadly flat at 1.83% versus 2014.

> These results were achieved while maintaining a strong balance sheet and capital position, as well as increased profitability. 2015 RoTE increased to 11.8%.

Brazil

Santander Brazil is the third largest private sector bank by assets. In a difficult economic context the Bank improved its franchise and results.

Santander Select branch in Sao Paulo, Brazil.

Employees
49,520

Customers (Million)
32.4

Loans[1,2]
60,238 (+9%)

Attributable profit[1]
1,631 (+33%)

1. Million euros, change in local currency.
2. Change without repos.

2015 highlights

- Santander Brazil made progress in its main strategic lines to simplify, modernise and improve the customer experience, installing a business model that places the customer at the centre of all decisions and operations.

- *Pacote Boas Vindas*, which enables new individual customers to obtain the number of their current account, debit and credit cards and full access to electronic channels quickly and efficiently in two days from the time of signing off, was launched; and the offer of *Contas Combinadas*, which includes two types of service options, was renewed: the *Conta Básica*, for those who carry out fewer operations with their account and require tailored services and the *Conta Mais*, for customers who use their account more frequently.

- The Bank launched *Santander Negócios & Empresas* for SMEs. This platform is focused on products, services and attention for these companies, adapted to the profile of each entrepreneur. In Global Corporate Banking, the Bank took part in the main business transactions that took place in the year.

- **Santander Brazil is increasing its customer base, seeking to gain customers' loyalty through better levels of service.** The Bank made significant investments such as the acquisition of *Súper*, a digital platform that provides an electronic banking account, a prepayment card and access to simplified financial services. It also entered into a joint venture with Banco Bonsucesso to create Banco Bonsucesso Consignado. Furthermore, it created *Certo*, a new commercial banking and customer relationship management model.

- As part of the Group's digital transformation process, Santander Brazil fostered the use of digital channels among its customers through the *Vale a pena ser digital* campaign. The number of digital customers rose 15% in 2015.

- All these investments had a direct impact on customer satisfaction and on reducing the number of claims (-39%).

- The Bank increased the number of loyal customers in 2015 to 3.2 million, grew lending (9%), rationalised costs and reduced loan-loss provisions and NPLs according to local criteria.

Main 2016 objectives

- **Increase the number of loyal customers from 3,2 million to 3,6 million.**
- **Maintain control of bad loans with a NPL ratio below the sector's average.**
- **Profits higher than those in 2015 in local currency terms.**

Mexico

Santander consolidated its position as the country's third largest bank by business volume with a 14% market share and a sound and diversified portfolio.

Santander Select branch in Mexico.

Employees
17,847

Customers (Million)
12.4

Loans[1,2]
30,158 (+19%)

Attributable profit[1]
629 (+3%)

1. Million euros, change in local currency.
2. Change without repos.

2015 highlights

- **Santander Mexico wants to be the leader in the Mexican market in terms of profitability and growth.** To this end, it is acquiring new customers with substantial business potential, increasing loyalty among current customers and reducing the churn rate. It is also gaining market share in larger SMEs and mid-market enterprises and increasing its participation in infrastructure projects. The Bank continues to consolidate its leadership in mortgages for medium and high-income customers and is carrying out a thorough transformation of its operational model in technology and infrastructure, talent, quality, processes, marketing and brand.

- In 2015, the Bank completed its most ambitious expansion programme in Mexico in recent years, whereby it increased the number of branches by 200 over the last three years, made progress in multichannel services through mobile banking initiatives and had a network of 5,989 ATMs in place at the end of the year.

- Thanks to its efforts to help customers prosper, Santander Mexico was once again the leading bank in 2015 in loans for SMEs (+22%). Loans to companies grew 25%, also higher than the market. Mortgages rose 13%, consumer credit 31%, more than double the pace of the market, and insurance business 4%.

- In the energy and infrastructure sectors, Santander confirmed its leadership by financing more than 14 projects worth over $88 billion. It also reached an agreement to supply banking services to more than 11,000 petrol stations in Mexico.

- The strong growth in lending was accompanied by a strict process of monitoring and assessing the quality of the portfolio. The NPL rate decreased to 3.38%.

- The magazine *LatinFinance* recognised Santander Mexico in 2015 as the Best Bank in Infrastructure in Mexico, *Global Finance* as the Best Private Bank in Mexico and *International Finance Magazine* as the most socially responsible bank in Mexico.

Main 2016 objectives

- **Exceed one million digital customers from 876,000 in 2015.**
- **Attain more than 3.3 million payroll accounts.**
- **Reach MXN 75 billion in loans to SMEs.**

Chile

Santander is the country's largest bank in terms of assets and customers.

Banco Santander branch in Chile.

2015 highlights

- **The Bank continued to grow in 2015 despite the downturn in the local economy.** In individual customers, progress was made in consolidating the Select model for high-income customers and in developing the new branch model in the traditional network. In SMEs, Santander Advance was launched which is backed by its own CRM system (NEO Advance). The Bank continued to open its new centres for companies, generating more proximity with customers, which produced gains in market shares in loans and deposits.

- Santander Chile has market shares of 19.1% in loans and 18.3% in deposits. Lending grew 14% and deposits 13%.

- Santander Chile received the prize for the Best Bank of the Year in Chile from *The Banker* magazine and the Best Private Bank in Chile from *Euromoney*.

- The four strategic pillars of Santander Chile are:

  - Improve the quality of customer attention and experience.

  - Transform the retail and commercial banking business, particularly with medium and high-income customers and SMEs.

  - Strengthen business with large and medium-sized companies.

  - Foster a new culture focused on the customer and a Simple, Personal and Fair way of doing things.

Employees
12,454

Customers (Million)
3.6

Loans[1,2]
32,338 (11%)

Attributable profit[1]
455 (-13%)

1. Million euros, change in local currency.
2. Change without repos.

Argentina

Santander Río is the country's leading private sector bank by volume of assets and liabilities.

New branch model of Santander Río, Argentina.

2015 highlights

- Santander Río has a market share of 10.0% in loans and 10.3% in deposits. In 2015, the Bank's business posted strong growth, with loans rising 52% and savings 58%. Income increased by 27% in pesos and costs by 43%.

- The Bank has a multichannel network focused on quality of service and customer satisfaction. The branch network increased by 10%, with the opening of 21 new spaces, 82 corners and 125 Select boxes for high-income customers. Four business centres were also opened for SMEs and companies. The project to transform the branch network continued, with the aim of installing a new customer attention model based on automated processes and use of new technology.

- The commercial strategy centred on customer acquisition and loyalty, particularly high-income customers and SMEs. In the medium and long-term, Santander Río will focus on increasing the reach of its distribution network, improving efficiency and service quality, and fostering financial inclusion and banking penetration.

- Santander Río was recognised by *Euromoney* and *The Banker* magazines as the Best Bank in Argentina. It was also awarded the prize for Best Digital Bank and Best Mobile Bank in Latin America by *Global Finance* magazine.

Employees
7,952

Customers (Million)
2.8

Loans[1,2]
6,028 (+52%)

Attributable profit[1]
378 (+22%)

1. Million euros, change in local currency.
2. Change without repos.

United States

Santander carries out retail banking in the northeast of the country as Santander Bank and consumer finance nationwide through Santander Consumer USA.

Santander branch in the United States.

Employees
18,123

Customers (Million)
5.1

Loans[1,2]
84,190 (+7%)

Attributable profit[1]
678 (-34%)

1. Million euros, change in constant currency.
2. Change without repos.

2015 highlights

- Santander Bank increased the number of loyal customers to 266,000, while customers who use the online and mobile channels increased 12% to 617,000. The Bank launched Simply Right, an easy-to-use current account that waives commissions for those who perform at least one financial transaction a month. It also simplified its current accounts by reducing the line of products from 13 to 5 and launched a new, more modern and updated website.

- Santander Consumer USA's (SC's) net income increased 17% to $900 million, driven by disciplined originations and additional fee income from its services for other platforms. To better serve its customers, enhance vendor management oversight and diversify and de-risk its business, SC focused on expanding its servicing capabilities in 2015 as it moves to open new facilities in Mesa (Arizona) and San Juan (Puerto Rico).

- Santander US launched a transformation programme to bolster its capabilities in risk management, finance and technology to manage its business better and be able to comply with the regulator's expectations. This programme includes high investments and strengthening of the franchise. In 2016, all of Santander's main units in the US will be integrated into the Group's holding in the country, Santander Holdings USA, which currently comprises Santander Bank and Santander Consumer USA.

- Santander Bank made contributions to 286 not-for-profit organisations in the territory where it operates. Santander Bank's employees donated 13,696 hours of voluntary service to the communities where they live and work.

- In the years to come, Santander US will focus on acquiring individual customers through the development of a simple and innovative value proposition, while improving its digital capabilities and customer satisfaction. The emphasis in commercial banking will be on its product, sales and risk capabilities. SC USA, meanwhile, will increase services for other businesses, take full advantage of the potential of the agreement with Chrysler and focus on its core businesses.

Main 2016 objectives

- Increase the number of digital customers from 617,000 to 725,000.
- Boost lending to companies to $20,7 bn.

Global Corporate Banking

SGCB is the global business division mainly focused on corporate clients and institutions which, due to their size or sophistication, require a tailored service or value-added wholesale products.

Treasury room, Torre Santander, Sao Paulo, Brazil.

Loans[1 2]
90,167 (+4%)

Attributable profit[1 3]
1,625 (+2%)

1. Million euros, change in local currency.
2. Change without repos.
3. The results for this global unit are included in the data for each local unit.

- The SGCB business model rests on three pillars: a customer focus, strong global product capabilities and interconnection with local units. All combined with permanent and optimum management of risk, capital and liquidity.

2015 highlights

- Optimisation of capital was one of SGCB's priorities during 2015. In order to make progress in this objective, SGCB created a new area called Asset Rotation and Capital Optimization (ARCO), which incorporates all the capabilities of structuring and sales to improve the Originate to Distribute initiative.
- SGCB attained a leadership position in Latin America in debt capital markets, cash management and emerging Latin American currencies, according to the main rankings and market awards. It is also the leader in Acquisition & Project Finance, Export & Agency Finance and Trade Finance.
- In order to respond adequately to the transformation of international trade finance, SGCB focused on innovation, digitalisation and further development of some of its products.
- SGCB deepened its cooperation with the Retail and Commercial Banking division by developing a wide range of products and services for the customers in this segment.

2018 objectives

SGCB will centre on the following aspects of its value proposals:

- Continue to be an expert in Latin America.
- Maintain unique, differentiated capabilities in relation to origination, structuring and distribution of loans, and its leadership in Acquisition Finance, Structured Credit and Project Finance.
- Spur the commercialisation of a wide range of solutions for retail and commercial banking customers, tailored to their needs and/or risk tolerance.
- Be the customers' bank of choice for access to euro and sterling capital markets.
- Continue to be the leading bank in international trade.
- SGCB will also put into effect measures to reduce the consumption of capital and will continue the gradual change toward a business based more on fee and commission, through an improved offer in advisory services and the Originate to Distribute initiative.

The purpose of the **changes** made to the Bank's **board of directors and management team** is to have the best **prepared and most qualified people** and to provide the Group with **best corporate governance practices** at an **international level**

Ms Ana Botín, Group executive chairman of Banco Santander
General shareholders' meeting
27 March 2015

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Corporate governance report

Balanced and committed board.

- Of 15 directors, 11 are non-executive and 4 are executive.

Equality of shareholders' rights.

- Principle of one share, one vote, one dividend.
- No defensive mechanisms in the Bylaws.
- Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indexes.

- Santander has been included in the FTSE4Good and DJSI indexes since 2003 and 2000, respectively.

Banco Santander complies with the **recommendations** and the **highest standards regarding good governance** that are applicable to listed companies and credit institutions

Ms Ana Botín, Group executive chairman of Banco Santander General shareholders' meeting
27 March 2015

Executive summary

Changes in the composition of the board

The following changes have led to a more qualified, international, independent and diverse board:

- At its meeting on 25 November 2014, at the proposal of the appointments committee, the board of directors approved the following appointments:
  - Mr Bruce Carnegie-Brown, as vice chairman, independent director and lead director.
  - Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors.

  These independent directors filled the vacancies created by the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos as well as by the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan. The appointments, once cleared by the European Central Bank, took effect on 12 February 2015 in the case of Mr Bruce Carnegie-Brown and Mr Carlos Fernández González, and on 18 February in the case of Ms Sol Daurella Comadrán.
- On 25 November 2014, at the proposal of the appointments committee, the board of directors appointed Mr José Antonio Álvarez Álvarez as a member of the board and chief executive officer, replacing Mr Javier Marín Romano. These appointments, once cleared by the European Central Bank and having complied with the related legal requirements, took effect on 13 and 14 January 2015, respectively.
- At its meeting on 16 January 2015, at the proposal of the appointments committee, the board of directors resolved to appoint Mr Rodrigo Echenique Gordillo, vice chairman of the board, executive director of the Bank.
- At its meeting on 30 June 2015, at the proposal of the appointments committee, the board resolved to appoint by co-option Mr Ignacio Benjumea Cabeza de Vaca as a non-executive director following the resignation of Mr Juan Rodríguez Inciarte as member of the board. The appointment took effect on 21 September, once cleared by the European Central Bank.
- Mr Jaime Pérez Renovales was appointed general secretary and secretary of the board and head of the General Secretariat and Human Resources division effective as of 1 September.
- Lastly, following the resignation of Ms Sheila C. Bair from her position as a director of the Bank, the board, at its meeting held on 22 December, at the proposal of the appointments committee, resolved to appoint by co-option Ms Belén Romana García as an independent director, once cleared by the European Central Bank.

Activities of the board

- The board held 21 meetings during 2015. In addition to the report made by the Group executive chairman at each annual meeting, the chief executive officer submitted management reports on the Group and the vice chairman, Mr Matías Rodríguez Inciarte, reported on the Group's risks. As in previous years, the board held one meeting on the Group's global strategy in 2015.
- The Group's external auditors and heads of internal audit participated, respectively, in 12 and 11 of the 13 meetings held by the audit committee in 2015 and reported to the board on two occasions.

Capital increase

- In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November.
  - In the first capital increase, carried out through an accelerated bookbuilding, 1,213,592,234 new shares were issued, representing 9.64% of the Bank's share capital at year-end 2014.
  - In the last three capital increases, carried out within the framework of the Santander Scrip Dividend programme, 262,578,993, 256,046,919 and 117,859,774 new shares were issued, representing 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014.

  All this entailed a total increase in share capital equal to 14.7% in comparison with share capital at year-end 2014.

New dividend policy

- In 2015 the Bank's dividend policy was redirected, effective from the first dividend paid for this year and for the purpose of once again paying most remuneration in cash, announcing the remuneration for 2015 would be EUR 0.20 —three cash dividends and a scrip dividend, in an approximate amount of five cents per share for each of them—.

  The Bank also announced its intent that the cash payout represent between 30% and 40% of its recurring profit in the coming years, instead of the previous 20%, and that payments to shareholders reflect the growth in its profit.

Bylaw-stipulated emoluments

- Bylaw-stipulated emoluments earned by the board amounted to EUR 5.2 million in 2015, which is 13.6% less than the maximum amount approved at the general shareholders' meeting.

Remuneration of executive directors

- At the general shareholders' meeting on 27 March 2015, shareholders also approved the maximum ratio of variable components of remuneration in relation to fixed components for 2015 for a maximum of 1,300 members of the *identified group*, including executive directors.

  Under no circumstances may this maximum ratio exceed 200%. At this general shareholders' meeting of 27 March 2015, shareholders also resolved to amend article 58 (remuneration of directors) and article 59-2 (transparency of the director remuneration system) of the Bylaws, including a new wording to article 59 (approval of the director remuneration policy) and renumbering former article 59 as article 59-2.

  At the general shareholders' meeting of 27 March 2015, shareholders approved, on a binding basis, the director remuneration policy of Banco Santander, S.A. for 2015 and 2016 and submitted the annual report on director remuneration to the consultative vote of shareholders.

  These amendments to the Bylaws, together with other amendments approved by the shareholders at the general meeting of 27 March 2015, were registered with the Cantabria Commercial Registry on 1 July 2015.

Appointment of new country heads in the US, Spain, Mexico and Brazil

- In March 2015, Mr Scott Powell was appointed the new country head and chief executive officer of Santander Holdings USA (SHUSA), the head of all Santander business in the United States. In his career over the last few years, Mr Powell has held positions of responsibility at J.P. Morgan Chase and Citigroup Inc., and until such date was the executive chairman of National Flood Services, an insurance company. He has broad experience in commercial banking, consumer finance and risks.
- On 30 June 2015, the board of directors of Banco Santander resolved to appoint Mr Rami Aboukhair Hurtado, the Bank's senior executive vice president with vast experience in retail banking in Spain and the UK, as the new country head of Santander Spain.
- On 24 August 2015, Mr Marcos Martínez Gavica and Mr Héctor Blas Grisi Checa were appointed as non-executive chairman and chief executive officer of Grupo Financiero Santander México. Both appointments took effect on 1 January 2016 and 1 December 2015, respectively. Mr Grisi joined the Bank as country head in Mexico following a long career in this country's financial system.
- Lastly, in September 2015 Mr Sérgio Rial was appointed country head of the Group in Brazil, an appointment which took effect as of 1 January 2016. Mr Rial joined the Group in March 2015 as chairman of the board of directors of Santander Brazil and since then has collaborated with Mr Jesús María Zabalza Lotina in carrying out this bank's executive duties. He has vast international experience and has had a successful career in banking as well as in other businesses, in addition to having been a member of the board of important Brazilian and other international companies.

Financial information that the Bank publicly discloses periodically

- The board has approved or prepared quarterly, semi-annual financial information, the annual accounts and the management report for 2015, along with other documents such as the annual report, the sustainability report, information of prudential relevance (Pillar III), the annual corporate governance report, the reports of the board committees and the annual report on director compensation.

1. Introduction

In this new phase, we have reinforced our corporate governance, with particular emphasis on the role and operation of the board of directors and its role in risk management, in accordance with the highest international standards in this regard. For Santander, robust governance is a key element in ensuring a sustainable long-term business model.

We have a board of directors that is highly qualified; the experience, knowledge and dedication of the directors and diversity of the board form part of the essential elements to reach the goal of making Santander the best commercial bank in the world.

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

During the last year and a half, the presence of non-executive directors —most of which are independent— has increased, which ensures adequate oversight of the executive management of the business and decision making and is also conducive to an intense and high-quality debate of all matters.

▶ Santander continues to bring its governance system into line with the highest international standards, both at corporate and subsidiary level, through the implementation of the new internal governance model approved by the Group.

2. Ownership structure

Number of shares and significant interests

Number of shares

In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November, with the issuance of 1,213,592,234, 262,578,993, 256,046,919 and 117,859,774 new shares, representing 9.64%, 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014.

The first increase was carried out through an accelerated bookbuilding and the last three within the framework of the Santander Scrip Dividend programme. All this entailed a total increase in share capital equal to 14.70% in comparison with share capital at year-end 2014.

	Number of shares	% of share capital*
9 January	1,213,592,234	9.64
29 January	262,578,993	2.09
29 April	256,046,919	2.03
4 November	117,859,774	0.94
Total	**1,850,077,920**	**14.70**

* Of share capital at year-end 2014.

The Bank's share capital at 31 December 2015 was represented by 14,434,492,579 shares, whose value according to the listing price on the Electronic Spanish Stock Market Interconnection System at such date was EUR 65,792.4 million.

All shares carry the same voting and dividend rights.

Significant interests

No shareholder held significant interests (of more than 3% of the share capital[1] or interests that would permit a significant influence over the Bank) at 31 December 2015.

The interests held by State Street Bank and Trust Company (12.62%); The Bank of New York Mellon Corporation (6.05%); Chase Nominees Limited (4.84%); EC Nominees Limited (3.99%); Societe Generale S.A. (3.81%); Clearstream Banking S.A. (3.50%); and Guaranty Nominees Limited (3.23%), which were the only ones in excess of 3%, were held by them on behalf of their customers. The Bank is not aware of any of them holding individual interests of 3% or more of its share capital.

Bearing in mind the current number of members of the board of directors (15), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) on proportional representation, is 6.67%.

Shareholders' agreements and other significant agreements

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

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

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

On 3 October 2014, Banco Santander notified the CNMV, through a material fact, of a new update to the signatories and the distribution of shares included in the syndication, as well as the change in the chairmanship of the syndicate, which is vested in Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, the current chairman of the board of trustees of the Botín Foundation, supplementing such information through a material fact notification on 6 February 2015.

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

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

1. Limit set by Royal Decree 1362/2007, of 19 October, for defining the concept of significant interest.

Shares included in the syndication

At 31 December 2015, the syndication included a total of 72,933,193 shares of the Bank (0.505% of its share capital), broken down as follows:

Signatories to the shareholders' agreement	Number of sharess
Ms Ana Patricia Botín-Sanz de Sautuola O'Shea[1]	8,294,091
Mr Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola O'Shea[3]	16,290,053
Ms Paloma Botín-Sanz de Sautuola O'Shea[4]	7,835,293
Ms Carmen Botín-Sanz de Sautuola O'Shea	8,636,449
PUENTEPUMAR, S.L.	-
LATIMER INVERSIONES, S.L.	-
CRONJE, S.L., Unipersonal[5]	9,428,319
NUEVA AZIL, S.L.[6]	5,575,279
TOTAL	**72,933,193**

1. 8,074,263 shares indirectly through Bafimar, S.L.
2. 7,800,332 shares indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares indirectly through Inversiones Zulú, S.L. and 6,794,391 shares indirectly through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares indirectly through Bright Sky 2012, S.L.
5. Controlled by Ms Ana Botín-Sanz de Sautuola O'Shea.
6. Controlled by Ms Carolina Botín-Sanz de Sautuola O'Shea.

In all other respects the aforementioned syndication agreement remains unchanged.

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

Treasury shares

Treasury share policy

The sale and purchase of own shares, by the company or by companies controlled thereby, must conform to the provisions of applicable law and the resolutions adopted at the general shareholders' meeting in this regard.

The Bank, by resolution of the board of directors on 23 October 2014, approved the current treasury share policy[2] taking into account the criteria recommended by the CNMV.

Treasury share transactions have the following objectives:

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

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

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

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

Key data

At 31 December 2015, the Bank held 40,291,209 treasury shares, representing 0.279% of its share capital at that date (at year-end 2014, there were 1,465,371 treasury shares, representing 0.012% of the Bank's share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2015 and 2014.

Monthly average percentages of treasury shares[1]
% of the Bank's social capital[2]

	2015	2014
January	0.200	0.154
February	0.218	0.232
March	0.233	0.241
April	0.246	0.136
May	0.181	0.260
June	0.169	0.297
July	0.132	0.284
August	0.187	0.414
September	0.244	0.337
October	0.336	0.156
November	0.336	0.258
December	0.335	0.141

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

The transactions with treasury shares performed in the Group's interest by the consolidated companies in 2015 entailed the acquisition of 537,314,450 shares, equivalent to a par value of EUR 268.7 million (cash amount of EUR 3,224.9 million) and the sale of 498,448,612 shares, with a par value of EUR 249.2 million (cash amount of EUR 3,048.3 million).

2. The treasury share policy is published on the Group's corporate website (www.santander.com).

The average purchase price of the Bank's shares in 2015 was EUR 6.00 per share, and the average sale price of the Bank's shares was EUR 6.12 per share.

The net gain in 2015, net of tax, on transactions involving shares issued by the Bank, amounting to EUR 16,442,887, was recognised in the Group's equity under *Shareholders' equity-Reserves*.

Authorisation

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

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

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

The capital authorised by the shareholders at the annual general meeting held on 27 March 2015, under item Eight of the agenda, amounted to EUR 3,515,146,471.50. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The shareholders gave the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Spanish Corporate Enterprises Act, although this power is limited to capital increases carried out under this authorisation up to EUR 1,406,058,588.50.

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

In addition, the shareholders at the annual general meeting held on 27 March 2015 approved the following resolutions in connection with the content of this section:

1. Two increases in share capital with a charge to reserves for the maximum amounts of EUR 2,300 million and EUR 750 million at market value, respectively, within the shareholder compensation scheme (Santander Scrip Dividend) whereby the Bank has offered shareholders the possibility of receiving shares under a scrip issue for an amount equal to the dividends on the dates on which the final dividend for 2014 and the second interim dividend for 2015 are customarily paid.

The two capital increases were carried out on 29 April and 4 November 2015. A number of shares with a par value of EUR 0.50 each were issued in each case, equal to EUR 128,023,459.50 and EUR 58,929,887, respectively, which corresponds to a total of 2.590% of the Bank's share capital at year-end 2015.

2. Delegation to the board of directors, in accordance with the general rules on issuing debentures and pursuant to the provisions of article 319 of the Commercial Registry Regulations (*Reglamento del Registro Mercantil*), of the power to issue, on one or more occasions, debentures, bonds, preferred shares and other fixed-income securities or debt instruments of a similar nature in any of the forms allowed by law and convertible into and/or exchangeable for shares of the Bank (resolution Ten A). Such delegation also includes warrants or similar securities that may directly or indirectly carry the right to subscribe for or acquire shares of the Bank, whether newly-issued or already outstanding, payable by physical delivery or through set-off. The issuance or issuances of securities carried out pursuant to this delegation come to the aggregate maximum amount of EUR 10,000 million or the equivalent amount in another currency, and the Bank's directors have until 27 March 2020 to implement this resolution.

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

3. Delegation to the board of directors, pursuant to the provisions of article 297.1.a) of the Spanish Corporate Enterprises Act, of the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital, approved by the shareholders, in the amount of EUR 500 million. If the board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

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

3. Banco Santander's board of directors[3]

Ms Ana Botín-Sanz de Sautuola y O'Shea

GROUP EXECUTIVE CHAIRMAN
Executive director

Born in 1960 in Santander, Spain.

Joined the board in 1989.

Graduate in Economics.

Joined the Bank after a period at JP Morgan (1980-1988). She was appointed senior executive vice president of Banco Santander, S.A. in 1992, and subsequently became executive chairman of Banesto from 2002 to 2010 and chief executive officer of Santander UK from 2010 to 2014.

Other significant positions: She is a non-executive director of The Coca-Cola Company. She is also a member of the board of Deusto Business School and of the Financial Services Trade and Investment Board (FSTIB), created by the British Ministry of Economy to promote the financial services industry of the United Kingdom. She is also Dame Commander of the British Empire, Business Ambassador of the government of the United Kingdom and member of the Trilateral Commission and of the advisory board of Saïd Business School (University of Oxford).

Committees of the board of which she is a member
Executive (chairman), international (chairman) and innovation and technology (chairman).

Mr José Antonio Álvarez Álvarez

CHIEF EXECUTIVE OFFICER
Executive director

Born in 1960 in León, Spain.

Joined the board in 2015.

Graduate in Economics and Business Administration. MBA from the University of Chicago.

Joined the Bank in 2002 and was appointed senior executive vice president of the financial management and investor relations division in 2004 (Group chief financial officer).

Other significant positions: He is a member of the board of Banco Santander (Brasil), S.A. and SAM Investments Holdings Limited. He has also served as a director of Santander Consumer Finance, S.A. and Santander Holdings USA, Inc. and a member of the supervisory boards of Santander Consumer AG, Santander Consumer Holding GMBH and Bank of Zachodni WBK, S.A., as well as director of Bolsas y Mercados Españoles (BME).

Committees of the board of which he is a member
Executive, international and innovation and technology.

Mr Bruce Carnegie-Brown

VICE CHAIRMAN
Non-executive director (independent) and lead director

Born in 1959 in Freetown, Sierra Leone.

Joined the board in 2015.

MA degree in English Language and Literature from the University of Oxford.

Other significant positions: He was the non-executive chairman of Aon UK Ltd, founder and managing partner of the quoted private equity division of 3i Group Plc., chairman and chief executive officer of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group Plc (2008-2014) and Catlin Group Ltd (2010-2014). He is currently the non-executive chairman of Moneysupermarket.com Group Plc and a non-executive director of Santander UK Plc.

Committees of the board of which he is a member
Executive, appointments (chairman), remuneration (chairman), risk supervision, regulation and compliance (chairman) and innovation and technology.

Mr Rodrigo Echenique Gordillo

VICE CHAIRMAN
Executive director

Born in 1946 in Madrid, Spain.

Joined the board in 1988.

Graduate in Law and Government Attorney.

Other significant positions: He was the former chief executive officer of Banco Santander, S.A. (1988-1994). He has served on the board of directors of several industrial and financial companies such as Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A. He was the chairman of the advisory board of Accenture, S.A. He also held the position of non-executive chairman of NH Hotels Group, S.A., Vocento, S.A. and Vallehermoso, S.A. He is currently a non-executive director of Inditex, S.A. and the chairman of the board of directors of Metrovacesa, S.A.

Committees of the board of which he is a member
Executive, international and innovation and technology.

3. Unless otherwise specified, the main activity of the members of the board is that carried out at the Bank in their capacity as directors, whether executive or non-executive.

Mr Matías Rodríguez Inciarte

VICE CHAIRMAN
Executive director

Born in 1948 in Oviedo, Spain.

Joined the board in 1988.

Graduate in Economics, and Government Economist. He also carried out business administrations studies at the Massachusetts Institute of Technology (MIT).

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

Committees of the board of which he is a member
Executive and innovation and technology.

Mr Guillermo de la Dehesa Romero

VICE CHAIRMAN
Non-executive director

Born in 1941 in Madrid, Spain.

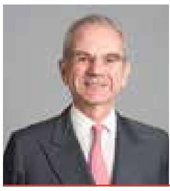
Joined the board in 2002.

Government Economist and head of office of the Bank of Spain (on leave of absence).

He is an international advisor to Goldman Sachs International.

Other significant positions: He was secretary of state for Economy, secretary general for Trade and chief executive officer of Banco Pastor, S.A. He is currently a non-executive vice chairman of Amadeus IT Holding, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) based in London, a member of the Group of Thirty based in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Grupo Corporativo, S.L. and of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Committees of the board of which he is a member
Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.



Mr Ignacio Benjumea Cabeza de Vaca

Non-executive director

Born in 1952 in Madrid, Spain.

Joined the board in 2015.

Graduate in Law at the Deusto University, ICADE E-3, and Government Attorney.

He is vice chairman of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

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

Committees of the board of which he is a member
Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive director (proprietary)

Born in 1973 in Santander, Spain

Joined the board in 2004.

Graduate in Law.

He is chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.U.

Other significant positions: In addition to his professional activity in the financial sector, he collaborates with several non-profit organisations. Since 2014 he has been chairman of the Botín Foundation and trustee of the Princess of Girona Foundation and of the Prehistoric Research Institute of Cantabria.

Ms Sol Daurella Comadrán

Non-executive director (independent)

Born in 1966 in Barcelona, Spain.

Joined the board in 2015.

Graduate in Business and MBA in Business Administration.

She is executive chairman of Olive Partners, S.A. and holds several positions in companies of the Cobega Group.

Other significant positions: She has served as a member of the governing board of the Círculo de Economía and an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She is also honorary consul-general for Iceland in Catalonia.

Committees of the board of which she is a member
Appointments and remuneration.

Mr Carlos Fernández González

Non-executive director (independent)

Born in 1966 in Mexico City, Mexico.

Joined the board in 2015.

An industrial engineer, he has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

He is the chairman of the board of directors of Finaccess, S.A.P.I.

Other significant positions: He is currently a member of the advisory board of the Modelo Group.

Committees of the board of which he is a member
Audit, appointments and risk supervision, regulation and compliance.

Ms Esther Giménez-Salinas i Colomer

Non-executive director (independent)

Born in 1949 in Barcelona, Spain.

Joined the board in 2012.

Doctor in Law.

She is Professor Emeritus of Ramon Llull University, director of Unibasq and Aqu (agencies for quality of the Basque and Catalan university system) and of Gawa Capital Partners, S.L., and a member of the advisory board of Endesa-Catalunya.

Other significant positions: She has been rector of Ramon Llull University, a member of the General Council of the Judiciary, a member of the standing committee of the Conference of Rectors of Spanish Universities and executive vice president of the Centre for Legal Studies of the Department of Justice of the Catalonia Government.

Committees of the board of which she is a member
International and innovation and technology.

Mr Ángel Jado Becerro de Bengoa

Non-executive director (independent)

Born in 1945 in Santander, Spain.

Joined the board in 2010.

Graduate in Law and degree in Business Administration.

Other significant positions: He was director of Banco Santander from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. He currently holds various positions in investment trusts.

Committees of the board of which he is a member
Audit, appointments, remuneration and risk supervision, regulation and compliance.

▶ Board membership underwent an important renewal, bringing in new independent and non-executive directors, thereby shoring up diversity on the governing body. A rigorous selection process was carried out with the assistance of an external firm, which selected a plurality of candidates, based on an assessment of the directors' capacities (skills matrix) and the identification of the most suitable profiles for consolidating the Group's strategic objectives. This process, headed by the appointments committee, included a thorough succession procedure for posts on the board, taking the shape of the corresponding succession plans.

Ms Belén Romana García

Non-executive director (independent)

Born in 1965 in Madrid, Spain.

Joined the board in 2015.

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

She is a non-executive director of Aviva Plc, London.

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

Committees of the board of which she is a member
Audit.

Ms Isabel Tocino Biscarolasaga

Non-executive director (independent)

Born in 1949 in Santander, Spain.

Joined the board in 2007.

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

She is a professor at Universidad Complutense de Madrid.

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

Committees of the board of which she is a member
Executive, audit, remuneration and risk supervision, regulation and compliance.

Mr Juan Miguel Villar Mir

Non-executive director (independent)

Born in 1931 in Madrid, Spain.

Joined the board in 2013.

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

He is the chairman of the OHL Group and of the Villar Mir Group, and represents these entities as vice chairman and director of Abertis Infraestructuras, S.A. and Inmobiliaria Colonial, S.A., respectively.

Other significant positions: He was Minister of Finance and vice president of the Government for Economic Affairs from 1975 to 1976, and chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, the COTEC Foundation and of the National College of Civil Engineering. He is also currently Professor of Business Organisation at Universidad Politécnica de Madrid, a full numerary member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumerary of the Royal Academy of Economics and Finance.

Committees of the board of which he is a member
Audit (chairman) and risk supervision, regulation and compliance.

Mr Jaime Pérez Renovales

General secretary and secretary of the board

Born in 1968 in Valladolid, Spain.

Joined the Group in 2003.

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

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

He was director of Patrimonio Nacional, Sociedad Estatal de las Participaciones Industriales, Holding Olímpico, S.A., Autoestradas de Galicia, S.A. and Sociedad Estatal para la Introducción del Euro, S.A., among others . He is a member of the board of trustees and the executive commitee of Fundación Banco Santander.

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

Re-election of directors at the 2016 annual general shareholders' meeting

Pursuant to article 55 of the Bylaws[4] and article 22 of the Rules and Regulations of the Board[4], directors are appointed to three-year terms, such that one-third of the board is renewed each year.

The following directors will be proposed for re-election at the 2016 annual general shareholders' meeting, scheduled for 17 or 18 March on first and second call, respectively, and following the order determined by seniority for annual renewal and for renewal of one-third of the board, Mr Javier Botín-Sanz de Sautuola y O'Shea, Mr Bruce Carnegie-Brown, Mr Ángel Jado Becerro de Bengoa, Ms Sol Daurella Comadrán and Ms Isabel Tocino Biscarolasaga, the first as a proprietary director and the rest as independent directors.

The appointments of Mr Ignacio Benjumea Cabeza de Vaca, as non-executive director (neither proprietary nor independent), and Ms Belén Romana García, as an independent director, will be submitted for ratification by the shareholders at the general meeting.

Their professional profiles, together with the description of their activities, appear on the preceding pages, on the Bank's corporte website (www.santander.com) and in the proposed resolutions of the general shareholders' meeting of 2016.

Each of the re-elections and ratifications will be submitted separately to a vote of the shareholders at the general meeting (article 21.2 of the Rules and Regulations for the General Shareholders' Meeting), a practice in place since 2005, whereby all the current directors were appointed.

Powers and duties

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

The Rules and Regulations of the Board (article 3) reserve thereto the power, which cannot be delegated, to approve general policies and strategies and, in particular, the following: strategic or business plans;

4. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group's corporate website (www.santander.com).

Composition and structure of the board of directors[1]

Board of directors				Committees						
		Executive	Non-executive	1. Executive committee	2. Audit committee	3. Appointments committee	4. Remuneration committee	5. Risk supervision, regulation and compliance committee	6. International committee	7. Innovation and technology committee
Group executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	■		C					C	C
Chief executive officer	Mr José Antonio Àlvarez Àlvarez	■		■					■	■
Vice chairmen	Mr Bruce Carnegie-Brown		I	■		C	C	C		■
	Mr Rodrigo Echenique Gordillo	■		■					■	■
	Mr Matías Rodríguez Inciarte	■		■						■
	Mr Guillermo de la Dehesa Romero		N	■		■	■	■	■	■
Members	Mr Ignacio Benjumea Cabeza de Vaca[6]		N	■		■	■	■	■	■
	Mr Javier Botín-Sanz de Sautuola y O'Shea		P							
	Ms Sol Daurella Comadrán		I			■	■			
	Mr Carlos Fernández González		I		■	■		■		
	Ms Esther Giménez-Salinas i Colomer		I						■	■
	Mr Ángel Jado Becerro de Bengoa		I		■	■	■	■		
	Ms Belén Romana García[6]		I		■					
	Ms Isabel Tocino Biscarolasaga		I	■	■		■	■		
	Mr Juan Miguel Villar Mir		I		C			■		
	Total									
General secretary and secretary of the board	Mr Jaime Pérez Renovales			■	■	■	■	■	■	■

1. Data at 31 December 2015.
2. However, and pursuant to the provisions of article 55 of the Bylaws, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.
3. Syndicated shares. See page 80.
4. Effective 13 January 2015.

management objectives and the annual budget; fiscal strategy and capital and liquidity strategy; investment, financing, dividend, treasury share, risk management and control (including fiscal), corporate governance, corporate social responsibility and regulatory compliance policies; policies regarding the internal governance of the Bank and its Group; remuneration policies for employees of the Bank and its Group; and policies for reporting to and notifying shareholders, markets and public opinion.

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

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

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

Shareholding								
Direct	Indirect	Shares represented	**Total**	**% of share capital**	Date of first appointment	Date of last appointment	End date[2]	Date of last proposal of the appointments committee
219,828	17,502,582	-	**17,722,410[3]**	**0.123%**	04/02/1989	28/03/2014	First six months of 2017	17/02/2014
438,930	1,287	-	**440,217**	**0.003%**	25/11/2014[4]	27/03/2015	First six months of 2018	20/02/2015
10,099	-	-	**10,099**	**0.000%**	25/11/2014[5]	27/03/2015	First six months of 2018	11/02/2016
665,153	14,023	-	**679,176**	**0.005%**	07/10/1988	28/03/2014	First six months of 2017	13/02/2014
1,327,697	306,729	205,751	**1,840,177**	**0.013%**	07/10/1988	27/03/2015	First six months of 2018	20/02/2015
143	-	-	**143**	**0.000%**	24/06/2002	27/03/2015	First six months of 2018	20/02/2015
2,926,372	-	-	**2,926,372**	**0.020%**	30/06/2015[7]	30/06/2015	First six months of 2019	11/02/2016
4,793,481	11,496,572	116,250,650	**132,540,703**	**0.918%**	25/07/2004	22/03/2013	First six months of 2016	11/02/2016
949	412,521	-	**413,470**	**0.003%**	25/11/2014[8]	27/03/2015	First six months of 2018	11/02/2016
15,839,714	-	-	**15,839,714**	**0.110%**	25/11/2014[5]	27/03/2015	First six months of 2018	20/02/2015
5,344	-	-	**5,344**	**0.000%**	30/03/2012	28/03/2014	First six months of 2017	17/02/2014
2,200,000	5,100,000	-	**7,300,000**	**0.051%**	11/06/2010	22/03/2013	First six months of 2016	11/02/2016
149	-	-	**149**	**0.000%**	22/12/2015	22/12/2015	First six months of 2019	11/02/2016
207,511	-	-	**207,511**	**0.001%**	26/03/2007	22/03/2013	First six months of 2016	11/02/2016
1,186	-	-	**1,186**	**0.000%**	07/05/2013	27/03/2015	First six months of 2018	20/02/2015
28,636,556	**34,833,714**	**116,456,401**	**179,926,671**	**1.247%**				

5. Effective 12 February 2015.
6. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call.
7. Effective 21 September 2015.
8. Effective 18 February 2015.

C Chairman of the committee
P Proprietary
I Independent
N Non-executive (neither proprietary nor independent)

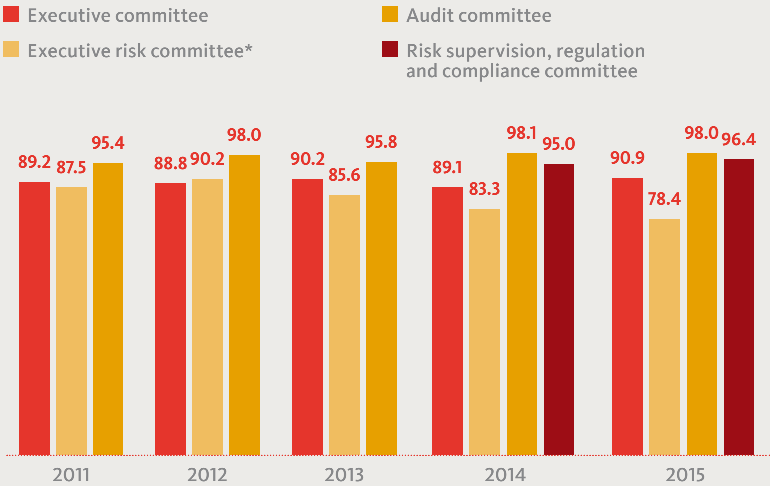
Corporate governance of the risk function

- In line with the Group's goal of strengthening its corporate governance, governance of the risk function was updated and strengthened in 2015 by incorporating best international practices, establishing committees for making decisions and managing risk, with the involvement of the business functions, and independent committees responsible for controlling risk.
- The Bank's risk supervision, regulation and compliance committee was set up in June 2014 with general powers to support and advise the board of directors on risk supervision and control, on determining the Group's risk policies, on relations with supervisory authorities, on regulation and compliance, corporate social responsibility and corporate governance. This committee held 13 meetings in 2015, each of which lasted approximately four hours.
- With regard to the risk function, Mr José María Nus Badía is the Group chief risk officer and reports to Mr Matías Rodríguez Inciarte, the Bank´s executive vice chairman of Banco Santander and chairman of the non-statutory executive risk committee.
- The executive risk committee held 81 meetings in 2015, each of which lasted approximately three hours. The committee was disbanded by resolution of the board on 1 December 2015.
- The executive committee held 59 meetings in 2015 and devoted a very significant amount of its time to discussions on risks.
- The board of directors approved a new risk governance model at its meeting on 29 September 2015. This model entered into force on 1 November and is based on the following principles:
  - Separate decision-making functions from control functions.
  - Strengthen the responsibility of the first line of defence in decision-making.
  - Ensure that all decisions concerning risk follow a formal approval process.
  - Ensure there is an overall vision of all types of risks, including those outside the scope of control of the risk function.
  - Strengthen the role of risk control committees, affording them additional powers.
  - Simplify the committee structure.
- In this context, two internal risk committees, not mandated by the bylaws, were created: the executive risk committee, as the body in charge of global risk management, which replaces the board's delegate risk committee, and the risk control committee, as the body in charge of global risk supervision and management. This organisation model is in line with best practices regarding risk governance.

Banco Santander follows a risk management and control model based on three lines of defence: the first, carried out by the business and support functions; the second, performed by the Risk and Compliance functions; and the third, which is the responsibility of Internal Audit.

Average rate of attendance at meetings of the committees of the board

%

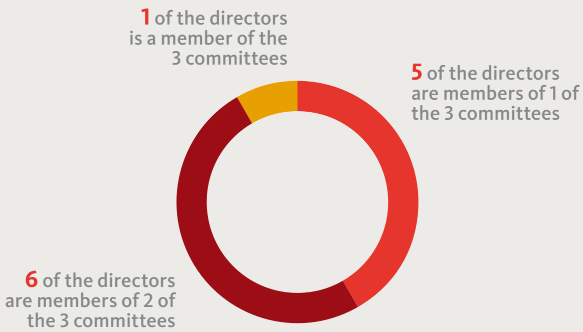


* Disbanded by resolution of the board on 1 December 2015, as a result of the new risk governance model. The executive committee devoted a very significant amount of its time to discussions on risks.

Number of meetings of the executive, executive risk, audit, and risk supervision, regulation and compliance committees

Committees	2011	2012	2013	2014	2015
Executive	59	59	58	65	59
Executive risk	99	98	97	96	81
Audit	12	11	12	13	13
Risk supervision, regulation and compliance	-	-	-	5	13
Total meetings	**170**	**168**	**167**	**179**	**166**

Cross-participation on executive, audit, and risk supervision, regulation and compliance committees



Commitment of the board[5]

Number of shares of the board[6]
179,926,671
1.247% of the share capital

Listed price
EUR 820
million

Share price
EUR 4.558

5. Data at 31 December 2015.
6. Since year-end 2015 various members of the board have made significant investments in shares of Banco Santander, thereby increasing their individual stakes in the Bank's capital.

Size and composition of the board

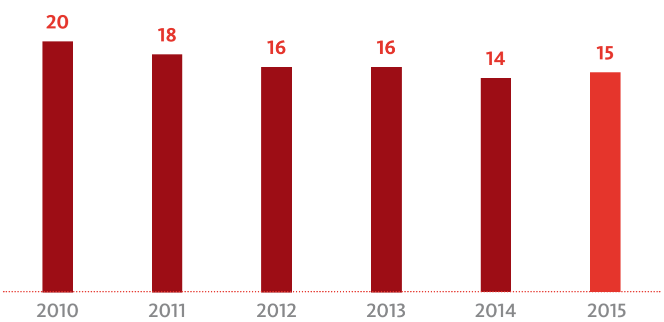
Since the end of 2010, the size of the board has been reduced by 25%, from 20 to 15 members.

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

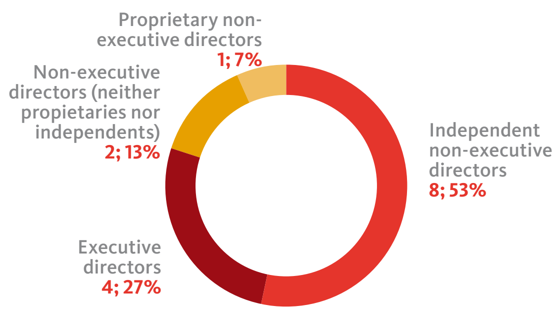
Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments committee verified the status of each director at its meeting on 11 February 2016. Its proposal was submitted to the board and approved thereby at its meeting on 12 February 2016.

Of the 15 members currently sitting on the board, 4 are executive and 11 are non-executive. Of the latter, eight are independent, one is proprietary and the other two, in the opinion of the board, are neither proprietaries nor independents.

Size of the board



Current composition of the board



Executive directors

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

Proprietary non-executive directors

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

Since 2002 the appointments committee and the board of directors have made holding or representing at least 1% of the Bank's share capital 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 consideration the circumstances in question and following a report from the appointments committee, appointed Mr Javier Botín-Sanz de Sautuola y O'Shea as proprietary non-executive director to represent the following shareholders: Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño, S.L.U., Bright Sky 2012, S.L., Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own shareholding.

The voting rights of the aforementioned shareholders corresponded to 1.041% of the Bank's share capital at year-end 2015.

Independent non-executive directors

The Rules and Regulations of the Board (article 6.2.c)) include the legal definition of independent director established in article 529-12.4 of the Spanish Corporate Enterprises Act.

Taking into account the circumstances in each case and following a report from the appointments committee, the board considers the following eight directors to be independent non-executive directors: Mr Bruce Carnegie-Brown (lead independent director), Ms Sol Daurella Comadrán, Mr Carlos Fernández González, Ms Esther Giménez-Salinas i Colomer, Mr Ángel Jado Becerro de Bengoa, Ms Belén Romana García, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.

Given the current number of members of the board (15), independent non-executive directors account for 53% of the board.

Such percentage significantly exceeds the minimum of one-third established by article 6.1 of the Rules and Regulations of the Board and reflects the board's goal for the board to be made up predominantly of non-executive directors, which in turn are predominantly independent, in compliance with best practices in corporate governance.

Other non-executive directors

Mr Guillermo de la Dehesa Romero and Mr Ignacio Benjumea Cabeza de Vaca are non-executives directors that are neither proprietary nor independent. Neither can be classified as a proprietary director as they do not hold shareholdings equal to or greater than that which qualifies as significant under the law and have not been designated as such on account of their status as shareholders. Likewise, neither can be considered an independent director since, in the case of Mr de la Dehesa, he has held the position of director for more than 12 years and, in the case of Mr Benjumea, since 3 years have not yet elapsed since his resignation as a member of the Group's senior management.

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

Diversity on the board

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

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

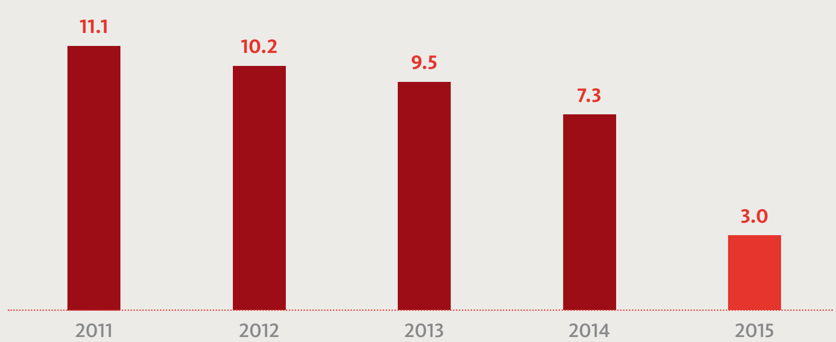
The appointments committee approved raising the target percentage of women serving on the board from the previous minimum of 25% to 30%, in line with good corporate governance recommendations.

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

The percentage of women on the Banco Santander board (33.3%) exceeds the target established by the appointments committee and is clearly higher than the average for large European listed companies. According to a study carried out by the European Commission with data from April 2015 the average percentage of female board members of large listed companies was 21.2% for all 28 countries in the European Union and 16.8% for Spain.

Years of service of independent directors

At the date of this document, the average length of service for independent non-executive directors in the position of board member is three years.



Roles and responsibilities

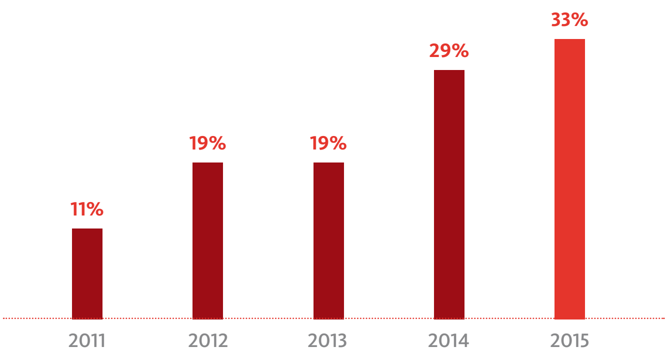
Group executive chairman

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

Chief executive officer

- The chief executive officer is entrusted with the day-to-day management of the business and the highest executive functions (article 49.1 of the Bylaws and article 10.1 of the Rules and Regulations of the Board).
- The board of directors has delegated to the chief executive officer all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- The corporate business and business support divisions, the corporate support functions directly related to ordinary business management and the corporate financial control function report to the chief executive officer.
- The country heads, who are the Group's first representatives in the countries in which the Group operates, and the chief executive officers of the entities headed by the Group in the respective countries report to the Bank's chief executive officer.

Percentage of women on the board



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

	Número de vocales	Número de consejeras	% de consejeras
Board	15	5	33.3%
Executive committee	8	2	25.0%
Audit committee	5	2	40.0%
Appointments committee	6	1	16.7%
Remuneration committee	6	2	33.3%
Risk supervision, regulation and compliance committee	7	1	14.3%
International committee	6	2	33.3%
Innovation and technology committee	8	2	25.0%

Group executive chairman and chief executive officer

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

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.
- The lead independent director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.
- The audit committee is chaired by an independent director.
- The powers delegated to the Group executive chairman and the chief executive officer exclude those that are exclusively reserved for the board itself.
- The Group executive chairman may not simultaneously hold the position of chief executive officer of the Bank.
- The corporate risk, compliance and internal audit functions report to a committee or a member of the board of directors and have direct access thereto.

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

Succession planning for the main directors is a key element of the Bank's good governance, assuring an orderly leadership transition at all times. The process is regulated by article 24 of the Rules and Regulations of the Board, which also provides for the succession plans for the Group's other directors and senior management. The board of directors prepared skills matrix that it must have, together with a succession plan aligned with these skills that, when vacancies arise, it must reinforce. Also, at its meeting of 6 July 2015, it approved the succession planning policy for the Group's senior executives. Plans relating to 95% of these employees were completed.

Rules for interim replacement of the Group executive chairman

Article 44.2 of the Bylaws and article 9-2 of the Rules and Regulations of the Board set out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the Group executive chairman of the board of directors in the absence of the vice chairmen, in the expectation that in such cases she will be substituted by the vice chairman or vice chairmen, using the criterion of the time that they have been on the board. However, if one of the vice chairmen is the lead director, he will be the first in the order of replacement. If there are no vice chairmen, the remaining directors will replace the Group executive chairman in the order established by the board, whereby the lead director should be the first in this order if such director does not hold the position of vice chairman.

Lead director

By resolution of the general shareholders' meeting of 28 March 2014, the figure of lead director, already established in the Rules and Regulations of the Board, has been included in the Bylaws, the responsibilities thereof being defined in article 49-2. Pursuant to that established above and article 12-2 of the Rules and Regulations of the Board, the lead director will be especially empowered to:
(i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board that has already been called; (ii) coordinate and organise meetings of the non-executive directors and voice their concerns; (iii) direct the regular assessment of the chairman of the board of directors and coordinate the succession plan; (iv) contact investors and shareholders to obtain their points of view for the purpose of gathering information on their concerns, in particular, with regard to the Bank's corporate governance; and (v) replace the chairman in the event of absence under the terms envisaged in the Rules and Regulations of the Board.

At its meeting on 25 November 2014, the board of directors appointed Mr Bruce Carnegie-Brown as vice chairman and lead director, replacing Mr Fernando de Asúa Álvarez. This appointment as director was ratified by resolution of the shareholders at the general shareholders' meeting on 27 March 2015.

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

Comparison of number of meetings held*

In a study carried out on the dedication of the directors, the firm Spencer Stuart concluded that the average time dedicated by each of the Bank's director to the tasks of the board and its committees was 379.9 hours, against an average of 95.1 hours for the directors of the main banks in the UK (Lloyds, Barclays, Standard Chartered and HSBC), 113.5 hours for those in the US and Canada (Bank of America, Goldman Sachs, JP Morgan Chase, Citigroup, Morgan Stanley, Wells Fargo and Royal Bank of Canada), and 132.2 hours for a range of international banks (Société Générale, BNP Paribas, BBVA, Credit Suisse, Deutsche Bank, UBS, UniCredit, Intesa SanPaolo and Nordea).

	Santander	US and Canada average	UK average	Europe and other countries average
Board	21	12.9	9.8	14.9
Executive committee	59	1	-	20.0
Executive risk committee**	81	-	-	45.0
Audit committee	13	12.4	8.4	13.8
Appointments committee	12	7.0	4.0	5.9
Remuneration committee	10	8.3	8.6	7.8
Risk supervision, regulation and compliance committee	13	9.9	6.9	7.6

* The data for other banks refers to December 2014, the last period for which comparative information is available.

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

Secretary of the board

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

At the annual general shareholders' meeting scheduled for 17 or 18 March on first and second call, respectively, a proposal was put forward to amend article 45.2 of the Bylaws for the purpose of bringing its content into line with recommendation 35 of the new code of good governance for listed companies approved by resolution of the Spanish Securities Market Commission on 18 February 2015, which replaces recommendation 17 of the unified good governance code for listed companies approved by resolution of the Spanish Securities Market Commission on 22 May 2006, with reference to the fact that the secretary of the board will strive to ensure that the board of directors' actions and decisions take into account the recommendations on good governance applicable to the company, in line with that already included in article 11 of the Rules and Regulations of the Board.

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

Mr Jaime Pérez Renovales was appointed general secretary and secretary of the board and head of the Office of the General Secretary and the Human Resources division effective as of 1 September 2015, having been previously cleared by the Bank of Spain on 30 July 2015.

The Rules and Regulations of the Board (article 17.4.e)) provide that the appointments committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

Proceedings of the board

The board of directors held 21 meetings during 2015.

The board holds its meetings in accordance with an annual calendar and there is list of annual matters to be discussed, without prejudice to any that may arise as a result of the needs of the business. Directors may also propose the inclusion of items on the agenda. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors (article 46.1 of the Bylaws). Additionally, the lead director shall be especially authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called (articles 49-2.1 (i) of the Bylaws and 12-2 of the Rules and Regulations of the Board).

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

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

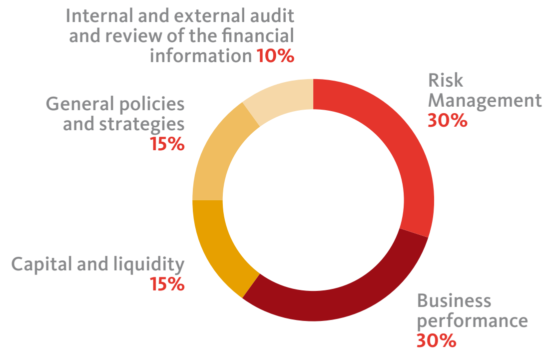
Board meetings shall be validly convened when more than half of its members are present in person or by proxy.

Except in instances in which a greater majority is specifically required pursuant to legal provisions, the Bylaws or the Rules and Regulations of the Board, resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie.

In 2015 the board was kept continuously and fully informed of the performance of the various business areas of the Group through the management reports and risk reports submitted thereto, among others. During the year, the board has also reported on the conclusions of the external and internal audits.

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

Approximate time dedicated to each duty



Dedication to board duties

One of the directors' duties expressly established in the Rules and Regulations of the Board is that of diligent management, which, among other duties, requires that directors dedicate the necessary time and effort to their position. The maximum number of boards of directors to which they may belong is established in article 26 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions. The Bank's directors therefore may not at the same time hold more than: (a) one executive position and two non-executive positions; or (b) four non-executive positions. For such purposes, positions held within the same group will be counted as a single position, and positions held at non-profit organisations or organisations not pursuing commercial ends will not be included. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

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

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

Decision-making process

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

Training of directors and information or induction programme for new directors

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

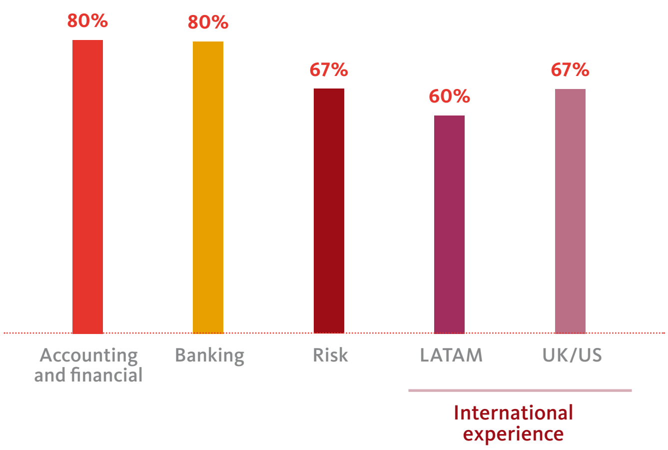
Within the framework of the Bank's ongoing director training programme, nine sessions were held in 2015 with an average attendance of eight directors, who devoted approximately two hours to each session. Various issues were covered in depth at such meetings, including: capital requirements and assessment,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

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

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

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

% Of board members with relevant experience



Self-assessment by the board

In line with the provisions of the Rules and Regulations of the Board, the ongoing self-assessment exercise performed by the board with the support of the firm Spencer Stuart, on the basis of a questionnaire and personal interviews with the directors, includes a special section for the individual assessment of the chairman of the board, the chief executive officer and the other directors, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The Group executive chairman led the assessment of the lead director, who in turn led that of the Group executive chairman and also the process of individual cross-assessments.

This exercise was based on a questionnaire and personal interviews with the directors and on international best corporate governance practices, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The latest self-assessment focused on the following matters: organisation, internal trend and culture, roles and contribution of directors; composition and content of the board and its committees; comparison with other international banks; and open questions regarding the future (strategy and internal and external factors that might affect the Group's performance) and other matters of interest.

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

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

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

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

- A more detailed succession plan for positions on the board, in particular those of the Group executive chairman and chief executive officer, established in the Rules and Regulations of the Board and reflected in the related succession plans.
- Annual board meetings dedicated specifically to the Group's strategy.
- An ongoing director training programme, which has been implemented continuously since it was proposed in the self-assessment process of 2005.
- Directors have immediate access, via electronic devices, to all the information pertaining to the board and committees (calendar, agendas, presentations and minutes).
- Review of the board's composition, incorporating new directors with a more international profile and strengthening diversity.
- The Group executive chairman encourages debate at board meetings, inviting directors to ask questions and present queries.
- Greater involvement of the appointments committee in the process of appointing new directors.
- Review of the Bylaws and the Rules and Regulations of the Board for the purpose of adapting the duties of some committees to applicable regulations and to best corporate governance practices.
- Improvement in board members' relationships outside of meetings, as well as the interaction between these directors and company executives.
- Inclusion of corporate social responsibility in the functions of the risk supervision, regulation and compliance committee.
- The board approved an amendment to the functions of the innovation and technology committee (article 17-5 of the Rules and Regulations of the Board of Directors), with the aim of including functions relating to the new digital environment in which banking business will be developed.

Appointment, re-election and ratification of directors

The proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting and the appointment decisions adopted by the board itself, by virtue of the powers of co-option attributed thereto as permitted by law, must, in turn, be preceded by the corresponding report and proposal of the appointments committee.

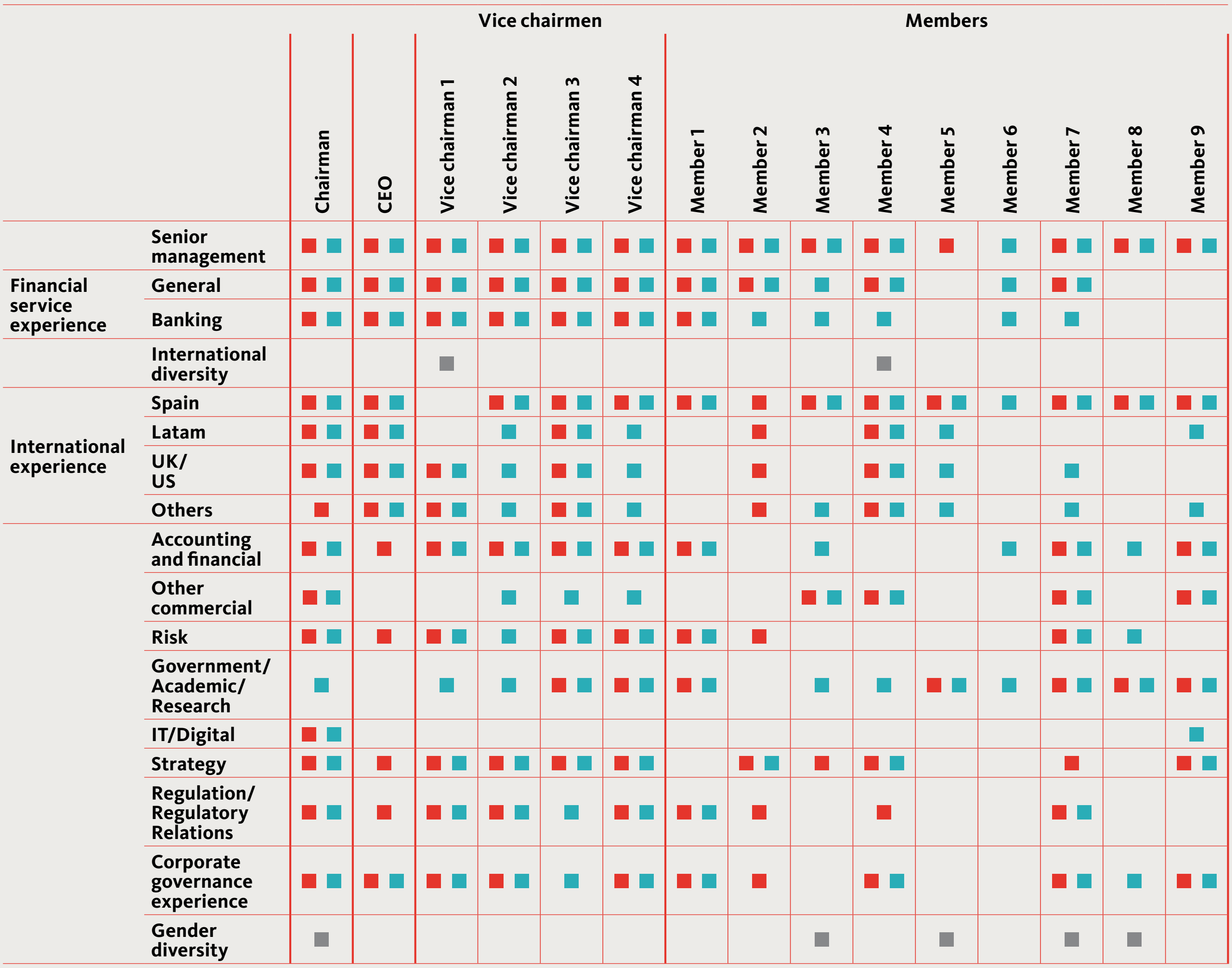
Although the proposals of such committee are not binding, the Rules and Regulations of the Board provide that if the board does not follow them, it must give reasons for its decision.

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

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

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

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



■ Skills obtained as an Executive ■ Skills obtained as a Non-Executive ■ Nature * Data at February 2016

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

Due to the vacancies left on the board by the resignations from their posts and other positions on the board presented by Mr Juan Rodríguez Inciarte and Ms Sheila C. Bair, the appointments committee commenced selection processes for new directors, with the assistance of an external firm, which drew up a list of candidates based on an assessment of the board's capacities (using a skills matrix) to determine the profiles in line with the Group's strategic objectives.

The committee analysed the various candidates on the list, as well as the short-listed candidates' CVs and assessment of their skills and suitability as directors of the Bank, and proposed to the board the appointment of Mr Ignacio Benjumea Cabeza de Vaca, as a non-executive director, and Ms Belén Romana García, as an independent director, whose profiles may be consulted at the beginning of section 3 of this report. In the case of Mr Ignacio Benjumea, his appointment was based essentially on his experience and knowledge of legal and tax matters, compliance, corporate governance and regulatory matters. In assessing Ms Belén Romana's candidacy, her financial and international experience, and the posts she has occupied in both the public and private sectors were taken into account.

The European Central Bank cleared Mr Ignacio Benjumea and Ms Belén Romana to hold the position of director of the Bank by means of the resolutions of 21 September and 19 November, respectively.

Keep remuneration

Remuneration system

At the general shareholders' meeting of 28 March 2014, the shareholders resolved to amend the Bylaws to bring the remuneration system for executive directors into line with the provisions contained in Royal Decree-Law 14/2013 (today Law 10/2014) and in CRD IV, such that the variable components of their remuneration may not exceed 100% of the fixed components, unless the shareholders acting at the general shareholders' meeting approve a higher ratio, which shall in no case exceed 200%.

With relation to the foregoing, the shareholders acting at the general shareholders' meeting of 27 March 2015 approved a maximum ratio between fixed and variable components of executive directors' remuneration of 200% for 2015.

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

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

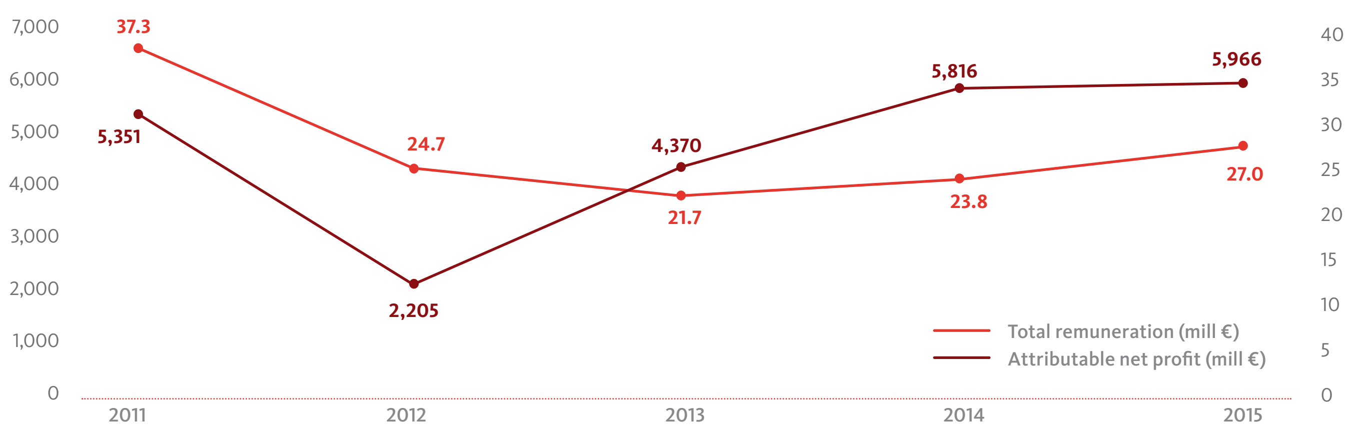
Remuneration of the board in 2015

Bylaw-stipulated emoluments earned by the board amounted to EUR 5.2 million in 2015, which is 13.6% lower than the maximum amount of EUR 6 million approved by the shareholders at the general shareholders' meeting.

All details regarding the director remunaration and the director remuneration policy for 2015 may be consulted in the remuneration committee's report that forms part of the corporate documentation of Banco Santander.

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

■ Evolution of the remuneration for all items of directors with executives duties against the total return for shareholders*



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

Anticipation of and adjustment to the regulatory framework

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

Director remuneration policy and annual report on director remuneration

As provided in article 541 of the Spanish Corporate Enterprises Act and in the Bylaws (article 59-2.1), the board of directors annually approves an annual report on director remuneration, which sets forth the standards and basis for determining remuneration for the current financial year, as well as an overall summary of the application of the remuneration policy during the financial year ended, and a breakdown of the individual remuneration earned for all items by each of the directors during such year. The report is available to shareholders with the call notice for the annual general shareholders' meeting and is submitted to a consultative vote.

The content of such report is subject to the provisions of article 10 of Order ECC/461/2013 and CNMV Circular 4/2013, of 12 June (amended by Circular 7/2015, of 22 December).

In 2015, the report corresponding to 2014 was submitted to the shareholders at the general shareholders' meeting held on 27 March, as a separate item on the agenda and as a consultative matter, with 92.430% of the votes being in favour of the report.

The director remuneration policy for 2015 and 2016 will also be submitted for approval, on a binding basis, by the shareholders at the annual general shareholders' meeting in accordance with article 529. novodecies of the Spanish Companies Act, having been approved with 91.7% of the votes in favour.

Transparency

Pursuant to the Bylaws (article 59-2.5), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank. All such information is contained in note 5 to the Group's legal report.

Some measures taken by the board

2012: maximum limit for share capital increases without pre-emptive rights

At the proposal of the board, the shareholders for the first time established a maximum limit on the power to exclude pre-emptive rights for share capital increases; pre-emptive rights may only be excluded for up to the equivalent of 20% of the Bank's share capital as of the date of the general shareholders' meeting.

2013: cap on annual remuneration of the directors

The shareholders established a maximum amount of EUR 6 million, which may only be amended by a decision of the shareholders acting at the general shareholders' meeting.

2014: maximum variable remuneration for executive directors

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

2015: changes in the remuneration policies

A series of changes were proposed at the 2016 general shareholders' meeting, with regard to the remuneration policies for executive directors and senior management, that are in line with the new Simple, Personal and Fair Group's culture. The main new developments with regard to the previous policy are as follows:

- Simplification: a new structure more simple for the variable and long term remuneration of executive directors.
- Alignment with the objectives announced at Investor Day held in September 2015: a new set of objectives linked to variable remuneration which includes the four categories on which the Bank's strategy is based: employees, customers, shareholders and society.
- More alignment with the shareholders' interests, by setting a mandatory requirement for senior executives to invest in shares and basing long-term remuneration on earnings per share, total shareholder return, capital targets and profitability.

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

Duties

The duties of the directors are governed by the Rules and Regulations of the Board, which conform to both the provisions of current Spanish law and to the recommendations of the new good governance code for listed companies.

The Rules and Regulations expressly provide for the duties of diligent management, loyalty and inactivity in the event of knowledge of confidential information.

The duty of diligent management includes the directors' duty to adequately inform themselves of the Bank's progress and to dedicate the time and effort needed to effectively carry out their duties, and take the measures necessary for proper management and control of the Entity.

Related-party transactions

In accordance with that stipulated by law, article 53 of the Bylaws and articles 3, 16 and 33 of the Rules and Regulations of the Board, the board of directors will be aware of any transactions that the company or companies 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.

In accordance with applicable legislation, authorisation will not be necessary in the case of transactions with standardised conditions, normal market prices and where the amount does not exceed 1% of the company's annual income.

These transactions will require authorisation from the board, following a favourable report from the audit committee, except in those cases where by law approval is required by the shareholders at the general shareholders' meeting. The directors affected or representing or related to the affected shareholders will refrain from participating in the deliberation and vote on the resolution in question.

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

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

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

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest with the interests of the Bank in which they may be involved, them or persons related thereto. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the audit committee.

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

There were 177 occasions during 2015 in which the directors abstained from participating in and voting on the discussion of matters at the meetings of the board of directors or of its committees.

The breakdown of the 177 cases is as follows: on 56 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and to appoint members of the committees of the board or in Group companies; on 92 occasions the matter under consideration related to remuneration or granting loans or credits; on 20 occasions the matter concerned the discussion of financing proposals or other risk transactions in favour of companies related to various directors; on seven occasions the abstention concerned the annual verification of the status of the directors carried out by the appointments committee, pursuant to article 6.3 of the Rules and Regulations of the Board; and on two occasions, the matter was to approve a related-party transactions.

Committees of the board

General information

The board has set up an executive committee to which general decision-making powers are delegated.

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

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

The board is entrusted with fostering communication between the different committees, and particularly between the risk supervision, regulation and compliance committee and the audit committee, as well as between the former and the remunerations committee.

In 2015 the delegate risk committee was disbanded as a result of the Bank's new risk governance model and the regulations of the innovation and technology committee were amended in accordance with the terms detailed in this section.

At the annual general shareholders' meeting scheduled for 17 or 18 March on first and second call, respectively, a proposal was put forward to amend articles 53, 54, 54-2 and 54-3 in order to increase the maximum number of members of the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for these committees at any given time.

Executive committee

The executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of the board (except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and Regulations of the Board). It reports to the board on the principal matters dealt with and resolutions adopted and provides directors with a copy of the minutes of its meetings. It generally meets once a week and in 2015 it held 59 meetings.

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

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

Audit committee

The audit committee, among other duties, reviews the Group's financial information and its internal control systems, serves as a communication channel between the board and the external auditor, ensuring the independent exercise of the latter's duty, and supervises work regarding the Internal Audit function. It normally meets on a monthly basis and met 13 times in 2015.

As provided in the Bylaws (article 53) and the Rules and Regulations of the Board (article 16), the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

The committee is currently made up of five independent non-executive directors.

Appointments committee

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

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

The committee met on 12 occasions in 2015.

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

Remuneration committee

Among other duties, the remuneration committee proposes the director remuneration policy to the board, drawing up the corresponding report, and proposes the remuneration of the board members, including executive directors, and that of the other members of senior management and the Group's key personnel, also proposing the remuneration policy for the senior management.

The Bylaws (article 54-2) and the Rules and Regulations of the Board (article 17-2) provide that this committee is also to be made up exclusively of non-executive directors and that its chairman and the majority of its members must be independent directors.

The committee met on 10 occasions in 2015.

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

Risk supervision, regulation and compliance committee

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

The committee met on 13 occasions in 2015.

As provided in the Bylaws (article 54-3) and the Rules and Regulations of the Board (article 17-3, the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

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

▶ The role of the committees was strengthened and their functions widened. Plans were made for joint meetings to be held in order to address matters subject to examination by more than one committee.

International committee

Pursuant to article 17-4 of the Rules and Regulations of the Board, the international committee must: (i) monitor the development of the Group's strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions, keeping informed of the commercial initiatives and strategies of the various units within the Group and of the new projects presented thereto; and (ii) review the performance of the financial investments and businesses, as well as the international economic situation in order to make corresponding proposals, where applicable, in order to adjust the risk-country limits, its structure and return and its assignment by businesses and/or units.

This committee is made up of six directors, of whom three are executive and three are non-executive, one of which is independent.

Innovation and technology committee

Given the importance assigned to innovation and technology as a strategic priority for the Group, the regulations of the Innovation and technology committee have been amended to raise to eight the maximum number of members. The committee's duties have also been extended pursuant to board resolutions dated 29 September 2015 and 26 January 2016, respectively. In addition, article 17-5 of the Regulations of the Board of directors has therefore been duly amended. These amendments were entered in the Cantabria Companies' Registry on 13 October and 4 February 2016, respectively.

The innovation and technology committee is responsible, among other functions for: (i) studying and reporting on relevant projects in innovation and technology; (ii) assisting the board in evaluating the quality of the technological service; new business models, technologies, systems and platforms; and (iii) assisting the commission in overseeing risk, regulation and compliance with the monitoring requirements for technological and safety risks, and overseeing the management of cybersecurity.

This committee is made up of eight directors, of whom four are executive and four are non-executive, two of which are independent.

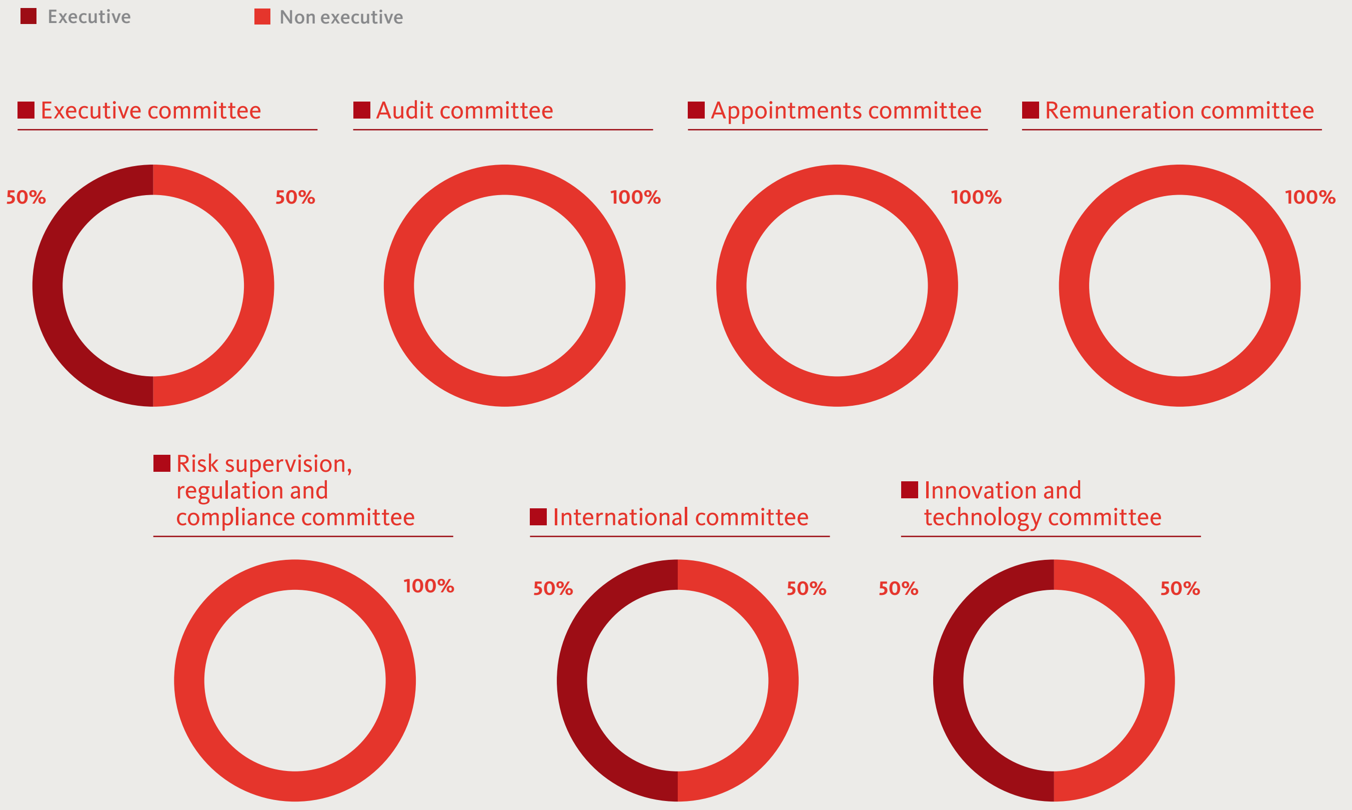
▶ Improvements were made to the functioning of the board and its committees. These include the use of devices and technological tools in order to make the documents relating to each item on the agenda available to the board members, thereby enhancing their knowledge of the matters to be addressed, the related debates, and their ability to challenge any proposals made by the directors.

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

Additionally, all board members who are not also members of the executive committee may attend its meetings, whatever the chairman's reason is for calling such meeting. In 2015, nine directors not forming part of the executive committee each attended an average of seven meetings thereof.

The audit, appointments, remuneration and risk supervision, regulation and compliance committees have prepared reports on their activities in 2015. The remuneration committee's report also includes the director remuneration policy. All such reports are made available to shareholders as part of the Bank's annual documentation for 2015.

Composition of the committees of the board



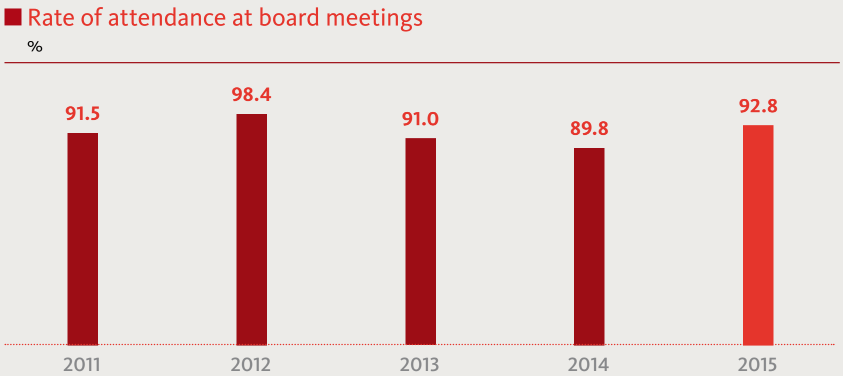
Number of meetings and duration of committees

Committees	No. of meetings	Hours[1]
Executive committee	59	295
Executive risk committee[2]	81	243
Audit committee	13	52
Appointments committee	12	36
Remuneration committee	10	30
Risk supervision, regulation and compliance committee	13	52
International committee	-	-
Innovation and technology committee	-	-

1. Estimated average hours devoted by each director.
2 Disbanded by the resolution of the board of 1 December 2015; the committee held its last meeting on 29 October.

Attendance at meetings of the board of directors and its committees in 2015

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board meetings in 2015 was 92.83%.



Committees

		Decision-making		Advisory				Reporting (a)	
Directors	Board	Executive	Executive risk (b)	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	International
Average attendance	**92.83%**	**90.89%**	**78.44%**	**97.96%**	**92.86%**	**90.57%**	**96.39%**	–	–
Individual attendance									
Ms Ana Botín-Sanz de Sautuola y O´Shea	21/21	52/59							
Mr José Antonio Álvarez Álvarez[1]	19/19	52/56	23/67						
Mr Bruce Carnegie-Brown[2]	17/17	40/51			9/9	9/9	12/12		
Mr Rodrigo Echenique Gordillo	20/21	53/59	50/81		2/2	1/1	0/0		
Mr Matías Rodríguez Iniciarte	21/21	57/59	81/81						
Mr Guillermo de la Dehesa Romero	21/21	54/59		4/4	11/12	9/10	11/11		
Mr Ignacio Benjumea Cabeza de Vaca[3]	4/4	16/16	11/11		3/3	4/4	3/3		
Mr Javier Botín-Sanz de Sautuola y O´Shea	14/21								
Ms Sol Daurella Comadrán[4]	15/17				6/8	6/9			
Mr Carlos Fernández González[2]	15/17			11/11	7/8		10/11		
Ms Esther Giménez-Salinas i Colomer	19/21								
Mr Ángel Jado Becerro de Bengoa	21/21		62/67	10/11	8/8	8/9	13/13		
Ms Belén Romana García[5]	1/1			0/0					
Ms Isabel Tocino Biscarolasaga	21/21	57/59	79/81	11/11		10/10	11/11		
Mr Juan Miguel Villar Mir	19/21			10/10			10/11		
Mr Javier Marín Romano[6]	0/2	1/2							
Mr Fernando de Asúa Álvarez[7]	4/4	7/8	11/11	1/1	3/3	1/1	1/1		
Mr Abel Matutes Juan[8]	3/4			1/1	3/3				
Mr Juan Rodríguez Inciarte[9]	15/15		36/51						
Ms Sheila C. Bair[10]	15/18						9/10		

(a) No meetings were held in 2015.

(b) Disbanded by resolution of the board on 1 December 2015 and held its last meeting on 29 October. Against this backdrop, two internal non-statutory committees were created: the executive risk committee (which replaces the delegate risk committee of the board) and the risk control committee. The executive committee devoted a very significant amount of its time to discussions on risks.

1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Director since 21 September 2015.
4. Director since 18 February 2015.
5. Director since 22 December 2015.
6. Withdrawal from position of director effective 12 January 2015.
7. Withdrawal from position of director effective 12 February 2015.
8. Withdrawal from position of director effective 18 February 2015.
9. Withdrawal from position of director effective 30 June 2015.
10. Withdrawal from position of director effective 1 October 2015.

4. Shareholder rights and the general shareholders' meeting

One share, one vote, one dividend. No control-enhancing mechanisms foreseen in the Bylaws

The Bank's Bylaws do not establish any control-enhancing mechanisms, fully conforming to the principle of one share, one vote, one dividend.

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

There are no non-voting or multiple-voting shares, or preferences in the distribution of dividends, or limitations on the number of votes that may be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

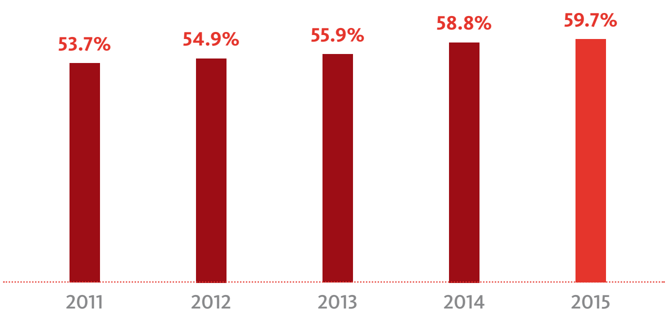
Any person is eligible for the position of director, subject only to the limitations established by law.

Quorum at the annual general shareholders' meeting held in 2015

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

The quorum at the 2015 annual general shareholders' meeting was 59.724%, continuing a trend of improvement in the last years.

Quorum at annual general shareholders' meetings



Encouragement of informed participation of shareholders at general shareholders' meetings

The Bank continues to implement measures designed to encourage the informed participation of shareholders at general shareholders' meetings. Since the annual general meeting held in 2011, shareholders have had access to an electronic shareholders' forum, in compliance with the provisions of the Spanish Corporate Enterprises Act.

Such forum, which the Bank made available on the Group's corporate website (www.santander.com), enables shareholders to post supplementary proposals to the agenda announced in the call notice, requests for support for such proposals, initiatives aimed at reaching the percentage required to exercise minority shareholder rights contemplated by law, such as offers or requests to act as a voluntary proxy.

Furthermore, remote attendance at the shareholders' meetings was made possible, thereby enabling shareholders to exercise their information and voting rights remotely and in real time.

Key points of the 2015 annual general shareholders' meeting

- Shareholders approved the corporate management of the Bank in 2014 with a 95% favourable vote.
- The 2014 annual report on director remuneration received a 92% favourable vote.

Annual general shareholders' meeting held on 27 March 2015

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

A total of 471,628 shareholders attended in person or by proxy, with 8,397,610,313 shares. The quorum was thus 59.724% of the Bank's share capital at the date of the annual general shareholders' meeting.

The shareholders acting at the general shareholders' meeting approved the corporate management of the Bank in 2014 with a 95.024% favourable vote.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 93.712%.

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

Physically present	0.354%[1]
By proxy	43.442%[2]
Absentee votes	15.929%[3]
Total	**59.724%**

1. Of such percentage (0.354%), 0.003% is the percentage of share capital that attended by remote means through the Internet.
2. The percentage of share capital that granted proxies through the Internet was 0.903%.
3. Of such percentage (15.929%), 15.712% corresponds to the votes cast by post, and the rest is the percentage of electronic votes.

At that meeting, nine of the board's fifteen directors at that date exercised, in accordance with article 186 of the Spanish Corporate Enterprises Act, the right to vote on behalf of a total of 5,963,432,540 shares, equivalent to the same number of votes, the breakdown being as follows:

Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	5,829,121,951
Mr José Antonio Álvarez Álvarez	35,865
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	127,872,267
Mr Ángel Jado Becerro de Bengoa	5,100,000
Mr Matías Rodríguez Inciarte	789,693
Mr Juan Miguel Villar Mir	90,549
Ms Isabel Tocino Biscarolasaga	187,862
Mr Guillermo de la Dehesa Romero	225,647
Ms Sol Daurella Comadrán	8,706

Resolutions adopted at the general shareholders' meeting held in 2015

The full texts of the resolutions adopted at the general shareholders' meeting held in 2015 are available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

Information provided to shareholders and communication with them

In 2015 Banco Santander continued to strengthen communication with, service to and its relationship with shareholders and investors.

Channels for shareholder information and service		
Telephone service lines	241,553	queries received
Shareholder's mailbox	42,805	e-mails answered
Personal actions	22,336	actions carried out

During 2015, there were 450 meetings with investors, analysts and rating agencies, which entailed contact with 829 investors/analysts. In addition, the Shareholders Relations area maintained direct contact with the Bank's shareholders throughout the financial year to disseminate information regarding the Group's policies relating to sustainability and governance. The Group's Investor Day was organised in London in September. Over the span of two days senior executives analysed and communicated the outlook, Banco Santander's strategic vision and objectives for 2018 and its main business units to the investors. More than 350 people, including the Group's main analysts and investors, attended these sessions at Investor Day.

Finally, in compliance with the recommendations of the CNMV, both call notices of the meetings with analysts and investors and the documentation to be used thereat are published sufficiently in advance.

Policy for communications and contact with shareholders

The board of directors of the Bank approved a policy for communication and contact with shareholders, institutional investors and proxy advisors, which is published on the Group's corporate website (www.santander.com). In this policy, the general principles governing communication and contacts between the Bank and its shareholders, institutional investors and proxy advisors are laid out. In addition, it defines the main channels and procedures for improving the services provided by the bank to these stakeholders and its relationship with same. In accordance with the principles of transparency, equal treatment and protection of the interests of shareholders and within the framework of the new Simple, Personal and Fair culture, the Bank makes available to its shareholders and investors the information and communication channels detailed in the Shareholder section of this annual report.

Communication between the board and shareholders and investors has been stepped up through the Investors Day and the corporate governance road shows carried out by the lead director.

5. Santander Group management team

"Reaching our goal of becoming the **best commercial bank for our employees and customers**, and continuing with sustainable growth, requires us to **simplify and make our organisation more competitive**"

Ms Ana Botín, Group executive chairman of Banco Santander
Internal communication
30 June 2015

Composition

Group executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea
Chief executive officer	Mr José Antonio Àlvarez Àlvarez
Executive vice chairman	Mr Rodrigo Echenique Gordillo
Executive vice chairman*	Mr Matías Rodríguez Inciarte
Businesses	
Argentina	Mr Enrique Cristofani
Brazil	Mr Sérgio Agapito Lires Rial
Chile	Mr Claudio Melandri Hinojosa
United States	Mr Scott Powell
Spain	Mr Rami Aboukhair Hurtado
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Mexico	Mr Héctor Blas Grisi Checa
Poland	Mr Gerry Byrne
Portugal	Mr Antonio Vieira Monteiro
United Kingdom	Mr Nathan Bostock
Business divisions	
Global Wholesale Banking	Mr Jacques Ripoll
Business support divisions	
Commercial Banking	Mr Ángel Rivera Congosto
Support and control functions	
Group chief risk officer	Mr José María Nus Badía
Group chief financial officer	Mr José García Cantera
General Secretariat and Human Resources	Mr Jaime Pérez Renovales
Group chief compliance officer	Ms Mónica López-Monís Gallego
Group chief audit executive	Mr Juan Guitard Marín
Strategic Alliances in Asset Management and Insurance	Mr Juan Manuel San Román López
Communications, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Innovation	Mr J. Peter Jackson**
Group	Mr José Francisco Doncel Razola
Executive Chairman's Office and Strategy	Mr Víctor Matarranz Sanz de Madrid
Costs	Mr Javier Maldonado Trinchant
Technology and Operations	Mr Andreu Plaza López
Universities	Mr José Antonio Villasante Cerro

* To whom the Group chief risk officer reports.
** This appointment is subject to regulatory authorisation.

Remuneration

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

Related-party transactions

To the Bank's knowledge, no member of senior management who is not a director, no person represented by a member of senior management who is not a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has carried out any unusual or significant transaction therewith during 2015 and through the date of publication of this report.

Conflicts of interest

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

6. Transparency and independence

Santander has been included in the FTSE4Good and DJSI indexes since 2003 and 2000, respectively, and its corporate governance model is recognised by socially responsible investment indexes.

Financial information and other relevant information

Financial information

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

The financial statements are reported on by the audit committee and certified by the head of financial accounting prior to the authorisation for issue thereof by the board.

Other relevant information

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

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

In 2015, the Bank published 100 material facts, which are available on the websites of the Group (www.santander.com) and the CNMV (www.cnmv.es).

Relationship with the auditor

Independence of the auditor

The shareholders at the 2015 annual general shareholders' meeting approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 94.287% of the share capital present in person or by proxy.

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

In addition, the Rules and Regulations of the Board establish limits upon hiring the audit firm for the provisions of services other than audit services that could jeopardise the independence thereof, and impose on the board the duty to make public the overall fees paid by the Bank to the auditor for services other than audit services. The information for 2015 is contained in note 48 to the Group's legal report.

The Rules and Regulations of the Board determine the mechanisms to be used to prepare the accounts such that there is no room for qualifications in the auditor's report. Nevertheless, the Bylaws and the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor issue a report in this regard. The financial statements of the Bank and of the consolidated Group for 2015 are submitted without qualifications.

At its meeting of 10 February 2016, the audit committee received written confirmation from the external auditor of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, in accordance with that provided in legislation governing financial audits.

The committee, at this meeting of 10 February 2015, issued a report expressing a favourable opinion regarding the independence of the external auditors and reporting, among other matters, on the provision of additional services as mentioned in the preceding paragraph.

This report, issued prior to the auditor's report on the financial statements, includes the content required under article 529-14 of the Spanish Corporate Enterprises Act and may be viewed on the Group's website (www.santander.com).

▶ The Bylaws, the Rules and Regulations for the General Shareholders' Meeting and the Rules and Regulations of the Board were amended to bring them into line with both regulatory changes and best practices in corporate governance.

Proposal for a new external auditor

At its meeting on 6 July 2015, the board of directors chose PricewaterhouseCoopers Auditores, S.L. (PwC) as the external auditor of Banco Santander and its consolidated Group to audit the financial statements for 2016, 2017 2018. This decision was taken in accordance with the corporate governance recommendations regarding the rotation of the external auditor, at the proposal of the audit committee and as a result of a selection process conducted with full transparency, independence and objectivity, involving the leading audit firms present in the markets where the Group operates. The audit committee was actively involved in designing and conducting this process and was notified of its progress on a regular basis, as well as the plans to ensure that PwC complied with the regulatory requirements with regard to independence and incompatibility and to ensure a smooth transition between the external auditors with the least possible impact on the Group's daily activities and on the quality of the financial information.

The board will propose this appointment at the annual general shareholders' meeting scheduled for 17 or 18 March on first and second call, respectively.

Intra-group transactions

There were no intra-group transactions in 2015 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the Group companies as regards the purpose and conditions thereof.

Group's corporate Website

Since 2004, the Group's corporate website (www.santander.com) has disclosed, in the *Information for shareholders and investors* Relations section of the main menu, all information required under applicable law (basically, the Spanish Corporate Enterprises Act, Order ECC/461/2013, of 20 March and CNMV Circular 3/2015, of 23 June).

The content of the Group's website, which is presented with specific sections for institutional investors and shareholders and is accessible in Spanish, English and Portuguese, receives approximately 165,000 visits per week.

The information available on such website includes:

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

The call notice for the 2016 annual general shareholders' meeting may be viewed as from the date of publication thereof, together with the information relating thereto, which shall include the proposed resolutions and mechanisms for exercising rights to receive information, to grant proxies and to vote, including an explanation of the mechanisms for exercising such rights by means of data transmission and the rules applicable to the electronic shareholders' forum that the Bank will make available on the Group's corporate website (www.santander.com).

New good governance code for listed companies

Banco Santander follows the recommendations concerning corporate governance in the new good governance code for listed companies.

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

7. Challenges for 2016

The board's goals for 2016 with regard to corporate governance are as follows:

- Promote the culture and corporate values of Simple, Personal and Fair, ensure the entire organisation is aware of these values.
- Consolidate the governance model to strengthen the relationship between the Parent Bank and the subsidiaries, especially with regard to corporate governance, ensuring its gradual implementation throughout the Group's main geographical areas. The board of directors will also be responsible for ensuring there is a clear governance framework that is suitable for the structure, businesses and risks of the Group and the entities that form part thereof, respecting the local legislation of each of the units.
- Improve board members' relationships outside of meetings, especially non-executive directors, as well as the interaction between these directors and company executives.
- Promote communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, as well as between the audit committee and the remuneration committee, and schedule joint meetings whenever necessary.

4

Economic and financial review

Consolidated Financial Report

Grupo Santander 2015 summary

Developed economies continued to show signs of recovery in 2015. Emerging countries, however, grew more moderately because of their internal dynamics as well as lower commodity prices and China's slowdown.

The markets were also very volatile, with share prices plunging in the second half of the year and emerging market currencies depreciating against the euro and particularly against the dollar. This depreciation was very intense in Brazil for several months.

The banking environment is challenging. As well as this evolution, interest rates were extraordinarily low in developed countries, business volumes grew at a slow pace, competition from banks and non-banks was tough and the regulatory environment demanding.

In this context, the Group's performance during 2015 was positive, as we were able to combine the development of the commercial transformation process with achieving the goals we set at the start of the year. We grew in volumes and profit, accumulated capital and increased the cash dividend.

The highlights in 2015 were:

Strong results. Santander faced these challenges with a business model that has proven its strength in the last few years and which we are adapting to the new environment, in order to maximise profitability levels.

The Santander model, which showed its validity during the crisis, has two main pillars:

- **Santander is a big but simple bank**. Our diversification is unique, 97% of our underlying profit is generated in nine countries and in Santander Consumer Finance in Europe. Our management focus is tailored to each market, and our subsidiaries, autonomous in capital and liquidity, have the critical mass to be among the three top players in each market and generate shareholder value.

- **We have a Corporate Centre** that contributes value and enables us to attract talent, share best practices and best-in-class information and control systems. The centre will continue to add value in the future and will do so even more efficiently.

As a result of all this, Grupo Santander posted an underlying attributable profit of €6,566 million, 13% more than in 2014, backed by:

- Consistent and recurring growth in commercial revenues quarter after quarter, enabling us to generate record net interest income and gross income.

- Control of costs and operational excellence. Costs grew by only 1% in real terms and on a like-for-like basis.

- Reduced provisions and a lower cost of credit, reflecting the strategy in growth and an adequate risk management policy.

We also recorded a net charge of €600 million of non-recurring positive and negative results, which left the final attributable profit 3% higher at €5,966 million.

Commercial transformation process. We continued in 2015 to transform our commercial model and make it more Simple, Personal and Fair. The focus is on our individual customers and companies, and our efforts are aimed at developing specialized models, ranges of simple products and global proposals that cover all their needs, anticipating them and gaining their confidence.

There was a significant improvement in customer loyalty and in long-term relationships, strongly supported by differential value offers and their expansion to all countries, sharing the best practices. Examples of this are:

- Launch of the *1/2/3 strategy* in Spain, following its success in the UK and Portugal, and similar products in Poland and Germany. In the high-income segment, we launched products and services such as *Select Premium Portfolios* in Germany and *Select Expat* in Mexico.

- In SMEs and companies, global proposals to reinforce our support of this segment: *Santander Advance* is now installed in eight countries, *Santander Trade* is available in 12 countries with more than 30,000 exporter and importer users, *International Desk*, *Santander Passport* and the new *1/2/3 pymes* current account in Spain.

We gave a big push to multi channels, particularly the developments in digital channels and the openinf of new branches, which are key for the transformation process. Innovation and technological development constitute a strategic pillar of the Group, in order to respond to the new challenges from the digital revolution and focus on operational excellence and the customer experience.

We improved the commercial websites, as well as launching new apps and developments for mobile phones such as, for example, *Cash KiTTi* and *Spendlytics* in the UK, and the new *Deposit Capture* functionality for mobile phones in the US. Also noteworthy were some initiatives in intelligent watches such as the participation in the UK and Spain in the first group of *Apple Pay* issuers.

Equally important was the simplification of processes and products, implementation of a new commercial front with 360º vision in many of the countries, latest generation ATMs and opening so-called offices of the future.

Branches will continue to be a significant channel for customers and the Bank, and will be more dedicated to selling products of greater complexity and offering advisory services, and more digitally integrated.

These improvements in the commercial transformation process were reflected in increases in customer loyalty and digitisation . The number of loyal customers increased 10% to 13.8 million (+1.2 million) and digital clients rose 17% to 16.6 million (+2.5 million). These improvements are already producing revenue growth.

Business growth. The commercial activity and greater loyalty were reflected in growth in loans and customer funds.

Nine of the 10 main units increased their lending to individual customers as well as to SMEs and big companies. All countries grew in funds, while maintaining the strategy of cutting the funding cost (reflected in growth in demand deposits and mutual funds and reduction in time deposits).

Strengthened solvency. We met the goal set for capital, despite the extraordinary negative impacts. Our CET1 fully loaded ratio was 10.05% at the end of 2015, demonstrating our capacity to generate capital organically (about 10 b.p. per quarter).

Furthermore, in regulatory terms, we ended the year with CET1 of 12.55%, 280 b.p. above the minimum requirement set by the European Central Bank for 2016.

On 3 February 2016, the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil) S.A. The impact of the aforementioned authorisation on the Group's risk-weighted assets (EUR -7,836 million) and, in consequence, on its capital ratios, was not taken into account in the data published on 27 January 2016, which are those presented in this report.

Enhanced credit quality. The year was good in terms of credit quality, as the Group's main indicators improved. The NPL ratio was 83 b.p. lower at 4.36%, coverage rose 6 p.p. to 73% and the cost of credit dropped to 1.25%.

This positive evolution was registered in almost all countries, reflecting the change of mix to lower risk products in some countries, as well as an adequate risk management policy that we are reinforcing with the launch of the Advanced Risk Management (ARM) programme.

Creation of shareholder value. We continue to offer an attractive shareholder return.

On the basis of the underlying profit, the Group's RoTE in 2015 was close to 11.0%, higher than the sector average. We also improved the Group's RoRWA a little to 1.30%.

Tangible book value per share increased 3% on a like-for-like basis, which was compatible with distributing a cash dividend of more than €2,200 million, charged to 2015 results.

The Bank's dividend yield was 4.4% based on the year-end share price.

Exchange rates: 1 euro / currency parity

	2015		2014	
	Period-end	Average	Period-end	Average
US$	1.089	1.109	1.214	1.326
Pound sterling	0.734	0.725	0.779	0.806
Brazilian real	4.312	3.645	3.221	3.118
Mexican peso	18.915	17.568	17.868	17.647
Chilean peso	773.772	724.014	737.323	756.718
Argentine peso	14.140	10.207	10.277	10.747
Polish zloty	4.264	4.182	4.273	4.185

Grupo Santander. Income statement

▶ **Attributable profit of €5,966 million,** 3% more than in 2014, after absorbing a charge of €600 million (the net between non-recurring positive and negative items).

▶ **Underlying attributable profit** rose 13% to €6,566 due to:

- Consistent and recurring growth of commercial revenues quarter after quarter, excluding the exchange rate impact.
- Costs control and operational excellence. Efficiency ratio of 47.6%, one of the best among our competitors.
- Lower cost of credit in all units.

▶ **Underlying RoTE** was 11.0%, +4 b.p. year-on-year.

Income statement

€ Million

	2015	2014	Variation amount	%	% w/o FX	2013
Net interest income	**32,189**	**29,548**	**2,642**	**8.9**	**8.0**	**28,419**
Net fee income	10,033	9,696	337	3.5	4.3	9,622
Gains (losses) on financial transactions	2,386	2,850	(464)	(16.3)	(18.2)	3,496
Other operating income	665	519	146	28.1	24.6	383
Dividends	455	435	20	4.5	5.5	378
Income from equity-accounted method	375	243	132	54.3	72.4	283
Other operating income/expenses	(165)	(159)	(6)	3.8	43.6	(278)
Gross income	**45,272**	**42,612**	**2,660**	**6.2**	**5.6**	**41,920**
Operating expenses	(21,571)	(20,038)	(1,532)	7.6	6.9	(20,158)
General administrative expenses	(19,152)	(17,781)	(1,371)	7.7	6.9	(17,758)
Personnel	*(11,107)*	*(10,213)*	*(894)*	*8.8*	*7.6*	*(10,276)*
Other general administrative expenses	*(8,045)*	*(7,568)*	*(477)*	*6.3*	*6.0*	*(7,482)*
Depreciation and amortisation	(2,419)	(2,257)	(161)	7.1	6.8	(2,400)
Net operating income	**23,702**	**22,574**	**1,128**	**5.0**	**4.4**	**21,762**
Net loan-loss provisions	(10,108)	(10,562)	454	(4.3)	(4.0)	(12,340)
Impairment losses on other assets	(462)	(375)	(87)	23.2	22.7	(524)
Other income	(2,192)	(1,917)	(275)	14.3	17.5	(1,535)
Underlying profit before taxes	**10,939**	**9,720**	**1,219**	**12.5**	**10.3**	**7,362**
Tax on profit	(3,120)	(2,696)	(424)	15.7	13.6	(1,995)
Underlying profit from continuing operations	**7,819**	**7,024**	**795**	**11.3**	**9.0**	**5,367**
Net profit from discontinued operations	—	(26)	26	(100.0)	(100.0)	(15)
Underlying consolidated profit	**7,819**	**6,998**	**822**	**11.7**	**9.4**	**5,352**
Minority interests	1,253	1,182	72	6.1	6.0	1,177
Underlying attributable profit to the Group	**6,566**	**5,816**	**750**	**12.9**	**10.1**	**4,175**
Net capital gains and provisions	(600)	—	(600)	—	—	—
Attributable profit to the Group	**5,966**	**5,816**	**150**	**2.6**	**0.1**	**4,175**
Pro memoria:						
Average total assets	1,345,657	1,203,260	142,397	11.8		1,230,166
Average stockholders' equity*	90,798	82,545	8,253	10.0		71,509

(*).- Stockholders' equity: Sharedholders' equity + Equity adjustments by valuation. In 2014, pro-forma taking into account the January 2015 capital increase.

Grupo Santander posted an **underlying attributable profit of €6,566 million,** 13% more than the €5,816 million generated in 2014.

Moreover, non-recurring results and provisions for a net negative amount of €600 million were recorded in 2015. This amount is listed separately as "Net capital gains and provisions", in order to make the analysis of results derived from business easier. Attributable profit including these items was €5,966 million, 3% more than in 2014.

Before analyzing the income statement, some aspects that affect comparisons between 2014 and 2015 need to be pointed out.

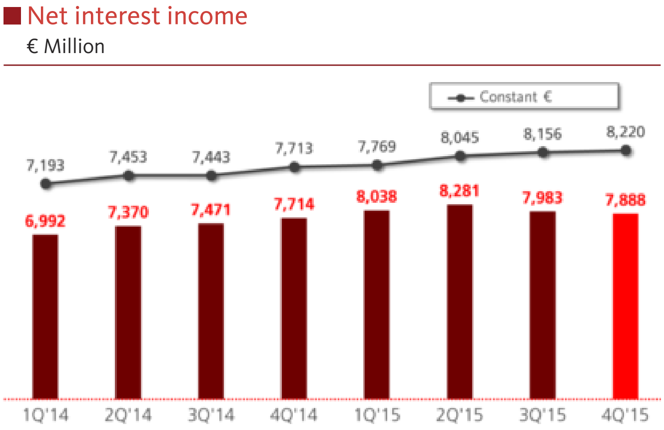
- A macroeconomic environment with slower global growth.
- Interest rates that remained at historic lows in most countries.
- Tough competition in some of the markets where the Group operates.
- A more demanding regulatory environment, with impacts that limited revenues and increased costs.
- A positive perimeter effect from consumer business (mainly the agreements with PSA) and Brazil (agreement with Bonsucesso, GetNet and the acquisition of minority interests in the fourth quarter of 2014).
- The impact of exchange rates of the different currencies in which the Group operates as regards the euro was less than one percentage point positive for the whole Group in revenues and costs. The impacts were as follows: US (+21 p.p.), UK (+12 p.p.), Argentina (+7 p.p.), Chile (+5 p.p.), Brazil (-16 p.p.), while in Mexico and Poland it was less than one point.

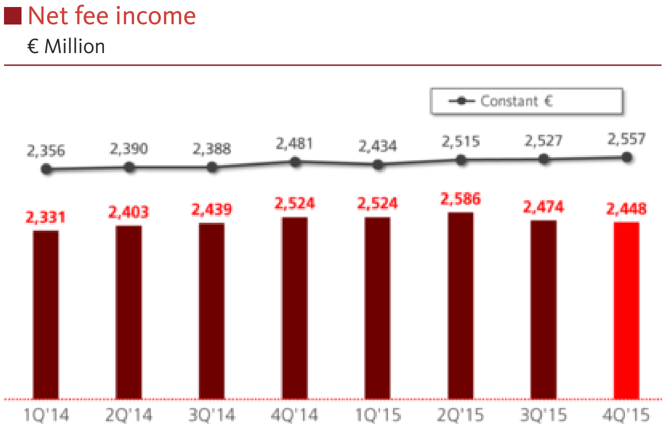
The main developments were as follows:

Quarterly income statement

€ Million

	2014				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net interest income	**6,992**	**7,370**	**7,471**	**7,714**	**8,038**	**8,281**	**7,983**	**7,888**
Net fee income	2,331	2,403	2,439	2,524	2,524	2,586	2,474	2,448
Gains (losses) on financial transactions	767	511	952	620	695	372	634	684
Other operating income	34	204	99	182	186	379	225	(126)
Dividends	31	220	72	112	33	239	75	107
Income from equity-accounted method	65	42	72	64	99	101	93	82
Other operating income/expenses	(63)	(58)	(45)	6	53	39	57	(315)
Gross income	**10,124**	**10,488**	**10,961**	**11,040**	**11,444**	**11,618**	**11,316**	**10,894**
Operating expenses	(4,847)	(4,906)	(5,070)	(5,216)	(5,377)	(5,429)	(5,342)	(5,422)
General administrative expenses	(4,256)	(4,360)	(4,509)	(4,656)	(4,785)	(4,826)	(4,731)	(4,810)
Personnel	*(2,455)*	*(2,515)*	*(2,572)*	*(2,670)*	*(2,755)*	*(2,836)*	*(2,717)*	*(2,799)*
Other general administrative expenses	*(1,801)*	*(1,844)*	*(1,937)*	*(1,985)*	*(2,030)*	*(1,989)*	*(2,015)*	*(2,011)*
Depreciation and amortisation	(590)	(546)	(560)	(560)	(592)	(603)	(611)	(612)
Net operating income	**5,277**	**5,582**	**5,891**	**5,824**	**6,067**	**6,189**	**5,974**	**5,472**
Net loan-loss provisions	(2,695)	(2,638)	(2,777)	(2,452)	(2,563)	(2,508)	(2,479)	(2,558)
Impairment losses on other assets	(87)	(71)	(67)	(151)	(60)	(78)	(110)	(215)
Other income	(347)	(438)	(491)	(642)	(454)	(605)	(606)	(526)
Underlying profit before taxes	**2,149**	**2,435**	**2,556**	**2,580**	**2,990**	**2,998**	**2,778**	**2,173**
Tax on profit	(569)	(664)	(649)	(814)	(922)	(939)	(787)	(471)
Underlying profit from continuing operations	**1,579**	**1,771**	**1,908**	**1,766**	**2,067**	**2,059**	**1,991**	**1,702**
Net profit from discontinued operations	(0)	(0)	(7)	(19)	0	0	(0)	—
Underlying consolidated profit	**1,579**	**1,771**	**1,901**	**1,746**	**2,067**	**2,059**	**1,991**	**1,702**
Minority interests	277	318	296	291	350	350	311	242
Underlying attributable profit to the Group	**1,303**	**1,453**	**1,605**	**1,455**	**1,717**	**1,709**	**1,680**	**1,460**
Net capital gains and provisions	—	—	—	—	—	835	—	(1,435)
Attributable profit to the Group	**1,303**	**1,453**	**1,605**	**1,455**	**1,717**	**2,544**	**1,680**	**25**





Gross income

Gross income increased 6% to a record €45,272 million. Growth was qualitative as it was based on increases in the most commercial revenues (net interest income and fee income), and with gains on financial transactions representing only 5% of the Group's gross income (7% in 2014). As follows:

- **Net interest income** also notched up a new record of €32,189 million (71% of gross income), 9% more than in 2014 (+8% excluding the forex impact), mainly due to growth in lending and a lower cost of funds.

  All countries increased net interest income except for Poland (-6%), due to the fall in interest rates, Spain (-5%), in an environment of low interest rates and strong competition in loans, and Chile (-1%), because of the impact of the lower inflation rate and regulations regarding the policy of maximum rates.

  Of note was the growth at Santander Consumer Finance (+31%), partly because of the perimeter effect, Mexico (+14%), due to the rise in loans, Brazil (+10%), following improvements quarter after quarter during the year, and US (+7%) due to the larger portfolio at Santander Consumer USA and Santander Bank.

- **Net fee income** was 4% higher at €10,033 million. The performance by units was very uneven due to different economic and business cycles. In some cases, moreover, the impact of regulatory changes limited revenues, mainly from insurance and cards.

- **Net interest income plus net fee income** amounted to €42,222 million (+8%) and represented 93% of gross income (92% in 2014).

- **Gains on financial transactions** fell 16%, conditioned by the high ones in 2014 from management of portfolios of interest rate hedging and the global corporate unit.

- **Other operating income** increased by €146 million in net terms. On the one hand, positive impact of income from leasing (mainly in the US) and higher results from companies that are accounted by the equity method. On the other hand, the contribution to the deposit guarantee and resolution funds, also recorded in this line, of more than €750 million for all the Group (up more than 30%), mainly in Poland (where the sector had to make extraordinary contributions because of the collapse of a bank), Spain and Argentina

Operating expenses

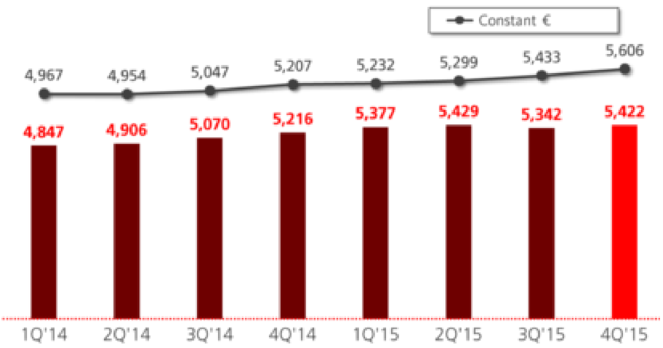
Operating expenses increased 8% to €21,571 million (+7% excluding the forex impact). This rise was due to several factors: the evolution of inflation in Latin America, investments in programmes for innovation and improvements in future efficiency, the impact of the measures adopted by the Bank as a result of new regulatory requirements (particularly in the US) and the change of perimeter.

Net fee income

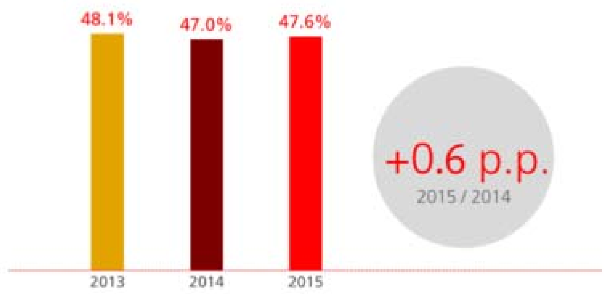
€ Million

	2015	2014	Variation amount	%	2013
Fees from services	6,040	5,827	213	3.7	5,851
Mutual & pension funds	862	913	(50)	(5.5)	831
Securities and custody	905	763	142	18.6	655
Insurance	2,225	2,193	32	1.5	2,284
Net fee income	**10,033**	**9,696**	**337**	**3.5**	**9,622**

Operating expenses
€ Million



Efficiency ratio
%



- Adjusted for the perimeter impact and for the year's average inflation, costs only rose 1%, reflecting the positive effect of the three-year efficiency and productivity plan launched at the end of 2013, which is enabling us to make the higher investments commented on previously, and maintain real growth in costs of close to zero.

- Of note was the fall in real terms in Brazil (-6% on a like-for-like basis), Spain and Portugal (-1% in both).

The efficiency ratio was 47.6% (47.0% in 2014), due to the evolution of gains on financial transactions, as without this the ratio was stable.

Loan-loss provisions

Loan-loss provisions fell 4% to €10,108 million, with significant reductions in the UK (-71%), Spain (-43%), Portugal (-42%) and Real Estate Activity Spain (-26%). They were also lower in Poland and Santander Consumer Finance but higher in Chile (+4%), Brazil (+5%), Mexico (+15%) and the US (+16%), in all of which volumes increased significantly. All these changes are excluding the exchange rate.

- The lower provisions, coupled with higher lending, continued to improve the Group's cost of credit, which dropped from 1.43% in 2014 to 1.25% in 2015. Excluding Santander Consumer USA, which because of the nature of its business has a high level of provisions, the cost of credit fell from 1.15% to 0.90%.

- All the Group's units improved their cost of credit, except for the US. Of note were Spain, Portugal, UK and Brazil. This evolution was due to the improvement in the quality of their portfolios, thanks to active risk management combined with the better macroeconomic environment in some countries.

Net operating income after provisions

Net operating income after provisions increased 13% (+12% excluding the forex impact), spurred by double-digit growth in most units.

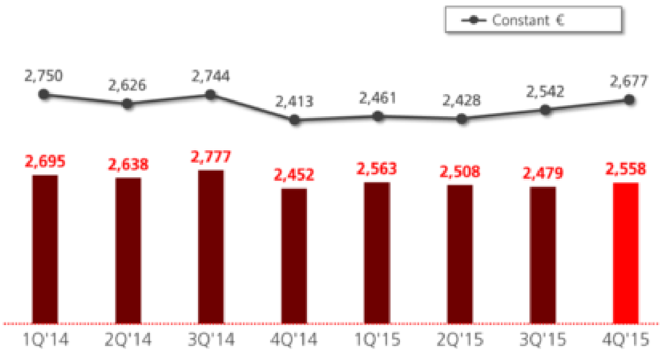
Other income and provisions

Other income and provisions was €2,654 million negative compared to €2,292 million also negative in 2014. These amounts included provisions of different nature, as well as capital gains, capital losses and impairment of financial assets. The increase over 2014 is very diluted by concepts, countries and businesses.

Operating expenses
€ Million

	2015	2014	Variation amount	%	2013
Personnel expenses	11,107	10,213	894	8.8	10,276
General expenses	8,045	7,568	477	6.3	7,482
Information technology	1,039	936	102	10.9	985
Communications	587	489	99	20.2	540
Advertising	705	654	50	7.6	637
Buildings and premises	1,786	1,775	11	0.6	1,815
Printed and office material	157	155	2	1.0	169
Taxes (other than profit tax)	529	460	69	14.9	458
Other expenses	3,243	3,098	144	4.7	2,879
Personnel and general expenses	**19,152**	**17,781**	**1,371**	**7.7**	**17,758**
Depreciation and amortisation	2,419	2,257	161	7.1	2,400
Total operating expenses	**21,571**	**20,038**	**1,532**	**7.6**	**20,158**

Loan-loss provisions
€ Million



Cost of credit
%

Net loan-loss provisions
€ Million

	2015	2014	Variation amount	%	2013
Non performing loans	11,484	11,922	(438)	(3.7)	13,405
Country-risk	(0)	(24)	23	(98.8)	2
Recovery of written-off assets	(1,375)	(1,336)	(39)	2.9	(1,068)
Total	**10,108**	**10,562**	**(454)**	**(4.3)**	**12,340**

Underlying profit

Underlying profit before tax, which reflects the business evolution, rose 13% in current euros (+10% in constant euros).

Taxes increased to a greater extent because of the increased tax pressure in some units, particularly Portugal, Santander Consumer Finance, Mexico, Chile and the US.

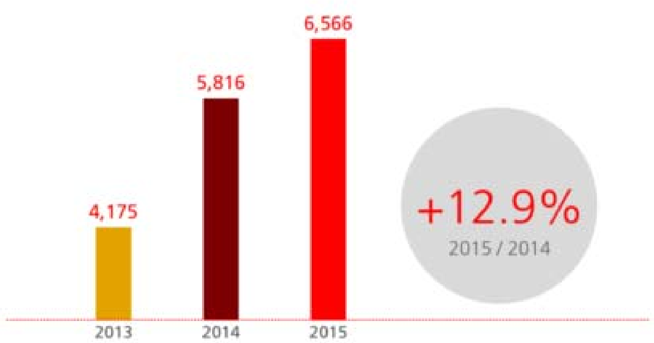
Minority interests increased 6%, as the rises in the US (from the better results of Santander Consumer USA) and Santander Consumer Finance (materialization of the agreements with PSA) were partly offset by the repurchase of the stake in Santander Brazil in the fourth quarter of 2014.

Underlying attributable profit was €6,566 million, up 13% (+10% in constant euros). The largest rises were in Portugal (+63%), Brazil (+33%, partly due to the repurchase of minority interests), SCF (+18%, partly due to the perimeter), Spain (+18%) and the UK (+14%). In all cases, these increases are in the currencies used to manage business.

On the other hand, falls in Poland (mainly because of lower interest rates and the extraordinary charge for the deposit guarantee fund), Chile (reduced UF inflation, whose impact could not be fully offset by the increase in business volumes and higher gains on financial transactions, to which is added a higher tax rate) and the US (where the establishment of the Intermediate Holding Company (IHC), the improvement in the Santander Bank franchise and the discontinuation of personal credits in order to focus more on auto finance is having a temporary impact on revenues and costs).

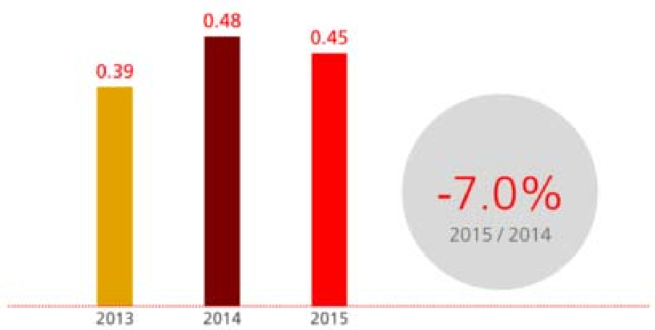
The underlying RoTE was 11.0% and underlying earnings per share €0.45, 7% lower than in 2014 as it was affected by the increase in the number of shares (January's 2015 capital increase and *Santander Dividendo Elección* scrip programmes), as well as by the higher financial cost due to the new AT1 issues made.

Underlying attributable profit*
€ Million



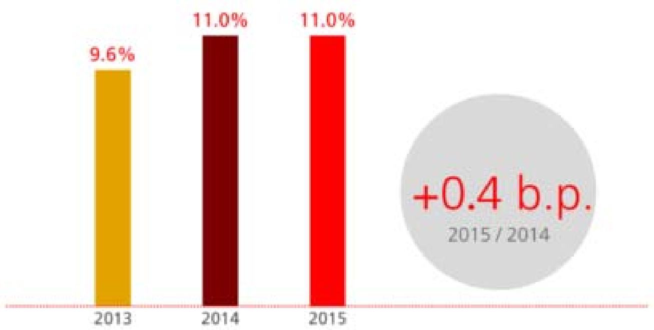
(*) Attributable profit, including non-recurring capital gains and provisions: €5,966 million; +2.6%

Underlying earning per share*
€



(*) Attributable profit, including non-recurring capital gains and provisions: €0.40; -15.9%

Underlying RoTE*
%



(*) RoTE, including non-recurring capital gains and provisions: 10.0%; -1.0 p.p.

The cost of these issues, in accordance with accounting rules, is not recorded in the income statement, but against shareholders' equity, but it is taken into account for calculating earnings per share.

Attributable profit to the Group

As indicated at the beginning, non-recurring capital gains and provisions were recorded in 2015, as follows:

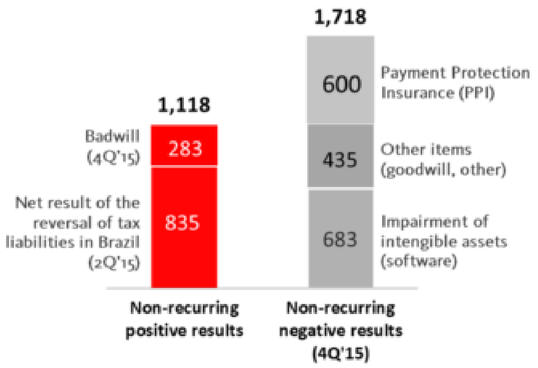
- On the one hand, non-recurring positive items of €1,118 million, which correspond to the net result of the reversal of tax iabilities in Brazil (€835 million) recorded in the second quarter and the generation of €283 million of badwill, as a result of the acquisition of assets and liabilities of Banco Internacional do Funchal (Banif) in Portugal in the fourth quarter.
- On the other, the following charges, all of them in the fourth quarter: €600 million set aside in the UK to cover possible claims related to payment protection insurance (PPI); €683 million for the impairment of intangible assets and €435 million for goodwill and other items. The total amount of these charges was €1,718 million.

In 2014, €1,589 million of capital gains were recorded by the Altamira operation, the flotation of Santander Consumer USA and changes in UK pension commitments. At the same time, a fund was established for restructuring costs and impairment of intangible assets and other provisions of a similar amount. The net impact of these amounts was zero on the year's profit

After incorporating non-recurring net capital gains and provisions, the Group's attributable profit was €5,966 million (+3%).

The RoTE was 10.0% and earnings per share €0.40, a decline of 16% in the year.

Non-recurring results net of tax
€ Million



Balance sheet

€ Million

Assets	2015	2014	Variation amount	%	2013
Cash on hand and deposits at central banks	81,329	69,428	11,901	17.1	77,103
Trading portfolio	147,287	148,888	(1,601)	(1.1)	115,309
Debt securities	*43,964*	*54,374*	*(10,410)*	*(19.1)*	*40,841*
Customer loans	*6,081*	*2,921*	*3,160*	*108.2*	*5,079*
Equities	*18,225*	*12,920*	*5,305*	*41.1*	*4,967*
Trading derivatives	*76,724*	*76,858*	*(134)*	*(0.2)*	*58,920*
Deposits from credit institutions	*2,293*	*1,815*	*478*	*26.4*	*5,503*
Other financial assets at fair value	45,043	42,673	2,370	5.6	31,441
Customer loans	*14,293*	*8,971*	*5,322*	*59.3*	*13,255*
Other (deposits at credit institutions, debt securities and equities)	*30,750*	*33,702*	*(2,952)*	*(8.8)*	*18,185*
Available-for-sale financial assets	122,036	115,251	6,785	5.9	83,799
Debt securities	*117,187*	*110,249*	*6,938*	*6.3*	*79,844*
Equities	*4,849*	*5,001*	*(152)*	*(3.0)*	*3,955*
Loans	831,637	781,635	50,002	6.4	731,420
Deposits at credit institutions	*50,256*	*51,306*	*(1,050)*	*(2.0)*	*57,178*
Customer loans	*770,474*	*722,819*	*47,655*	*6.6*	*666,356*
Debt securities	*10,907*	*7,510*	*3,397*	*45.2*	*7,886*
Held-to-maturity investments	4,355	—	4,355	—	—
Investments	3,251	3,471	(220)	(6.3)	3,377
Intangible assets and property and equipment	27,790	26,109	1,681	6.4	18,137
Goodwill	26,960	27,548	(588)	(2.1)	24,263
Other	50,572	51,293	(721)	(1.4)	49,279
Total assets	**1,340,260**	**1,266,296**	**73,964**	**5.8**	**1,134,128**
Liabilities and shareholders' equity					
Trading portfolio	105,218	109,792	(4,574)	(4.2)	94,695
Customer deposits	*9,187*	*5,544*	*3,643*	*65.7*	*8,500*
Marketable debt securities	—	—	—	—	*1*
Trading derivatives	*76,414*	*79,048*	*(2,634)*	*(3.3)*	*58,910*
Other	*19,617*	*25,200*	*(5,583)*	*(22.2)*	*27,285*
Other financial liabilities at fair value	54,768	62,318	(7,550)	(12.1)	42,311
Customer deposits	*26,357*	*33,127*	*(6,770)*	*(20.4)*	*26,484*
Marketable debt securities	*3,373*	*3,830*	*(457)*	*(11.9)*	*4,086*
Due to central banks and credit institutions	*25,038*	*25,360*	*(322)*	*(1.3)*	*11,741*
Financial liabilities at amortized cost	1,039,343	961,053	78,290	8.1	880,115
Due to central banks and credit institutions	*148,079*	*122,437*	*25,642*	*20.9*	*92,390*
Customer deposits	*647,578*	*608,956*	*38,622*	*6.3*	*572,853*
Marketable debt securities	*201,656*	*193,059*	*8,597*	*4.5*	*182,234*
Subordinated debt	*21,153*	*17,132*	*4,021*	*23.5*	*16,139*
Other financial liabilities	*20,877*	*19,468*	*1,409*	*7.2*	*16,499*
Insurance liabilities	627	713	(86)	(12.0)	1,430
Provisions	14,494	15,376	(882)	(5.7)	14,599
Other liability accounts	27,057	27,331	(274)	(1.0)	20,680
Total liabilities	**1,241,507**	**1,176,581**	**64,926**	**5.5**	**1,053,830**
Shareholders' equity	102,402	91,664	10,738	11.7	84,479
Capital stock	*7,217*	*6,292*	*925*	*14.7*	*5,667*
Reserves	*90,765*	*80,026*	*10,739*	*13.4*	*75,044*
Attributable profit to the Group	*5,966*	*5,816*	*150*	*2.6*	*4,175*
Less: dividends	*(1,546)*	*(471)*	*(1,075)*	*228.4*	*(406)*
Equity adjustments by valuation	(14,362)	(10,858)	(3,504)	32.3	(14,153)
Minority interests	10,713	8,909	1,804	20.3	9,972
Total equity	**98,753**	**89,714**	**9,039**	**10.1**	**80,298**
Total liabilities and equity	**1,340,260**	**1,266,296**	**73,964**	**5.8**	**1,134,128**

Grupo Santander. Balance sheet

- **Growth in loans (+6%) and customer funds (7%) driven by business activity and greater customer loyalty.**
- **Loans increased in nine of the ten core countries, both to individual customers and companies.**
- **Funds rose in all countries, backed by the strategy to grow demand deposits and mutual funds.**
- **In capital, surplus at the end of the year of 280 b.p. in CET1 over the minimum required by the European Central Bank for 2016.**
- **The fully-loaded CET1 was 10.05%, the goal foreseen by the end of 2015.**
- **The fully-loaded leverage ratio was 4.7%.**

Total **managed and marketed funds** at the end of 2015 amounted to €1,506,520 million, of which €1,340,260 million were on-balance sheet and the rest mutual and pension funds and managed portfolios.

In the Group as a whole, the impact of exchange rates on the evolution of loans was zero, and just one negative percentage point on customer funds. However, the impact was more significant by units: US (+13 p.p.), UK (+6 p.p.), Chile (-5 p.p.), Mexico (-6 p.p.), Brazil (-28 p.p.) and Argentina (-42 p.p.).

There was a slight positive perimeter effect on loans in year-on-year terms, in the consumer credit area (mainly due to the agreement with Banque PSA Finance) and the incorporation in the last part of December, the assets and liabilities acquired from Banco Internacional do Funchal (Banif) in Portugal.

Gross customer lending (excluding repos)

The Group's gross lending (excluding repos) increased 6% eliminating the exchange rate impact. Detailed by country and in constant euros:

- The main rises were at Santander Consumer Finance (+21%, aided by the change in perimeter), Latin America (Brazil: +9%; Mexico: +19%; Chile: +11%) and Poland (+11%). Growth in Portugal was 26% (-1% on a like-for-like basis).
- The rise in the US was 7%, with growth at both Santander Bank and Santander Consumer USA, and in the UK (+5%). Of note in the latter was the good evolution of companies, where we grew at a faster rate than the market, and the increase in mortgages.

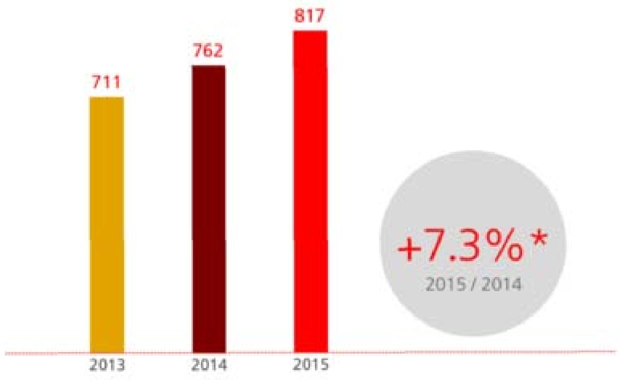
Customer loans

€ Million

	2015	2014	Variation amount	%	2013
Spanish Public sector	13,993	17,465	(3,472)	(19.9)	13,374
Other residents	153,863	154,905	(1,042)	(0.7)	160,478
Commercial bills	9,037	7,293	1,744	23.9	7,301
Secured loans	92,478	96,426	(3,947)	(4.1)	96,420
Other loans	52,348	51,187	1,161	2.3	56,757
Non-resident sector	649,509	589,557	59,952	10.2	537,587
Secured loans	409,136	369,266	39,870	10.8	320,629
Other loans	240,373	220,291	20,082	9.1	216,958
Gross customer loans	**817,366**	**761,928**	**55,438**	**7.3**	**711,439**
Loan-loss allowances	26,517	27,217	(700)	(2.6)	26,749
Net customer loans	**790,848**	**734,711**	**56,137**	**7.6**	**684,690**
Pro memoria: Doubtful loans	36,133	40,424	(4,292)	(10.6)	41,088
Public sector	145	167	(22)	(13.2)	99
Other residents	16,301	19,951	(3,650)	(18.3)	21,763
Non-resident sector	19,686	20,306	(620)	(3.1)	19,226

Gross loans to customers

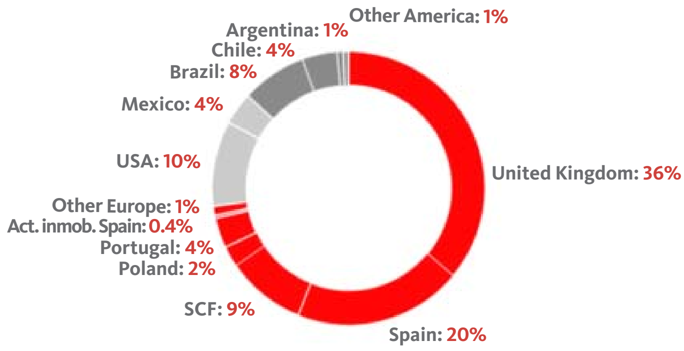
€ Billion



(*) Excluding exchange rate impact: +7.4%

Loans to customers

% / operating areas. December 2015



– Spain declined 3% in an environment of strong competition in prices and where the double-digit growth in new lending was still below the pace of maturities. SMEs and companies rose 1%.

– As for Real Estate Activity in Spain, net lending was down 33%, as a result of continuing the deleveraging strategy of recent years.

Credit risk

Net NPL entries in 2015 amounted to €7,705 million after eliminating the perimeter and exchange-rate effects (-20% year-on-year), mainly due to Spain.

Non-performing loans ended the year at €37,094 million, 11% lower (-9% excluding the forex impact). This balance brought the Group's NPL ratio to 4.36%, 83 b.p. lower than in 2014 and on a downward path every quarter of 2015.

Loan-loss allowances amounted to EUR 27,121 million, which provided coverage of 73% (+6 p.p.). In order to properly view this figure, one has to take into account that the UK and Spain ratios are affected by the weight of mortgage balances, which require fewer provisions as these loans have guarantees.

The improved credit quality is reflected in the reduction in loan-loss provisions (-4% over 2014) and in the consequent improvement of the cost of credit, which dropped from 1.43% at the end of 2014 to 1.25%. Excluding Santander Consumer USA, which because of the nature of its business has a high level of provisions and recoveries, the cost of credit was below 1% at the end of 2015 (0.90% compared to 1.15% in 2014).

Credit quality ratios performed well in almost all countries and reflected the appropriate risk management policy, which we are strengthening with the launch of the *Advanced Risk Management (ARM)* programme and boosting the risk culture throughout the Group under a common identity, *risk-pro*.

More information on credit risk, the control and monitoring systems and the internal risk models for calculating provisions can be found in the specific section of the Risk Management Report in this Annual Report.

Credit risk management*

€ Million

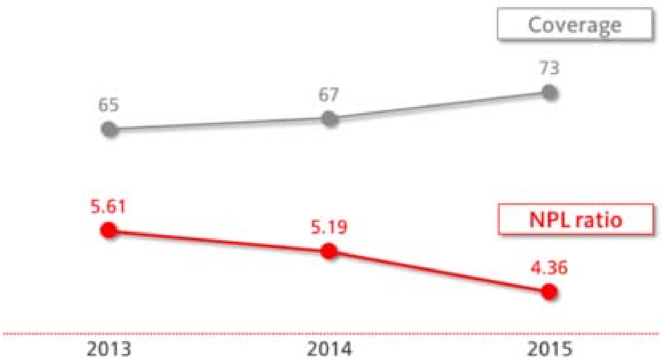
	2015	2014	Variation amount	%	2013
Non-performing loans	37,094	41,709	(4,615)	(11.1)	42,420
NPL ratio (%)	4.36	5.19	(0.83)		5.61
Loan-loss allowances	27,121	28,046	(925)	(3.3)	27,526
Specific	*17,707*	*21,784*	*(4,077)*	*(18.7)*	*22,433*
Collective	*9,414*	*6,262*	*3,152*	*50.3*	*5,093*
Coverage ratio (%)	73.1	67.2	5.9		64.9
Cost of credit (%) **	1.25	1.43	(0.18)		1.69

(*) Excluding country-risk
(**) 12 months net loan-loss provisions / average lending

Note: NPL ratio: Non-performing loans / computable assets

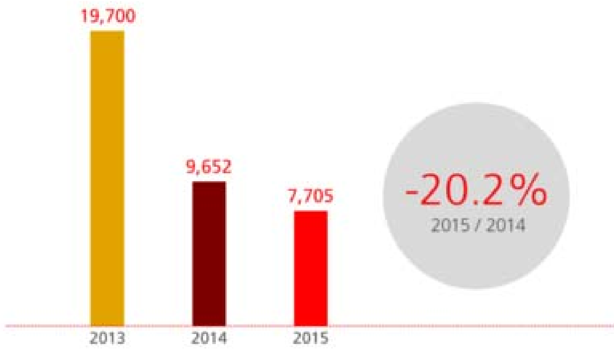
Grupo Santander. NPL and coverage ratios

%



Net NPL entries

€ Million



Managed and marketed customer funds

Total managed funds (deposits excluding repos and mutual funds) rose 6%. At constant exchange rates, customer deposits without repos increased 6% and mutual funds 14%. The combined increase was 7%.

All countries were the Group is present, increased their balance in customer funds, excluding the forex impact, as follows:

- Growth of 12% in Brazil, of or around 10% in the US, Mexico and Chile, while the UK rose 6%, Portugal 5% (excluding the perimeter impact) and Poland 4%.

- Spain increased 1%, more in line with the lending growth rates already mentioned.

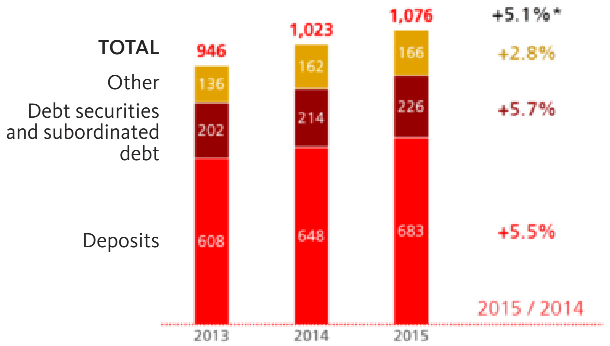
The strategy to grow in demand deposits and mutual funds, with almost all countries increasing in both items, and reduce time deposits continued.

Managed and marketed customer funds

€ Million

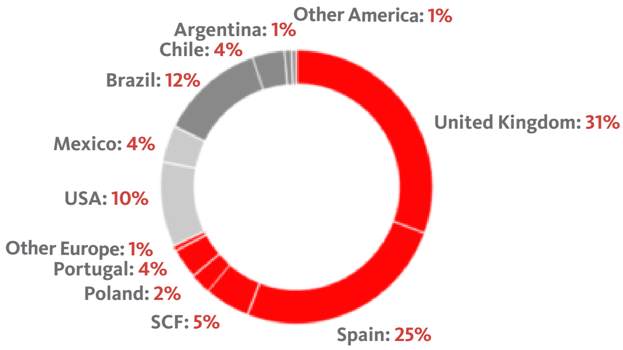
	2015	2014	Variation amount	%	2013
Resident public sector	11,737	9,349	2,388	25.5	7,745
Other residents	157,611	163,340	(5,729)	(3.5)	161,649
Demand deposits	108,410	88,312	20,098	22.8	74,969
Time deposits	47,297	67,495	(20,198)	(29.9)	80,146
Other	1,904	7,532	(5,629)	(74.7)	6,535
Non-resident sector	513,775	474,939	38,836	8.2	438,442
Demand deposits	313,175	273,889	39,286	14.3	230,715
Time deposits	146,317	151,113	(4,796)	(3.2)	161,300
Other	54,283	49,937	4,346	8.7	46,427
Customer deposits	**683,122**	**647,628**	**35,495**	**5.5**	**607,836**
Debt securities	205,029	196,890	8,139	4.1	186,321
Subordinated debt	21,153	17,132	4,021	23.5	16,139
On-balance-sheet customer funds	**909,304**	**861,649**	**47,655**	**5.5**	**810,296**
Mutual funds	129,077	124,708	4,369	3.5	103,967
Pension funds	11,376	11,481	(105)	(0.9)	10,879
Managed portfolios	25,808	25,599	209	0.8	21,068
Other managed and marketed customer funds	**166,260**	**161,788**	**4,473**	**2.8**	**135,914**
Managed and marketed customer funds	**1,075,565**	**1,023,437**	**52,128**	**5.1**	**946,210**

Managed and marketed customer funds
€ Billion



(*) Excluding exchange rate impact: +6.8%

Managed and marketed customer funds
% / operating areas. December 2015



As well capturing customer deposits, Grupo Santander, for strategic reasons, maintains a selective policy of issuing securities in the international fixed income markets and strives to adapt the frequency and volume of its market operations to the structural liquidity needs of each unit, as well as to the receptiveness of each market.

In 2015, various Group units carried out:

– Medium and long-term senior debt issues amounting to €36,986 million, subordinated debt issue of €4,217 million and covered bonds of €3,657 million.

– Securitizations placed in the market (€14,379 million).

Maturities of medium and long-term debt amounted to €36,462 million.

The loan-to-deposit ratio was 116% and the ratio of deposits plus medium- and long-term funding to the Group's loans was 114%, underscoring the comfortable funding structure.

Other items of the balance sheet

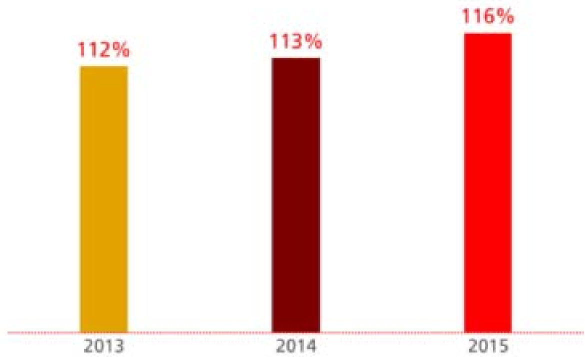
The balance of financial assets available for sale stood at €122,036 million at the end of 2015, €6,785 million more than in 2014 (+6%), due mainly to Spain, US and Mexico.

Held-to-maturity investments was €4,355 million, all of which was generated in 2015 due to the revision of those portfolios included in financial assets available for sale whose economic logic recommended their re-classification to held-to-maturity investments.

Total goodwill was €26,960 million, €588 million less than in 2014, as the increase due to the change in perimeter was fully offset by the evolution of the Brazilian real against the euro.

Lastly, tangible and intangible assets amounted to €27,790 million, €1,681 million more than December 2014. Increase mainly in the US due to the exchange rate and to assets associated with leasing business.

Total Group. Loan-to-deposit ratio
%



Shareholders' equity and solvency ratios

Total shareholders' funds amounted to €88,040 million (+9%). The rise was due to January's €7,500 million capital increase and retained earnings, which was partly reduced by the negative evolution of equity valuation adjustments.

In regulatory terms, phase-in eligible equity was €84,346 million, which gave a total capital ratio of 14.40% and a common equity Tier 1 (CET1) ratio of 12.55%. This ratio was 280 b.p. above the 9.75% minimum that the European Central Bank (under its Supervisory Review and Evaluation Process) established for Grupo Santander in 2016 on a consolidated basis (including the 0.25% derived from being a global systemically important bank).

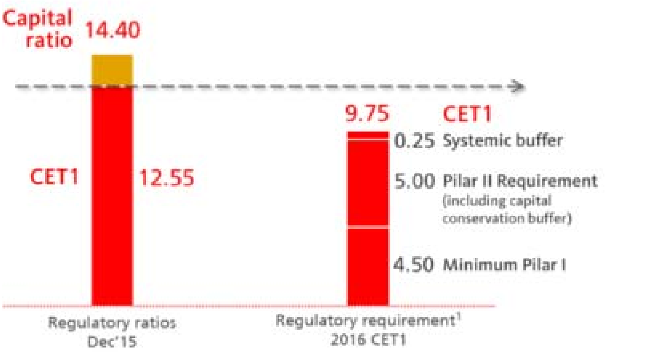
Eligible capital (Phase-in)

€ Million

	2015	2014
CET1	73,478	71,598
Basic capital	73,478	71,598
Eligible capital	**84,346**	**77,854**
Risk-weighted assets	585,609	585,243
CET1 capital ratio	**12.55**	**12.23**
T1 capital ratio	**12.55**	**12.23**
BIS ratio	**14.40**	**13.30**

Capital ratios

%



(1) Minimum prudential requirements established by the ECB, based on the supervisory review and evaluation process (SREP)

Eligible capital (fully loaded)*

€ Million

	2015	2014	Variation amount	%
Capital stock and reserves	98,193	93,748	4,445	4.7
Attributable profit	5,966	5,816	150	2.6
Dividends	(2,268)	(1,014)	(1,254)	123.7
Other retained earnings	(15,448)	(11,468)	(3,980)	34.7
Minority interests	6,148	4,131	2,017	48.8
Goodwill and intangible assets	(28,254)	(29,164)	910	(3.1)
Treasury stock and other deductions	(5,633)	(5,767)	134	(2.3)
Core CET1	**58,705**	**56,282**	**2,423**	**4.3**
Preferred shares and other eligibles T1	5,504	4,728	776	16.4
Tier 1	**64,209**	**61,010**	**3,199**	**5.2**
Generic funds and eligible T2 instruments	11,996	7,561	4,435	58.7
Eligible capital	**76,205**	**68,571**	**7,634**	**11.1**
Risk-weighted assets	583,893	583,366	527	0.1
CET1 capital ratio	**10.05**	**9.65**	**0.40**	
T1 capital ratio	**11.00**	**10.46**	**0.54**	
BIS ratio	**13.05**	**11.75**	**1.30**	

(*).- In 2014, pro-forma data taking into account the January 2015 capital increase

In fully-loaded terms, the CET1 at the end of 2015 was 10.05%, the goal set at the start of the year and an increase of 40 b.p. in the year (excluding the capital increase). The rise was 50 b.p. before non-recurring net capital gains and provisions.

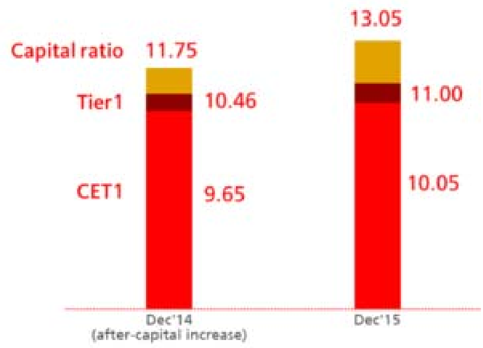
The fully-loaded total capital ratio was 13.05% (+130 b.p. in the year), as to the rise in the CET1 was added the favourable impact from the eligibility of the hybrid issues made.

Qualitatively speaking, the Group has solid and appropriate ratios for its business model, balance sheet structure and risk profile.

The fully-loaded leverage ratio (as established by regulation 2015/621) was 4.7%.

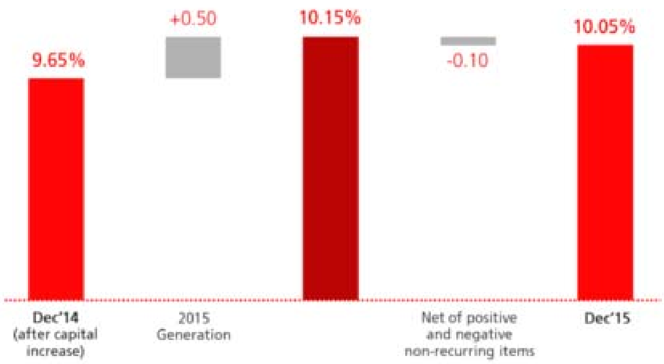
Fully-loaded capital ratio

%



Fully-loaded CET1 performance

%



Rating agencies

The Group's access to the wholesale funding markets, as well as the cost of issues, depends to some extent on the ratings of rating agencies.

Rating agencies regularly review the Group's ratings. The rating depends on a series of internal (solvency, business model, capacity to generate results) and external factors related to the general economic environment, the banking sector's situation and the sovereign risk of the countries in which the Bank operates.

During 2015:

- Moody's upgraded its rating of Santander's long-term senior debt from Baa1 to A3, and changed the outlook from stable to positive.
- Standard & Poor's upgraded its rating of long-term senior debt from BBB+ to A-.

	Long term	Short term	Outlook
DBRS	A	R1 (low)	Stable
Fitch Ratings	A-	F2	Stable
GBB Rating	AA-		Stable
Moody's	A3	P-2	Positive
Standard & Poor´s	A-	A-2	Stable
Scope	A+	S-1	Stable

- Scope also upgraded its rating of long-term senior debt from A to A+.
- GBB upgraded its rating from A+ to AA- with stable outlook.
- DBRS confirmed its ratings with stable outlook.

Description of the business

Some changes were made in the third quarter of 2015 to the criteria applied and to the composition of some units, in order to enhance the Group's transparency, facilitate the analysis of some business units and place value on the activity developed by the Corporation. The criteria changes are:

- In Spain, internal transfer rates (ITR) individualised by transaction were applied to calculate the financial margin, so that the balance sheet was matched in terms of interest rate risk. The counterpart of these results was the Corporate Centre. Following this change, Spain is homogenised with the rest of the Group's countries and units, and all the results of financial management of the balance sheet, including the aforementioned interest rate risk, are reported in this unit.

- The cost of AT1 issued by Brazil and Mexico to replace CET1 was assumed by the Corporate Centre as they were operations to optimise capital in these units. This cost is now recorded by each country.

- The scope of costs charged to units from the Corporate Centre is widened, in accordance with the new structure.

In addition, the Spain Real Estate Activity unit is created, which groups together the former unit of Run-off Real Estate Activity in Spain and other real estate assets, such as the stake in Metrovacesa and those of the former real estate fund previously included in the Corporate Centre.

The Latin America and the US areas were also changed. The units of Banco Santander International and the New York branch, which were in the Latin America area, are now included in the US.

The results of 2014 and those of the first half of 2015 of the business units and of the Corporate Centre have been re-stated in accordance with the new criteria. This mainly affects net interest income, gains on financial transactions and operating expenses.

All these changes do not affect the figures of the consolidated Group, which were unchanged.

The financial statements of each business segment have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the units integrated in each segment, as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

The operating business areas are structured into two levels

Geographic businesses. The activity of the Group's operating units is segmented by geographic areas. This coincides with the Group's first level of management and reflects Santander's positioning in the world's three main currency areas (euro, sterling and dollar). The segments reported on are:

- **Continental Europe.** This covers all businesses in the area. Detailed financial information is provided on Spain, Portugal, Poland and Santander Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith).

- **United Kingdom**. This includes the businesses developed by the various units and branches in the country.

- **Latin America**. This embraces all the Group's financial activities conducted via its banks and subsidiaries in the region. The individual financial statements of Brazil, Mexico and Chile are provided.

- **United States** Includes the holding (SHUSA), the businesses of Santander Bank, Santander Consumer USA and Banco Santander Puerto Rico, the specialised unit of Banco Santander International and the New York branch.

Global businesses. The activity of the operating units is distributed by type of business among Retail Banking, Santander Global Corporate Banking and Spain Real Estate Activity unit.

- **Retail Banking**. This covers all customer banking businesses, including those of consumer, but not those of corporate banking which are managed via Santander Global Corporate Banking. The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.

- **Santander Global Corporate Banking (SGCB)**. This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equities business.

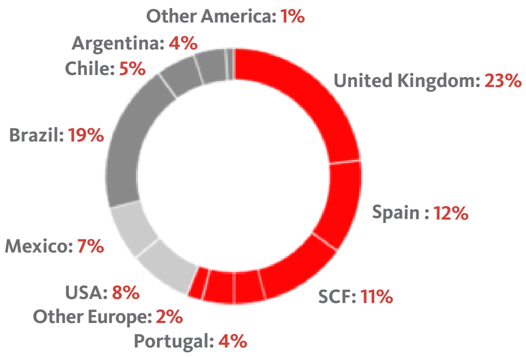
As well as these operating units, which report by geographic area and by businesses, the Group continues to maintain the area of

Corporate Centre. This area incorporates the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of the Group's Assets and Liabilities Committee, as well as management of liquidity and of shareholders' equity through issues.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

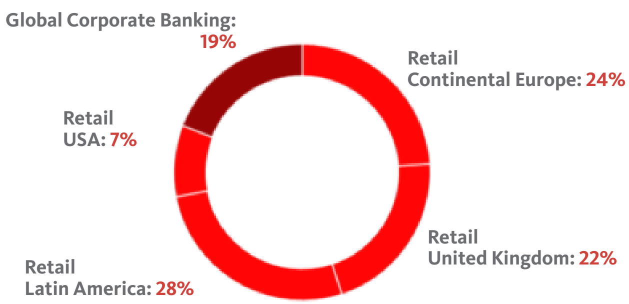
The figures of the Group's various units have been drawn up in accordance with these criteria, and so do not coincide individually with those published by each unit.

Distribution of underlying attributable profit by geographical business*. 2015



(*) Excluding Spain's Real Estate activity and Corporate Centre

Distribution of underlying attributable profit by global business*. 2015



Net operating income

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**6,093**	**6,059**	**34**	**0.6**	**0.5**
o/w: Spain	2,646	3,140	(493)	(15.7)	(15.7)
Santander Consumer Finance	2,192	1,756	436	24.8	24.8
Poland	683	791	(108)	(13.7)	(13.7)
Portugal	522	459	63	13.7	13.7
United Kingdom	**3,025**	**2,622**	**403**	**15.4**	**3.9**
Latin America	**10,851**	**10,706**	**144**	**1.3**	**10.6**
o/w: Brazil	6,689	6,937	(248)	(3.6)	12.7
Mexico	1,947	1,736	211	12.2	11.7
Chile	1,332	1,327	5	0.4	(4.0)
USA	**4,774**	**3,740**	**1,035**	**27.7**	**6.7**
Operating areas	**24,744**	**23,128**	**1,616**	**7.0**	**6.4**
Corporate Centre	(1,042)	(554)	(488)	88.2	88.2
Total Group	**23,702**	**22,574**	**1,128**	**5.0**	**4.4**

Attributable profit to the Group

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**2,218**	**1,648**	**570**	**34.6**	**34.1**
o/w: Spain	977	827	150	18.2	18.2
Santander Consumer Finance	938	795	143	18.0	18.0
Poland	300	355	(55)	(15.4)	(15.4)
Portugal	300	184	116	62.8	62.8
United Kingdom	**1,971**	**1,556**	**415**	**26.6**	**14.0**
Latin America	**3,193**	**2,902**	**291**	**10.0**	**16.6**
o/w: Brazil	1,631	1,437	194	13.5	32.7
Mexico	629	606	22	3.7	3.2
Chile	455	498	(43)	(8.6)	(12.5)
USA	**678**	**861**	**(183)**	**(21.3)**	**(34.2)**
Operating areas	**8,059**	**6,967**	**1,093**	**15.7**	**12.7**
Corporate Centre*	(1,493)	(1,151)	(342)	29.8	29.8
Total Group	**6,566**	**5,816**	**750**	**12.9**	**10.1**
Net capital gains and provisions	(600)	—	(600)	—	—
Total Group	**5,966**	**5,816**	**150**	**2.6**	**0.1**

(*).- Excluding net capital gains and provisions

Customer loans excluding repos

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**298,719**	**283,687**	**15,032**	**5.3**	**5.3**
o/w: Spain	**157,161**	**162,377**	**(5,215)**	**(3.2)**	**(3.2)**
Santander Consumer Finance	76,561	63,509	13,051	20.6	21.7
Poland	19,805	17,807	1,998	11.2	11.0
Portugal	30,564	24,342	6,222	25.6	25.6
United Kingdom	**277,718**	**250,094**	**27,624**	**11.0**	**4.6**
Latin America	**137,331**	**145,863**	**(8,533)**	**(5.8)**	**13.3**
o/w: Brazil	63,636	78,471	(14,835)	(18.9)	8.6
Mexico	29,739	26,509	3,229	12.2	18.8
Chile	33,309	31,505	1,804	5.7	11.0
USA	**88,412**	**73,867**	**14,545**	**19.7**	**7.3**
Operating areas	**802,181**	**753,512**	**48,669**	**6.5**	**6.6**
Total Group	**805,395**	**757,934**	**47,461**	**6.3**	**6.4**

Funds (deposits excluding repos + mutual funds)

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**312,482**	**300,434**	**12,047**	**4.0**	**4.0**
o/w: Spain	219,263	217,113	2,150	1.0	1.0
Santander Consumer Finance	32,597	30,849	1,748	5.7	6.2
Poland	24,421	23,537	884	3.8	3.5
Portugal	30,684	25,292	5,393	21.3	21.3
United Kingdom	**231,960**	**206,025**	**25,935**	**12.6**	**6.1**
Latin America	**158,322**	**168,991**	**(10,669)**	**(6.3)**	**13.2**
o/w: Brazil	76,751	91,713	(14,962)	(16.3)	12.0
Mexico	37,499	36,292	1,207	3.3	9.4
Chile	29,680	28,695	984	3.4	8.5
USA	**66,870**	**54,632**	**12,238**	**22.4**	**9.8**
Operating areas	**769,634**	**730,083**	**39,551**	**5.4**	**6.9**
Total Group	**774,819**	**730,918**	**43,902**	**6.0**	**7.5**

Continental Europe

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**8,006**	**7,517**	**489**	**6.5**	**6.6**
Net fee income	3,417	3,500	(83)	(2.4)	(2.7)
Gains (losses) on financial transactions	1,186	1,220	(34)	(2.8)	(2.8)
Other operating income*	220	267	(46)	(17.3)	(17.7)
Gross income	**12,830**	**12,504**	**326**	**2.6**	**2.5**
Operating expenses	(6,736)	(6,444)	(292)	4.5	4.4
General administrative expenses	(6,274)	(5,972)	(302)	5.1	4.9
Personnel	*(3,223)*	*(3,113)*	*(110)*	*3.5*	*3.3*
Other general administrative expenses	*(3,051)*	*(2,859)*	*(192)*	*6.7*	*6.7*
Depreciation and amortisation	(463)	(472)	10	(2.0)	(2.1)
Net operating income	**6,093**	**6,059**	**34**	**0.6**	**0.5**
Net loan-loss provisions	(1,975)	(2,880)	905	(31.4)	(31.3)
Other income	(753)	(693)	(59)	8.6	8.5
Profit before taxes	**3,366**	**2,486**	**880**	**35.4**	**35.0**
Tax on profit	(887)	(639)	(248)	38.9	38.8
Profit from continuing operations	**2,479**	**1,847**	**631**	**34.2**	**33.7**
Net profit from discontinued operations	—	(26)	26	(100.0)	(100.0)
Consolidated profit	**2,479**	**1,821**	**658**	**36.1**	**35.6**
Minority interests	261	173	87	50.4	50.3
Attributable profit to the Group	**2,218**	**1,648**	**570**	**34.6**	**34.1**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	287,252	268,735	18,517	6.9	6.9
Trading portfolio (w/o loans)	60,151	65,863	(5,712)	(8.7)	(8.7)
Available-for-sale financial assets	60,913	56,845	4,068	7.2	7.1
Due from credit institutions**	81,867	66,602	15,265	22.9	22.5
Intangible assets and property and equipment	11,798	11,796	2	0.0	(0.6)
Other assets	36,664	26,757	9,906	37.0	36.9
Total assets/liabilities & shareholders' equity	**538,645**	**496,598**	**42,047**	**8.5**	**8.4**
Customer deposits**	263,462	256,909	6,552	2.6	2.5
Marketable debt securities**	50,934	54,431	(3,497)	(6.4)	(6.1)
Subordinated debt**	170	409	(240)	(58.5)	(58.6)
Insurance liabilities	626	713	(87)	(12.2)	(12.2)
Due to credit institutions**	132,688	90,305	42,382	46.9	46.4
Other liabilities	58,251	64,304	(6,053)	(9.4)	(9.4)
Stockholders' equity ***	32,515	29,526	2,989	10.1	9.6
Other managed and marketed customer funds	**71,389**	**66,825**	**4,563**	**6.8**	**6.5**
Mutual and pension funds	62,669	58,417	4,252	7.3	7.3
Managed portfolios	8,720	8,408	312	3.7	1.6
Managed and marketed customer funds	**385,954**	**378,575**	**7,379**	**1.9**	**1.9**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	7.13	5.82	1.31		
Efficiency ratio (with amortisations)	52.5	51.5	1.0		
NPL ratio	7.27	8.88	(1.61)		
Coverage ratio	64.2	57.2	7.0		
Number of employees	58,049	56,645	1,404	2.5	
Number of branches	5,548	5,482	66	1.2	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Continental Europe

2015 Highlights

- **Growth gathered pace during the year, although it was still moderate and varied from country to country.**
- **Santander's activity grew in all countries where it operates due to the strategy of greater customer loyalty, supporting companies and the transactions of Santander Consumer Finance and Portugal.**
- **Attributable profit rose 34%, spurred by Santander Consumer Finance, Spain and Portugal.**

Economic environment

Euro zone growth as a whole accelerated, but varied from country to country. Spain was one of the countries that expanded the most.

Inflation was around 0% in the zone, resulting in the European Central Bank continuing its expansive monetary policy: interest rates at historic lows and quantitative easing.

Activity

Business continued to be moderate, with some countries still deleveraging. There were some signs, however, of greater activity, particularly in new lending.

Of note was the agreement between Santander Consumer Finance and PSA Finance for joint ventures in some countries, as well as the acquisition of Banco Internacional do Funchal (Banif) in Portugal, which positioned us as the second largest private sector bank in the country.

Under the Group's strategic focus, loyal and digital customers continued to increase, spurred in many cases by the *1|2|3 World* for individuals, as well as the launch of *Advance* for companies.

Lending increased 5% and funds 4% (+10% in demand deposits and mutual funds).

Results

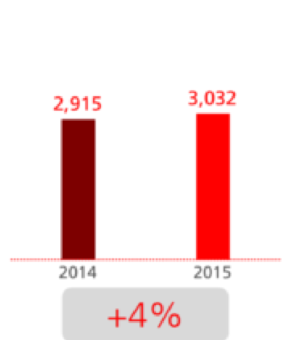
Attributable profit was 34% higher at €2,218 million, driven by Santander Consumer Finance, Spain and Portugal.

This improvement was largely due to the 31% drop in loan-loss provisions, something seen in all units and which reflects the improvement in NPL ratios and the cost of credit.

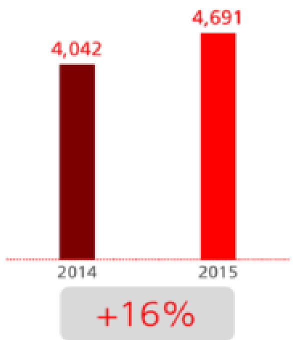
Strict control of costs (-0.4% on a like-for-like basis) was another positive factor.

Lastly, moderate growth in gross income (+3%) in an environment of tough competition that impacted credit spreads, interest rates at historic lows and higher charges related to deposit guarantee fund and resolution fund.

Loyal customers
Thousands



Digital customers
Thousands



Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +34.6%

Spain

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**3,430**	**3,627**	**(197)**	**(5.4)**
Net fee income	1,688	1,793	(105)	(5.9)
Gains (losses) on financial transactions	784	1,034	(250)	(24.2)
Other operating income*	178	182	(3)	(1.9)
Gross income	**6,080**	**6,636**	**(556)**	**(8.4)**
Operating expenses	(3,434)	(3,496)	63	(1.8)
General administrative expenses	(3,244)	(3,319)	75	(2.3)
Personnel	*(1,670)*	*(1,761)*	*90*	*(5.1)*
Other general administrative expenses	*(1,573)*	*(1,558)*	*(15)*	*1.0*
Depreciation and amortisation	(190)	(177)	(13)	7.1
Net operating income	**2,646**	**3,140**	**(493)**	**(15.7)**
Net loan-loss provisions	(992)	(1,745)	754	(43.2)
Other income	(263)	(212)	(51)	24.0
Profit before taxes	**1,392**	**1,183**	**209**	**17.7**
Tax on profit	(393)	(350)	(44)	12.5
Profit from continuing operations	**999**	**833**	**166**	**19.9**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**999**	**833**	**166**	**19.9**
Minority interests	22	6	16	244.3
Attributable profit to the Group	**977**	**827**	**150**	**18.2**

Balance sheet	2015	2014	Variation amount	%
Customer loans**	155,204	157,047	(1,843)	(1.2)
Trading portfolio (w/o loans)	57,401	62,470	(5,069)	(8.1)
Available-for-sale financial assets	44,057	42,337	1,719	4.1
Due from credit institutions**	56,680	48,838	7,842	16.1
Intangible assets and property and equipment	2,874	3,423	(549)	(16.0)
Other assets	10,822	9,541	1,281	13.4
Total assets/liabilities & shareholders' equity	**327,039**	**323,657**	**3,381**	**1.0**
Customer deposits**	174,828	178,446	(3,618)	(2.0)
Marketable debt securities**	22,265	35,700	(13,435)	(37.6)
Subordinated debt**	(0)	6	(6)	—
Insurance liabilities	536	539	(2)	(0.5)
Due to credit institutions**	68,995	42,585	26,409	62.0
Other liabilities	47,502	54,911	(7,409)	(13.5)
Stockholders' equity ***	12,913	11,470	1,442	12.6
Other managed and marketed customer funds	**63,931**	**58,554**	**5,377**	**9.2**
Mutual and pension funds	57,017	52,605	4,412	8.4
Managed portfolios	6,914	5,949	965	16.2
Managed and marketed customer funds	**261,024**	**272,706**	**(11,683)**	**(4.3)**

Ratios (%) and operating means	2015	2014	Variation amount	%
ROE	8.14	7.41	0.74	
Efficiency ratio (with amortisations)	56.5	52.7	3.8	
NPL ratio	6.53	7.38	(0.85)	
Coverage ratio	48.1	45.5	2.6	
Number of employees	24,216	24,840	(624)	(2.5)
Number of branches	3,467	3,511	(44)	(1.3)

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Spain

2015 Highlights

- **Long-term customer loyalty strategy via the *1|2|3 Account*: 860,000 accounts opened since it was launched.**
- **Substantial improvement in customer satisfaction, according to an independent report.**
- **We continued to support the financing of companies and individuals (+9% and +27%, respectively, in loans).**
- **Attributable profit of €977 million, 18% more than in 2014, spurred by a significant improvement in provisions and the good performance in costs.**

Economic environment

The economy grew 3.2%, higher than the euro zone average.

The main engine of growth was domestic demand, but exports also played a key role and partially offset the rise in imports. The unemployment rate came down to around 21%.

This cycle is showing some features that point to sustained growth: on the one hand, the jobless rate is falling while the current account surplus is improving and, on the other, the gains in competitiveness persist. The budget deficit is lower and the public debt/GDP ratio has almost stabilized.

Strategy

In this environment, Santander Spain is well positioned to accelerate its growth and build long-term relations with customers, as well as foster business with SMEs and companies, and maintain leadership in large companies.

Santander Spain wants to lead a new way of doing banking, based on a strategy of five pillars:

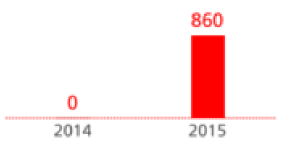
1. Build long term relationships with our customers.

- We launched the *1|2|3 Account*, a new concept that rewards loyalty and intensifies the relationship with the Bank, where customers can became shareholders.
- At the end of the year, there were more than 860,000 individual and SME accounts, 237,000 of whom were switchers, and increased loyalty. We also focused on the value-added segments (*Select* and private banking), taking advantage of our specialised model and retail network density.

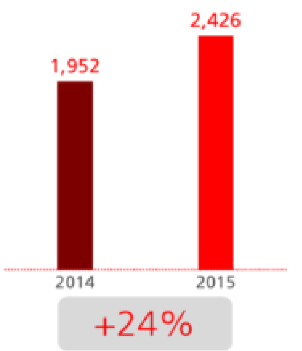
2. Be the reference bank for companies. We continued to support the financing of companies (+9% growth in loans). Some steps taken during 2015 were:

- Creation of a segmented management model, divided into SMEs, large companies, institutions and global corporate banking (GCB), which enables us to adjust the value proposition to customers' needs.
- Launch of the *1|2|3 Account* for SMEs and businesses in order to lead this market.
- Our retail network became more specialised in this segment and we improved the range of high value-added products (international business, factoring, confirming, brokerage, leasing and renting).
- We remained the leader in global corporate banking (market share of more than 20%), participating in almost all the stock market listings in 2015.

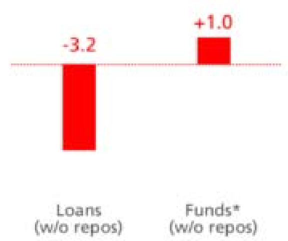
1|2|3 customers
Thousands



Digital customers
Thousands

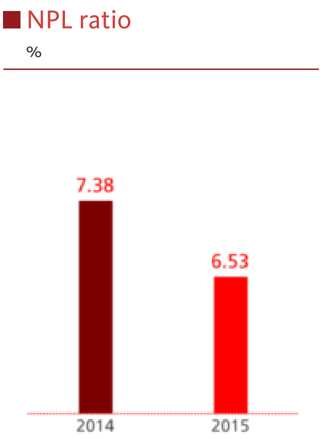


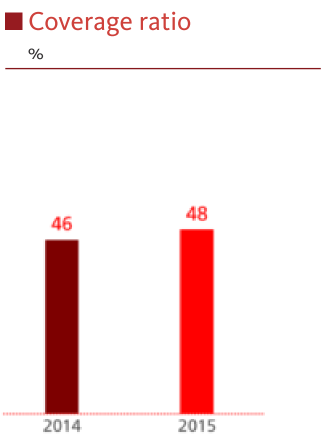
Activity
% var. 2015 / 2014

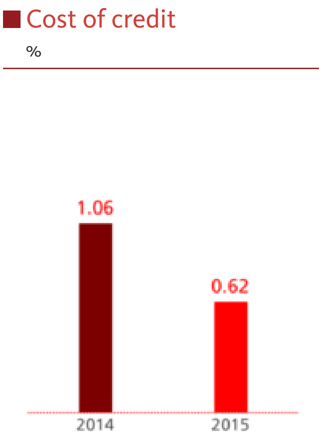


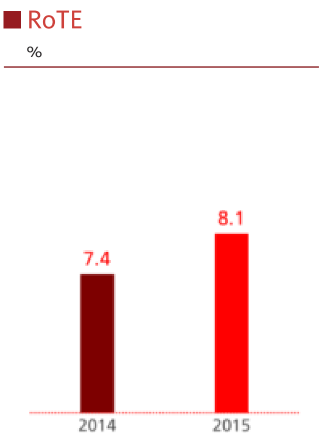
(*) Customer deposits + mutual funds

Attributable profit
€ Million









3. Achieving excellence in the quality of service.

- According to the independent Stiga report, there was a substantial improvement in customer satisfaction and all the customer-focused processes are being reviewed.

- We began to transform the branch network into a new model and boost the digital transformation, a key area of our strategy. Of note was the launch of an app for the *Apple Watch*, the app for digitalizing ID cards and the marketing of more than 25% of consumer loans by remote channels. The number of digital customers increased 24% in the year.

4. Develop an advanced risk management system to improve the integral vision of risk based on the customer.

5. Generate sustainable profitability based on stable results thanks to the model of *"payment by value"* and the monetization of our long-term strategy with customers.

The corporate governance model was also strengthened in 2015, with the creation of the Santander Spain Board whose governance structure is the same as that of the subsidiaries in the rest of the Group's countries.

Activity

Lending to SMEs and micro companies amounted to €13,148 million (+18%) and the pace of growth of new loans to individuals (+27%) was maintained, while that to large companies was virtually stable. This was still not reflected in the stock (-3% over 2014) because of lower loans to institutions and maturity of mortgages. SMEs, on the other hand, rose 1%.

Funds increased 1%, with demand deposits up 9% and mutual funds 11% and time deposits down 20%.

The cost of deposits was 0.59% in 2015, down from 1.02% a year ago, following the launch of the *1|2|3 Account,* and remained constant for the last few quarters.

Results

Attributable profit was 18% higher at €977 million, backed by the good performance of provisions and operational excellence.

- Gross income declined 8% in an environment of interest rates at historic lows and strong competition in loans, a regulatory environment that hit fee income. Also, reduced revenue from financial activity and higher charges for the Deposit Guarantee Fund and resolution fund.

- Operating expenses declined 2%, thanks to the synergies achieved in the optimization plans.

- Loan-loss provisions were 43% lower than in 2014, as the process of normalization in a more favourable economic cycle continued. The NPL ratio was 6.53% (-85 b.p.). The coverage ratio was 3 p.p. higher at 48%.

- The cost of credit fell from 1.06% in 2014 to 0.62%, keeping up its good trend.

Strategy in 2016

- Continue the strategy of forging long-term customer relations, with the goal of 2 million 1|2|3 accounts by the end of the year.
- Improve customer satisfaction and be one of the Top 3 in this sphere.
- Increase our market share in SMEs and companies via the 1|2|3 SMEs Account and enhance the range of value-added products.
- Continue to reduce the cost of credit.
- Make further progress in the digital transformation process.

Santander Consumer Finance

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**3,096**	**2,368**	**728**	**30.7**
Net fee income	876	841	36	4.2
Gains (losses) on financial transactions	(11)	3	(14)	—
Other operating income*	4	12	(9)	(69.4)
Gross income	**3,965**	**3,224**	**742**	**23.0**
Operating expenses	(1,774)	(1,468)	(306)	20.8
General administrative expenses	(1,602)	(1,293)	(309)	23.9
Personnel	*(746)*	*(588)*	*(158)*	*26.9*
Other general administrative expenses	*(855)*	*(705)*	*(151)*	*21.4*
Depreciation and amortisation	(172)	(175)	3	(1.6)
Net operating income	**2,192**	**1,756**	**436**	**24.8**
Net loan-loss provisions	(537)	(544)	7	(1.2)
Other income	(152)	(37)	(115)	312.7
Profit before taxes	**1,502**	**1,175**	**327**	**27.8**
Tax on profit	(426)	(315)	(111)	35.2
Profit from continuing operations	**1,076**	**860**	**216**	**25.1**
Net profit from discontinued operations	—	(26)	26	(100.0)
Consolidated profit	**1,076**	**834**	**242**	**29.0**
Minority interests	137	39	99	254.4
Attributable profit to the Group	**938**	**795**	**143**	**18.0**

Balance sheet				
Customer loans**	73,709	60,448	13,261	21.9
Trading portfolio (w/o loans)	94	87	7	8.2
Available-for-sale financial assets	3,654	988	2,666	269.8
Due from credit institutions**	4,252	5,476	(1,225)	(22.4)
Intangible assets and property and equipment	692	786	(94)	(12.0)
Other assets	6,133	3,734	2,399	64.3
Total assets/liabilities & shareholders' equity	**88,534**	**71,520**	**17,014**	**23.8**
Customer deposits**	32,595	30,847	1,748	5.7
Marketable debt securities**	23,277	15,646	7,632	48.8
Subordinated debt**	70	66	4	5.5
Insurance liabilities	—	—	—	—
Due to credit institutions**	20,314	14,266	6,048	42.4
Other liabilities	4,325	3,343	982	29.4
Stockholders' equity ***	7,953	7,351	602	8.2
Other managed and marketed customer funds	**7**	**7**	**0**	**1.6**
Mutual and pension funds	7	7	0	1.6
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**55,950**	**46,566**	**9,383**	**20.2**

Ratios (%) and operating means				
ROE	12.03	11.05	0.99	
Efficiency ratio (with amortisations)	44.7	45.5	(0.8)	
NPL ratio	3.42	4.82	(1.40)	
Coverage ratio	109.1	100.1	9.0	
Number of employees	14,533	13,138	1,395	10.6
Number of branches	588	579	9	1.6

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Santander Consumer Finance

2015 Highlights

- **The agreement with PSA Finance and the integrations in Nordic countries strengthened SCF's position in its markets and improved business diversification. It also increased the potential for future growth.**
- **Higher new lending in the core countries: Spain, Germany and Nordic countries.**
- **Attributable profit of €938 million, 18% more than in 2014.**
- **Profit growth due to higher revenues as well as improved efficiency and cost of credit.**

Economic environment

The main European markets where business is conducted grew at between 1.7% and 3.5% in 2015.

Santander Consumer Finance's units in continental Europe carried out their business in an environment of fledgling recovery in both consumer business and new car sales (+9% year-on-year in the countries where we operate).

Strategy

SCF offers financing and services via 130,000 associated points of sales (car dealers and shops). It also has a significant number of agreements with car and motorcycle manufacturers and retail distribution groups.

In 2015, SCF continued to gain market share, backed by a business model that was strengthened during the crisis thanks to high geographic and product diversification, with leadership positions and critical mass in core markets, better efficiency than our competitors and a common risk control and recoveries system that keeps credit quality high.

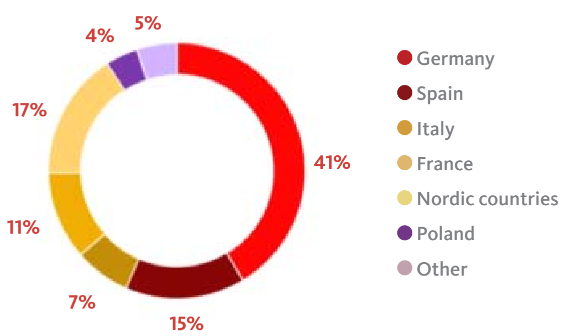
The management focus centred on:

- Integrating the businesses of GE Nordics acquired in the second half of 2014.
- Developing agreements with Banque PSA Finance.
- Fostering new loans and cross-selling in accordance with the situation of each market and backed by brand agreements.
- Exploiting competitive advantages in the European consumer finance market.

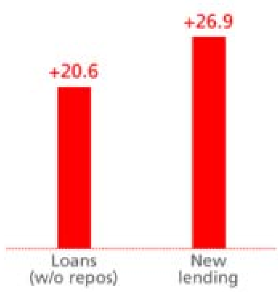
The integration of GE Nordics was done in an optimum way and enabled us to increase the area's weight of direct business, strengthening profitable and diversified growth.

The agreement with Banque PSA Finance began to be developed in 2015 and will consolidate our auto finance leadership. At the end of the year, transactions had been carried out in Spain, Portugal, UK, France and Switzerland. The latter two are new markets where SCF

Customer loans by geography
2015

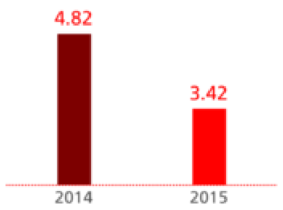


Activity
% var. 2015 / 2014

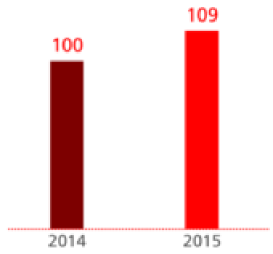


Attributable profit
€ Million

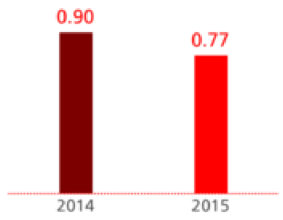
NPL ratio
%



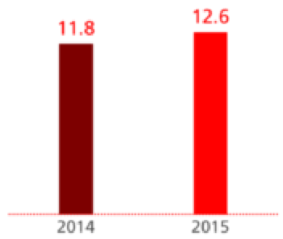
Coverage ratio
%



Cost of credit
%



RoTE
%



had no presence. These incorporations contributed around €11,500 million of loans, plus €3,700 million in the UK. The rest of countries (Germany, Italy, Holland, Belgium, Poland and Austria) will be integrated in 2016.

SCF also focused in 2015 on consumer business via pan European agreements and increased its presence in digital channels.

Activity
New lending increased 27% in 2015 favoured by the larger perimeter and strongly backed by direct credit and cards (+20%) and auto finance (+35%). Of note in the peripheral countries was the growth in new business in Spain (+32%) and the Nordic countries (+30% in constant currency). Germany grew 7%.

Of note on the funding side were stable customer deposits (around €32.000 million, mostly in Germany), something that distinguishes us from our competitors. The area is also increasing its recourse to wholesale funding in order to optimize its funding structure (€9,522 million issued in 2015, via senior issues and securitizations).

Deposits plus medium and long-term issues and securitisations placed in the market covered 70% of net lending.

Results
Attributable profit was €938 million, 18% more than in 2014 (+€143 million).

This growth benefited from the impact of incorporated units, which is reflected in gross income growing faster than costs and provisions.

Gross income rose 23% (net interest income up 31%), higher than costs (+21%), as a result of which the efficiency ratio improved to 44.7%, 0.8 percentage points less than in 2014.

Loan-loss provisions declined 1%, thanks to the exceptional performance of credit quality. The cost of credit dropped to 0.77% from 0.90% in 2014. The NPL ratio was 3.42% (-140 b.p.) and coverage 109% (+9 p.p.).

In short, an excellent performance of all the credit quality ratios.

The three largest profit makers were Germany (€393 million), Nordic countries (€234 million) and Spain (€169 million).

Strategy in 2016

- Complete the integration of the Banque PSA Finance agreement, which covers 11 countries and a portfolio of more than €20,000 million.
- Increase and maximize auto finance business through brand agreements, with greater penetration of markets and customer loyalty.
- Step up consumer finance business, extending the agreements with the main dealers and strengthening the presence in digital channels.

Poland

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**782**	**834**	**(52)**	**(6.2)**	**(6.3)**
Net fee income	422	435	(13)	(3.0)	(3.0)
Gains (losses) on financial transactions	112	79	33	41.9	41.8
Other operating income*	(40)	28	(67)	—	—
Gross income	**1,276**	**1,376**	**(99)**	**(7.2)**	**(7.3)**
Operating expenses	(594)	(585)	(9)	1.5	1.5
General administrative expenses	(550)	(537)	(12)	2.3	2.2
Personnel	*(324)*	*(310)*	*(14)*	*4.4*	*4.3*
Other general administrative expenses	*(226)*	*(227)*	*1*	*(0.6)*	*(0.6)*
Depreciation and amortisation	(44)	(48)	3	(7.1)	(7.1)
Net operating income	**683**	**791**	**(108)**	**(13.7)**	**(13.7)**
Net loan-loss provisions	(167)	(186)	18	(9.7)	(9.8)
Other income	(4)	11	(15)	—	—
Profit before taxes	**511**	**616**	**(105)**	**(17.0)**	**(17.1)**
Tax on profit	(101)	(134)	33	(24.6)	(24.6)
Profit from continuing operations	**410**	**482**	**(72)**	**(14.9)**	**(14.9)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**410**	**482**	**(72)**	**(14.9)**	**(14.9)**
Minority interests	110	127	(17)	(13.5)	(13.6)
Attributable profit to the Group	**300**	**355**	**(55)**	**(15.4)**	**(15.4)**

Balance sheet					
Customer loans**	18,977	16,976	2,002	11.8	11.5
Trading portfolio (w/o loans)	894	1,166	(272)	(23.3)	(23.5)
Available-for-sale financial assets	5,305	5,816	(510)	(8.8)	(9.0)
Due from credit institutions**	1,247	1,061	186	17.5	17.3
Intangible assets and property and equipment	260	236	24	10.1	9.9
Other assets	2,429	2,540	(111)	(4.4)	(4.6)
Total assets/liabilities & shareholders' equity	**29,112**	**27,794**	**1,318**	**4.7**	**4.5**
Customer deposits**	21,460	20,144	1,316	6.5	6.3
Marketable debt securities**	398	230	168	73.1	72.7
Subordinated debt**	100	337	(237)	(70.3)	(70.4)
Insurance liabilities	—	77	(77)	(100.0)	(100.0)
Due to credit institutions**	1,152	1,264	(113)	(8.9)	(9.1)
Other liabilities	3,515	3,467	48	1.4	1.2
Stockholders' equity ***	2,487	2,274	213	9.4	9.1
Other managed and marketed customer funds	**3,209**	**3,515**	**(305)**	**(8.7)**	**(8.9)**
Mutual and pension funds	3,106	3,430	(323)	(9.4)	(9.6)
Managed portfolios	103	85	18	21.1	20.8
Managed and marketed customer funds	**25,168**	**24,226**	**942**	**3.9**	**3.7**

Ratios (%) and operating means					
ROE	12.53	16.04	(3.51)		
Efficiency ratio (with amortisations)	46.5	42.5	4.0		
NPL ratio	6.30	7.42	(1.12)		
Coverage ratio	64.0	60.3	3.7		
Number of employees	11,474	12,010	(536)	(4.5)	
Number of branches	723	788	(65)	(8.2)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Poland (changes in local currency))

2015 Highlights

- **Santander continued to be the leader in cards, mobile and online banking. The strategy was focused on mortgages, SMEs, leasing and corporates.**
- **In deposits, the strategy centred on managing spreads following the policy of strong growth in 2014.**
- **Attributable profit of €300 million, 15% lower than in 2014, affected by lower interest rates and the extraordinary contribution to the Deposit Guarantee Fund.**
- **These impacts were partly offset by the strategy of hedging interest rates, control of costs and improving the cost of credit.**

Economic environment

The economy grew a little faster in 2015 (3.6% in 2015 compared to 3.4% for 2014). Activity was fuelled by domestic demand (private consumption and fixed investment) as well as exports.

The most positive element was the significant improvement in the labour market, with the fall in the unemployment rate to 7.1% in the third quarter (the lowest level since 2008).

Inflation was negative throughout the year (-1% on average in the first 11 months) although the underlying rate remained slightly positive. The very low inflation rate (far from the Bank of Poland's central target of 2.5%) led the monetary policy committee to lower the benchmark rate in March to 1.5%.

The zloty ended the year against the euro at almost the same position as at the start. In the first part of 2015 the currency appreciated to PLN 4/€ and in the second it depreciated. Against the dollar, the zloty depreciated by 10%, pulled down by the euro depreciation against the dollar.

Strategy

Santander (BZ WBK) is Poland's third largest bank by loans and deposits (market shares of 9.8% and 10.0%, respectively).

The bank won Euromoney's Best Bank in Poland prize in the magazine's awards for excellence. It continued the strategic *Next Generation Bank* programme to develop at all levels. The main objective is to be the bank of first choice for customers.

We remain leaders in cards, mobile and online banking, marketing various products and initiatives that make us a reference in innovation and electronic security.

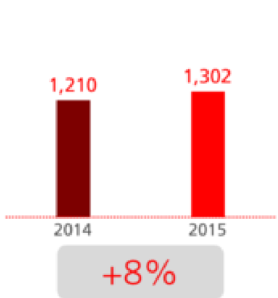
In September, we launched a payment card with HCE technology. The *in-cloud card* is available via the mobile app *BZWBK24*. This app is one of the best in Europe and has won various prizes in international rankings: first prize from Global Finance in the 2015 World's Best Digital Bank Awards and second prize from Forrester Research. In Poland, it won first prize in the prestigious Newsweek ranking. More than 1.8 million customers use the BZWBK mobile app.

2015 was a good year for growth in retail bank loans. Of note was the evolution of mortgages and cash loans, and a record was set in new lending.

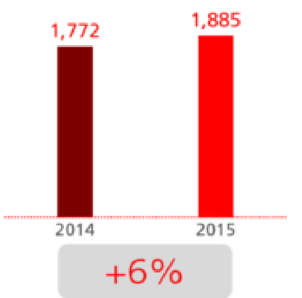
In companies, the focus remained on the SMEs segment, leasing and factoring. Various promotion campaigns were launched to facilitate credit and provide alternative forms of financing businesses development, including a strong focus on Polish exporters.

In Global Corporate Banking, which provides financial services to BZ WBK's main customers and offers services to Santander's global customers, the number of companies increased by close to 170, including 40 large groups with Polish capital.

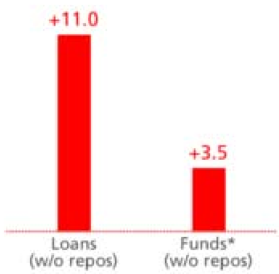
Loyal customers
Thousands



Digital customers
Thousands



Activity
% var. 2015 / 2014 (w/o FX)

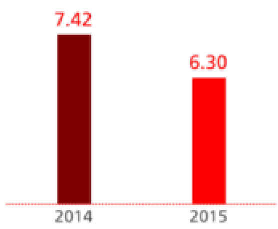


(*) Customer deposits + mutual funds

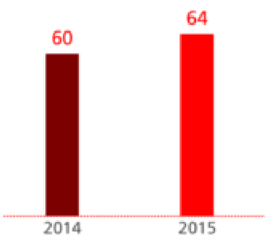
Attributable profit
Constant € million

(*) In euros: -15.4%

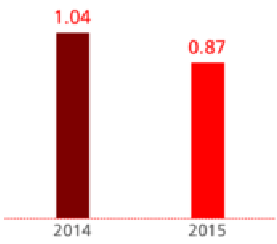
NPL ratio
%



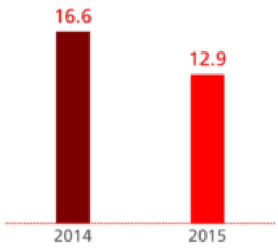
Coverage ratio
%



Cost of credit
%



RoTE
%



Activity

Net loans at the end of 2015 amounted to € 18,977 million and customer deposits € 21,460 million. The solid funding structure was underscored by a net loan-to-deposit ratio of 88%. Gross lending grew 11% and deposits 6%.

New mortgages increased 48% and total mortgages 11%. New cash loans surpassed €7,200 million (+17%). Meanwhile, the *BZWBK24* line is gaining increasing importance (+14% in sales, compared to +10% in 2014).

The number of credit cards rose by 15,000 (+2%), while outstanding balances increased 19% and spending 17%.

Of note in companies were loans in factoring (+26% in balances) and decline in new lending (-13%), placing us with the third highest market share (13%). The performance in leasing was similar (+20% in balances and +25% in new business), improving the positioning in the market to the Top 3 Polish leasing companies.

Results

The attributable profit did not reflect the good business performance, largely due to the fall of interest rates and the extraordinary contribution to the deposit guarantee fund. Attributable profit was 15% lower than in 2014, at €300 million.

Gross income fell 7% because of the net effect of the following impacts:

- Fall in net interest income and in fee income. The first was due to lower interest rates that particularly affected consumer business rates because of the maximum limit, set by the Lombard rate. The second was due to greater regulation that mainly affected card business.
- Also impacted by the one-off charge to the Deposit Guarantee Fund, due to the collapse of SK Wolomin Bank.

This fall was partly offset by control of costs and provisions that were 10% lower (lending was higher). This was reflected in the NPL ratio of 6.30% (-112 b.p. over 2014).

Our Bank in Poland, on the basis of the latest available published figures, continued to have better quality results than its peers, backed by the success of the commercial strategy and the increase in productivity.

Strategy in 2016

- Global objective to gain market share, improve credit quality and be the leader in profitability terms.
- Continue the strategy to boost the loyalty of retail customers, with positive impact on revenues.
- Keep on growing in companies through a renewed value proposition and enhancement of the quality of service, while improving the mix of risks in this segment.
- Digital transformation throughout the distribution network in order to remain the leaders in digital channels.

Portugal

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**555**	**546**	**9**	**1.6**
Net fee income	263	280	(17)	(6.0)
Gains (losses) on financial transactions	164	88	77	87.4
Other operating income*	33	42	(9)	(22.3)
Gross income	**1,016**	**956**	**60**	**6.2**
Operating expenses	(494)	(498)	3	(0.7)
General administrative expenses	(458)	(447)	(11)	2.5
Personnel	*(291)*	*(290)*	*(1)*	*0.4*
Other general administrative expenses	*(167)*	*(158)*	*(10)*	*6.3*
Depreciation and amortisation	(36)	(50)	14	(28.6)
Net operating income	**522**	**459**	**63**	**13.7**
Net loan-loss provisions	(72)	(124)	52	(42.1)
Other income	(31)	(99)	68	(68.4)
Profit before taxes	**419**	**236**	**182**	**77.3**
Tax on profit	(118)	(56)	(62)	111.6
Profit from continuing operations	**301**	**181**	**120**	**66.7**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**301**	**181**	**120**	**66.7**
Minority interests	1	(4)	5	—
Attributable profit to the Group	**300**	**184**	**116**	**62.8**

Balance sheet				
Customer loans**	28,221	23,180	5,041	21.7
Trading portfolio (w/o loans)	1,678	2,082	(404)	(19.4)
Available-for-sale financial assets	6,799	7,011	(212)	(3.0)
Due from credit institutions**	2,465	2,163	302	14.0
Intangible assets and property and equipment	720	729	(9)	(1.2)
Other assets	9,684	6,450	3,234	50.1
Total assets/liabilities & shareholders' equity	**49,568**	**41,616**	**7,952**	**19.1**
Customer deposits**	29,173	24,016	5,157	21.5
Marketable debt securities**	4,994	2,855	2,138	74.9
Subordinated debt**	(0)	0	(0)	—
Insurance liabilities	20	27	(8)	(28.6)
Due to credit institutions**	11,307	11,543	(235)	(2.0)
Other liabilities	1,351	787	564	71.7
Stockholders' equity ***	2,724	2,388	336	14.1
Other managed and marketed customer funds	**2,842**	**2,501**	**341**	**13.7**
Mutual and pension funds	2,426	2,187	239	11.0
Managed portfolios	416	314	102	32.5
Managed and marketed customer funds	**37,009**	**29,372**	**7,636**	**26.0**

Ratios (%) and operating means				
ROE	12.37	7.91	4.46	
Efficiency ratio (with amortisations)	48.7	52.0	(3.4)	
NPL ratio	7.46	8.89	(1.43)	
Coverage ratio	99.0	51.8	47.2	
Number of employees	6,568	5,448	1,120	20.6
Number of branches	752	594	158	26.6

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Portugal

2015 Highlights

- **Commercial actions to capture individual and corporate customers, reflected in the gain in market share.**
- **Attributable profit rose 63% due to higher revenues, control of costs and reduced needs for provisions.**
- **The acquisition of the assets and liabilities of Banco Internacional do Funchal (Banif) at the end of the year, strengthened the presence in the country and made Santander Totta the second largest private sector bank in Portugal.**

Economic environment

The economy continued to recover in 2015. GDP growth accelerated from 0.9% in 2014 to an estimated 1.4%. The upturn benefited from the European Central Bank's expansive monetary policy and its positive impact on spreads and the euro's exchange rate. Economic fundamentals further improved, the unemployment rate has fallen over the last three years and the current account remained in surplus.

Domestic demand remained positive, with faster growth in consumption and investment. Exports also grew more strongly, maintaining the good performance of the last few years. But the rise in imports, due to the increase in domestic demand, made the contribution of net external demand to GDP growth negative.

Inflation was no longer negative in 2015 (average rate estimated at 0.3%).

Strategy

The strategy was very focused on managing interest rates for loans and deposits, gaining market share, particularly in companies, controlling non-performing loans and improving efficiency.

Among the main commercial actions was the launch of the *1/2/3 World* in order to grow in the medium segment. Since its launch on 2 March, the number of *1/2/3* accounts reached more than 110,000, and it has played an important role in attracting and engaging customers.

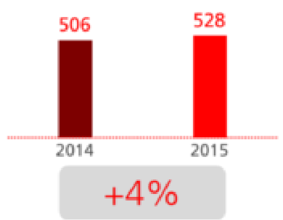
The Bank uses *Santander's Advance* programme, which has become a key tool, to attract new corporate customers. Since its launch at the end of 2014, shops and SMEs have opened some 12,000 accounts.

This strategy increased the number of loyal customers (+14% companies and +4% individuals). Digital customers grew 20% in the year.

As well as organic growth, on 21 December Banco de Portugal awarded most of the assets and liabilities of Banco Internacional de Funchal (Banif) to Santander Totta for €150 million. This operation underscored Santander's commitment to development of the Portuguese economy and made us the second largest private sector bank in the country (market share gain of about 2.5 percentage points), with market shares of around 14% in loans and deposits.

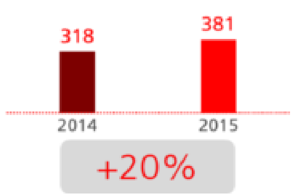
The operation had virtually no impact on Grupo Santander's capital and is slightly positive on profits as of the first year.

Loyal customers*
Thousands

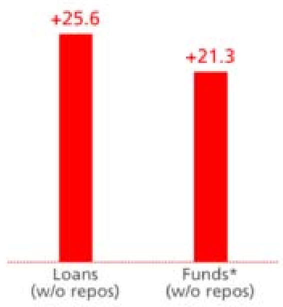


(*).- Excluding Banco Internacional do Funchal (Banif)

Digital customers*
Thousands



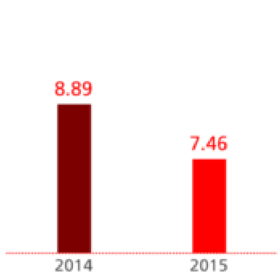
Activity
% var. 2015 / 2014



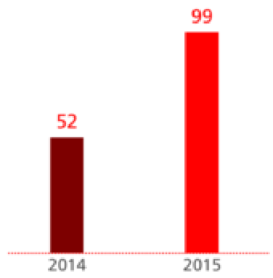
(*) Customer deposits + mutual funds

Attributable profit
€ Million

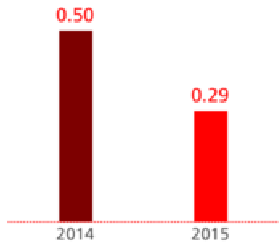
NPL ratio
%



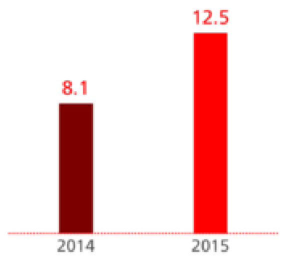
Coverage ratio
%



Cost of credit
%



RoTE
%



Activity (excluding perimeter impact)

Excluding the entry of Banif, the pace of decline in total lending slowed in 2015 (-1% compared to -5% in 2014) and growth in loans to companies rose (+5%) compared to a fall in the market. Of note were the market shares in new lending to companies (15.3%) and in mortgages (17.9%).

Funds increased 5%, under the strategy of boosting demand deposits (+37%) and mutual funds (+18%), while time deposits fell 7%. The result was a further improvement in the cost of deposits.

The acquisition of Banif's assets and liabilities boosted these increases in business (+€6,613 million in loans and +€4,430 million in deposits). A significant part of the loans acquired are in the segment of companies, where Santander Totta has a special interest.

Results

Attributable profit was €300 million, 63% more than in 2014, due to the good performance of the main income statement lines.

Gross income grew 6% (rise in net interest income and improved cost of funding) and gains on financial transactions increased (sale of public debt and of the stake in Banca Caixa Geral Totta Angola).

Operating expenses fell 1% due to the optimisation of the commercial network in accordance with the business environment.

Loan-loss provisions declined 42% because of reduced net NPL entries and the cost of credit improved from 0.50% in 2014 to 0.29% in 2015.

The NPL ratio was 7.46% and coverage 99% (8.89% and 52%, respectively, in 2014). In local criteria, the NPL and coverage ratios continued to be better than the system's averages.

Strategy in 2016

- Manage the integration of customers from Banif.
- Continue to increase the number of loyal and digital customers.
- Improve efficiency.
- Maintain the normalisation process of the cost of funding and the cost of credit.

United Kingdom

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**4,942**	**4,234**	**708**	**16.7**	**5.1**
Net fee income	1,091	1,028	63	6.2	(4.4)
Gains (losses) on financial transactions	302	241	61	25.2	12.7
Other operating income*	47	37	9	24.3	11.9
Gross income	**6,382**	**5,541**	**841**	**15.2**	**3.7**
Operating expenses	(3,356)	(2,918)	(438)	15.0	3.5
General administrative expenses	(3,009)	(2,595)	(414)	16.0	4.4
Personnel	*(1,592)*	*(1,558)*	*(35)*	*2.2*	*(8.0)*
Other general administrative expenses	*(1,417)*	*(1,037)*	*(379)*	*36.6*	*23.0*
Depreciation and amortisation	(347)	(323)	(24)	7.4	(3.3)
Net operating income	**3,025**	**2,622**	**403**	**15.4**	**3.9**
Net loan-loss provisions	(107)	(332)	225	(67.7)	(70.9)
Other income	(354)	(318)	(36)	11.3	0.3
Profit before taxes	**2,564**	**1,973**	**592**	**30.0**	**17.0**
Tax on profit	(556)	(416)	(140)	33.5	20.2
Profit from continuing operations	**2,008**	**1,556**	**452**	**29.1**	**16.2**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**2,008**	**1,556**	**452**	**29.1**	**16.2**
Minority interests	37	—	37	—	—
Attributable profit to the Group	**1,971**	**1,556**	**415**	**26.6**	**14.0**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	282,673	251,191	31,482	12.5	6.0
Trading portfolio (w/o loans)	40,138	39,360	778	2.0	(3.9)
Available-for-sale financial assets	12,279	11,197	1,082	9.7	3.3
Due from credit institutions**	15,459	14,093	1,366	9.7	3.4
Intangible assets and property and equipment	3,025	2,700	325	12.1	5.6
Other assets	29,581	35,695	(6,113)	(17.1)	(21.9)
Total assets/liabilities & shareholders' equity	**383,155**	**354,235**	**28,920**	**8.2**	**1.9**
Customer deposits**	231,947	202,328	29,619	14.6	8.0
Marketable debt securities**	70,133	69,581	552	0.8	(5.0)
Subordinated debt**	4,127	5,376	(1,250)	(23.2)	(27.7)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	23,610	26,720	(3,110)	(11.6)	(16.7)
Other liabilities	36,162	34,887	1,276	3.7	(2.3)
Stockholders' equity ***	17,176	15,342	1,834	12.0	5.5
Other managed and marketed customer funds	**9,703**	**9,667**	**36**	**0.4**	**(5.4)**
Mutual and pension funds	9,564	9,524	40	0.4	(5.4)
Managed portfolios	139	143	(4)	(2.8)	(8.4)
Managed and marketed customer funds	**315,910**	**286,953**	**28,957**	**10.1**	**3.7**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	11.50	11.07	0.43		
Efficiency ratio (with amortisations)	52.6	52.7	(0.1)		
NPL ratio	1.52	1.79	(0.27)		
Coverage ratio	38.2	41.9	(3.7)		
Number of employees	25,866	25,678	188	0.7	
Number of branches	858	929	(71)	(7.6)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

United Kingdom (changes in sterling)

2015 Highlights

- **The 1I2I3 World customers continued to grow, transforming customer loyalty, activity levels and risk profile.**
- **Strong flows in both retail and corporates, with growth in current accounts and mortgages as well as corporate lending.**
- **Ongoing investment in business growth and in digital channels.**
- **Attributable profit rose 14%, backed by higher net interest income and lower loan loss provisions.**

Economic environment

The UK economy continued to grow at 2.2%, registering another year of steady growth. The main driver was domestic demand (particularly private consumption, robust labour market, improved consumer confidence and favourable financial conditions) and a recovery in investment.

The unemployment rate fell in the year to 5.2%, in part due to a large increase in self-employment. This pushed the number of people in employment to a record high.

Inflation was around 0%, mainly due to lower oil and commodity prices and the consolidation of sterling's appreciation registered since mid-2013. Based on this, the Bank of England kept interest rates unchanged in 2015.

Strategy

There have been significant changes recently, in terms of regulation, tax and public policy as well as a significant advance in the use of technology in banking, especially mobile. The new entrants and existing competitors who have renewed focus on the UK market opportunities.

We continued to drive an evolution of our strategy to advance and extend the customer franchise. The strategic direction has been fine-tuned, to align with the economic, regulatory and market environment changes.

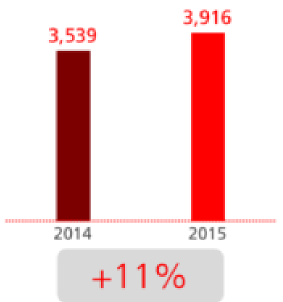
We are expanding the focus of our drive for increased customer loyalty and deeper relationships with retail as well as corporate businesses. 1I2I3 World customers increased to 4.6 million, up more than one million in the last 12 months and 96% of *1I2I3* current account customers having their primary bank account with us. Santander UK remained first choice for current account switchers since September 2013. One-in-four UK current accounts have moved to us since the introduction of the current account switch service.

In corporate business, 2015 saw the end of the investment in renewed capacity (opening of regional centres and increase in relationship managers). This addition, coupled with unique platforms and services such as *Breakthrough, Santander Passport, Santander Trade and Santander Connect,* will grow further loyalty of these customers in the future.

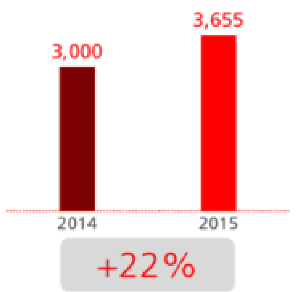
We have introduced a new strategic priority to focus on driving operational and digital excellence. In 2015 we launched several digital solutions that were well received by the market, such as *Apple Pay*, *KiTTi, Spendlytics* and the *Go Smart* programme. Focus was given to continue to attract digital customers, already at 3.7 million, +22% versus 2014.

We will continue to digitally transform the business through simplification to improve customer service and efficiency gains. Operation and technological advances will support the delivery of leading customer experience.

Loyal customers
Thousands



Digital customers
Thousands

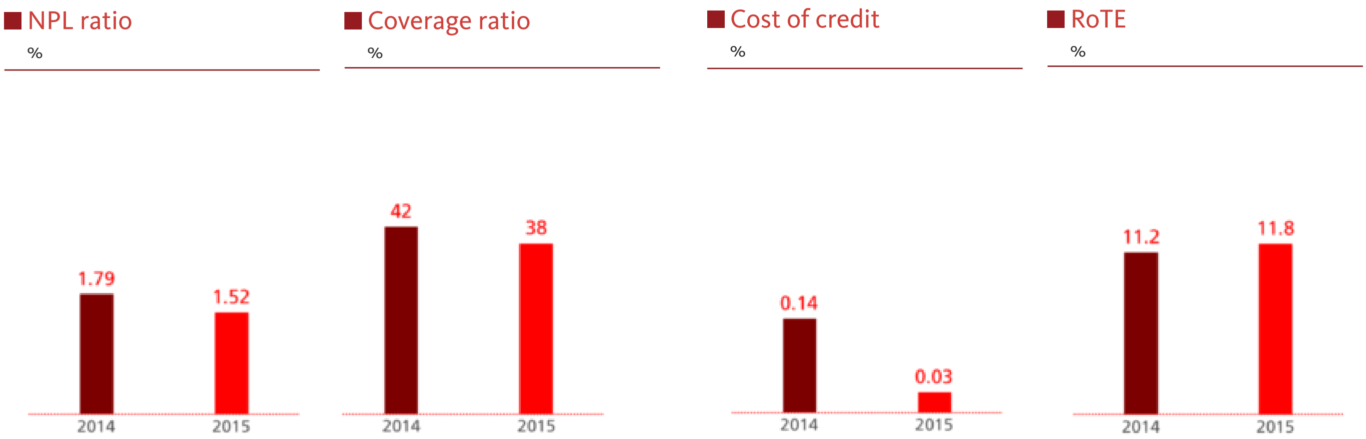


Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +26.6%



All these measures have enabled significant improvement in customer satisfaction, both retail and corporate, placing Santander among the top of its peers on a 12M rolling basis.

We have also maintained focus on profitability and balance sheet strength and are well advanced in establishing a target ring-fencing structure to meet the distinct needs of the different segments of our retail, corporate and institutional customer base.

Activity

The success of the developed strategies was reflected in faster volume growth than in 2014. Lending increased 5% compared to December 2014, largely due to corporate lending (+10%), mortgages (+2%) and unsecured consumer and vehicle finance lending (+42%), which was impacted by the PSA Finance UK limited joint venture commencement in February 2015.

Support for UK businesses continued despite a contracting market for the majority of 2015, with lending to corporates up 10%. This performance is backed by the broader product suite and extended footprint now in place.

New gross mortgage lending was £26,500 million, including £4,500 million to first time buyers.

On the liabilities side, strong growth in customer deposits (+7% year-on-year) was driven by increased Retail Banking current account balances which have grown 29% over December 2014. Corporate customer deposits also rose by 18%.

Results

Attributable profit in the year of £1,430 million (+14%), was supported by strong business flows, net interest income growth and lower loan loss provisions.

Net interest income rose 5%, mainly driven by higher volumes. Net interest income / average customer assets (Banking NIM) remained broadly flat at 1.83% in 2015.

Operating expenses were tightly managed, despite investment in business growth, higher regulatory costs and the continued enhancements to our digital channels. These strategic investments underpin future efficiency improvements.

Loan-loss provisions fell 71%, with improved credit quality across the loan portfolios, conservative loan-to-value criteria, and supported by a benign economic environment.

Strategy in 2016

- On the assets side, commercial lending above the market and mortgage lending in line with market growth
- On the liabilities side, continue to increase primacy through a differentiated proposition, leading technology and analytics, and a full service offering for UK companies.
- Improvement in operational efficiency by optimising our simplified and innovative product range, digitalisation benefits, and the broader footprint that we now have in place.
- Sustained good credit quality across all portfolios and a relentless focus on maintaining capital and balance sheet strength.

Latin America

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**13,752**	**13,620**	**132**	**1.0**	**10.3**
Net fee income	4,452	4,372	81	1.8	11.2
Gains (losses) on financial transactions	517	484	32	6.7	6.5
Other operating income*	36	81	(46)	(56.2)	(45.0)
Gross income	**18,757**	**18,557**	**200**	**1.1**	**10.2**
Operating expenses	(7,906)	(7,851)	(55)	0.7	9.6
General administrative expenses	(7,230)	(7,130)	(100)	1.4	10.2
Personnel	*(3,955)*	*(3,798)*	*(158)*	*4.1*	*13.1*
Other general administrative expenses	*(3,274)*	*(3,332)*	*58*	*(1.7)*	*6.9*
Depreciation and amortisation	(676)	(720)	44	(6.2)	3.5
Net operating income	**10,851**	**10,706**	**144**	**1.3**	**10.6**
Net loan-loss provisions	(4,950)	(5,119)	170	(3.3)	7.1
Other income	(893)	(842)	(51)	6.0	22.7
Profit before taxes	**5,008**	**4,745**	**263**	**5.5**	**12.3**
Tax on profit	(1,219)	(1,053)	(166)	15.8	25.4
Profit from continuing operations	**3,789**	**3,692**	**97**	**2.6**	**8.7**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**3,789**	**3,692**	**97**	**2.6**	**8.7**
Minority interests	596	790	(194)	(24.5)	(20.3)
Attributable profit to the Group	**3,193**	**2,902**	**291**	**10.0**	**16.6**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	133,138	139,955	(6,817)	(4.9)	14.3
Trading portfolio (w/o loans)	33,670	31,766	1,904	6.0	27.6
Available-for-sale financial assets	25,926	31,174	(5,248)	(16.8)	5.1
Due from credit institutions**	21,923	22,104	(180)	(0.8)	16.5
Intangible assets and property and equipment	3,522	3,912	(390)	(10.0)	14.4
Other assets	49,706	39,577	10,128	25.6	58.1
Total assets/liabilities & shareholders' equity	**267,885**	**268,487**	**(603)**	**(0.2)**	**21.3**
Customer deposits**	122,413	131,826	(9,413)	(7.1)	11.8
Marketable debt securities**	33,172	31,920	1,252	3.9	28.3
Subordinated debt**	6,355	6,443	(87)	(1.4)	21.5
Insurance liabilities	1	—	1	—	—
Due to credit institutions**	42,393	35,978	6,415	17.8	45.3
Other liabilities	43,872	39,945	3,928	9.8	34.2
Stockholders' equity ***	19,678	22,376	(2,698)	(12.1)	7.3
Other managed and marketed customer funds	**65,690**	**69,567**	**(3,876)**	**(5.6)**	**17.9**
Mutual and pension funds	61,096	64,627	(3,530)	(5.5)	18.2
Managed portfolios	4,594	4,940	(346)	(7.0)	13.8
Managed and marketed customer funds	**227,631**	**239,755**	**(12,125)**	**(5.1)**	**15.9**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	14.70	14.33	0.37		
Efficiency ratio (with amortisations)	42.1	42.3	(0.2)		
NPL ratio	4.96	4.79	0.17		
Coverage ratio	79.0	84.5	(5.5)		
Number of employees	89,819	84,336	5,483	6.5	
Number of branches	5,841	5,729	112	2.0	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Latin America (changes in constant currency)

2015 Highlights

- **The region's GDP shrank 0.4% in a complex international environment for emerging markets.**
- **Santander continued to grow volumes in all markets and attain gains in market share in target products and segments.**
- **Attributable profit, excluding the exchange-rate impact, was 17% higher and fuelled by Brazil's good performance.**

Economic environment

In a complex international environment, the economy was affected in 2015 by various external factors such as the outlook for US interest rate rises, the price of commodities and the slowing of the Chinese economy.

In general, the environment was not propitious for business, mainly due to the widespread depreciation of currencies and Brazil's recession.

Activity

In this environment, the Group kept significant business growth rates. Lending and deposits rose 13%, with the focus on strategic segments for the Group.

The main focus was still on deepening customer relations, improving their experience and enhancing satisfaction.

The 1|2|3 World was launched in the core countries to capture and engage individual customers, as well as *Advance* to strengthen our positioning with companies.

All countries registered growth in customers. The region's main countries grew 11% in loyal customers and 16% in digital ones.

Results

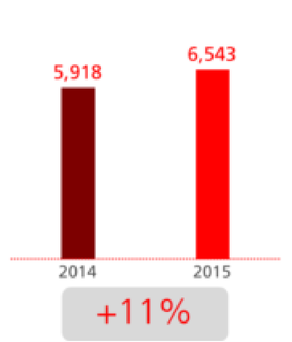
Attributable profit was €3,193 million, affected by exchange rates (+17% in constant euros and +10% in current euros).

Gross income increased 10% (without the forex impact), spurred by the strength of business which fed through to net interest income and fee income.

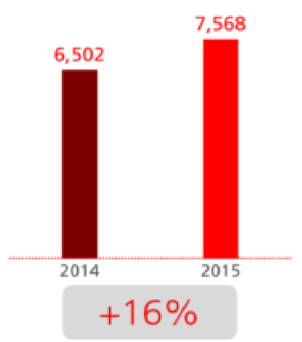
Operating expenses rose 10% due to salary agreements, in an environment of high inflation in countries such as Brazil, Argentina and Uruguay, dollar-indexed expenses and investments in the development of the retail network and digital channels. Growth was moderate when measured in real terms.

In 2015, we continued to change the mix of lending toward low risk premium products. As a result, provisions increased by only 7% (a slower pace of growth than lending).

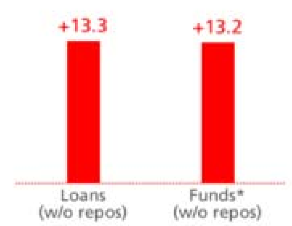
Loyal customers
Thousands



Digital customers
Thousands



Activity
% var. 2015 / 2014 (w/o FX)



(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +10.0%

Brazil

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**8,320**	**8,849**	**(530)**	**(6.0)**	**9.9**
Net fee income	2,643	2,831	(188)	(6.6)	9.1
Gains (losses) on financial transactions	42	82	(40)	(48.7)	(40.1)
Other operating income*	135	117	18	15.8	35.4
Gross income	**11,140**	**11,879**	**(739)**	**(6.2)**	**9.6**
Operating expenses	(4,452)	(4,942)	491	(9.9)	5.3
General administrative expenses	(4,040)	(4,437)	397	(8.9)	6.4
Personnel	*(2,205)*	*(2,353)*	*148*	*(6.3)*	*9.5*
Other general administrative expenses	*(1,835)*	*(2,084)*	*249*	*(11.9)*	*2.9*
Depreciation and amortisation	(411)	(505)	94	(18.5)	(4.8)
Net operating income	**6,689**	**6,937**	**(248)**	**(3.6)**	**12.7**
Net loan-loss provisions	(3,297)	(3,682)	385	(10.5)	4.7
Other income	(878)	(805)	(73)	9.1	27.5
Profit before taxes	**2,513**	**2,449**	**64**	**2.6**	**19.9**
Tax on profit	(689)	(644)	(45)	7.0	25.0
Profit from continuing operations	**1,824**	**1,806**	**19**	**1.0**	**18.1**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,824**	**1,806**	**19**	**1.0**	**18.1**
Minority interests	193	368	(175)	(47.5)	(38.7)
Attributable profit to the Group	**1,631**	**1,437**	**194**	**13.5**	**32.7**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	60,238	74,373	(14,135)	(19.0)	8.4
Trading portfolio (w/o loans)	13,360	18,256	(4,896)	(26.8)	(2.0)
Available-for-sale financial assets	15,814	22,939	(7,125)	(31.1)	(7.7)
Due from credit institutions**	10,592	10,276	316	3.1	38.0
Intangible assets and property and equipment	2,280	2,640	(359)	(13.6)	15.7
Other assets	36,250	27,803	8,447	30.4	74.5
Total assets/liabilities & shareholders' equity	**138,534**	**156,287**	**(17,753)**	**(11.4)**	**18.7**
Customer deposits**	56,636	68,539	(11,903)	(17.4)	10.6
Marketable debt securities**	21,984	21,903	81	0.4	34.4
Subordinated debt**	4,188	4,368	(180)	(4.1)	28.4
Insurance liabilities	1	—	1	—	—
Due to credit institutions**	21,600	24,108	(2,507)	(10.4)	20.0
Other liabilities	24,085	24,386	(301)	(1.2)	32.2
Stockholders' equity ***	10,040	12,983	(2,943)	(22.7)	3.5
Other managed and marketed customer funds	**45,607**	**49,806**	**(4,199)**	**(8.4)**	**22.6**
Mutual and pension funds	42,961	46,559	(3,597)	(7.7)	23.5
Managed portfolios	2,646	3,248	(602)	(18.5)	9.1
Managed and marketed customer funds	**128,414**	**144,616**	**(16,202)**	**(11.2)**	**18.9**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	13.64	12.32	1.33		
Efficiency ratio (with amortisations)	40.0	41.6	(1.6)		
NPL ratio	5.98	5.05	0.93		
Coverage ratio	83.7	95.4	(11.7)		
Number of employees	49,520	46,532	2,988	6.4	
Number of branches	3,443	3,411	32	0.9	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Brazil (changes in local currency)

2015 Highlights

- **Develop a more sustainable business model, via greater customer loyalty, higher revenue recurrence and lower risk profile.**
- **Positive trend in revenues, mainly commercial ones, which rose in every quarter of 2015.**
- **Profit up 33% due to higher gross income, control of costs, lower cost of credit and reduced minority interests.**

Economic environment

Brazil went into recession in 2015 when GDP shrank to an estimated 3.8% after growth of 0.1% in 2014. This was due to weak domestic demand, with falls in consumption and investment, while external demand made a positive contribution to growth.

Inflation rose to 10.7% in December 2015, reflecting the rise in public tariffs after several years of no increases and the impact of the real's depreciation. The expectations are for moderation in 2016. In order to strengthen control of inflation and promote a convergence of expectations toward its goal, the central bank raised its key rate by 250 b.p. to 14.25%.

The real depreciated 33% against the dollar and 25% against the euro, although in the fourth quarter the currency was more stable, appreciating 1% against the dollar and 4% against the euro.

Strategy

In this difficult environment, Santander performed well, with more loyal and digital customers, larger volumes, increased commercial revenues, improved efficiency and better credit quality than that of the other private sector banks in Brazil.

This was possible thanks to the strength which comes from being the country's third largest private sector bank and the only international bank with a significant presence in Brazil, and from the strategy developed over the last few years to boost the efficiency and productivity of our commercial network, the quality of service and moving toward a lower credit risk model and more recurring revenues.

Under this strategy, the Bank progressed in its transformation process in order to simplify, modernise and improve the customer experience, while reaching agreements to increase the most transactional part of our revenues.

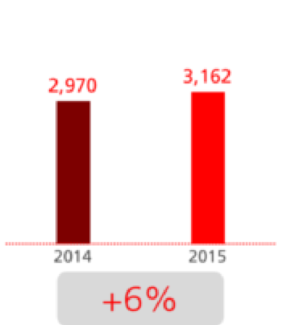
The main actions taken within the transformation process included:

- Installing the *CERTO* model to increase productivity and allow more time for contact with customers.
- Simplify the capturing and activation of new customers (account opening, delivery of cards and PIN the same day).
- Big campaign to digitalise customers *(Vale a Pena Ser Digital)* together with the offer of new, simpler and more accessible digital channels. The new mobile banking for individual customers, with a more intuitive visual and simplified access, produced a 59% rise in use of it.
- Launch of the new segment *Santander Negócios e Empresas* in order to create a closer relationship aimed at developing SMEs. Improvements were also made to online banking for companies and cash management.

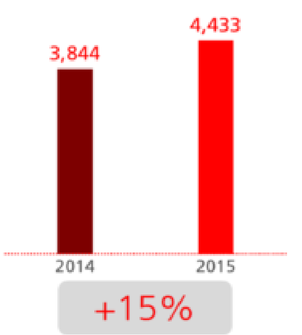
In addition, and as part of the most commercial actions:

- The *Van Gogh* segment (mass affluent) was relaunched, with specialised products, services and attention via remote managers.

Loyal customers
Thousands



Digital customers
Thousands



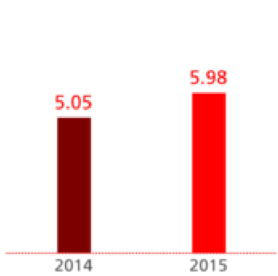
Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

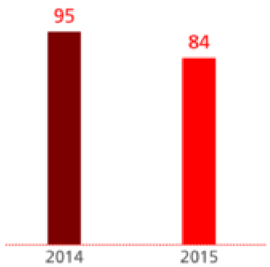
Attributable profit
Constant € million

(*) In euros: +13.5%

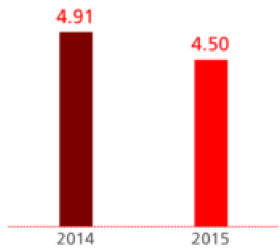
NPL ratio
%



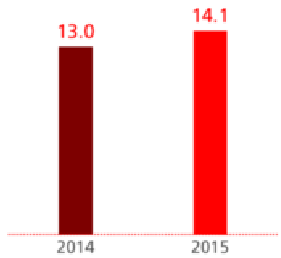
Coverage ratio
%



Cost of credit
%



RoTE
%



– Launch of *Autocompara*, a platform that enables the insurance policies of different companies to be quoted at the same time.

– Strengthen acquiring activity via the operation with Getnet.

– Promote payroll business following the association with Banco Bonsucesso.

– Increase business after the acquisition of *Super*, a digital platform that offers an electronic banking account, a prepaid card and access to simplified financial services.

These strategies increased the number of digital customers by 15% to 4.4 million, and loyal companies rose 12%. The better service made customers more satisfied (39% fall in complaints).

Activity

Lending rose 9% in local currency terms, partly due to the forex impact on dollar portfolios, to which is added the entry of Bonsucesso. The change of the business mix toward lower risk products continued in 2015.

The increase was mainly in lending to companies and large companies (+11%, partly reflecting the impact of balances in dollars) and mortgages for individuals (+21%). Loans to SMEs rose 4%. Although moderate this growth marked a change of trend over 2014 and reflected the success of the aforementioned initiatives.

Funds grew 12%, where mutual funds registered the best performance (+24%), as deposits remained virtually unchanged.

Results

Attributable profit was €1,631 million (+33%). The results confirmed the progress, particularly in net interest income and fee income.

Gross income increased 10%. Net interest income (+10%) rose for the fifth consecutive quarter and fee income increased 9%. Of note was income from cards, foreign trade, cash and insurance. Gains on financial transactions were lower because of more volatile markets.

Operating expenses were up 5% (half of inflation of more than 10%). In real terms and on a like-for-like basis, they fell 6%, reflecting the efforts made in previous years to improve efficiency and productivity.

Credit quality variables performed well against a backdrop of a rise in NPLs. The change of business mix over the last two years to less profitable but lower risk products was reflected in:

- NPLs performed better than private sector banks as a whole. The rise in NPLs was mainly in companies, as the ratio among.

- Loan-loss provisions increased 5%, which resulted in the reduction of the cost of credit by 41 b.p.

Profit also reflected reduced minority interests.

Strategy in 2016

- Continue to increase our base of loyal customers, with greater focus on digital customers, backed by a simple offer of products and services via our multi channel platform.

- Further streamlining of processes, improving the quality and relationship with customers.

- Keep on strictly managing the whole risk cycle, from admission to recovery.

Mexico

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**2,451**	**2,138**	**313**	**14.6**	**14.1**
Net fee income	800	764	36	4.7	4.2
Gains (losses) on financial transactions	138	160	(22)	(13.9)	(14.3)
Other operating income*	(72)	(45)	(28)	61.9	61.2
Gross income	**3,317**	**3,019**	**298**	**9.9**	**9.4**
Operating expenses	(1,370)	(1,282)	(87)	6.8	6.3
General administrative expenses	(1,257)	(1,180)	(77)	6.5	6.1
Personnel	*(662)*	*(593)*	*(69)*	*11.6*	*11.1*
Other general administrative expenses	*(595)*	*(587)*	*(8)*	*1.4*	*0.9*
Depreciation and amortisation	(113)	(103)	(10)	9.9	9.5
Net operating income	**1,947**	**1,736**	**211**	**12.2**	**11.7**
Net loan-loss provisions	(877)	(756)	(120)	15.9	15.4
Other income	(4)	2	(5)	—	—
Profit before taxes	**1,067**	**982**	**85**	**8.7**	**8.2**
Tax on profit	(236)	(184)	(51)	27.8	27.3
Profit from continuing operations	**831**	**797**	**34**	**4.2**	**3.8**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**831**	**797**	**34**	**4.2**	**3.8**
Minority interests	202	191	11	6.0	5.5
Attributable profit to the Group	**629**	**606**	**22**	**3.7**	**3.2**

Balance sheet					
Customer loans**	30,158	25,873	4,286	16.6	23.4
Trading portfolio (w/o loans)	16,949	10,185	6,764	66.4	76.2
Available-for-sale financial assets	5,972	4,624	1,348	29.1	36.7
Due from credit institutions**	5,467	7,058	(1,591)	(22.5)	(18.0)
Intangible assets and property and equipment	396	440	(44)	(10.1)	(4.8)
Other assets	5,785	5,545	240	4.3	10.4
Total assets/liabilities & shareholders' equity	**64,728**	**53,726**	**11,002**	**20.5**	**27.5**
Customer deposits**	28,274	28,627	(352)	(1.2)	4.6
Marketable debt securities**	4,578	3,266	1,313	40.2	48.4
Subordinated debt**	1,205	1,088	116	10.7	17.2
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	12,884	6,206	6,678	107.6	119.8
Other liabilities	12,829	9,796	3,033	31.0	38.6
Stockholders' equity ***	4,957	4,744	213	4.5	10.6
Other managed and marketed customer funds	**11,477**	**11,523**	**(46)**	**(0.4)**	**5.4**
Mutual and pension funds	11,477	11,523	(46)	(0.4)	5.4
Managed portfolios	—	—	—	—	—
Managed and marketed customer funds	**45,535**	**44,504**	**1,031**	**2.3**	**8.3**

Ratios (%) and operating means					
ROE	12.88	13.16	(0.28)		
Efficiency ratio (with amortisations)	41.3	42.5	(1.2)		
NPL ratio	3.38	3.84	(0.46)		
Coverage ratio	90.6	86.1	4.5		
Number of employees	17,847	16,956	891	5.3	
Number of branches	1,377	1,347	30	2.2	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Mexico (changes in local currency)

2015 Highlights

- **Strategy centred on being the bank of first choice for customers, increasing long-term transaction engagement.**
- **Focus on consolidating our positioning in the most profitable segments (Select, SMEs, Companies) and on quality of service.**
- **The commercial strategy was reflected in double-digit growth in business volumes and market share gains.**
- **Pre-tax profit rose 8%, mainly due to commercial revenues.**

Economic environment

The economy registered an improved trend throughout 2015, fuelled by the recovery of domestic demand and exports. Growth was estimated at 2.5% for the whole year (2.2% in 2014). The strong growth in private consumption and exports, particularly automoviles, offset the negative impact of lower oil prices. Industrial construction was also reactivated during the year.

Inflation fell to an historic low of 2.1% in December, thanks to the reduction in telecommunication and energy prices, following the implementation of structural reforms. Despite the low inflation, the central bank raised its key rate in December, in response to the Fed's rise in order to anticipate possible bouts of volatility given the strong links with the US.

The peso depreciated 15% against the dollar and 6% against the euro, although in the fourth quarter its evolution was more stable (2.5% depreciation against the dollar but 0.3% appreciation against the euro).

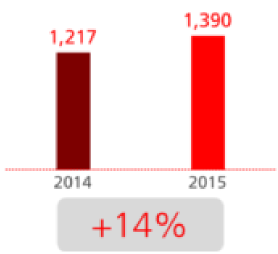
Strategy

The Group maintained its objective of being the leader in profitability and growth in the market, via the capturing of new customers and stronger loyalty of current ones, while promoting multi channels and transforming its operational model with enhanced technology and infrastructure, talent, quality, processes and innovation.

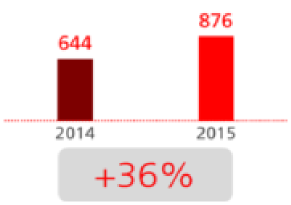
The main actions were:

- The branch expansion plan was completed in 2015 (200 branches were opened in three years). The increased in the installed capacity, combined with improvements in customer segmentation and in sales platforms.
- Multi channels continued to be expanded (461 new ATMs in 2015; mobile and online banking initiatives) and consolidating strategic alliances with correspondent banks, enabling us to expand our basic banking services via a network of more than 17,000 shops.
- Further strengthening of the most profitable businesses of individual customers. Consumer credit, cards and mortgages grew at faster rates than the market's. We continued to work to improve the customer experience, incorporating personalised risk models to the credit offers. In means of payment, we consolidated the payback alliance to keep on propelling the loyalty of our customers. In the high-income segment, strategies were centred on making optimum use of the portfolio of funds.
- In SMEs, simple credit offers were launched and campaigns to replace lines to spur placement and in companies and institutions

Loyal customers
Thousands



Digital customers
Thousands



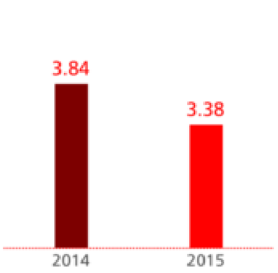
Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

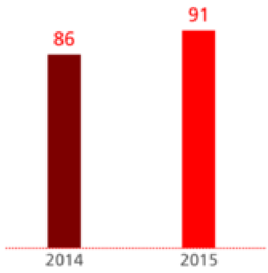
Attributable profit
Constant € million

(*) In euros: +3.7%

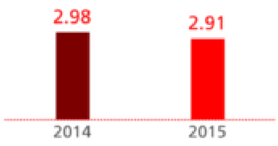
■ NPL ratio
%



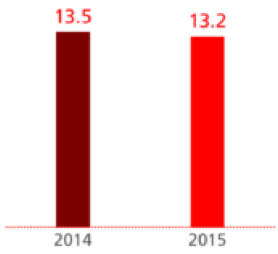
■ Coverage ratio
%



■ Cost of credit
%



■ RoTE
%



new commercial initiatives continued to be worked on whose focus is the attraction and penetration of the car sector and the confirming product.

All these actions produced a 14% rise in the number of loyal customers and digital ones exceed 850,000 (+36%).

Activity

Loans rose 19% and deposits excluding repos 11%. Growth benefited from the greater installed capacity, combined with improvements in customer segmentation and sales platforms.

Lending to companies rose over 18%, (SMEs: +22%). Loans to individuals increased 16%, as follows: mortgages rose 13%, consumer credit 31% and credit cards 13%, within a market that is not growing, after accelerating in previous quarters. We continued to consolidate our leadership in mortgages for medium and high-income clients.

In short, these strategies were reflected in all segments.

In deposits we combined growth with improved composition. Demand deposits from individuals grew 18%, within a policy of lowering their cost, and mutual funds increased 5%.

Results

Pre-tax profit was 8% higher and attributable profit 3% more at €629 million, after deducting a tax charge that was higher at 22% (+19% in 2014) and minority interests.

Profit growth was fuelled by gross income (+9%), mainly net interest income (+14%), due to the growth in loans. Fee income rose 4%, particularly from transaction banking, insurance and investment banking.

Operating expenses were 6% higher due to the greater installed capacity and new commercial projects to increase attraction and penetration in the customer base.

Loan-loss provisions increased 15%, mainly due to greater lending. The cost of credit was 7 b.p. lower than in 2014.

The NPL ratio was 3.38% (-46 b.p.) and coverage 91%.

Strategy in 2016

- Attract high potential customers, increasing the number of loyal and digital customers.
- Transform us into the bank of first choice for our customers, increasing their loyalty, reducing the number of switchers and generating long-term transaction engagement.
- Consolidate our positioning in key markets: SMEs, companies and mortgages.
- Drive innovation and multi channels, through development of digital platforms.

Chile

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**1,791**	**1,734**	**57**	**3.3**	**(1.2)**
Net fee income	360	328	32	9.8	5.0
Gains (losses) on financial transactions	173	115	59	51.0	44.5
Other operating income*	12	18	(6)	(33.6)	(36.5)
Gross income	**2,336**	**2,194**	**142**	**6.5**	**1.9**
Operating expenses	(1,004)	(866)	(137)	15.8	10.8
General administrative expenses	(926)	(804)	(123)	15.2	10.3
Personnel	*(568)*	*(477)*	*(91)*	*19.1*	*14.0*
Other general administrative expenses	*(358)*	*(327)*	*(31)*	*9.6*	*4.9*
Depreciation and amortisation	(77)	(63)	(15)	23.4	18.1
Net operating income	**1,332**	**1,327**	**5**	**0.4**	**(4.0)**
Net loan-loss provisions	(567)	(521)	(46)	8.9	4.2
Other income	3	(24)	27	—	—
Profit before taxes	**768**	**783**	**(14)**	**(1.8)**	**(6.1)**
Tax on profit	(114)	(54)	(59)	109.0	99.9
Profit from continuing operations	**655**	**728**	**(74)**	**(10.1)**	**(14.0)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**655**	**728**	**(74)**	**(10.1)**	**(14.0)**
Minority interests	199	230	(31)	(13.4)	(17.1)
Attributable profit to the Group	**455**	**498**	**(43)**	**(8.6)**	**(12.5)**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	32,338	30,550	1,788	5.9	11.1
Trading portfolio (w/o loans)	3,144	3,075	69	2.2	7.3
Available-for-sale financial assets	2,668	2,274	394	17.3	23.1
Due from credit institutions**	4,579	3,837	742	19.3	25.2
Intangible assets and property and equipment	355	347	8	2.4	7.5
Other assets	2,876	2,680	196	7.3	12.6
Total assets/liabilities & shareholders' equity	**45,960**	**42,763**	**3,197**	**7.5**	**12.8**
Customer deposits**	24,347	23,352	995	4.3	9.4
Marketable debt securities**	6,504	6,650	(146)	(2.2)	2.6
Subordinated debt**	963	985	(22)	(2.2)	2.6
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	5,886	4,393	1,493	34.0	40.6
Other liabilities	5,280	4,437	843	19.0	24.9
Stockholders' equity ***	2,980	2,946	33	1.1	6.1
Other managed and marketed customer funds	**7,370**	**7,256**	**114**	**1.6**	**6.6**
Mutual and pension funds	5,422	5,564	(142)	(2.5)	2.3
Managed portfolios	1,948	1,693	256	15.1	20.8
Managed and marketed customer funds	**39,184**	**38,242**	**942**	**2.5**	**7.5**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	15.32	19.50	(4.19)		
Efficiency ratio (with amortisations)	43.0	39.5	3.5		
NPL ratio	5.62	5.97	(0.35)		
Coverage ratio	53.9	52.4	1.5		
Number of employees	12,454	12,123	331	2.7	
Number of branches	472	475	(3)	(0.6)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Chile (changes in local currency)

2015 Highlights

- **The commercial transformation is reflected in greater activity in the target segments of loans and funds.**
- **Sharp rise in the number of loyal companies and digital clients, with improved customer service quality.**
- **Attributable profit of €455 million. Of note the positive evolution of revenues (excluding UF inflation impact) and the lower cost of credit.**

Economic environment

The economy grew 2% in 2015, spurred by private consumption and investment.

Inflation was 4.4%, above the central bank's target range (2%-4%), impacted by the peso's depreciation, which was partly offset by lower oil prices.

The peso depreciated 15% against the dollar and 5% against the euro. The currency was more stable in the fourth quarter, depreciating 1% against the dollar and appreciating by a similar amount against the euro.

In order to strengthen the convergence of inflation expectations, the central bank began to normalise its monetary policy, with two rises of 25 b.p. in the fourth quarter, which brought the key rate to 3.50%.

Strategy

The Group maintained its strategy of improving long-term profitability against a backdrop of reduced spreads and greater regulation. Management was focused on improving the quality of customer service and experience, transforming retail banking business, particularly for high and medium-high clients and SMEs, and strengthening business with large and medium sized companies.

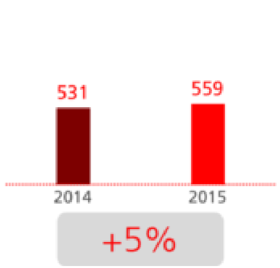
In the segment of individual customers, *NEO CRM* supported this strategy and better and new capacities were installed in remote and digital attention channels (VOX and Internet). Of note in the latter was the recent launch of *Neo CLICK*, which converts the *NEO CRM* platform from one focused solely on customer relations to one centred on transactions as well, enabling executives to offer, formalise and manage the Bank's products online and notably reduce management time.

More branches were opened and exclusive *Select* spaces (high income, which rose 23%). Also, branches and *Advance* spaces for SMEs (18 overall), while the traditional network was refurbished into the new model of branches.

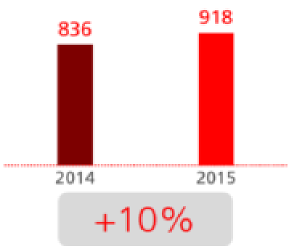
The *Advance* strategy was launched for the SMEs segment. This is a methodology of work that seeks to manage customers integrally, accompanying them in the different phases of their life cycle, be close to them and improve the quality of service responding to their particular needs. *Neo Advance,* the *CRM* of SMEs, supports it.

Banca de Empresas e Instituciones advanced in its objective of becoming the best bank for companies. The new corporate centres generated greater proximity with clients, particularly in the regions, which increased the market share of the segment in loans and deposits.

Loyal customers
Thousands



Digital customers
Thousands



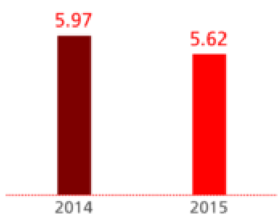
Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

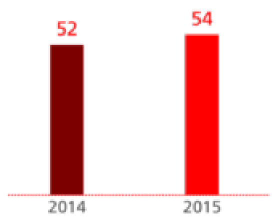
Attributable profit
Constant € million

(*) In euros: -8.6%

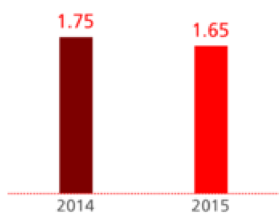
NPL ratio
%



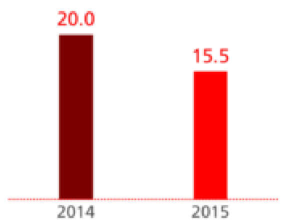
Coverage ratio
%



Cost of credit
%



RoTE
%



The quality of customer attention and satisfaction continued to improve, closing gaps with competitors significantly.

These achievements were reflected in many recognitions in 2015, including Bank of the Year by The Banker magazine, while the *Sanodelucas* programme received the award for the best financial education initiative in Latin America in the IDB's Beyond Banking awards. Also, for the third year running the bank received the best private bank award from Euromoney.

Activity

The total number of clients grew 2% (high income: +8%). Loyal customers also rose (companies: +11% and high income individuals: +10%). Digital customers increased to more than 900,000.

Lending grew 11%, with advances in the target segments. Of note was 17% growth in high income and 9% in companies.

Deposits rose 10% (demand deposits: +12%).

Results

Attributable profit was 13% lower at €455 million, mainly due to lower inflation-indexed UF, some regulatory impact, higher technology costs and higher tax pressure.

- Gross income increased 2%, which should be viewed positively as 2014 was a year when it was exceptionally high because of the favourable impact of the high inflation-indexed UF.

  The rise came from fee income (+5%) and higher gains on financial transactions. Net interest income was down by only 1%, as lending was higher and the cost of funding was lower, the impact of the lower UF rate (4.1% compared to 5.7% in 2014) and the regulation on maximum rates.

- Operating expenses increased 11% due to rises in inflation-indexed rentals and salaries, the impact of the exchange rate on technology service contracts indexed to the dollar and the euro, as well as the higher investment in technological developments.

- The cost of credit dropped from 1.75% to 1.65% as the rise in provisions (+4%) was well below the growth in lending. This was reflected in better credit quality ratios; the NPL ratio was 35 b.p. lower at 5.62%.

- Pre-tax profit fell 6%. Attributable profit was down 13% because of the higher tax charge resulting from the 2014 tax reform.

Strategy in 2016

- Increase the number of loyal customers (individuals, SMEs and companies), focusing on those using digital channels.
- Continue improving the quality of customer service and satisfaction.
- Promote the new culture centred on the customer and the Simple, Personal and Fair style.
- Adequate business profitability, underpinned by proactive risk management.

Argentina (changes in local currency)

2015 Highlights

- **The strategy focused on increasing our market penetration through expanding the branch network, moving to a more digital bank and increasing the loyalty of high income and SMEs clients.**
- **Attributable profit was 22% higher at €378 million, driven by higher revenues and a lower cost of credit.**
- **Commercial revenues grew due to more business and transactions (collections, means of payment, etc).**

Economic environment

The economy was still weak in 2015 and inflation was one of the highest in the region. The new government announced in the middle of December the liberalisation of capital movements and the Argentine peso began to float freely.

The peso depreciated 52% against the dollar in 2015 and 37% against the euro. Before the liberalisation, the central bank announced an interest rate rise, via an increase in the rates of the securities issued to drain liquidity. The aim was to send a signal that monetary policy will be restrictive so that the impact of the depreciation on inflation and inflation expectations is limited.

Strategy

The Group's strategy centred on increasing our penetration in the market through expanding the branch network, moving to a more digital bank focused on efficiency and customer experience and increasing the loyalty of high income and SMEs clients.

A total of 40 new branches were opened in 2015 and 157 were totally transformed (about 40% of the network).

As the leading digital bank in Argentina, we inaugurated the first completely digital office, focused on self-management, speedy operations and immediate access to products.

The Santander *Río mobile* app is used by 346,000 customers, 85% more than in 2014 and 16% of active customers.

The Bank was recognised as the country's best digital bank and having the best mobile banking app in Latin America (Global Finance magazine). Also awarded best bank in Argentina by The Banker and Euromoney.

The *Select* products were strengthened for the high-income segment and new specialised spaces and corners were opened. Santander Río *Advance* was launched for SMEs, which offers international protection for their businesses, among other services.

Activity

The strategic measures are reflected in strong rises in lending and funds. Loans increased 52%, with similar growth rates in companies and consumer business. Deposits rose 58%, spurred by time deposits that jumped 86%. Mutual funds grew 73%.

Results

Attributable profit was €378 million (+22%). The commercial strategy helped to push up gross income by 27% (net interest income: +29% and fee income: +39%).

Operating expenses rose 43% because of the opening of new branches, the transformation and technology projects and the review of the salary agreement. Loan-loss provisions increased 16%, below the growth in lending. Credit quality remained among the best in the market: the cost of credit was 2.15%, the NPL ratio was 1.15% and coverage 194%, all of which were better than in 2014.

Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +28.6%

Strategy in 2016

- Grow in intermediation volumes, with companies and households that have low debt levels.
- Continue to open more branches and reach 500 in 2018, and capture the benefits of greater "bankarisation."
- Develop digital banking, offering new and better solutions for customers, increasing the number of loyal and digital clients and global satisfaction.

Uruguay (changes in local currency)

2015 Highlights

- **Acquisition in July of Créditos de la Casa, the fourth largest finance company, consolidating our market share of this segment at 28% and 25% of the consumer credit of the private financial system.**
- **Double-digit growth in lending and deposits, ranking first in the customer satisfaction.**
- **Attributable profit rose 38%. On a like-for-like basis, growth was 28% due to gross income (mainly commercial revenues).**

Economic environment

The economy grew by around 1.2% in 2015 (3.5% in 2014). GDP growth in the third quarter was 0.6% year-on-year after shrinking 0.3% in the second quarter.

Inflation was 9.4%, well above the central bank's target of (+3%-7%). The key rate remained high in order to converge toward this goal. The Uruguayan peso depreciated 20% against the dollar and 10% against the euro.

Strategy

The Group continued to be the country's leading private sector bank, focusing on growing in retail banking and improving efficiency and the quality of service.

Value-added products and services were launched in 2015 and other measures taken to contribute to the country's development:

- Launch of the *Advance* programme for SMEs.
- Initiatives were also launched to reduce waiting times in branches (a new version of the app with an innovative information service on the nearest branch and occupancy levels) and deadlines for resolving complaints.

All of this was reflected in the evolution of the number of customers: individual loyal customers almost doubled, following the acquisition of *Créditos de la Casa* (+22% excluding it) and companies increased 10%. The number of digital clients rose 32%. Of note was being placed first in the customer satisfaction survey, up from fourth place in 2014.

Activity

Lending rose 21%, particularly consumer finance, cards (+18%); SMEs: (+34%) and deposits 32%.

Santander's credit cards are classified as the best in the market, according to quality surveys. The EMV chip was launched in 2015 to improve security.

In line with the enhancement of value added products and to contribute to the country's development, the following actions were implemented in 2015:

- Structuring and issuance of the bond to finance the first project to be developed in Uruguay under the private public participation law. We also structured the first thermosolar project in Uruguay.
- Santander was the placement agent for issuing $1.2 billion of Uruguay's sovereign bonds.

Results

Attributable profit was 38% higher at €70 million, fuelled by net operating income (+49%) benefiting from the efficiency plan measures.

Loan-loss provisions increased 46%, albeit from a low base, and credit quality remained excellent (NPL ratio at 1.27% and coverage 205%).

Excluding the incorporation of Créditos de la Casa (€5 million profit), attributable profit was 28%.

Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +41.1%

Strategy in 2016

- Continue to grow in retail business, keeping excellent levels of quality of service.
- Attain leadership in the segments for individuals and SMEs, as well as in products such as consumer credit, means of payment and liabilities in pesos.
- Continue to improve the efficiency ratio.

Peru (changes in local currency)

2015 Highlights

- **Both lending and deposits continued to grow strongly.**
- **Pre-tax profit increased 52%, mainly due to gross income and improved efficiency.**
- **Strategy focused on the corporate and large companies segment, as well as infrastructure businesses.**

Economic environment

Growth slowed in 2015 to 2.7%, a similar growth rate to that of domestic demand. Inflation was 4.4% and the central bank reduced the cash reserve requirements and raised the key rate from 3.25% to 3.75%.

Public debt was 21% of GDP, one of the lowest in the region and the country has $61 billion of international reserves (more than 30% of GDP). The Peruvian nuevo sol depreciated 12% against the dollar.

Strategy

In this environment, business focused on corporate banking and the Group's global customers.

A closer relationship with customers and quality of service were priorities, taking advantage of synergies with other Group units. Our specialised auto finance company, created with an international partner with long experience in Latin America, participated in infrastructure projects as adviser and financial structurer and continued to consolidate its activity.

Activity

Lending rose 24% and deposits 18%, complemented by stable medium-term growth in funding.

Results

Pre-tax profit was €43 million (+52%), spurred by net operating income (+56%), which, in turn, was due to the improvement in efficiency (gross income: +46%; costs: +27%).

Loan-loss provisions increased 25%, with cost of credit of 0.69%.

The NPL ratio was 0.52% and coverage very high at 402%.

The rise in pre-tax profit did not fully feed through to attributable profit (+37%) due to higher taxes.

Activity

% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit

Constant € million

(*) In euros: +46.1%

Strategy in 2016

- Continue to increase lending to the corporate segment, global customers and large companies.
- Promote investment banking, offering advice for public infrastructure works via public and private sector link ups.

Colombia

- Banco Santander de Negocios Colombia began to operate in January 2014. The new bank has capital of $100 million and specializes in the corporate and business market, with a special emphasis on global customers, clients of the Group's International Desk and those local clients becoming more international.
- Its products are focused on investment banking and capital markets, transaction banking, treasury and risk coverage, foreign trade financing and working capital financing products in local currency, such as confirming.
- The Bank reached a point of equilibrium in 2015.

United States

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**6,116**	**4,789**	**1,327**	**27.7**	**6.8**
Net fee income	1,086	830	256	30.9	9.4
Gains (losses) on financial transactions	231	205	26	12.6	(5.9)
Other operating income*	367	156	211	135.6	97.0
Gross income	**7,799**	**5,979**	**1,820**	**30.4**	**9.0**
Operating expenses	(3,025)	(2,239)	(785)	35.1	12.9
General administrative expenses	(2,761)	(2,040)	(722)	35.4	13.2
Personnel	*(1,543)*	*(1,141)*	*(401)*	*35.1*	*13.0*
Other general administrative expenses	*(1,219)*	*(898)*	*(320)*	*35.7*	*13.4*
Depreciation and amortisation	(264)	(200)	(64)	32.0	10.3
Net operating income	**4,774**	**3,740**	**1,035**	**27.7**	**6.7**
Net loan-loss provisions	(3,103)	(2,233)	(870)	39.0	16.2
Other income	(148)	13	(161)	—	—
Profit before taxes	**1,523**	**1,520**	**3**	**0.2**	**(16.2)**
Tax on profit	(516)	(440)	(77)	17.4	(1.8)
Profit from continuing operations	**1,007**	**1,081**	**(73)**	**(6.8)**	**(22.1)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,007**	**1,081**	**(73)**	**(6.8)**	**(22.1)**
Minority interests	329	219	110	50.1	25.5
Attributable profit to the Group	**678**	**861**	**(183)**	**(21.3)**	**(34.2)**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	84,190	70,420	13,771	19.6	7.2
Trading portfolio (w/o loans)	2,299	5,043	(2,743)	(54.4)	(59.1)
Available-for-sale financial assets	19,145	12,737	6,408	50.3	34.8
Due from credit institutions**	3,901	3,460	441	12.7	1.1
Intangible assets and property and equipment	9,156	6,905	2,251	32.6	18.9
Other assets	11,892	9,469	2,423	25.6	12.6
Total assets/liabilities & shareholders' equity	**130,584**	**108,034**	**22,551**	**20.9**	**8.4**
Customer deposits**	60,115	51,304	8,811	17.2	5.1
Marketable debt securities**	23,000	16,000	7,000	43.8	28.9
Subordinated debt**	906	796	109	13.7	2.0
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	26,169	17,760	8,410	47.4	32.1
Other liabilities	9,073	10,543	(1,469)	(13.9)	(22.8)
Stockholders' equity ***	11,321	11,632	(310)	(2.7)	(12.7)
Other managed and marketed customer funds	**19,478**	**15,729**	**3,750**	**23.8**	**11.0**
Mutual and pension funds	7,123	3,621	3,502	96.7	76.4
Managed portfolios	12,355	12,107	248	2.0	(8.5)
Managed and marketed customer funds	**103,499**	**83,828**	**19,670**	**23.5**	**10.7**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	6.05	7.82	(1.77)		
Efficiency ratio (with amortisations)	38.8	37.5	1.3		
NPL ratio	2.13	2.42	(0.29)		
Coverage ratio	225.0	193.6	31.4		
Number of employees	18,123	16,687	1,436	8.6	
Number of branches	783	811	(28)	(3.5)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

United States (changes in dollars)

2015 Highlights

- **Continued investment to improve commercial activity and comply with regulatory requirements.**
- **Creating Intermediate Holding Company (IHC) and strengthening risk, capital and liquidity management.**
- **Santander Consumer USA kept up a strong pace in new lending and servicing. Focus will be in auto finance.**
- **All these actions have a temporary effect on revenues and costs, and largely justify the lower profit (-34%; -21% in euros).**
- **Good performance of loans, funds and revenues.**

Economic environment

The US economy grew a modest but solid pace (2.5%). Thanks to the improving economy, the unemployment rate fell on a sustained basis to 5% at the end of the year, a level regarded as full employment.

Inflation, however, remained low (1.3%) and at some distance from the Federal Reserve's target (set in terms of the underlying deflator of private consumption), which is 2%.

In this context, the Fed raised its interest rates at the end of the year, accompanied by a message indicating the interest rate profile outlook would be moderate.

Strategy

Santander in the US includes the holding company (SHUSA), Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International (BSI), Santander Investment Securities (SIS) and the Spanish Branch of Santander in New York.

Santander US continues to focus on several strategic priorities aimed at improving the Group's position and diversification in the US, including:

- A multiannual project to comply with regulatory requirements.
- Improve the governance structure, including the creation of Intermediate Holding Company (IHC).
- Create a local executive team with wide experience in managing financial institutions in the US.
- Improve the profitability of Santander Bank NA.
- Optimise the auto finance business of Santander Consumer USA.

During 2015 Santander US continued to strengthen its governance structure and executive teams and improve the risk management and control systems. This is part of the multiannual project to improve the bank and meet the regulatory requirements, including management of capital and stress tests in the US.

Santander Bank has focused on improving customer experience in order to boost number of clients and cross selling. Additionally, it launched initiatives in checking accounts and enhanced its digital capabilities, which led to 12% year-on-year in digital customers.

Loyal customers
Thousands

(*) Santander Bank

Digital customers
Thousands

(*) Santander Bank

Activity
% var. 2015 / 2014 (w/o FX)

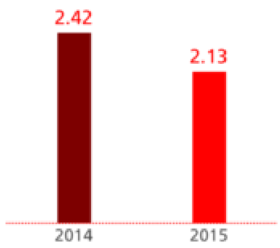
(*) Customer deposits + mutual funds

Attributable profit
Constant € million

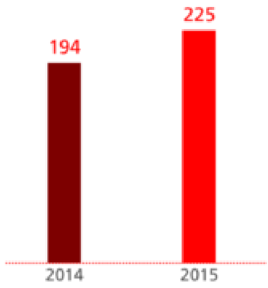
(*) In euros: -21.3%

Note. The annual growth includes a change in the loyal customers measurement methodology

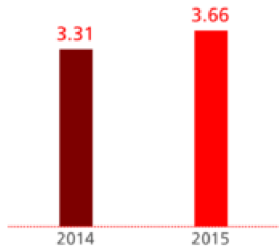
NPL ratio
%



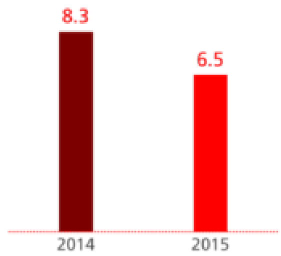
Coverage ratio
%



Cost of credit
%



RoTE
%



Santander Consumer USA was among the five largest retail auto finance companies. Its strategy centred on optimising the mix of assets retained versus sold, increasing servicing to third parties as a way to lift revenues through fee income, while materialising the value of the relationship with Chrysler.

The strategy in Puerto Rico focused on the customer relationship, with initiatives to digitise, simplify and personalise.

Activity

Santander Bank's lending rose 6% and its deposits 7%.

Most of the growth in lending came from credit to companies, both in the commercial and industrial segment, as well as in global corporate banking.

Funds growth was driven by core deposits, which is reflected in the cost of funding. Mutual funds rose 9%.

Santander Consumer's loans rose 11% and new lending 10%.

Results

Revenues performed well, with gross income up 9% due to Santander Consumer USA, as a result of a larger volume of new lending, which fuelled net interest income, as well as fee income from servicing. Santander Bank's net interest income was under pressure from lower than expected interest rates, which was offset by gains on financial transactions.

This performance, however, did not feed through to profits which were 34% lower at $752 million.

The fall was due to higher operating expenses derived from the growth of the servicing platform, regulatory requirements and one-off restructuring charges.

Loan-loss provisions also increased, mainly due to greater lending and loan retentions in Santander Consumer USA, which accounts for more than 95% of the country's provisions.

Lastly, the higher tax charge also dragged down profits.

Strategy in 2016

- Improve the customer experience and loyalty with knowledgeable and effective salesforce at Santander Bank through an easy to use product suite and multchannel capability.
- Santander Consumer USA focuses on auto finance activity to optimise the mix between retained and sold assetsand serviced for others, as well as realising the full value of the Chrysler Capital relatiionship.
- Continue to strengthen risk, capital and liquidity risk management in meeting regulatory requirements.

Corporate Centre

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**(627)**	**(612)**	**(15)**	**2.5**
Net fee income	(13)	(33)	20	(60.2)
Gains (losses) on financial transactions	150	700	(549)	(78.5)
Other operating income	(5)	(22)	17	(78.0)
Dividends	72	30	42	138.7
Income from equity-accounted method	(43)	(28)	(15)	55.2
Other operating income/expenses	(34)	(25)	(9)	38.2
Gross income	**(495)**	**32**	**(527)**	**—**
Operating expenses	(547)	(586)	39	(6.6)
Net operating income	**(1,042)**	**(554)**	**(488)**	**88.2**
Net loan-loss provisions	27	2	25	—
Other income	(507)	(453)	(55)	12.1
Underlying profit before taxes	**(1,523)**	**(1,004)**	**(518)**	**51.6**
Tax on profit	59	(148)	207	—
Underlying profit from continuing operations	**(1,464)**	**(1,152)**	**(312)**	**27.0**
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	**(1,464)**	**(1,152)**	**(312)**	**27.0**
Minority interests	30	(1)	31	—
Underlying attributable profit to the Group	**(1,493)**	**(1,151)**	**(342)**	**29.8**
Net capital gains and provisions	(600)	—	(600)	—
Attributable profit to the Group	**(2,093)**	**(1,151)**	**(942)**	**81.9**

Balance				
Trading portfolio (w/o loans)	2,656	2,916	(260)	(8.9)
Available-for-sale financial assets	3,773	3,299	475	14.4
Goodwill	26,960	27,547	(587)	(2.1)
Capital assigned to Group areas	77,163	75,030	2,133	2.8
Other assets	37,583	32,585	4,998	15.3
Total assets/liabilities & shareholders' equity	**148,136**	**141,377**	**6,759**	**4.8**
Customer deposits*	5,185	5,261	(75)	(1.4)
Marketable debt securities*	27,791	24,958	2,833	11.4
Subordinated debt*	9,596	4,107	5,489	133.6
Other liabilities	21,049	30,091	(9,041)	(30.0)
Stockholders' equity **	84,515	76,961	7,554	9.8
Other managed and marketed customer funds	**—**	**—**	**—**	**—**
Mutual and pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**42,572**	**34,325**	**8,246**	**24.0**

Operating means				
Number of employees	2,006	2,059	(53)	(2.6)

(*). Including all on-balance sheet balances for this item
(**).- Capital + reserves + profit + valuation adjustments

Corporate Centre

2015 Highlights

- **We have a Corporate Centre whose objective is to improve efficiency and contribute value-added for the operating units. It also carries out functions related to financial and capital management.**

- **In year-on-year terms, higher losses because of lower revenues from centralized management of the various risks (mainly interest rate risk).**

- **It includes the impact of the net of non-recurring positive and negative results of €600 million.**

Strategy and functions

Banco Santander subsidiaries' model is complemented by a corporate centre that has support and control units which carry out funtions for the Group in matters of risk, auditing, technology, human resources, legal affairs, communication and marketing, among others.

This centre contributes value to the Group in various ways:

- It makes the Group's governance more solid, through frameworks of control and global supervision, and taking strategic decisions.

- It makes the Group's units more efficient, fostering the exchange of best practices in management of costs and economies of scale. This enables us to be among the most efficent in the sector.

- By sharing best commercial practices, launching global commercial initiatives and driving digitization, the centre contributes to the Group's revenue growth.

It also develops functions related to financial and capital management:

- Functions developed by Financial Management:

  - Structural management of liquidity risk associated with funding the Group's recurring activity, stakes of a financial nature and management of net liquidity related to the needs of some business units.

  - This activity is carried out through diversifying the various sources of funding (issues and others), always maintaining an adequate profile (volumes, maturities and costs). The price at which these operations are conducted with other units of the Group is the market rate (euribor or swap) plus the premium which, in concept of liquidity, the Group supports by immobilizing funds during the term of the operation.

  - Also active management of interest rate risk to soften the impact of interest rate changes on net interest income, conducted via derivatives of high quality, high liquidity and low consumption of capital.

  - Strategic management of the exposure to exchange rates on equity and dynamic on the countervalue of the units' results in euros for the next 12 months. Net investments in equity are currently covered by €20,349 million (mainly Brazil, UK, Mexico, Chile, US, Poland and Norway) with different instruments (spot, fx, forwards).

  - Total management of capital and reserves: assigning capital to each of the units.

Lastly, and marginally, the corporate centre reflects the stakes of a financial nature that the Group makes under its policy of optimizing investments.

Results

We reformulated the centre's role in the Group, in order to improve the transparency and visibility of both the centre's accounts and the Group's, as well as the responsibility of the operating units. The centre generated 23% of the Group's profits in 2015, close to our target of 25%.

In year-on-year terms:

- Lower revenues due to reduced results from centralized management of the different risks (mainly interest rate risk).

- Costs were 7% lower, and were due to the streamlining of the corporation.

- Other results and provisions recorded losses of €507 million, up from €437 million in 2014. These amounts included provisions of different nature, as well as capital gains, capital losses and impairment of financial assets.

- The losses in 2015 were €1,493 million compared to €1,151 million in 2014. After including the impact of the net of non-recurring positive and negative results of €600 million, the total loss was €2,093 million.

Retail Banking

2015 Highlights

- The retail banking model continued to be transformed into an increasingly Simple, Personal and Fair model.
- Customer vision, developing specialised models, range of simple products and global offers.
- Further development of the multi-channel model, centred on digital channels.
- Progress in achieving our goals: 13.8 loyal customers and 16.6 digital customers.

Strategy and activity

Santander continued to make **significant progress during 2015 in its programme to transform its retail banking model.** The main elements are to improve the knowledge of our customers and their relations with the Bank, specialised management of each segment, develop more efficient distribution models, focused on digital channels, and capture the opportunities provided by the Group's international positioning. All of this under a Simple, Personal and Fair culture of service, aimed at excellence in customer satisfaction.

In order to deepen customer knowledge, we improved our analytical capacities. **A new commercial front was developed** in order to enhance business productivity and customer satisfaction. This tool, based on a best practice in Chile, was installed in Uruguay in 2015 and continued to be developed in the US with a mobility project

Levers for our commercial transformation

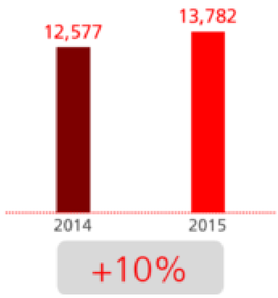
Retail Banking

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**30,029**	**27,699**	**2,330**	**8.4**	**7.2**
Net fee income	8,620	8,337	283	3.4	4.4
Gains (losses) on financial transactions	1,345	1,395	(50)	(3.6)	(6.2)
Other operating income*	365	258	107	41.5	31.5
Gross income	**40,359**	**37,689**	**2,670**	**7.1**	**6.2**
Operating expenses	(18,730)	(17,382)	(1,348)	7.8	7.1
Net operating income	**21,629**	**20,307**	**1,322**	**6.5**	**5.5**
Net loan-loss provisions	(9,249)	(9,740)	490	(5.0)	(4.9)
Other income	(1,751)	(1,386)	(365)	26.3	34.3
Profit before taxes	**10,629**	**9,181**	**1,448**	**15.8**	**12.2**
Tax on profit	(2,663)	(2,129)	(534)	25.1	21.1
Profit from continuing operations	**7,966**	**7,052**	**914**	**13.0**	**9.6**
Net profit from discontinued operations	—	(26)	26	(100.0)	(100.0)
Consolidated profit	**7,966**	**7,026**	**940**	**13.4**	**10.0**
Minority interests	1,112	1,032	80	7.7	6.9
Attributable profit to the Group	**6,854**	**5,994**	**860**	**14.4**	**10.5**

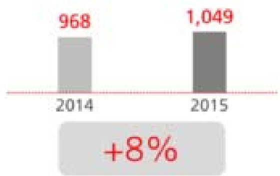
(*).- Including dividends. income from equity-accounted method and other operating income/expenses

Loyal customers
Thousands

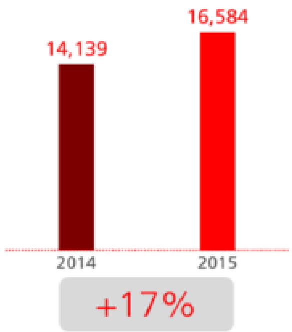


Retail loyal customers
Thousands

SMEs & corporate loyal customers. Thousands



Digital customers
Thousands



(tablet and transactional business), in Chile with the launch of *Neo Inversiones* and commercial planner, and in Brazil, with new functionalities offering continuous improvement. The tool will gradually be extended to other units during 2016.

In order to improve customer loyalty and long-term relations, different value propositions were launched and consolidated, among which were:

- ***The 1|2|3 World:*** following the success of the initiative in the UK, similar propositions were launched in 2015 in other countries and well received, such as in Portugal and Spain, which already has more than 800,000 accounts.

- **Integral offers launched in Chile** with propositions such as Planes Santander *LANPASS,* which rewards transactions and improves the benefits for customers, or in **Brazil**, the *Contas Combinadas,* which offer new solutions that simplify the value offer for individual customers and make choosing accounts easier:

- **Expansion of the *Select* model** for high-income clients. It is now installed in all countries and provides service to more than two million customers. The value propositions were improved and increased during 2015.

- **Strengthening private banking business,** with the Euromoney award for best private banking in 2015 in Argentina, Chile and Portugal, best private bank in Spain, Mexico and Portugal (Global Finance) and best private bank in Latin America and Portugal (The Banker).

- **Rolling out of the programme for SMEs** to make us the reference partner, combining a very attractive financial offer with non-financial solutions (connectivity, internationalisation, training, etc). The programme was extended to Uruguay, Argentina, Brazil and Chile in 2015, bringing the number of countries to eight.

We continued to advance in developing our distribution models *focused on digital channels*, which produced significant improvements in various channels. Some examples:

– New app for mobile phones in Spain (aimed at SMEs and companies), Portugal, Uruguay and Poland (chosen by Forrester as the country's best app and the second in Europe).

– New developments and functionalities for mobile phones in the UK such as *Cash KiTTi* (which lets people create and manage collective pots of money) and *Spendlytics* (which gives customers better control over their card expenses).

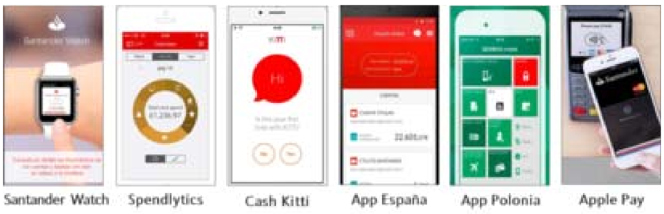
– *Deposit Capture* in the US, which enables cheques to be easily and safely processed by mobile phone.

– *Santander Watch* in Spain, which lets customers consult their accounts and cards from smart watches.

– Santander UK among the first group of banks participating in *Apple Pay* in the UK.

– Simplification of credentials in Mexico, which allows access to various digital channels from a single password.

Digital initiatives



Futur branche

– New office model in Spain and Brazil, which offers simpler processes, more intuitive technology and differentiated spaces.

In recognition of our digital channel proposal, the magazine Global Finance awarded our bank in Chile the prize for the best Latin American website for financial products and payment of accounts, while Santander Rio was awarded the prize for the best online bank in Argentina.

We continued to support the internationalisation of our corporate customers, taking advantage of the Group's synergies and international capacities, via a coordinated plan of initiatives focused on two elements:

1. Ensuring a consistent and homogenous relationship with our customers via all our local units:

– *International Desk,* now in 12 countries and with more than 8,000 registered customers, which provides services to companies that want to enter markets where we operate.

– *Santander Passport,* specialised attention model for companies with multinational activity, which offers global management and the same attention in all the countries where the Group operates. It already has more than 6,000 registered customers and is installed in eight countries.

2. Connecting up our customers and capturing international commercial flows:

– *Santander Trade Portal,* which provides information, tools and resources to help companies grow their business abroad. It is already available in 12 countries and has registered more than 35,000 exporter and importer users.

– *Santander Trade Club,* innovative platform that lets customers from different countries get in touch with one another and start commercial relations. There are already more than 10,000 members.

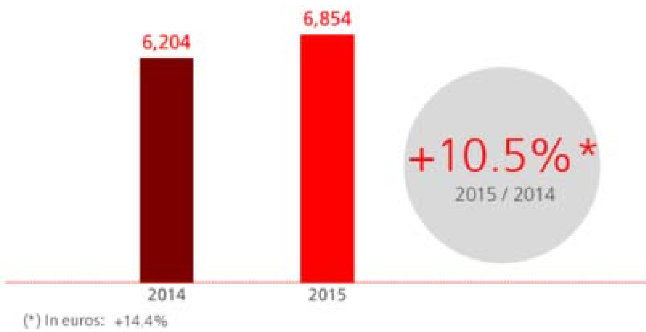
Lastly, we continued to improve the customer experience, focusing on the most common processes when relating to the Bank. Of note were the improvements in *Onboarding* (opening and activating accounts): in Brazil and the UK, with immediate activation in electronic channels, in Portugal, with the incorporation of the digital signature and in Poland, with the complete process of opening done remotely.

Results (in constant euros)

Ordinary attributable profit was €6,854 million (+10%).

This evolution was spurred by the good performance of gross income (+6% year-on-year, driven by net interest income). Operating expenses were 7% higher (+1% excluding perimeter and in real terms) and loan-loss provisions were 5% lower.

Attributable profit
Constant € million



Strategy in 2016

- Continue to improve processes and the customer experience and satisfaction.
- Develop more efficient distribution models: digital banking, new branch model, remote manager.
- Consolidate specialised attention to each type of customer.
- Place value on our connectivity.
- Expand our culture of service: Simple|Personal|Fair.

Global Corporate Banking

2015 Highlights

- **Customer-focused strategy, underpinned by the division's global capacities and its interconnection with local units.**
- **Reference positions in export finance, corporate loans, project finance and issues, among others, in Europe and Latin America.**
- **Attributable profit of €1,625 million, 2% more in constant euros.**
- **Positive evolution in revenues and higher provisions and costs due to investments to develop the franchise.**

Strategy

SGCB maintained in 2015 the key pillars of its business model, focused on the customer, the division's global capacities and its interconnection with local units, while actively managing risk, capital and liquidity.

The main lines of action were:

- In optimisation of capital, SGCB has well-defined objectives in capital and return on capital at the division level, and by countries, products and clients. The return on capital is one of the main criteria for approving operations. In addition, improvements were made during the year to the capital models and the quality of data of operations was reviewed.
- The creation of a new area to promote the model of origination for distribution. Asset Rotation and Capital Optimisation (ARCO) is a global structure that provides service to various countries in order to improve the profitability of our business through optimisation of capital and rotation of the balance sheet, thereby strengthening a model lighter in capital.
- The strengthening of our leadership position in Latin America, mainly in equity capital markets, debt capital markets, cash management and Latin American currencies.
- Greater cooperation with Retail Banking, developing a wide range of products adapted to the needs of various segments and facilitating greater connectivity between its clients and the Group's banks (participation in chain of supply operations, financing suppliers, payroll, etc).

Global Corporate Banking

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**2,830**	**2,481**	**348**	**14.0**	**17.1**
Net fee income	1,425	1,392	33	2.4	2.5
Gains (losses) on financial transactions	739	747	(9)	(1.2)	(4.9)
Other operating income*	277	302	(25)	(8.3)	(8.2)
Gross income	**5,271**	**4,923**	**348**	**7.1**	**7.9**
Operating expenses	(2,058)	(1,841)	(218)	11.8	10.0
Net operating income	**3,212**	**3,082**	**130**	**4.2**	**6.5**
Net loan-loss provisions	(679)	(543)	(136)	25.0	28.8
Other income	(93)	(102)	9	(9.2)	(10.0)
Profit before taxes	**2,441**	**2,437**	**4**	**0.2**	**2.3**
Tax on profit	(695)	(667)	(29)	4.3	7.2
Profit from continuing operations	**1,746**	**1,771**	**(25)**	**(1.4)**	**0.5**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,746**	**1,771**	**(25)**	**(1.4)**	**0.5**
Minority interests	121	146	(25)	(17.1)	(12.8)
Attributable profit to the Group	**1,625**	**1,625**	**0**	**0.0**	**1.7**

(*).- Including dividends. income from equity-accounted method and other operating income/expenses

Activity

Of note, among others, were:

- In **trade finance,** substantial progress in export finance which positioned Santander as the second best bank in the business, with strong growth in the last few years both in our main countries as well as in new markets.

  Strong positioning and growth in trade business, as confirmed by specialised media (Best Trade Finance Bank in Latin America, Best Trade Finance in Spain, Portugal, Chile and Mexico).

- **Cash management** business continued to increase in all countries and particularly in Latin America, where Santander is the reference bank.

- In **syndicated corporate loans,** we maintained a reference position in Europe and Latin America, accompanying our clients in the development of their businesses and expansion plans.

  Of particular note was Santander's participation in the acquisition of SAB Miller by AB Inveb, the largest such operation in corporate history ($107,000 million).

- In **corporate finance,** strong rise in activity in Spain and Portugal in equity capital markets, including Santander's participation in the listing of AENA and Ferrari and the capital increases of Telefónica in Brazil, Vesta in Mexico, Compañía Sudamericana de Vapores in Chile and Credit Suisse.

- In **debt capital markets,** Santander is the leader in Latin America with the fullest range of products and covering both local and cross-border needs.

  In Europe, success in liability management and hybrid capital transactions, Santander's key role in Iberdrola (global coordinator and tender agent) and in LafargeHolcim (largest operation of European issuers with $2,250 million).

  Of note in hybrid capital was participation in transactions of RBS, Barclays and HSBC, among others.

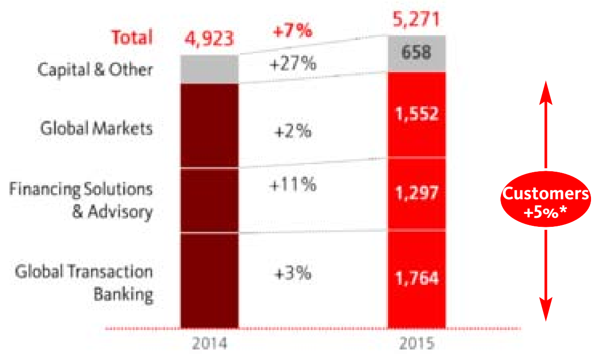
- In **project finance,** Santander was at the top of the world league tables in both the number of transactions as well as in volumes of financing, financial advisory services and issues of project bonds. It led transactions such as Line 2 of the Lima Metro, which was the largest placement of debt in the international markets to finance a project in Peru ($1,155 million). Santander was the financial advisor to the consortium, global coordinator and financial advisor for the placement of the project bonds.

- **Asset & capital structuring** continued to support its clients in developing their international projects in asset finance operations for ships and aircraft in various countries: Spain, Asia and the Middle East. Of note was the operating lease of aircraft for Singapore Airlines and All Nippon Airways, as well as financial leasing operations of ships for clients such as Tristar, Shell Singapore, Elcano and Voestalpine.

- As regards **markets'** activity, good results with positive evolution of income from sales business, especially in the corporate segment with strong growth in the Americas, particularly Brazil, and the UK. Lower contribution, on the other hand, from management of books.

Gross income breakdown

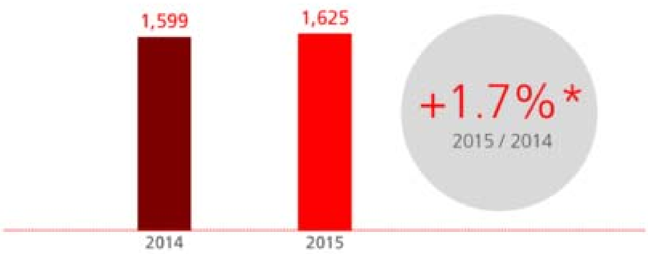
€ Million



(*) Excluding exchange rate impact: total revenues: +8%; customers: +5%

Attributable profit

Constant € million



(*) In euros: 0.0%

Results (in constant euros)

SGCB's results were fuelled by the strength and diversification of customer revenues (88% of the total).

The area accounted for 12% of gross income and 19% of the attributable profit of the Group's operating areas.

Gross income grew 8% in 2015, with growth in all products. Global Transaction Banking increased 5% against a backdrop of containment of spreads and low interest rates, financing solutions and advisory 9%, reflecting the soundness of the various businesses, and global markets 1% (good performance in the Americas, Spain and Portugal).

Operating expenses rose due to the investments in high potential markets, particularly the UK and Poland, and loan-loss provisions increased, mainly in Brazil.

Ranking in 2015

	Activity	Area	Country / region	Source
Award	Equity Follow-On of the Year: Telefonica Brazil BRL16,1 bn	CIB	America	Latin Finance
Award	European Infrastructure Deal of the Year: Thames Tideway	FS&A	Europe	PFI
Award	Europe Loan: Imperial Tobacco	FS&A	Europe	The Banker
Award	Americas Deal of the Year: Lima metro Line 2	FS&A	America	PFI
Award	Corporate High Yield Bond: Cemex	FS&A	America	Latin Finance
Award	Best Infrastructure Bank in Mexico	FS&A	Mexico	Latin Finance
Award	Best Overall Trade Bank in Latam	GTB	Latam	Trade Finance
Award	Best Export Finance Arranger in Latam	GTB	Latam	Trade Finance
Award	Best Commodity Finance Bank in Latam	GTB	Latam	Trade Finance
Award	Best Supply Chain Finance Bank in Latam	GTB	Latam	Trade Finance
Award	Best Trade Advisor in Latam	GTB	Latam	Trade Finance
Award	Best Trade Bank in Latam	GTB	Latam	TFR
Award	Best Trade Bank in Latam	GTB	Latam	GTR
Award	Best Bank for Emerging Latam	Global Markets	Latam	FX Week
Award	Top quartile for Pan-European product	Global Markets	Europe	Institut, Investor survey
N1.	Best Broker Spain and Portugal: Sales. Research. Trading & Execution. Company & Expert Meetings	Global Markets	Iberia	Extel Survey
N1.	Equity House of Equity Derivatives in Spain	Global Markets	Spain	Risk

(*).- Ranking according to survey selection criteria

(GTB) **Global Transaction Banking:** includes the business of cash management. trade finance. basic financing and custody.

(FS&A) **Financing Solutions & Advisory:** includes the units of origination and distribution of corporate loans and structured financings. bond and securitisation origination teams. corporate finance units (mergers and acquisitions. primary markets of equities. investment solutions for corporate clients via derivatives). and asset & capital structuring.

(GM) **Global Markets:** includes the sale and distribution of fixed income and equity derivatives. interest rates and inflation; the trading and hedging of exchange rates. and short-term money markets for the Group»s wholesale and retail clients; management of books associated with distribution; and brokerage of equities. and derivatives for investment and hedging solutions.

Strategy in 2016

- In 2016, SGCB will keep on focusing its strategy on the six pillars of its value proposal: maintain its capacity of origination, structuring and credit distribution; leadership in aquisition finance, structured credit and project finance; be the reference bank in access to capital markets in euros and sterling: maintain its presence as international trade finance bank; knowledge of Latin American markets and contribute solutions and product distribution for Retail Banking.
- Efficient use of capital will continue to be one of the key elements of business, both from the standpoint of optimisation initiatives as well as the gradual change toward a business model lighter in capital.
- Promote accompanying our clients in their international expansion, in cooperation with the commercial banking division (Connectivity Project). This project includes various initiatives to improve our strength as an international bank with a large network of local banks.
- Innovation to adapt to the needs of our customers and face the new non-banking players who are seeking to position themselves in part of the value chain.

5

Risk Management Report

Executive summary

Pillars of the risk function

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Grupo Santander is focused on building the future through forward-looking management of all risks, protecting the present through a robust control environment.

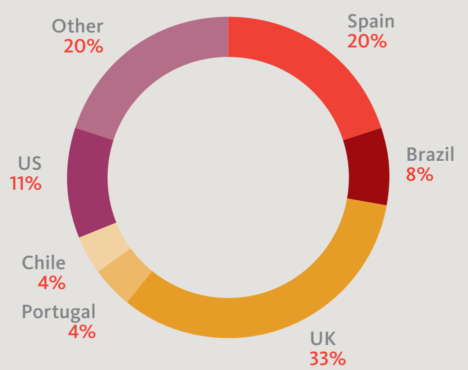
- Integration of the risks culture and involvement of senior management in risk decisions and management.
- Management of all risks with a forward-looking and comprehensive vision at all levels of the organisation.
- Separation of risk functions from business functions.
- Formulation and monitoring of the risk appetite, use of scenario analysis with advanced models and metrics, establishing a control, reporting and escalation framework for identifying risks.
- Best in class for processes and infrastructure.

On-going improvement in credit risk profile

páginas de 199 a 229

Customer credit risk by country

%

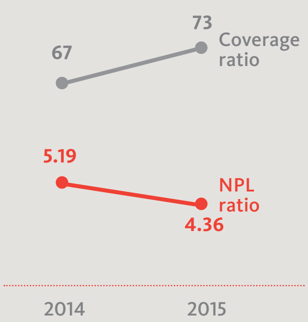


- Over 80% of risk relates to retail banking.
- Significant geographic and sector diversification.
- Continuing improvement in main credit quality indicators, which at December 2015 stood at:
  - Group NPL ratio 4.36%, down 83 b.p. on the previous year, with noteworthy reductions in Spain, Poland, SCF and Brazil.
  - Coverage ratio of 73%, up 6 p.p. on year-end 2014.
  - Provisions of EUR 10,108 million, with main reductions in the UK, Spain, Portugal and Poland.
  - Falling cost of credit, down to 1.25%. A fall of 41 b.p in Brazil to 4.50%, supported by the strategy of changing the mix and launch of the Defence Plan.

Main figures

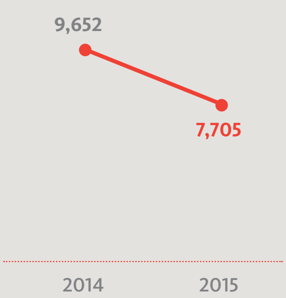
NPL and coverage ratio

%



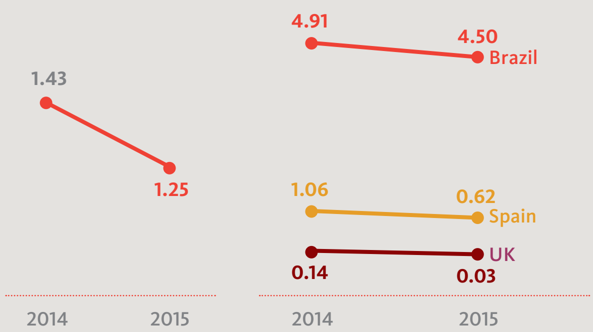
Net inflows

Million euros



Cost of credit[1]

%



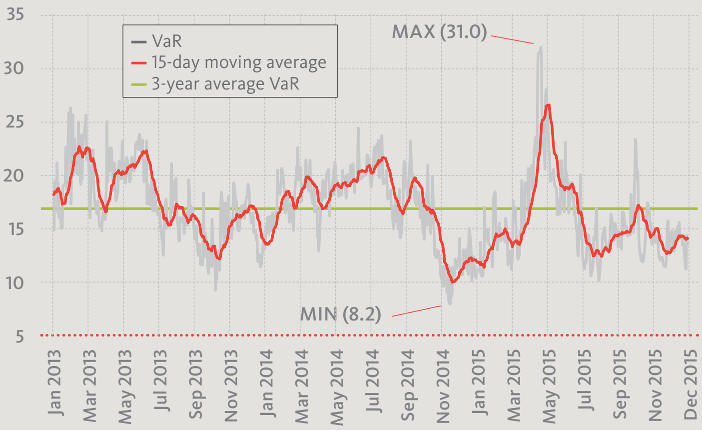
1. Cost of credit = loan-loss provisions twelve months / average lending.

Trading market risk and structural risks

pages 230 to 249

VaR 2013-2015: change over time

Million euros. VaR at 99% confidence interval over a one day horizon

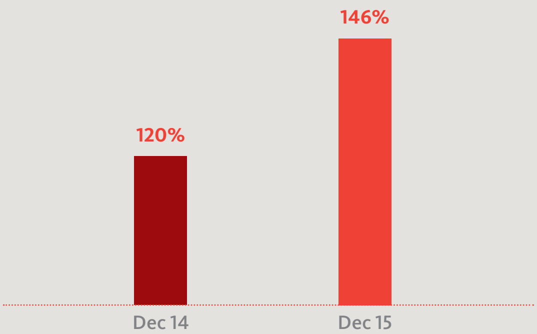


- The average VaR on SGCB trading activity remained low, due to our focus on customer service and geographic diversification.
- An appropriate balance sheet structure ensures that the impact of changes in interest rates on net interest income and equity value are contained.
- Coverage levels for the core capital ratio stand at around 100% for changes in interest rates.

Liquidity risk and funding

pages 250 to 260

Short-term liquidity coverage ratio (LCR)



- Santander has a comfortable liquidity position, based on its commercial strength and model of autonomous subsidiaries, and substantial customer deposits.
- Compliance with regulatory requirements (LCR 146%) ahead of schedule, with a further increase in the Group's liquidity reserve to EUR 258,000 million.
- The loan-to-deposit ratio remains at very comfortable levels (116%).
- More favourable market scenario, with abundant liquidity at lower costs and increased recourse to medium and long-term wholesale finance in 2015: 18 issuing units in 15 countries and 14 currencies.

Non-financial risks

pages 261 to 276

Operational risk

- Transformation project for the advanced measurement approach to risk.
- Fostering measures against cyber-risk (Santander Cyber-Security Program) and fraud and to bolster information security.
- Fostering awareness and knowledge of operational risk at all levels of the organisation.

Compliance and conduct risk

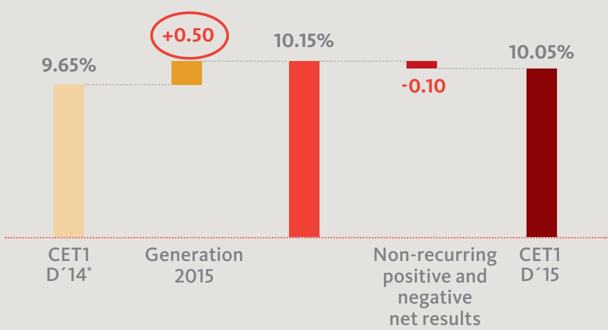
- Increasing supervisory pressure, particularly for conduct.
- New scope for the definition of conduct, and new implications in the context of stress testing.
- New customer protection supervisors in various countries.
- Updating social and environmental policies, laying out the principles and criteria for action in financing to certain customer segments in the Group

Regulatory capital

pages 281 to 289

Evolution of fully loaded CET1

%



* The 2014 proforma figure includes January 2015 capital increase.

- The CET1 ratio stands at 10.05%, in line with the Group´s outlook for organic growth, and above the ECB's required level for 2016 of 9.75%.

This report contains extensive information on the risks faced by the Group, how it manages and controls these, and the way they affect its activity and results. The report also provides details of the actions taken by the entity to minimise the occurrence of such risks and mitigate their severity.

Following best practice in the market, the following navigation map helps to follow the main issues dealt with in this risk management report through the various documents the Group publishes: the annual report, the audit report, the annual financial statements and the prudential relevance report (PRI or Pillar III). To further foster transparency, the PRI also includes a glossary of the basic risk terminology used in this section and the PRI itself.

The appendix at the end of the risk report includes a table detailing the location of the EDTF recommendations (Enhanced*Disclosure Task Force,* promoted by the Financial Stability Board) in the information published by Grupo Santander.

Map for navigating Grupo Santander's documents with risk management and control information

Block	Points	Annual Report	Audit Report & Annual accounts	IPR (Pillar III)
Risk function pillars	Risk function pillars	Page 180	Note 54.a	Section 5
Risk control and management model	Map of risks	Page 182	Note 54.b	Section 5
	Risk governance	Page 183		
	Lines of defence	Page 183		
	Risk committees structure	Page 183		
	Structural organisation of the risk function	Page 184		
	The Group's relationship with subsidiaries in risk management	Page 185		
	Management processes and tools	Page 185		
	Risk appetite and structure of limits	Page 186		
	Risk Identification Assessment (RIA)	Page 188		
	Analysis of scenarios	Page 189		
	Recovery and resolution plans	Page 190		
	Risk Data Agreggation and Risk Reporting Framework (RDA & RRF)	Page 191		
	Risk culture	Page 192		
Background and upcoming challenges	Background and upcoming challenges	Page 194		Sections 2 and 5
Credit risk	Introduction to the treatment of credit risk	Page 199	Note 54.c and other notes and related information	Section 6
	Main magnitudes and evolution (risk map, evolution, conciliation, geographic distribution and segmentation, management metrics)	Page 200		
	Detail of main markets: UK, Spain, Brazil	Page 208		
	Other risk credit risk optics (credit risk by activities in financial markets, concentration risk, country risk, sovereign risk and social and environmental risk)	Page 216		
	Credit risk cycle (pre-sale, sale and post sale)	Page 224		
	Risk study and process of credit rating, and planning and setting of limits (analysis of scenarios)	Page 224		
	Decision on operations (mitigation techniques of credit risk)	Page 226		
	Monitoring, measurement and control	Page 227		
	Recovery management	Page 228		
Trading market risk and structural risk	Activities subject to market risk and types of market risk	Page 230	Note 54.d and other notes and related information	Section 8
	Trading market risks	Page 232		
	Main magnitudes and evolution	Page 232		
	Methodologies	Page 241		
	System for controlling limits	Page 243		
	Structural risk balance sheet	Page 244		
	Main magnitudes and evolution	Page 244		
	Methodologies	Page 247		
	System of control of limits	Page 248		
	Pension and actuarial risks	Page 248		
Liquidity risk and funding	Introduction to the treatment of liquidity and funding risk	Page 250	Note 54.e and other notes and related information	Section 9
	Liquidity management (organisational model and governance, balance sheet analysis and measurement of liquidity risk, Management adapted to business needs)	Page 250		
	Financing strategy and evolution of liquidity in 2015	Page 254		
	Funding outlook for 2016	Page 260		
Operational risk	Definition and objectives.	Page 261	Note 54.f and other notes and related information	Section 10
	Risk management model and control of operational risk (management cycle, identification model, measurement and risk assessment, implementation of the model, reporting system)	Page 261		
	Evolution of the main metrics. Mitigation measures. Business continuity plan	Page 265		
	Other aspects of control and monitoring of operational risk	Page 268		
Compliance and conduct risk	Mission, scope, definitions and purpose	Page 270	Note 54.g and other notes and related information	Section 11
	Compliance risk control and supervision	Page 270		
	Governance and the organisational model	Page 271		
	Regulatory compliance	Page 272		
	Governance of products and consumer protection	Page 274		
	Anti-money laundering and terrorist financing	Page 275		
	Reputational risk	Page 275		
	Regulatory risk assessment model and risk appetite and exercise	Page 276		
Model risk	Model risk	Page 277	Note 54.h	
Strategic risk	Strategic risk	Page 280	Note 54.i	
Capital risk	Regulatory framework	Page 282	Note 54.j and other notes and related information	Section 4
	Regulatory capital	Page 283		
	Economic capital	Page 286		
	Planning of capital and stress test exercices	Page 287		
Appendix: EDTF transparency	EDTF table of recommendations	Page 290		Section 3

A. Pillars of the risk function

Grupo Santander has set itself the target of achieving excellence in risk management. Throughout its 150 year history, risk management has always been a priority for the Group. In 2015, major progress has been made to anticipate and to meet the big challenges faced against a constantly shifting economic, social and regulatory background.

This means that the risk function is now more crucial than ever for Grupo Santander, as it enables it to be a solid, secure and sustainable bank.

Grupo Santander is focused on building the future through a forward-looking management of all risks, while safeguarding the present through a robust control environment. Thus, its policy is that the risks function is based on the following pillars, which are aligned with the Santander Group's strategy and business model, that take on board the recommendations of supervisory bodies, regulators and best market practices:

1. The business strategy is defined by the risk appetite. The board of Grupo Santander determines the quantity and type of risk it considers reasonable to assume in the execution of its business strategy and to create targets that are objective, comparable and consistent with the risk appetite for each key activity.

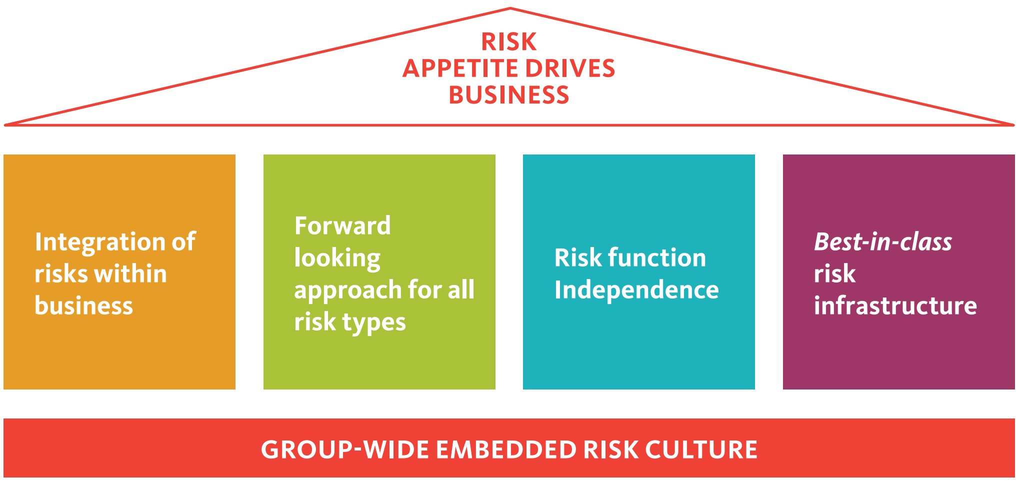
2. All risks have to be managed by the units which generate them using advanced models and tools and integrated in the different businesses. Grupo Santander is promoting advanced risk management using models and innovative metrics, and also a control, reporting and escalation framework in order to pinpoint and manage risks from different standpoints.

3. The forward-looking approach for all risk types must be part of the risk identification, assessment and management processes.

4. The independence of the risk function encompasses all risks and provides an appropriate separation between the risk generating units and units responsible for controlling these risks. It implies that the risk function should also have sufficient authority and direct access to management and governance bodies which are responsible for establishing and overseeing risk strategy and policies.

5. Risk management has to have the best processes and infrastructures. Grupo Santander aims to be a benchmark model in developing risk management support infrastructure and processes.

6. A risk culture which is integrated throughout the organisation, composed of a series of attitudes, values, skills and guidelines for action to cope with all risks. Grupo Santander believes that advanced risk management cannot be achieved without a strong and steadfast risk culture which is found in each and every one of its activities.



B. Risk control and management model - *Advanced Risk Management*

The model of managing and controlling risks ensures the risk profile is maintained within the levels set by the risk appetite and the other limits. It also incorporates the adoption of the necessary corrective and mitigation measures to maintain risk levels in line with the defined objectives.

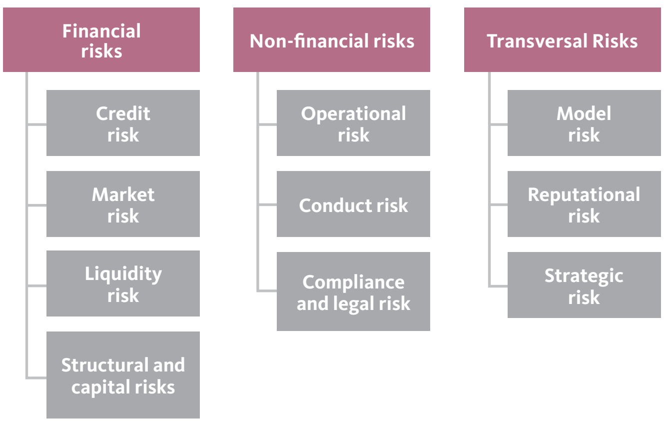
In 2014, the Group launched the **Advanced Risk Management (ARM) programme**, which is mainly aimed at helping to the Group's shift towards advanced management, laying down the foundations to have the best enterprise wide risk management model in the financial industry.

Through the roll-out of ARM in 2015 in all the Group units, progress has been made in strategic projects already under way such as the Risk Data Aggregation/Risk Reporting Framework (RDA/RRF), evolving the risk appetite, bolstering the control environment through governance of the risk function, and in developing new initiatives such as model risk management or Advanced Operational Risk Management (AORM), inter alia. The programme is also helping to reinforce the risk culture which is still one of the Group's hallmarks.

The elements enabling adequate management and control of all these risks derived from Grupo Santander's activity are set out below.

B.1. Map of risks

Identifying and evaluating all risks is a corner stone for controlling and managing risks. The risks map covers the main risk categories in which Grupo Santander has its most significant exposures, current and/or potential, facilitating this identification.



The first level includes the following risks

Financial risks

- **Credit risk:** risk of loss derived from non-compliance with contractual obligations agreed in financial transactions.
- **Market risk:** that incurred as a result of the possibility of changes in market factors that affect the value of positions in the trading book.
- **Liquidity risk:** risk of not complying with payment obligations on time or doing so with an excessive cost.
- **Structural and capital risks:** risk occasioned in the management of the various balance sheet items, including those concerning sufficient equity levels and those resulting from insurance and pension activities.

Non-financial risks

- **Operational risk:** risk of losses resulting from inadequate or failed processes, people and internal systems, or from external events.

- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered and their adequacy for each specific customer.

- **Compliance and legal risk:** risk owing to the breach of the legal framework, norms or regulators' and supervisors' requirements.

Transversal risks

- **Model risk:** consists of losses arising from decisions mainly based on results of models, due to errors in the design, application or usage of such models.

- **Reputational risk:** risk of damages to the way the bank is perceived by public opinion, but its clients, investors or any other interested party.

- **Strategic risk:** risk that results are significantly removed from the entity's strategy or business plan due to changes in the general rules of business and risks associated to strategic decisions. It includes the risk of badly implementing decisions or the lack of response capacity to changes in the business environment.

All risk should be referenced to the basic risk categories established in the Risk Map, in order to organise its management, control and related information.

B.2. Risk governance

In 2015, governance of the risk function was updated and reinforced, by including the best international practices, in order to strengthen the Group's corporate governance. The responsibilities of the different committees have been defined more clearly, separating risk decision-making and management units which take part in business functions from those responsible for risk control.

The governance of the risk function should safeguard adequate and efficient decision-taking and the effective control of risks, and ensure that they are managed in accordance with the risk appetite defined by the Group's Top Management and by the units, if applicable.

For this purpose, the following principles are established:

- Segregation between risk decision-taking and control.

- Stepping up the responsibility of risk generating functions in the decision making process.

- Ensuring that all risks decisions have a formal approval process.

- Ensuring an aggregate overview of all risk types.

- Bolstering the risk control committees.

- Maintaining a simple committees structure.

B.2.1. Lines of defence

Banco Santander's management and control model is based on three lines of defence.

The business functions or activities that create exposure to a risk are the first line of defence. The acceptance or generation of risk in the first line of defence should be adjusted to appetite and the limits defined. In order to tend to this function, the first line of defence must have the resources to identify, measure, manage and report the risks assumed.

The second line of defence consists of the risk control and oversight function and by the compliance function. This line vouches for effective control of the risks and ensures they are managed in accordance with the level of risk appetite defined.

Internal audit is the third line of defence and as the last layer of control in the Group regularly assesses the policies, methods and procedures to ensure they are adequate and are being implemented effectively.

There is a sufficient degree of segregation between the risk control function, the compliance function and the internal audit function, and also between them and other functions which control or supervise them, to ensure that their functions are performed and that they have access to the board of directors and/or its committees through their heads.

B.2.2. Risk committees structure

Ultimately, the board of directors is responsible for risk control and management, and, in particularly, for setting the risk appetite for the Group, and it can delegate its powers to committees. The board uses the risk supervision, regulation and compliance committee (Board Risk Committee, BRC), as an independent risk control and oversight committee. The executive committee of the Group also pays special attention to managing the Group's risks.

The following bodies form the highest level of risk governance.

Bodies for independent control

Board Risk Committee:

The purpose of this committee is to assist the board in the sphere of risk supervision and control, define the Group's risk policies, relations with the supervisory authorities and matters of regulation and compliance, sustainability and corporate governance.

It is made up of external non-executive directors (mostly independent ones) and is chaired by an independent director.

The functions of the board risk committee are:

- Support and advise the board in defining and assessing the risk policies that affect the Group and in determining the risk propensity and risk strategy.

- Provide assistance to the board for overseeing implementation of the risk strategy and its alignment with strategic commercial plans.

- Systematically review the exposures with the main clients, economic sectors, geographic areas and types of risk.

- Know about and assess management tools, ideas for improvement, the progress in projects and any other relevant activity relating to risk control over the course of time, including the internal risk model policy and its internal validation.

- Support and advise the board as regards supervisors and regulators in the various countries where the Group operates.

- Oversee compliance with the general code of conduct, of the anti-money laundering and combating terrorism financing manuals and procedures, and, in general, for the rules of governance and the Company's compliance programme, and make proposals necessary for improvement. In particular, it is the committee's responsibility to receive information and, where necessary, issue reports on the disciplinary measures for senior management.

- Supervise the Group's policy and rules of governance and compliance and, in particular, adopt the actions and measures that results from the reports or the inspection measures of the administrative authorities of supervision and control.

- Monitor and assess the proposed regulations and regulatory developments that result from their implementation and the possible consequences for the Group.

Risk control committee (RCC):

This collegiate body is responsible for the effective control of risks, ensuring they are managed in accordance with the level of risk appetite approved by the board, permanently adopting an all-inclusive overview of all the risks included in the general risk framework. This duty implies identifying and tracking both current and emerging risks, and gauging their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) of the Group and is made up of Bank senior management. The risk function, which chairs the committee, and the compliance, financial accounting and control and risk control are represented, at least. The CROs of local entities will take part in the committee meetings on a regular basis in order to report on the risk profile of the different interiorised, as well as other tasks.

The risk control committee reports to the board risk committee and assists it in its function of supporting the board.

Decision making bodies

Executive risk committee (ERC):

This collegiate body is responsible for risk management, due to the powers assigned to it by the board of directors, and, within its field of action and decision making, it addresses all matters relating to risks.

It takes part in risk decision making at the highest level, ensuring that risk decisions are within the limits set out in the Group's risk appetite, and it reports its activity to the board or its committees whenever it is required to do so.

This committee is chaired by an executive vice president of the board, and includes the chief executive officer, executive directors, and other directors of the entity. The risk function, financial function and compliance function, inter alia, are represented. The CRO of the Group has a right to veto the decisions taken by this committee.

B.2.3. Structural organisation of the risk function

The Group Chief Risk Officer (GCRO) is responsible for the risk function and reports to the Bank's executive vice-chairman, who is a member of the board of directors and chairman of the executive risk committee.

The GCRO advises and challenges the executive line and also reports independently in the risk, regulatory and compliance committee and to the board.

Advanced risk management has a holistic and forward-looking approach to risks, based on intensive use of models, designed to build up a solid control environment while also complying with the regulator's and supervisor's requirements.

The **risk management and control model is structured** on the following pillars:

- Coordination of the relationship between the local units and the Corporation, assessing the effective deployment of the risk management and control framework in each unit and ensuring they are aligned to achieve strategic risk targets.

- Enterprise Wide Risk Management (EWRM) provides a consolidated oversight of all risks to the senior management and the Group's governance bodies, and the development of the risk appetite and the risk identification and assessment exercise. It also develops risks relations with supervisors and regulators.

- Control of financial, non-financial and transversal risks (see the map of risks in section B.1. Map of risks), verifying that management and exposure by type of risk is in line with what senior management establishes.

- Development within the scope of risk of the policy, methodologies, scenario analyses, stress tests and data infrastructure, and robust risk governance.

B.2.4. The Group's relationship with subsidiaries in risk management

Regarding the alignment of units with the corporation
The management and control model shares, in all the Group's units, basic principles via corporate frameworks. These frameworks are established by the Group, and the local units adhere to them through their respective boards of directors, shaping the relations between the subsidiaries and the Group, including the role played by the latter in taking important decisions by validating them.

Over and above these principles and basics, each unit adapts its risk management to its local reality, in accordance with corporate frameworks and reference documents provided by the Corporation, so creating a recognisable risk management model in Grupo Santander.

One of the strengths of this model is the adoption of the best practices developed in each of the units and markets in which the Group operates. The corporate risk divisions act as centralisers and conveyors of these practices.

Furthermore, the Santander Group-Subsidiary Governance Model and good governance practices establishes regular interaction and functional reporting by each local CRO to the GCRO, and also stipulates that the Group must take part in the process of appointing, setting targets, assessment and remuneration of those local CRO, all in order to ensure risks are adequately managed in the Group.

Regarding the structure of committees
The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommends that each subsidiary should have a statutory risk committee and also an executive risk committee, chaired by the CEO, in keeping with the best corporate governance practices, and homogeneous to those already in place in the Group.

The governance bodies of the subsidiary entities are structured in accordance with the local regulatory and legal requirements and the dimension and complexity of each subsidiary, being coherent with those of the parent company, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

The administration bodies of the subsidiaries, in accordance with the internal governance framework established in the Group, will define their own model of risk powers (quantitative and qualitative). These local models of assigning powers must follow the principles contained in the reference models and frameworks developed at the corporate level.

Given its capacity of comprehensive (enterprise wide) and aggregated vision of all risks, the Corporation will exercise a role of validation and questioning of the operations and management policies in the various units, insofar as they affect the Group's risk profile.

B.3. Management processes and tools

Risk appetite

- **Significant improvement in metrics** with the greatest granularity and inclusion of new capital, liquidity, and structural and operational risk metrics
- Significant **extension** of the **risk appetite culture** and **governance**

Risk identification and Assessment (RIA)

- More **robust** and **systematic risk profile assessment**
- Approach based on:
  - risk performance
  - assessment of the control environment
  - identification of potential risks

Recovery and resolution plans

- **Adaptation** to new **international guidelines**
- **New crisis management model**

Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

- **Compliance** with the **principles** of **BCBS239*** for effective risk data aggregation and risk reporting
- **Structural** and **operational improvements** to enhance reporting of **all risks** at **all levels**

Analysis of scenarios

- Make strategic planning more robust by **challenging** the **model**
- Draw up **improvement plans for processes** and **procedures,** backed by **self-assessment exercises**

* Basel Committee on Banking Supervision.

B.3.1. Risk appetite and structure of limits

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. Severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring consistency between both of them. The risk appetite is set for the whole of the Group as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

In the 2015 year, the risk appetite local implementation process was completed, and it was bolstered by all units signing up to the corporate risk appetite Framework. This framework sets out common requirements across the entire organisation in processes, metrics, governance bodies, controls and corporate standards for integration in risk appetite management, and it is also cascaded down in an effective and traceable way to management policies and limits.

In 2015, the Group also moved ahead in aligning strategic planning with risk appetite. The business plans for the next three years were approved while also analysing their consistency with local appetites and the Group appetite in all units. Likewise, crisis management plans in 2015 were directly linked to risk appetite metrics and limits.

The scope of the metrics has also been broadened, improving coverage of operational, liquidity and structural risk, and with a greater focus on losses and capital stress metrics.

In 2016, the Group will make further efforts towards ongoing improvement and deeper analysis of risk appetite within the Advanced Risk Management (ARM) programme. It will seek to reinforce the treatment of non-financial risks, defining specific plans for management and treatment of risk appetite, inter alia.

Banking business model and fundamentals of the risk appetite
The definition and establishment of the risk appetite in Grupo Santander is consistent with its risk culture and banking business model from the risk perspective. The main elements that define this business model and which are behind the risk appetite are:

- A general medium-low and predictable risk profile based on a diversified business model, focused on retail and commercial banking and with an internationally diversified presence and with important market shares, and a wholesale banking business model that gives priority to relations with clients in the Group's main markets.

- A stable and regular earnings and shareholder remuneration policy, underpinned by a sound base of capital and liquidity and an effective diversification strategy in terms of sources and terms.

- An organisational structure based on subsidiaries that are autonomous and self-sufficient in capital and liquidity, minimising the use of non-operational or shell companies, and ensuring that no subsidiary has a risk profile that jeopardises the Group's solvency.

- An independent risk function with very active involvement of senior management that guarantees a strong risk culture focused on protecting and ensuring an adequate return on capital.

- A management model that ensures a global and inter-related view of all risks, through an environment of control and robust monitoring of risks, with global scope responsibilities: all risk, all businesses, all countries.

- Focus in the business model on those products that the Group knows sufficiently well and has the management capacity (systems, processes and resources).

- The development of its activity on the basis of a conduct model that oversees the interests of clients and shareholders.

- Adequate and sufficient availability of staff, systems and the tools that guarantee maintaining a risk profile compatible with the established risk appetite, both at the global and local levels.

- A remuneration policy that has the necessary incentives to ensure that the individual interests of employees and executives are aligned with the corporate framework of risk appetite and that these are consistent with the evolution of the Bank's long-term results.

Corporate risk appetite principles
The following principles govern Grupo Santander's risk appetite in all its units:

- **Responsibility of the board and of senior management.** The board is the maximum body responsible for setting the risk appetite and supporting regulations, as well as supervising compliance.

- **Enterprise Wide Risk, backtesting and questioning risk profile.** The risk appetite must consider all significant risks to which the Bank is exposed, facilitating an aggregate vision of the risk profile through the use of quantitative metrics and qualitative indicators. This enables the board and senior management to question and assimilate the current risk profile and that envisaged in business and strategic plans and its coherence with the maximum risk limits.

- **Forward-looking view.** The risk appetite must consider the desirable risk profile for the current moment as well as in the medium term, taking into account both the most probable circumstances as well as stress scenarios.

- **Linkage with strategic and business plans, and integration in management.** The risk appetite is a benchmark in strategic and business planning and is integrated into management through a bottom-up and top-down focus:

- top-down vision: the board must lead the setting of the risk appetite, vouching for the disaggregation, distribution and transfer of the aggregated limits to the management limits set at the portfolio level, unit or business line.

- bottom-up vision: the risk appetite must emanate from the board's effective interaction with senior management, the risk function and those responsible for the business lines and units. The risk profile contrasted with the risk appetite limits will be determined by aggregation of the measurements at the portfolio, unit and business line level.

- **Coherence in the risk appetite of the various units and common risk language throughout the organisation.** The risk appetite of each unit of the Group must be coherent with that defined in the remaining units and that defined for the Group as a whole.

- **Regular review, continuous backtesting and adapting to the best practices and regulatory requirements.** Assessing the risk profile and backtesting it against the limits set for the risk appetite must be an iterative process. Adequate mechanisms must be established for monitoring and control that ensure the risk profile is maintained within the levels set, as well as taking corrective and mitigating measures that are necessary in the event of non-compliance.

Limits structure, monitoring and control

The risk appetite is formulated every year and includes a series of metrics and limits on these metric (statements) which express in quantitative and qualitative terms the maximum risk exposure that each unit of the Group or the Group as a whole is prepared to assume.

Fulfilling the risk appetite limits is continuously monitored. The specialised control functions report at least every quarter to the board and its risk committee on the adequacy of the risk profile with the risk appetite authorised.

The excesses and non-compliance with the risk appetite are reported by the risk control function to the relevant governance bodies. The presentation is accompanied by an analysis of the causes that provoke it, an estimation of the time they will remain this way as well as the proposed actions to correct the excess when the corresponding governance body deems it opportune.

Linkage of the risk appetite limits with the limits used to manage the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

The management policies and structure of the limits used to manage the different types and categories of risk, which are described in greater detail in sections D.1.5.2. Planning (Strategic Commercial Plan), D.2.2.3. and D.2.3.3. Systems for controlling limits in this Report, have a direct and traceable relation with the principles and limits defined in the risk appetite.

In this way, the changes in the risk appetite are transferred to changes in the limits and controls used in Santander's risk management and each one of the business and risk areas is responsible for verifying that the limits and controls used in their daily management are set in such a way that they cannot fail to comply with the risk appetite limits. The risk control and supervision function will then validate this assessment, ensuring the adequacy of the management limits to the risk appetite.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio, segment and business line, both in current and stressed conditions. These metrics and risk appetite limits are articulated in five large areas that define the positioning that Santander's senior management wants to adopt or maintain in the development of its business model:

- **The volatility in the income statement** that the Group is willing to accept.

- The **solvency** position that the Group wants to maintain.

- The minimum **liquidity** position that the Group wants to have.

- The maximum levels of **concentration** that the Group considers reasonable to admit.

- **Qualitative** aspects and supplementary **metrics.**

Core areas of appetite and key metrics

Volatility of results	Solvency	Liquidity	Concentration	Complementary aspects

• Maximum loss the Group is prepared to accept under a scenario of acute tension
• Maximum technological and operational risk (RTO)
• Sensitivity of net interest margin to changes in interest rates
	• The minimum capital position the Group is prepared to accept under a scenario of acute tension
	• Impact in CET1 ratios in specific tension exercises for its main types of risks
		• Minimum structural liquidity position
		• Minimum liquidity horizon position that the Group is prepared to accept under a scenario of acute tension
			• Concentration by individual customer
			• Concentration by top-N
			• Concentration in non-*investment grade* counterparties
			• Sector concentration
			• Concentration in high-volatility portfolios
				• Qualitative operational risk indicators:
				  • Fraud
				  • Technological
				  • Cyber risk and security
				  • Litigation
				  • Other...
				• Qualitative restrictions

Volatility of results
Its object is to limit the potential negative volatility of the results projected in the strategic and business plan in the event of stress conditions.

This axis contains metrics which measure the behaviour and evolution of real or potential losses in the business.

Stress tests included at this level measure the maximum level in the fall in results, under adverse conditions, in the main types of risk to which the Bank is exposed, with a feasible probability of occurring and similar by risk type (so that they can be aggregated).

Solvency
The object of this axis is to ensure that risk appetite adequately considers the maintenance and upkeep of the entity's equity, keeping capital higher than the levels marked by regulatory requirements and market demand.

Its purpose is to determine the minimum level of capital which the entity considers it needs to maintain to cope with potential losses under both normal and stressed conditions and arising from its activity and from its business and strategic plans.

This capital focus included in the risk appetite framework is supplementary and consistent with the Group's capital objective approved within the capital planning process implemented in the Group and which extends to a period of three years (further details are provided in chapter D.8 Capital risk of this report and the Prudential Relevance Report -Pillar III-).

Liquidity position
Grupo Santander has developed a funding model based on autonomous subsidiaries that are responsible for covering their own liquidity needs. On this basis, liquidity management is conducted by each subsidiary within a corporate framework of management that develops its basic principles (decentralisation, equilibrium in the medium and long term of sources-applications, high weight of customer deposits, diversification of wholesale sources, reduced recourse to short-term funds, sufficient reserve of liquidity) and revolves around three main pillars (governance model, balance sheet analysis and measurement of liquidity risk, with management adapted to business needs). D.3 Liquidity risk and funding of this Report has more information on the corporate framework Liquidity risk and funding of this Report.

Santander's liquidity risk appetite establishes demanding objectives of position and time frames for systemic stress scenarios (local and global) and idiosyncratic. In addition, a limit is set on a structural funding ratio that relates customer deposits, equity and medium and long term issues to structural funding needs.

Concentration
Santander wants to maintain a widely diversified risk profile from the standpoint of its exposure to large risks, certain markets and specific products. In the first instance, this is achieved by virtue of Santander's retail and commercial banking focus with a high degree of international diversification.

This level includes individual maximum exposure limits with customers, aggregated maximum exposure with major counterparties, maximum exposure by activity sectors, in Commercial Real Estate and in portfolios with a high risk profile. Customers with an internal rating lower than investment grade or equivalent or which are in excess of a certain degree of exposure are also monitored.

Qualitative aspects and other complementary metrics
This seeks to delimit risk exposures in a complementary way to the previous pillars.

Risk limits expressed both qualitatively (for example, the ban on operating with complex market products) as well as expressed in other quantitative metrics (for example, operational risk indicators) are studied so that relevant risks not considered in the other categories can be controlled. A qualitative indicator on the state of management is incorporated in operational risk, based on the results of indicators on other issues including governance and management, budgetary compliance, quality of the data bases of events, and corporate self-assessment questionnaires on the control environment. An indicator of compliance and reputational risk is also incorporated from an assessment matrix created for the purpose.

B.3.2. Risk identification and assessment (RIA)

Banco Santander, as part of its routine management, **identifies and assesses** the risks to which it is exposed in the countries in which it operates, and which are inherent in its activity.

In late 2014 the Group launched a corporate **Risk identification & assessment** exercise with the aim of making the Group's risk profile assessment more **robust** and systematic. In 2015, the risk profile of the Group, its units and the most important risk types have been assessed, and a high degree of correlation was obtained between the sensitivity to risk factor results in the Risk identification and assessment (RIA) exercise and the corporate ICAAP stress scenarios.

The Group has also made headway in the methodological development of the corporate Risk Identification and Assessment exercise, underlining the importance of the identification and assessment of potential risk factors for the Group, greater stringency in assessing the control environment, extending the scope of the exercise and a more robust link with generating idiosyncratic scenarios in capital planning.

Risk identification & assessment is one of the initiatives which form part of the **ARM** (Advanced Risk Management) programme which pursues the goal of **advanced risk management** in order to ensure Santander is a **solid and sustainable bank** in the long term.

It also complies with **regulatory requirements** concerning a more in-depth understanding of the Group's risk profile and the importance attached to pinpointing, assessing and evaluating the entity's top risks, the associated control environment and any potential factors which could jeopardise the success of the Group's strategic plan.

According to the methodology used in the RIA exercise, three factors are taken into account in determining the Group's risk profile:

- **Risk performance,** indicating the profile by risk type and business activity.

- **Control environment** to objectively establish a self-assessment regarding the effectiveness of risk management and control in accordance with pre-established targets and a defined control model.

- **Top Risks** to identify the material risks which could jeopardise strategic and business targets, and setting up action plans, which are then monitored.

One of the most important points for the RIA exercise is to develop a methodology to identify current **material risks** which senior management considers to be an area of attention. Such risks are considered to be risks which could alone, or in combination with other risks, have a significant impact on the Bank's results, on its financial position and its capacity to maintain appropriate capital levels.

It is also used to identify what are known as **emerging risks,** in other words risks which could potentially have an adverse impact on the Group's future performance, although their result and horizontal time frame are uncertain and difficult to predict (for further details see section 'Emerging risks' from chapter C. Background and upcoming challenges).

Looking towards 2016, the Group has its sights set on reinforcing the identification and assessment exercise, including all risks and extending the scope to all entities in which the Group has a presence.

B.3.3. Analysis of scenarios

Banco Santander conducts advanced management of risks by analysing the impact that different scenarios could provoke on the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables as well as other variables that affect management.

Analysis of scenarios is a very useful tool for senior management as it enables the Bank's resistance to stressed environments or scenarios to be tested, as well as put into effect measures to reduce the Bank's risk profile to these scenarios. The objective is to maximise the stability of the income statement and the levels of capital and liquidity.

This forward looking vision has helped Santander to remain among the select group of international banks that throughout the crisis generated profits and maintained its dividend policy.

The robustness and consistency of the exercises of scenario analysis are based on three pillars:

- Developing mathematical models that estimate the future evolution of metrics (for example, credit losses), based on both historic information (internal of the Bank and external of the market), as well as simulation models.

- Including the expert judgement and know-how of portfolios, questioning and backtesting the result of the models.

- The backtesting of the result of the models against the observed data, ensuring that the results are adequate.

Uses of analysis of scenarios

- **Regulatory uses:** scenario stress tests are performed using the guidelines set by the European regulator or each one of the national regulators who oversee the Bank's activity.

- **Internal exercises** of self-assessment of capital (ICAAP) or liquidity (ILAAP) in which while the regulator can impose certain requirements, the Bank develops its own methodology to assess its capital and liquidity levels in the face of different stress scenarios. These tools enable capital and liquidity management to be planned.

- **Risk appetite.** Contains stressed metrics on which maximum levels of losses (or minimum of liquidity) are established that the Bank does not want to exceed. These exercises are related to capital and liquidity exercises, although they have different frequencies and present different granularity levels. The Bank continues to work to improve the use of analysis of scenarios in risk appetite and ensure an adequate relation of these metrics with those used in daily risk management. For more detail see sections B.3.1. Risk appetite and structure of limits and D.3. Liquidity risk and funding of this Report.

- **Daily risk management.** Analysis of scenarios is used in processes for budgeting processes and strategic planning, in the generation of commercial policies of risk admission, in the global analysis of risks by senior management or in specific analysis on the profile of activities or portfolios. Further details are provided in the sections on credit risk (section D.1.5.2. Planning (Strategic commercial plan), market risk (D.2.2.1.6. and D.2.2.2.3. Analysis of scenarios) and liquidity risk (D.3.2.2. Balance sheet analysis and measurement of liquidity risk).

Scenario analysis project in the Advanced Risk Management programme

The scenario analysis project has been added to the other initiatives which form part of the Advanced Risk Management (ARM) programme, with the aim of improving management through metrics and advanced models. This project is divided into four core areas:

- **Tool for analysing scenarios:** installation of an advanced tool for estimating losses with greater soundness and computerisation of information handling, with the capacity to aggregate various types of risk and with an environment of multi user execution.
- **Governance:** review of the framework of governance of the exercises of scenario analysis in order to adjust to their growing importance, greater regulatory pressure and best market practices.
- **Methodology:** preparing plans to develop statistical stress models which have sufficient precision and granularity to meet requirements, not only of current regulation and supervision, but also to improve predictive risk capacity in accordance with advanced management.
- **Processes and procedures:** continuous self-assessment exercises and improvement plans to evolve processes in the context of advanced scenario analysis management.

B.3.4. Recovery and resolution plans

In 2015, the Bank prepared the sixth version of its corporate recovery plan, the most important part of which envisages the measures available to emerge on its own from a very severe crisis. This plan was initially prepared at the behest of the European Central Bank, which has become the main supervisor of Grupo Santander (mandate assigned under the Single Supervisory Mechanism, which came into force on 4 November, 2014), on the basis of regulations applicable in the European Union[1]. The Plan also considers the non-binding recommendations made in this area by international bodies such as the Financial Stability Board - FSB[2]).

As with the previous versions from 2010 to 2014, the Group presented the plan to the relevant authorities (for the first time, to the ECB in December, unlike in other years when it was submitted to the Bank of Spain) for it to be assessed in the first half of 2016.

This plan comprises of the corporate plan (covering to Banco Santander) and the individual plans for the main local units (United Kingdom, Brazil, Mexico, US, Germany, Argentina, Chile, Poland and Portugal), thereby meeting the commitment made by the Bank with the authorities in 2010. It is important to note the cases of the countries referred to above belonging to the European Union, where, apart from the fact that they are mandatory as the form part of the corporate plan, they also need to be completely developed due to regulatory initiatives arising from the transposition of Directive 2014/59/EU (European Union Crisis Management Directive) to their local legislations.

During 2015, the Group has adapted the plan structure and content to the new international guidelines, taking advantage to introduce improvements concerning potential crisis situation in the governance chapters (these improvements largely concern the indicators structure and the general crisis situation governance) and in strategic analysis.

The Group's senior management is fully involved in preparing and regularly monitoring the content of the plans, through specific committees of a technical nature, as well as monitoring at the institutional level which guarantee that the content and structure of the documents are adapted to local and international regulations in crisis management, which have been in continuous development for the last years.

The board of directors is responsible for approving the corporate plan, once the plan's content and data have been previously submitted and discussed in the bank's main management and control committees (executive committee, board risk committee, executive risk committee, capital committee). The individual plans are approved by the local bodies and always in coordination with the Group, as these plans must be part of the corporate plan.

During 2016, the Group will continue to introduce improvements in the recovery plans, seeking to adopt developments in this domain which are observed in the market, as well as those necessary to fully adapt the local plans structure to the new European corporate framework, taking into account any restrictions arising from local authorities.

Regarding resolution plans, the authorities which take part in the Crisis Management Group (CMG) have adopted a common approach on the strategy to follow for the Group's resolution plan that, given the legal and business structure with which Santander operates, corresponds to the so called multiple point of entry (MPE); they have signed the cooperation agreement on resolution (COAG); and have developed the first resolution plans. The corporate plan was analysed in a meeting of the Crisis Management Group held on 3 December. The Group continues to cooperate with the competent authorities in the preparation of resolution plans, providing all the information that the authorities might require.

As a case apart, in the US resolution plans are the responsibility of the banks themselves. The Group has presented the third version of the local resolution plans (one for all of the Group's activities in the US, in line with the Federal Reserve's regulations, and the other only covering Santander Bank, as the deposit-taking institution subject to the regulations of the Federal Deposit Insurance Corporation (FDIC).

1. Fundamentally, Directive 2014/59/UE (the 'European Union Crisis Management Directive'); recovery regulatory implementations by the EBA in force (EBA/RTS/2014/11; EBA/GL/2014/06; EBA/GL/2015/02); EBA technical recommendation to the Commission regarding the identification of core business lines and critical functions (EBA/op/2015/05); EBA regulatory developments pending approval (EBA/CP/2015/01 on ITS resolution item templates); EBA regulatory developments which do not directly concern recovery but with important implications (EBA/GL/2015/03 on early warning triggers); local regulation of Spain: Credit entities and investment service firms recovery and resolution Act 11/2015.
2. *FSB Key Attributes of Effective Resolution Regimes for Financial Institutions* (15 October 2014, following the update of the first publication in October 2011).

B.3.5. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years, the Group has developed and implemented the necessary structural and operating improvements to reinforce and consolidate enterprise wide risk, based on complete, precise and regular data. This allows the Group's senior management to assess risk and act accordingly.

Against this background, Santander believes that regulatory requirements are aligned with the strategic risk transformation plan, and hence at the current date the Group complies with the standards set forth in the BCBS 239 regulation. The core aim of this project, which was launched in early 2015 and which has been successfully completed in 2015, was to ensure that the risk data reported to senior management will include the basic principles of Risk Data Aggregation (RDA).

Risks reports contain appropriate balance between **data, analysis** and **qualitative comments,** include **forward-looking** measures, **risk appetite** data, **limits** and **emerging risks,** and are **distributed** in **due time and form** to the **senior management.**

In the field of **governance,** the risk data and information quality committee was set up, and will be responsible for applying measures decided by the board in this area; a common data management methodology was also implemented using the pertinent models, procedures and guidelines.

The Group is equipped with a **common reporting taxonomy** which covers all the significant risk areas within the organisation, and which is in keeping with the Group's size, risk profile and activity.

The senior management receives the following reports to ensure adequate risk management and decision making:

- **Group risks report**

- **Risk factor reports:**
  - Credit risk.
  - Market and structural risks.
  - Operational risk.
  - Capital.
  - Commercialisation compliance.
  - Regulatory compliance.
  - Anti-money laundering (AML).
  - Non-prudential risk (SAC).

- **Risk units of each unit**

Important **technological developments** have been implemented, allowing the Group to improve data aggregation capacities in a complete, exact, reliable and traceable way. The data throughout the Group (enterprise wide) is limited to a defined data taxonomy which is registered in a single data dictionary which is accessed by authorised bank risks personnel.

One of Grupo Santander's commitments is to introduce new technologies to enhance data use, management and analysis. All these questions are addressed in pluri-annual plans adapted to the real situation of the Corporation and the geographies in which we operate.

B.3.6. Control environment

The risk management model has a **control environment** that guarantees adequate control of all the risks, contributing a **comprehensive vision** of them. This control is carried out in all the Group's units and for each type of risk in order to ensure that the Group's exposures and risk profile are within the mandates established by both the board as well as regulators.

The **main functions** that ensure effective control are:

1. Clearly **assigning responsibilities** in risk generating units through decision making and control of their activities.

2. **Specialised control** of each risk factor.

3. **Supervision** and aggregated **consolidation** of all risks.

4. **Assessment** of **control mechanisms**.

5. Independent assessment by **internal audit**.

B.4. Risk culture - *Risk Pro*

Our internal culture (The Santander Way) includes a Santander way of managing risks; a Santander risk culture which we call 'risk pro', which is one of our main competitive advantages on the market.

Grupo Santander's robust risk culture is one of the key reasons why it has been able to cope with changes in economic cycles, customers' new demands, increased competition, and to be considered as an entity which earns the trust of its employees, customers, shareholders and its communities.

Against a background of constant changes, with new types of risks and greater requirements by regulators, Grupo Santander wishes to maintain an excellent level of risk management in order to achieve sustainable growth.

Excellence in risk management is thus one of the strategic priorities that has most shaped the Group's development. This involves consolidating a strong risk culture in the Group, a risk culture which all Grupo Santander employees are familiar with and which they apply.

This risk culture is defined through five principles which must necessarily form part of all the Group's employees' day-to-day activities:

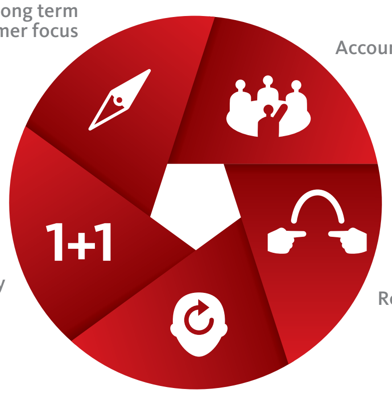
Accountability, because all units and employees (no matter what function they perform) should know of and understand the risks incurred in their daily management and be responsible for identifying, assessing, managing and reporting.

Resilience, which is a combination of prudence and flexibility. All employees have to be prudent and steer clear of any risks they are not familiar with or which are in excess of the established risk appetite. They must also be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.

Challenge, because ongoing debate is encouraged throughout the Group. We always ask ourselves how to manage risks in a proactive, positive and open way, giving us an overview which allows us to anticipate future challenges.

Simplicity, because universal risk management needs clear processes and decisions which are documented and easily understood by employees and customers.

And, of course, **customer focus.** All risks actions are focused on the customer, on his or her long term interests. Our aim at Grupo Santander is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities. We can achieve this goal by making a proactive contribution to help our customers prosper with excellent risk management.



The risk pro risk culture is being reinforced in all Grupo Santander units through three drivers:

- **Development of a model for the Advanced Risk Management (ARM) programme.** This is a solid and integrated programme which is designed to build towards the future using a forward-looking management and overview of all risks, which also safeguards our present with a strong control environment. For Grupo Santander, advanced risk management is a priority in its long-term objective of continuing to be a solid and sustainable bank.

- In the first phase of ARM, all the Group's banks have been aligned with regulatory guidelines and have established the milestones for the roll-out of the programme's initiatives. One of most important points is to have solid corporate governance of the risk function.

- **Developing capacities and attitudes to achieve advanced risk management.** A far-reaching plan has been set in motion for all Group units and employees to know about the risk culture, clearly understand its implications and for them to think carefully about how to improve their risk management attitudes and behaviour. This plan will continue its deployment in the coming years.

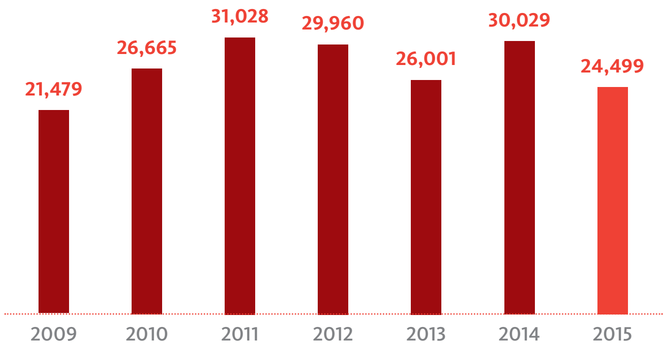
- **Setting up and monitoring measures to determine the risk culture status throughout the Group.** The Bank is collecting evidence, using systematic monitoring, of the culture initiatives which have been set in motion, to gauge the degree of knowledge of the risk culture and to be able to continuously identify areas for improvement and action plans.

Training activities

Training is one of the ways in which the Group builds upon the risk culture. Through the corporate risk school, Santander guarantees that all its risk professionals are trained and developed with uniform criteria. The corporate risk school has now been functional for ten years, since 2005. During these ten years, it has worked side by side with the 10 local schools to enhance Santander's leadership in this sphere, continuously strengthening the skills of executives and employees.

In 2015, 24,499 hours of training hours were taught by 6.271 Group employees. The corporate risk school trains professionals from other business areas, particularly retail and commercial banking, so as to align the demanding risk management criteria to business goals.

Training hours



In 2016, the goal is to extend this training to the entire Group, through launching new training activities and with the help of new digital technologies in order to achieve more effective and innovative training.

C. Background and upcoming challenges

Growth in the global economy slowed in 2015 because the steady resurgence in developed countries, which has been more vigorous in the US and the United Kingdom but also in the Eurozone, was significantly offset by the downturn in emerging markets.

Growth has been lower than was expected at the start of the year. In developed economies, this has been the case due to specific circumstances which dragged on the US economy in early 2015, even though by December this did not stop the FED from implementing a slight rise in interest rates. In the Eurozone, the year saw moderate improvement until Greece's third bail-out and the point at which the ECB began to apply a more active policy (quantitative earing). Emerging countries have been impacted by the slowdown in China (and the change in China's growth mix), the fall in commodity prices, geopolitical problems and some measure of decline in financing conditions (lower capital outflows, rise in risk premiums, stock market falls).

Against this background, Banco Santander has a medium-low risk profile, with improved credit quality as evidenced by its core ratios: NPL ratio of 4.36% (- 83 b.p. vs. December 2014), cost of credit 1.25% (-18 b.p. vs. December 2014) and a coverage ratio of 73% (+6 p.p higher than in December 2014).

During 2015, the **regulatory background** has once again been shaped by highly demanding prudential requirements. These are some of the highlights which have happened this year:

- The BCBS's review of the initial proposals for credit, market and operational risk prudential frameworks.

- Regulatory progress concerning loss absorption mechanisms in the event of resolution situations (MREL and TLAC).

- Publication by the European Banking Authority (EBA) of the results of the transparency exercise, a preliminary step before the stress tests to be held in 2016.

- Entities' progress in projects designed to address regulatory changes regarding provisions, to come into force from 2018 on according to the IFRS 9 standard [refer to details in Table 1].

Regulatory compliance is a priority for Grupo Santander, and as such the Group constantly keeps track of new regulatory developments. Particularly worthy of note in 2015 were the steps forward taken in developments designed to satisfy the requirements of the Volcker rule (further details in section 3. Market regulations, section D.5.4. Regulatory compliance) and international standards on risk data aggregation (RDA) (further details in section B.3.5. Risk Data Aggregation & Risk Reporting Framework).

From the **supervisory standpoint**, 2015 marks one year since the coming into force of the Single Supervisory Mechanism (SSM). Supervisory activity by Eurozone banking entities has been conducted through the joint supervisory teams (JST) and through common ongoing supervision which includes the methodology known as the Supervisory Review and Evaluation Procedure (SREP[3]). This methodology is based on four key areas:

a. Analysis of business model;

b. Assessment of internal governance and global controls;

c. Assessment of capital risks; and

d. Assessment of liquidity risks.

3. According to the document published by the European Banking Authority (EBA): *Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)*

Regular supervision based on the SREP methodology is complemented with customised inspections by the supervisor, either jointly by several supervisory entities (in which case it is called a 'thematic review'), or through individualised analysis of a particular topic within an entity (in situ inspection).

Emerging Risks

The banking sector currently has to face new a plethora of new risk of different nature and sizes. By identifying and monitoring these emerging risks, the Group can adopt a forward-looking approach to risk management, enabling the senior management to deploy action plans to address detected threats and also to adapt the Group's risk appetite accordingly. The Group uses the Risk Identification and Assessment (RIA) exercise, referred to above, to pinpoint and assess these risks. The most important risks are as follows:

Macroeconomic environment: the main sources of macroeconomic uncertainty which could impact Banco Santander's business activity in the coming year are as follows:

- The sustained **low interest rate** environment in **Europe**.
- The **impact** which **divergent monetary policies** could have on the different economies, with potential implications regarding exchange rates and financial stability due to:
  - The increase in interest rates in the United States and how quickly the increases are applied (flight to quality).
  - Extensions of the quantitative easing programme by the ECB, and
  - Monetary expansion in China and Japan.
- Possible **liquidity stresses** on markets.
- The **adjustment** in the **Chinese** economy and its productive model.
- **Changes in commodity prices** and their impact on both emerging markets and developed economies.
- The decline in **Brazil's** economic and fiscal situation

Banco Santander's business model, based on geographic diversification and a customer-focused bank, leads to more stable results even in periods of macroeconomic uncertainty, ensuring a medium-low profile.

Competitive setting: the financial industry faces the challenge of adapting the way it does business to customers' new needs. Digital transformation is a key factor for the future of the financial sector. New competitors have sprung up through this transformation: financial start-ups, large technological companies, etc., which are making inroads into different segments of the financial sector, Banco Santander has identified and assessed this risk in its business and so has managed to turn this threat into an opportunity. Innovation and digital transformation are one of the cornerstones of our business model: A number of different initiatives have been launched: investments through Santander *InnoVentures* in start-ups such as *MyCheck, iZettle, Cyanogen*, etc., alliances with business schools, progress in use of big date techniques, etc.

Another factor to be considered is that part of financial activity, and thus also its risks, has been shifted towards entities which are subject to less regulation: what is known as shadow banking. Supervision and regulation of this type of banking has to be reinforced in order to safeguard the solvency of the financial system and to allay possible knock-on effects to the rest of the sector, thereby ensuring a competitive environment with a level playing field.

Regulatory environment: the financial crisis is the root cause of the speedy action taken by authorities to implement regulatory proposals in recent years. Entities have had to cope with substantial implementation and compliance costs due to this shifting background and the increasingly more demanding requirements, and as a result ROE has been considerably reduced.

2016 is expected to be an important year in which the Basel Committee on Banking Supervision will complete its tasks aimed at creating a more simple, comparable and risk-sensitive prudential framework. Having already completed the treatment of market risks, we expect to have finished reviewing credit risk, operational risks and IRB models by the end of the year. A hybrid approach - in which internal models can be used, but with limitations - is expected.

In Europe, the final agreement regarding the structural reform proposal (segregation of wholesale and retail activities) is still to be resolved, due to a lack of consensus about the supervisor's role and the degree of discretionality/automatism in applying this measure. In the area of retail financial services, the European Commission wants to analyse what restrictions are in place that would impede the development of a single common market. In 2016, we also expect to make progress in national transpositions of the Markets in Financial Instruments Directive (MIFID II) and the Payment Accounts Directive.

For the financial industry, it is crucial to have a stable and enduring regulatory framework, allowing banks to make valid mid-term strategies, and to constantly as the global impact of that framework so as to ensure a healthy balance between financial stability and economic growth. The regulatory proposals described above, together with recent proposals for new banking taxes (in the UK and Poland), some of which are still being discussed, such as the European Financial Transaction Tax, are causing further uncertainty.

Geopolitical backdrop: instability in international relationships, which a priori affects the volatility of financial variables and which can affect the real economy, gives rise to geopolitical risk. Evidently, the main sources of instability as we look towards the future are the debate in the UK on whether to remain in the EU (Brexit), the economic cycle in Spain, the Russia-Ukraine crisis, conflicts in the Middle East, the refugee crisis and international terrorism. Yet again, balanced **geographical diversification** between developed and emerging allays the possible impact of the stresses triggered by this kind of risk.

Lastly, concerning **non-financial risks**, the number of **cybersecurity** incidents which affect all sectors, including the financial sector, is steadily on the rise. In view of the importance and possible impact of this type of risk, the Bank continues to apply preventive measures so as to be ready to deal with any kinds of incidents of this nature. These types of measures are outlined in section D.4.4. Mitigation measures of Operational risk.

Table 1: New financial instruments classification and assessment model (IFRS 9)

1. Introduction

In July 2014, the International Accounting Standards Board (IASB) approved International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), to replace IAS39 – Financial instruments: recognition and assessment, in accordance with the guidelines which were prepared during the G-20 meeting in April 2009.

IFRS sets out the requirements for recognition and measurement of both financial instruments and certain types of contracts for the sale of non-financial items. It will be applicable from 1 January 2018 on, and will have to be previously approved by the European Union.

2. Model proposed by IFRS 9

The main new developments of the standard are as follows:

2.a Classification of financial instruments

The criterion for classifying financial assets will depend both on their business management model and the features of the contractual flows. Consequently, the asset will be measured at amortised cost, at fair value with changes in equity, or at fair value with changes in profit/loss for the period. IFRS 9 also establishes the option of designating an instrument at fair value with changes in P/L under certain conditions.

2.b Credit risk impairment model

The most important new development compared with the current model is that the new accounting standard introduces the concept of expected loss, whereas the current model (IAS 39) is based on incurred loss.

Scope of application

The IFRS 9 asset impairment model is applicable to financial assets valued at amortised cost, to debt instruments valued at fair value through other comprehensive income, to leasing receivables, and to contingent risks and commitments not valued at fair value.

Classification of financial instruments by phases

The financial instruments portfolio for impairment purposes will be divided into three categories, depending on the phase each instrument has with regard to its credit risk:

- Phase 1: a financial instrument is in phase 1 when there has been no significant increase in its risk since it was initially registered. If applicable, the valuation correction for losses will amount to the possible credit expected losses arising from possible defaults with ta period of 12 months following the reporting date.

- Phase 2: if there has been a significant increase in risk since the date in which the instrument was initially registered, but the impairment has not actually materialised, then the financial instrument will be included in this phase. In this case, the amount of the valuation correction for losses will be the expected losses owing to defaults throughout the residual life of the financial instrument.

- Phase 3: a financial instrument will be included in this phase when it is considered to be effectively impaired. In this case, the amount of the valuation correction for losses will be the expected losses for credit risk throughout the residual life of the financial instrument.

Impairment estimation methodology

In these three phases of financial instruments, the value correction for losses indicated must be an amount equivalent to the expected loss for default within a period of 12 months following the reporting date, except for those cases in which there has been a significant increase in risk since the initial registration date. In the latter case, the valuation correction will be the same amount of the expected loss for credit events during the rest of the expected life of the financial instrument.

The required methodology for calculating expected loss for credit events will based on an unbiased consideration weighted for the probable occurrence of a range of future scenarios which could affect the receipt of the contractual cash flows, always taking into account the temporary value of money, and all the available and relevant information about past occurrences, current conditions and predictions regarding changes in macroeconomic factors which are proven to be important for the purpose of estimating this amount.

For financial assets, a credit loss is the current value of the difference between the contractual cash flows owed to the entity according to the contract and the cash flows which the entity expects to receive.

For undrawn loan commitments, a credit loss is the current value of the difference between the contractual cash flows owed to the entity if the holder of the loan commitment draws the loan and the cash flows which the entity expects to receive if the loan is drawn.

Expected loss is measured using the following factors:

- Exposure at Default (EAD): the amount of the transaction exposed to credit risk referring to the period in which the likelihood of the counterparty defaulting is considered. This amount will be estimated in cases in which the transaction repayment schedule may be modified, subject to the standard.

- Probability of Default (PD): is the likelihood that a counterparty will fail to meet its obligation to pay principal or interest. For the purposes of IFRS 9, this will consider both PD-12 months, which is the probability of the financial instrument entering default within the next 12 months, and also lifetime PD, which is the probability of the transaction entering into default between the reporting date and the transaction's residual maturity date. Future information of relevance is considered to be needed to estimate these parameters, according to the standard.

- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It depends mainly on the ability to demand additional collateral and the future cash flows that are expected to be recovered. According to the standard, future information will have to be taken into account to estimate it.

- Discount rate: the rate applied to the future cash flows estimated during the expected life of the asset, and which is equal to the net present value of the financial instrument at its carrying value. When calculating the discount rate, expected losses for default when estimating future cash flows are not generally taken into account, except in cases in which the asset is considered to be impaired, in which case the interest rate applied will take into account such losses, and it will be known as the effective interest rate adjusted for credit risk.

Impairment registration

The main new development as against the current standard concerns assets measured at fair value with changes in other comprehensive income, where the part of the changes in fair value due to expected credit losses in the profit and loss account will be registered in the year in which the change occurs, and the rest will be entered in another comprehensive income.

2.c Accounting of hedges

IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, so allowing there to be a greater variety of derivative financial instruments which may be considered to be hedging instruments.

Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy.

3. IFRS 9 implementation strategy

The Group has established a workstream with the aim of adapting its processes to the new classification standards for financial instruments, accounting of hedges and estimating credit risk impairment, so that such processes are applicable in a uniform way for all Group units, and, at the same time, can be adapted to each unit's individual features.

Accordingly, the Group is working towards defining an objective internal model and analysing all the changes which are needed to adapt accounting classifications and credit risk impairment estimation models in force in each unit to the previous definitions.

In principle, the governance structure currently implemented at both corporate level and in each one of the units, complies with the requirements set out in the new standards.

The Group has set up a regular committee to manage the project governance structure, and a task force which is responsible for its tasks, and also assuring that the pertinent responsible teams take part.

Risks, Financial Accounting & Control and Technology and Operations are the main divisions involved in the project at the highest level, and which are thus represented in the project governance bodies indicated above.

The project's main phases and milestones are as follows:

- **Analysis / Diagnosis (2015 and first half of 2016):** this phase consists mainly of analysing the standards and their impact on the Group's processes.

- **Design and development (2015 and 2016)** this phase consists of the definition of functional requirements and transposition of requirements to the technological field, selection and development of necessary systems, identification of necessary data inputs, and construction of the new operational model to comply with regulatory requirements.

- **Implementation (2016-2017):** this phase consists of the model stabilisation, creation of stable and validated reports and the optimisation of execution times, in order to ensure that the model is effectively implemented.

- **Parallel Execution (2017):** this phase consists mainly of the transition to the new operational model by testing the model's effective operation, simulation calculations, and generating comparable information and reporting in parallel with the current model, so as to verify the consistency of the models and the reporting systems, and to help management to understand the assumptions and sensitivities involved.

- **Entry in force of standard:** 1 January 2018.

4. Guidelines and complementary rules

In addition to the standards issued by IASB, a number of regulatory and supervisory bodies have issued further considerations both in regard to the impairment model for financial instruments in IFRS 9, and items directly relating to it. These include the following documents and initiatives:

- **Basel Committee on Banking Supervision - Guidelines concerning credit risk and accounting of expected credit losses (December 2015, definitive status):** using 11 supervision principles and guidelines, the document issued by the Basel Committee on Banking Supervision provides a guide to good credit risk practices associated with the implementation and ongoing application of accounting frameworks for calculation of expected credit losses, and, in particular, for IFRS 9.

- **European Banking Authority (EBA) – The EBA 2016 Annual Work Programme (September 2015):** establishes a work plan which includes, inter alia: a quantitative and qualitative analysis of IFRS 9 as a result of the technical standards and guidelines which the European Banking Authority will develop to provide advise in accounting and auditing.

- **European Banking Authority (EBA**) – Draft Guidelines in the application of definition of default under article 178 of EU Regulation no. 575/2013 (September 2015, consultation status): the object of the document is to give the sector guidelines which can be used to harmonise the default definition used in internal models towards those existing for regulatory purposes.

- **Enhanced Disclosure Task Force EDTF – Impact of expected loss models in breakdowns of risk (November 2015, definitive status):** The EDTF, which the Group has been a member of since it was set up, is a task force made up of financial entities, fund managers, auditors and rating agencies which was promoted by the Financial Stability Board in 2012 with the main object of improving the quality, comparability and transparency in the disclosure of financial reporting. In 2015, the task force has reviewed the original principle and recommendations to include information for a provisions model based on expected credit losses (ECL). The publication of the recommended information is temporarily adapted to the provisional implementation schedule for the new standards, and includes transitional recommendations for the implementation phase, and other permanent recommendations.

D. Risk profile

D.1. Credit risk

Organisation of this section

After an **introduction** to the concept of credit risk and the segmentation that the Group uses for its treatment, the **key figures of 2015 and change over time** are presented [pag. 200-207].

This is followed by a look at the **main geographies**, setting out the main features from the credit risk standpoint [pag. 208-215].

The qualitative and quantitative aspects of **other credit risk matters** are then presented, including information on financial markets, risk concentration, country risk, sovereign risk and environmental risk [pag. 216-224].

Lastly, there is a description of the Group's **credit risk cycle**, with a detailed explanation of the various stages that form part of the phases of pre-sale, sale, and post-sale, as well as the main credit risk metrics [pag. 224-229].

D.1.1. Introduction to credit risk treatment

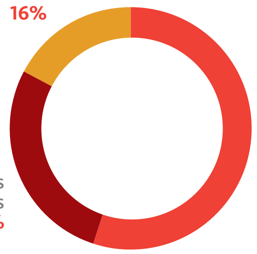
Credit risk arises from the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

The Group's risks function is organised on the basis of three types of customers:

- The segment of **individuals** includes all physical persons, except those with a business activity. This segment, in turn, is divided into sub segments by income levels, which enables risk management adjusted to the type of client.
- The segment of **SMEs, companies and institutions** includes companies and physical persons with business activity. It also includes public sector activities in general and non-profit making private sector entities.
- The segment of **Santander Global Corporate Banking – SGCB** – consists of corporate clients, financial institutions and sovereigns, who comprise a closed list revised annually. This list is determined on the basis of a full analysis of the company (business, countries where it operates, types of product used, volume of revenues it represents for the bank, length of relation with the client, etc.).

The following chart shows the distribution of credit risk on the basis of the management model.

Credit risk distribution



The Group's profile is mainly retail, accounting for 84% of total risk generated by the retail banking business.

D.1.2. Key figures and change over time

D.1.2.1. Global map of credit risk, 2015

The table below sets out the global credit risk exposure map in nominal amounts (except for derivatives and repos exposure which is expressed in credit risk equivalent) for the Group at 31 December 2015.

Gross credit risk exposure classified by legal entity

Million euros. Data at 31 December 2015

	Customer loans		Loans to entities[2]		Fixed income3[3]		Derivatives and Repos	
	Drawn[1]	Undrawn	Drawn	Undrawn	Sovereign	Private	CRE[4]	Total
Continental Europe	**327,556**	**77,739**	**30,890**	**288**	**55,387**	**12,772**	**24,397**	**529,030**
Spain	208,341	63,381	21,432	125	42,694	7,263	21,836	**365,071**
Germany	31,488	830	2,396	-	-	348	8	**35,069**
Portugal	32,792	4,591	3,489	104	6,803	3,771	2,073	**53,622**
Others	54,936	8,938	3,574	59	5,891	1,390	480	**75,267**
United Kingdom	**277,225**	**48,144**	**23,625**	**-**	**6,153**	**8,248**	**18,971**	**382,366**
Latin America	**149,039**	**35,139**	**24,273**	**13**	**25,460**	**6,108**	**8,260**	**248,292**
Brazil	69,182	21,316	14,820	12	16,226	4,826	5,291	**131,673**
Chile	34,836	8,363	1,725	0	1,665	976	1,469	**49,034**
Mexico	30,566	5,165	3,164	-	6,046	274	1,466	**46,681**
Others	14,455	297	4,565	-	1,523	32	34	**20,905**
United States	**85,548**	**33,667**	**10,151**	**333**	**8,685**	**10,746**	**478**	**149,609**
Rest of world	**596**	**191**	**108**	**-**	**-**	**1**	**-**	**896**
Total Group	**839,964**	**194,881**	**89,048**	**634**	**95,685**	**37,875**	**52,106**	**1,310,192**
% of total	64.1%	14.9%	6.8%	0.0%	7.3%	2.9%	4.0%	**100.0%**
% change/Dec 14	6.4%	8.0%	15.2%	-74.0%	12.2%	13.9%	4.2%	**7.5%**

Gross credit risk exposure: change over time

Million euros

	2015	2014	2013	Change on 14	Change on 13
Continental Europe	**529,030**	**480,551**	**473,267**	**10.1%**	**11.8%**
Spain	365,071	333,227	327,900	9.6%	11.3%
Germany	35,069	32,929	33,481	6.5%	4.7%
Portugal	53,622	43,754	41,013	22.6%	30.7%
Others	75,267	70,641	70,872	6.5%	6.2%
United Kingdom	**382,366**	**349,169**	**320,571**	**9.5%**	**19.3%**
Latin America	**248,292**	**264,459**	**241,592**	**-6.1%**	**2.8%**
Brazil	131,673	160,532	141,119	-18.0%	-6.7%
Chile	49,034	46,084	44,147	6.4%	11.1%
Mexico	46,681	43,639	39,066	7.0%	19.5%
Others	20,905	14,204	17,260	47.2%	21.1%
United States	**149,609**	**123,758**	**73,945**	**20.9%**	**102.3%**
Rest of world	**896**	**450**	**265**	**98.8%**	**237.8%**
Total Group	**1,310,192**	**1,218,387**	**1,109,640**	**7.5%**	**18.1%**

1. Balances drawn down by customers include contingent liabilities (see the auditor's report and note 35 to the annual consolidated accounts) and exclude repos (EUR 6,272 million) and other customer credit financial assets (EUR 4,673 million).
2. Balances with credit entities and central banks include contingent liabilities and exclude repos, the trading portfolio and other financial assets.
3. Total fixed income excludes the trading portfolio.
4. CRE (credit risk equivalent): net replacement value plus the maximum potential value. Includes mitigants).

Gross exposure (lending to customers, entities, fixed income, derivative and repos) to credit risk in 2015 amounts to 1,310,192 million euros. The highest proportion, accounting for 86% of the total, is credit to customers and credit entities.

Risk is diversified among the main regions where the Group operates: Continental Europe (41%), United Kingdom (29%), Latin America (19%) and the US (11%).

Credit risk exposure rose 7.5% in 2015, largely due to the combined impact of the increase in lending in the United Kingdom, the US, Spain and Portugal.

Changes in scope

In 2015, there were a number of different changes in the Group's scope of gross credit exposure. The main programmes were:

Santander Consumer Finance

Agreement with PSA (50/50% Joint Venture between Banque PSA Finance and Santander Consumer Finance), in the consumer finance business. The main goal of this alliance is to finance vehicle acquisitions of the Peugeot, Citroën and DS brands by end customers, and second-hand vehicle transactions in auto dealers of these three brands. This agreement adds approximately EUR 15,000 million of exposure in 2015.

Through this alliance, SCF has been able to strengthen its position on the market, stepping up its presence in countries where it already has exposure such as Spain, the United Kingdom and Portugal, and moving into new markets such as France and Switzerland, in so doing increasing its scope in 2015.

The new portfolio has an NPL ratio of approximately 2.4% at year end, and thus helps in the efforts made to bring down the SCF NPL ratio overall in 2015. The new portfolio has a coverage ratio of 110%, similar to SCF. In 2016, an additional EUR 6,000 million is expected to be added in six European countries, continuing the strategy aimed at increasing the scope with similar risk profiles.

Other important transactions were the acquisitions of Retop, which consolidates the consumer finance business in Uruguay, and of Carfinco, allowing the auto finance business in Canada to be included in the scope of Santander Consumer Finance.

In December 2015, Santander Totta bought most of the assets and liabilities of **Banco Internacional do Funchal** (Banif) were acquired by Santander Totta in Portugal, further increasing market share in that country.

D.1.2.2. Performance of magnitudes in 2015

The table below sets out the main items related to credit risk derived from our activity with customers:

Key figures of credit risk arising from activity with customers

Data at 31 December 2015

	Credit risk with customers[2] (million euros)			Non-performing loans (million euros)			NPL ratio (%)		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Continental Europe	**321,395**	**310,008**	**312,167**	**23,355**	**27,526**	**28,496**	**7.27**	**8.88**	**9.13**
Spain	173,032	182,974	189,783	11,293	13,512	14,223	6.53	7.38	7.49
Santander Consumer Finance[1]	76,688	63,654	58,628	2,625	3,067	2,351	3.42	4.82	4.01
Portugal	31,922	25,588	26,810	2,380	2,275	2,177	7.46	8.89	8.12
Poland	20,951	18,920	18,101	1,319	1,405	1,419	6.30	7.42	7.84
United Kingdom	**282,182**	**256,337**	**235,627**	**4,292**	**4,590**	**4,663**	**1.52**	**1.79**	**1.98**
Latin America	**151,302**	**161,974**	**146,956**	**7,512**	**7,767**	**7,342**	**4.96**	**4.79**	**5.00**
Brazil	72,173	90,572	79,216	4,319	4,572	4,469	5.98	5.05	5.64
Mexico	32,463	27,893	24,024	1,096	1,071	878	3.38	3.84	3.66
Chile	35,213	33,514	31,645	1,980	1,999	1,872	5.62	5.97	5.91
Argentina	6,328	5,703	5,283	73	92	75	1.15	1.61	1.42
United States	**90,727**	**76,014**	**44,372**	**1,935**	**1,838**	**1,151**	**2.13**	**2.42**	**2.60**
Puerto Rico	3,924	3,871	4,023	273	288	253	6.96	7.45	6.29
Santander Bank	54,089	45,817	40,349	627	647	898	1.16	1.41	2.23
SC USA	28,280	22,782	—	1,034	903	—	3.66	3.97	—
Total Group	**850,909**	**804,084**	**738,558**	**37,094**	**41,709**	**41,652**	**4.36**	**5.19**	**5.64**

	Coverage ratio (%)			Spec. provs. net of recovered write-offs[3] (million euros)			Credit cost (% of risk)[4]		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Continental Europe	**64.2**	**57.2**	**57.3**	**1,975**	**2,880**	**3,603**	**0.68**	**1.01**	**1.23**
Spain	48.1	45.5	44.0	992	1,745	2,411	0.62	1.06	1.38
Santander Consumer Finance[1]	109.1	100.1	105.3	537	544	565	0.77	0.90	0.96
Portugal	99.0	51.8	50.0	72	124	192	0.29	0.50	0.73
Poland	64.0	60.3	61.8	167	186	167	0.87	1.04	1.01
United Kingdom	**38.2**	**41.9**	**41.6**	**107**	**332**	**580**	**0.03**	**0.14**	**0.24**
Latin America	**79.0**	**84.5**	**85.4**	**4,950**	**5,119**	**6,435**	**3.36**	**3.70**	**4.43**
Brazil	83.7	95.4	95.1	3,297	3,682	4,894	4.50	4.91	6.34
Mexico	90.6	86.1	97.5	877	756	801	2.91	2.98	3.47
Chile	53.9	52.4	51.1	567	521	597	1.65	1.75	1.92
Argentina	194.2	143.3	140.4	148	121	119	2.15	2.54	2.12
United States	**225.0**	**193.6**	**86.6**	**3,103**	**2,233**	**43**	**3.66**	**3.31**	**(0.00)**
Puerto Rico	48.5	55.6	61.6	85	55	48	2.12	1.43	1.13
Santander Bank	114.5	109.4	93.6	64	26	(5)	0.13	0.06	(0.01)
SC USA	337.1	296.2	—	2,954	2,152	—	10.97	10.76	—
Total Group	**73.1**	**67.2**	**61.7**	**10,108**	**10,562**	**10,863**	**1.25**	**1.43**	**1.53**

1. SCF includes PSA in the 2015 figures.
2. Includes gross lending to customers, guarantees and documentary credits.
3. Recovered Written-Off Assets (EUR 1,375 million).
4. Cost of credit = loan-loss provisions twelve months / average lending.
NB: 2014 data have been reformulated due to the transfer of Banco Santander International units and the New York branch to the US.

At the end of 2015, credit risk with customers was 6% higher. Growth in local currency is across the board except for Spain (although customer lending in isolation actually increased slightly). The lower lending in Brazil in euros is due to the BRL's depreciation over the course of the year.

These levels of lending, together with lower non-performing loans (NPLs) of EUR 37,094 million (-11% vs. 2014) reduced the Group's NPL ratio to 4.36% (-83 b.p. against 2014).

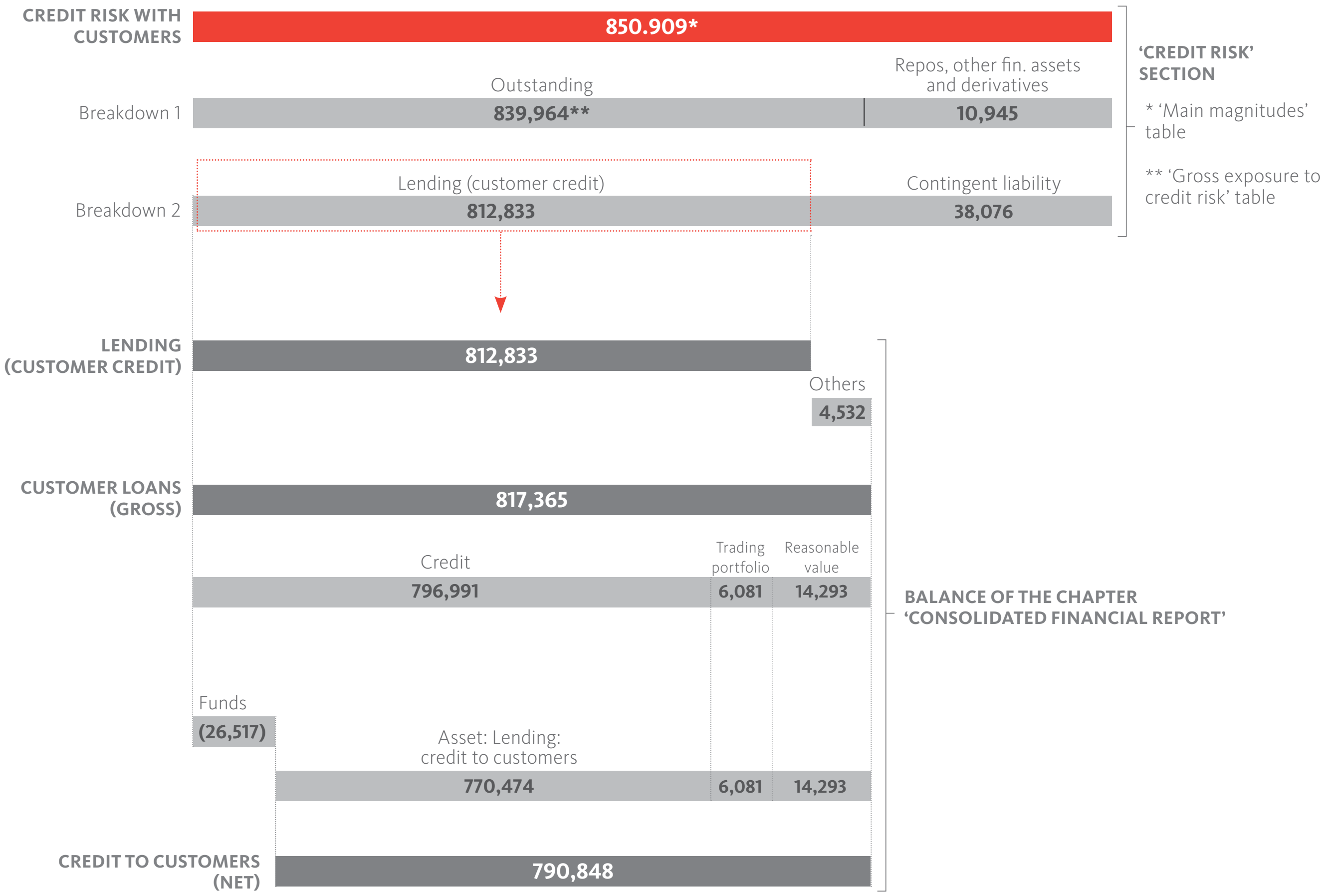
For coverage of these NPLs, the Group recorded net credit losses of EUR 10,108 million (-4% vs. 2014), after deducting write-off recoveries. This fall is materialised in a fall in the cost of credit to 1.25% (18 b.p. less than in 2014).

Total loan-loss provisions were EUR 27,121 million, bringing the Group's coverage ratio to 73%. It is important to bear in mind that this ratio is affected downwards by the weight of mortgage portfolios (particularly in the United Kingdom and Spain), which require fewer provisions as they have collateral.

Conciliation of the main magnitudes

The consolidated financial report details the portfolio of customer loans, both gross and net of funds. Credit risk also includes off-balance sheet risk and derivatives. The following chart shows the relation between the concepts that comprise these magnitudes.

Figures in million euros

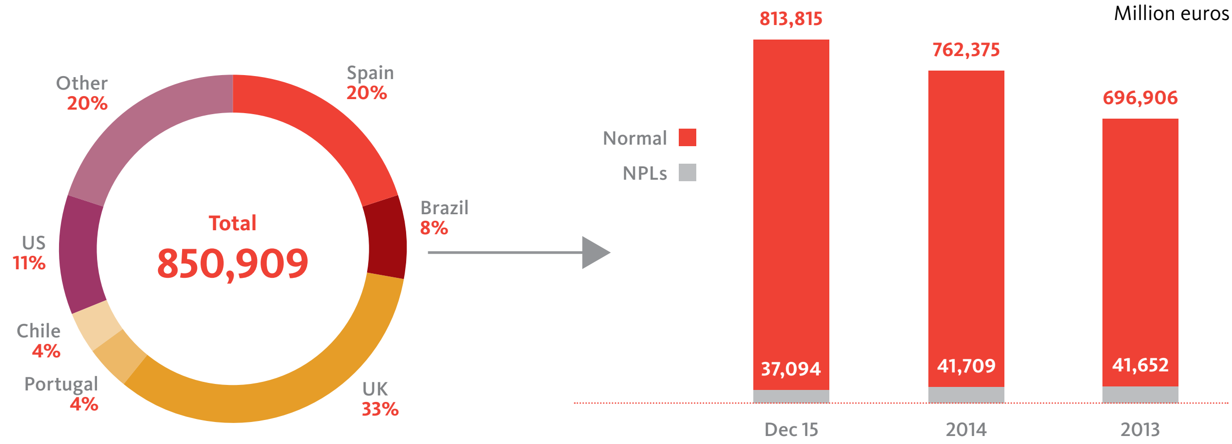


Geographic distribution and segmentation

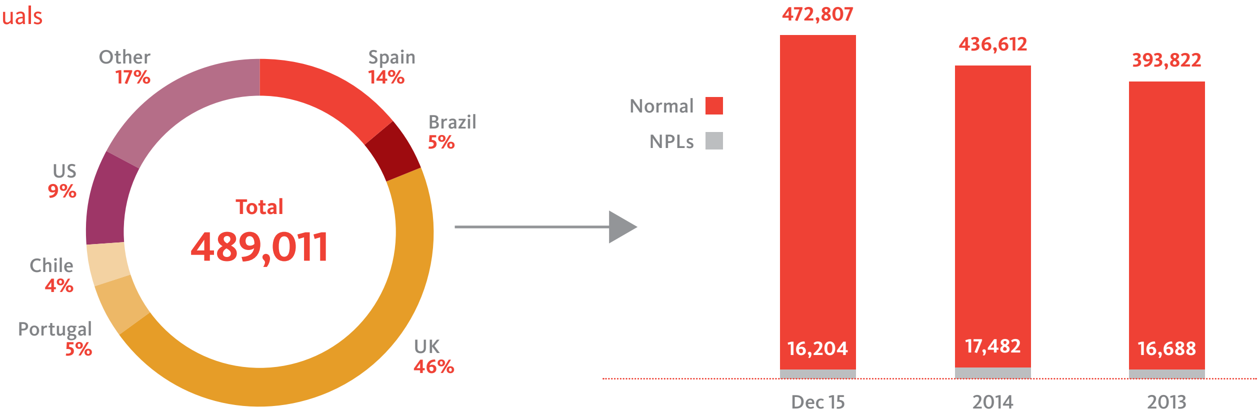
On the basis of the aforementioned segmentation, the geographic distribution and situation of the portfolio is shown in the following charts:

Million euros

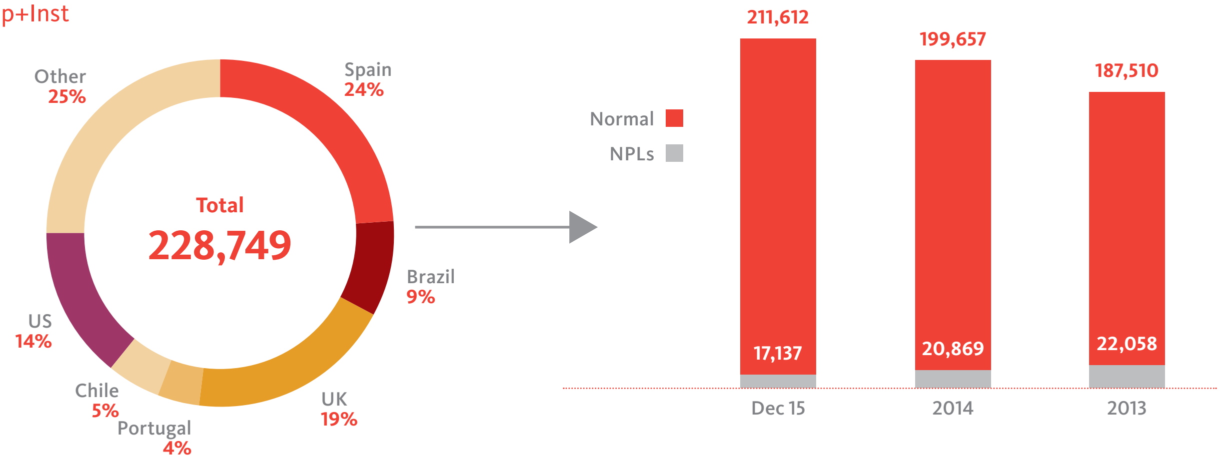
■ Total



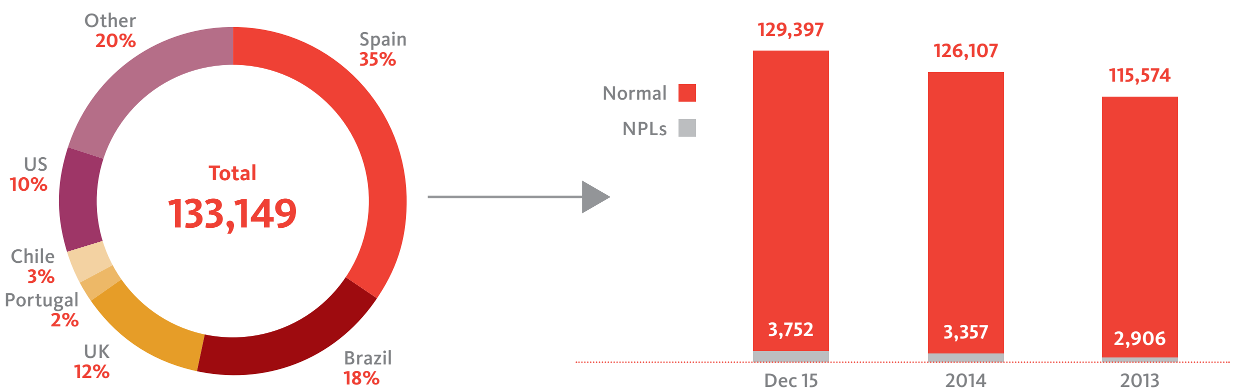
■ Individuals



■ SME+Comp+Inst



■ SGCB



The structure of the main magnitudes by geographic area:

- **Continental Europe**
  - In **Spain**[4], the NPL ratio amounted to 6.53% (-85 b.p. vs. 2014), despite the reduction in the denominator and due to the favourable evolution of NPLs, mainly at companies. The coverage ratio rose to 48% (+3 p.p. in the year).
  - **Portugal** closed the year with a fall in the NPL ratio to 7.46%, (-143 b.p. in 2015), and an increase in the coverage ratio to 99% (+47 p.p. during the year). This performance is due to the lower with PNL in most segments and the addition of Banif.
  - In **Poland** the downturn in the NPL ratio continued to 6.3% (-112 b.p. vs. 2014). The coverage ratio rose to 64%.
  - **Santander Consumer's** NPL ratio, after the increase in the perimeter, was 3.42% (-140 b.p. in 2015), with a good general performance of portfolios in all countries. The coverage ratio increased to 109%.
- **The United Kingdom**[5] reduced its NPL ratio to 1.52% (-27 b.p.), due to the good performance in all segments, particularly retail and especially the mortgage portfolio. The coverage ratio was 38%.
- **Brazil**[6], against an adverse macroeconomic background, the NPL ratio was contained to 5.98% (+93 b.p. in the year) using proactive risk management. The coverage ratio was 84%.
- **Chile** has reduced its NPL ratio to 5.62 % (-35 b.p. in the year), thanks to the good performance in non-performance loans across most segments. The coverage ratio was 54%.
- In **Mexico** the NPL ratio was down to 3.38% (-46 b.p. in the year), with increase in credit risk much higher than growth in the NPL portfolio. The coverage ratio was 91%.
- The **United States'** NPL ratio declined to 2.13% (-29 b.p.) and the coverage ratio rose to 225% (+31 p.p. since 2014).
  - The NPL ratio at Santander Bank was 1.16% (-25 b.p.), as a result of the good performance of the portfolios, while the coverage ratio was higher at 115%.
  - In SCUSA, the high rotation of the portfolio and the unit's active credit management brought the NPL ratio to 3.66% and the coverage ratio increased to 337%.
  - Puerto Rico's NPL ratio fell to 6.96% and the coverage ratio dropped to 49%.

Portfolio with normal status: amounts past due

The amounts past due of three months or less represented 0.30% of total credit risk with customers. The following table shows the structure at 31 December 2015, classified on the basis of the age of the first maturity:

Matured amounts pending
Million euros

	Less than 1 month	1-2 months	2-3 months
Deposits in credit entities	5	-	-
Customer loans	1,654	553	407
Public administrations	4	0	0
Other private sectors	1,650	553	407
Securities representing debt	-	-	-
Total	**1,659**	**553**	**407**

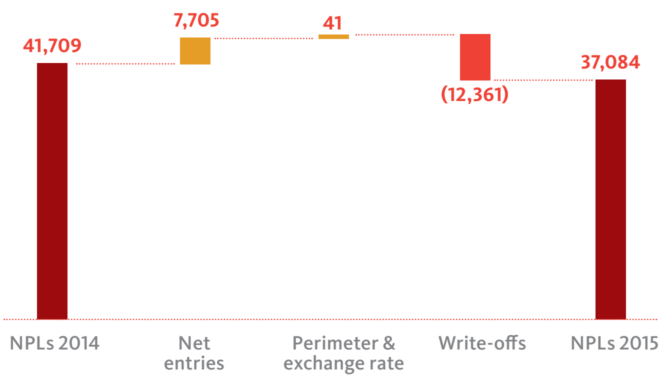
Doubtful portfolio and provisions: change over time and mix

Doubtful assets are divided into:

- **Assets classified as doubtful due to counterparty arrears:** Debt instruments, no matter what their holder or collateral might be, which have an amount in arrears for over 90 days, are allocated provisions in an individualised way, taking into account how long the unpaid amounts are outstanding, the collaterals offered and the economic situation of the counterparty and the guarantors.
- **Assets classified as doubtful for reasons other than counterparty arrears:** Debt instruments which cannot be classified as doubtful due to arrears but for which there are reasonable doubts as to the borrower's ability to pay in accordance with the contractual terms are assessed individually, and an allowance is recognised equal to the difference between the carrying amount of the assets and the present value of their estimated future cash flows.

The table below shows the change over time in doubtful loans by constituent items:

Change over time in doubtful loans by constituent item
Million euros. Data at 31 December 2015

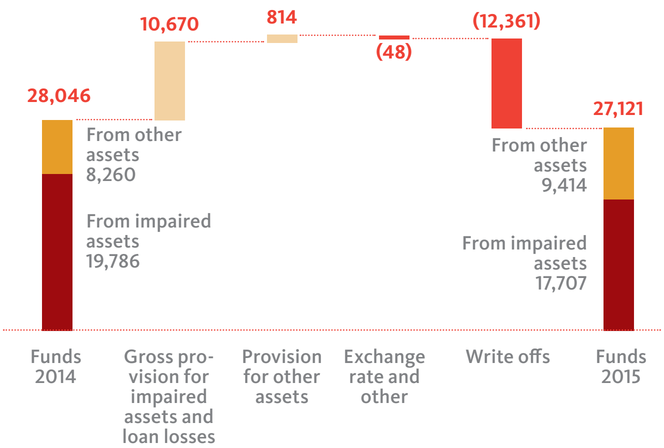


4. Does not include real estate activity. Further details in section D.1.3.2. Spain.
5. Further details in section D.1.3.1. United Kingdom.
6. Further details in section D.1.3.3. Brazil.

2013-2015 Evolution
Million euros

	2013	2014	2015
NPLs (start of he period)	**36,061**	**41,652**	**41,709**
Entries	17,596	9,652	7,705
Perimeter	743	497	106
Exchange rate and other	(2,122)	1,734	(65)
Write-offs	(10,626)	(11,827)	(12,361)
NPLs (end of period)	**41,652**	**41,709**	**37,094**

Change over time in loan loss provisions, according to constituent item
Million euros. Data at 31 December de 2015



Performance 2013-2015
Million euros

	2013	2014	2015
Funds (start of period)	**26,111**	**25,681**	**28,046**
From impaired assets	19,431	19,118	19,786
From other assets	6,681	6,563	8,260
Gross provision for impaired assets and loan losses	**11,881**	**11,766**	**10,670**
Allocation	11,686	11,766	10,670
Writedowns	195	-	-
Provision for other assets	**242**	**156**	**814**
Exchange rate and other	**(1,928)**	**2,271**	**(48)**
Write-offs	**(10,626)**	**(11,827)**	**(12,361)**
Funds (end of period)	**25,681**	**28,046**	**27,121**

Forbearance portfolio
The term forbearance portfolio refers for the purposes of the Group's risk management to operations in which the customer has shown, or is expected to show, financial difficulties which could have a material impact on its payment obligations in the prevailing contractual terms and, for this reason, steps have been taken to modify, cancel or even formalise a new transaction.

Grupo Santander has a detailed corporate policy for forbearance which acts as a reference in the various local transpositions of all the financial institutions that form part of the Group, and share the general principles established in Bank of Spain circular 6/2012 and the technical criteria published in 2014 by the European Banking Authority, developing them in a more granular way on the basis of the level of deterioration of clients.

This corporate policy sets rigorous criteria of prudence for assessing these risks:

- There must be restrictive use of restructuring, avoiding actions that delay recognising deterioration.
- The main aim must be to recover all the amounts owed, which entails recognising as soon as possible the amounts that it is estimated cannot be recovered.
- The restructuring must always envisage maintaining the existing guarantees and, if possible, improving them. Effective guarantees not only serve to mitigate the severity, but also can reduce the probability of default.
- This practice must not involve granting additional financing to the client, serve to refinance the debt of other banks, or be used as an instrument of cross-selling.
- It is necessary to assess all the forbearance alternatives and their effects, ensuring that the results would be better than those likely to be achieved in the event of not doing it.
- More severe criteria are applied for the classification of forbearance operations which prudently ensure the re-establishment of the client's payment capacity from the moment of forbearance and for an adequate period of time.
- In addition, in the case of clients assigned a risk analyst, individualised analysis of each case is particularly important, both for their correct identification as well as subsequent classification, monitoring and adequate provisions.

The policy also establishes various criteria related to determining the perimeter of operations considered as forbearance, through defining a detailed series of objective indicators to help identify financial distress situations which could have a material impact on the customer's meeting of its payment obligations.

In this way, operations not classified as doubtful at the date of forbearance are generally considered as being in financial difficulties if at this date non-payment exceeds a month. If there is no non-payment or if this does not exceed the month of maturity, other indicators to be assessed are taken into account including:

- Operations of clients who already have problems with other transactions.
- When the modification is made necessary prematurely, without there yet existing a previous and satisfactory experience with the client.

- In the event that the necessary modifications involve granting special conditions such as the need to have to establish a temporary grace period in the payment or, when these new conditions are regarded as more favourable for the client than those granted in an ordinary admission.

- Request for successive modifications over an unreasonable period of time.

- In any case, once the modification is made, if any irregularity arises in the payment during an established period of observation, even if there are no other symptoms, the operation will be considered within the perimeter of forbearance (backtesting).

As soon as it is determined that the reasons giving rise to the modification are due to financial difficulties, two types of forbearance are distinguished for management purposes on the basis of the management situation of these operations in origin: ex ante forbearance when the original operation is considered a doubtful risk and ex post forbearance when arising from a doubtful situation.

In addition, within ex post forbearance treatments applicable for cases of advanced deterioration are distinguished, whose requirements and classification criteria are even more severe than for the rest of forbearance.

Once the forbearance is done, those operations that remain classified as doubtful risk for not meeting at the time of forbearance the requirements for their reclassification to another category, must fulfil a schedule of prudent payments in order to ensure with reasonable certainty that the client has recovered his payment capacity.

If there is any irregularity (non-technical) in payments during this period, the observation period is begun again.

Once this period is over, conditioned by the customer's situation and by the operation's features (maturity and guarantees granted), the operation is no longer considered doubtful, although it remains subject to a test period with special monitoring.

This tracking is maintained as long as a series of requirements are not met, including: a minimum period of observation, amortisation of a substantial percentage of the amounts pending and having met the unpaid amounts at the time of forbearance.

The forbearance of a doubtful operation, regardless of whether, as a result of it, the transaction remains current in payment, the original non-payment dates are considered for all purpose, including the determination of provisions.

Total forbearance volume at 31 December 2015 amounts to 55,362 million euros, with the following details[7]:

Forbearance volume
Million euros

	Non-doubtful	Doubtful	Total risk	
	Amount	Amount	Amount	% spec. cov.
Total forebearance	**34,189**	**21,173**	**55,362**	**20%**

The Group's forbearance volume fell 2.4% (- EUR 1,341 million), continuing the downturn begun in 2013 (-14.1% total fall over the last three years, considering an unchanged scope). Its proportion as part of the total credit risk with Group customers has also diminished (currently 6.5% vs. 7% in the previous year).

The credit quality of the portfolio has improved, with 62% in non-doubtful status (58% in 2014). Of note is the high level of guarantees (77% with real guarantees) and adequate coverage through specific provisions (20% of the total forbearance portfolio and 52% of the doubtful portfolio).

Management metrics[8]
Credit risk management uses other metrics to those already commented on, particularly management of non-performing loans variation plus net write-offs (known in Spanish as VMG) and expected loss. Both enable risk managers to form a complete idea of the portfolio's evolution and future prospects.

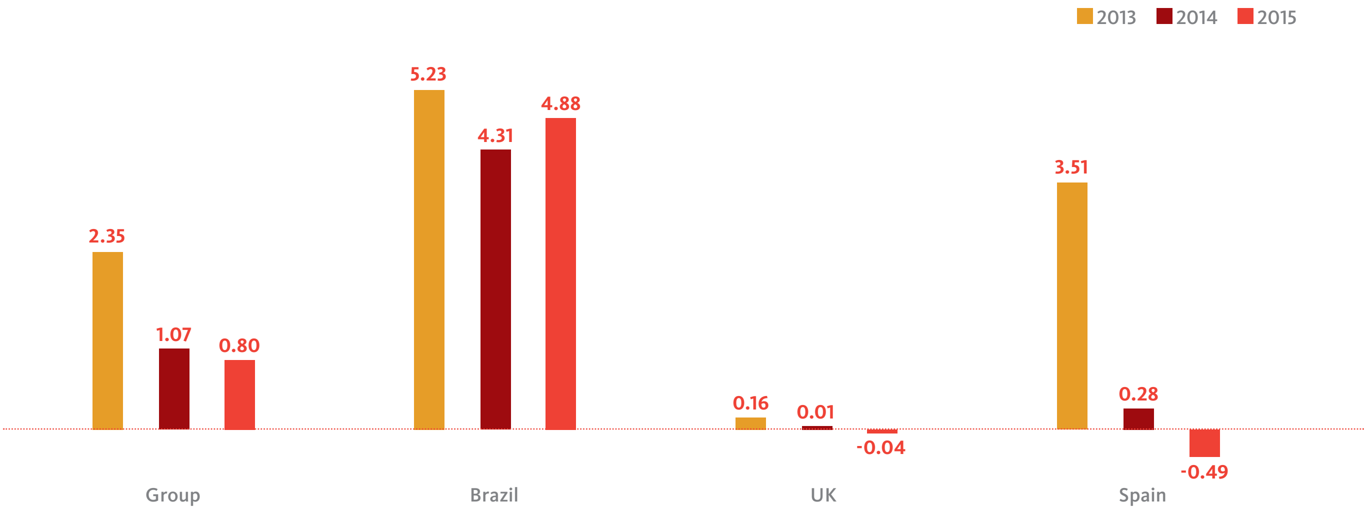
Unlike non-performing loans, the **VMG** refers to the total portfolio deteriorated over a period of time, regardless of the situation in which it finds itself (doubtful loans and write-offs). This makes the metric a main driver when it comes to establishing measures to manage the portfolio.

7. Non-doubtful portfolio figures include the portfolio classified as normal and substandard in Circular 4/2004 of the Bank of Spain. For more detail on the real estate portfolio consult note 54 of the auditor's report and the annual financial statements.
8. For further details of these metrics refer to section D.1.5.6. Measurement and control in this same chapter.

The VMG is frequently considered in relation to the average loan that generated them, giving rise to what is known as the **risk premium**, whose change over time can be seen below.

Risk premium (VMG/average balances)

%. Data with constant exchange rate



In 2015, the downturn in the Group's risk premium continued, despite the increase in Brazil.

Unlike the loss incurred, used by the Group to estimate loan-loss provisions, the **expected loss** is the estimate of the economic loss which will occur during the following year in the existing portfolio at a given moment. Its forward-looking component complements the view provided by the VMG when analysing the portfolio and its evolution.

The expected loss reflects the portfolio's features as regards the exposure at default (EaD), the probability of default (PD) and the severity or recovery once the default occurs (loss given default, LGD).

The table below sets out the distribution by segments in terms of EAD, PD and LGD. For example, it can be seen how the consideration of the LGD in the metrics makes the portfolios with mortgage guarantee generally produce a lower expected loss, fruit of the recovery that occurs in the event of a default via the mortgaged property.

The expected loss with clients of the portfolio in normal situation is 1.00% (virtually unchanged vs. 2014 in which it was 1.01%) and 0.79% for the whole of the Group's credit exposure (0.82% in 2014), maintaining the medium-low risk profile.

Credit risk exposure: segmentation

Segment	EAD[1]	%	Average PD	Average LGD	Expected loss
Sovereign debt	180,192	15.9%	0.13%	18.67%	0.02%
Banks and other fin. instit.	71,704	6.3%	0.29%	38.49%	0.11%
Public sector	3,794	0.3%	1.66%	21.25%	0.35%
Corporate	160,498	14.2%	0.65%	31.46%	0.21%
SMEs	161,934	14.3%	2.77%	40.12%	1.11%
Individual mortgages	343,213	30.4%	2.56%	7.38%	0.19%
Consumer credit (individuals)	145,001	12.8%	6.89%	48.13%	3.32%
Credit cards (individuals)	46,229	4.1%	3.25%	64.54%	2.10%
Other assets	17,209	1.5%	2.48%	41.30%	1.03%
Memorandum item[2]	860,669	76.2%	3.01%	33.11%	1.00%
Total	**1,129,773**	**100.0%**	**2.37%**	**33.15%**	**0.79%**

Data at December 2015.

1. Excludes doubtful loans.

2. Excludes sovereign debt, banks and other financial institutions and other assets.

D.1.3. Details of main geographies

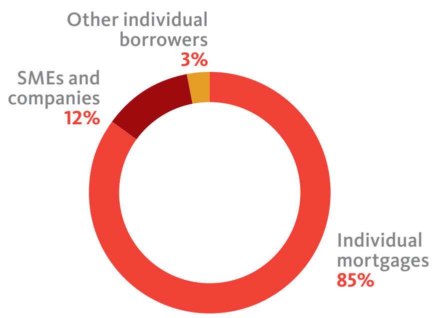
The portfolios of the geographies where Grupo Santander has the highest risk concentrations are set out below, based on the data in sections D.1.2.2 Performance in magnitudes in 2015.

D.1.3.1. United Kingdom

D.1.3.1.1. Overview of the portfolio
Credit risk with customers in the United Kingdom amounts to EUR 282,182 million at the close of December 2015, accounting for 33% of the Group total.

The Santander UK portfolio is divided into the following segments:

Portfolio segmentation
%



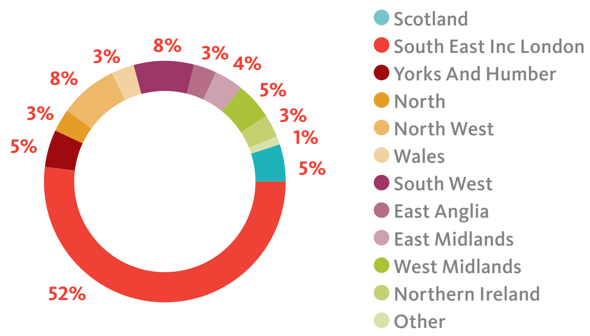
D.1.3.1.2. Mortgage portfolio
Because of its importance not just for Santander UK but for all of the Group's outstanding, it is worth highlighting the mortgage portfolio, which stood at EUR 207,309 million at the end of Deember 2015.

This portfolio consists of mortgages for acquisition or reforming homes, granted to new as well as existing clients and always constituting the first mortgage. There are no operations that entail second or successive charges on mortgaged properties.

The mortgaged property must always be located within United Kingdom territory, regardless of the destiny of the financing except in the case of some one-off operations in the Isle of Man. Mortgages can be granted for properties outside the United Kingdom, but the collateral for such mortgages must consists of a property in the United Kingdom.

Most of the credit exposure is in the south east of the United Kingdom, and particularly in the metropolitan area of London, where housing prices have risen over the last year.

Geographic concentration
%

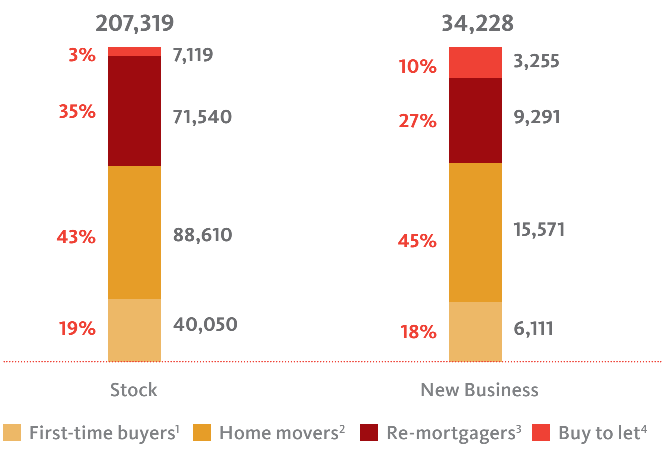


All the properties are valued independently before each new operation is approved, in accordance with the Group's risk management principles.

Mortgages that have already been granted are subject to a quarterly updating of the value of the property in guarantee, by an independent agency, using an automatic valuation system in accordance with the market's usual practices and in compliance with prevailing legislation.

The distribution of the portfolio by type of borrowers is shown in the chart below:

Mortgage portfolio loan types
Million euros



1. First-Time Buyers: customers who purchase a home for the first time.
2. Home Movers: customers who change houses, with or without changing the bank granting the loan.
3. Re-mortgages: customers who switch the mortgage from another financial entity.
4. Buy to Let: houses bought for renting out.

There are many different types of products with different risk profiles, all of them subject to the limits inherent in the policies of a prime lender such as Santander UK. The features of some of them (in brackets the percentage of the portfolio of United Kingdom mortgages they represent):

- **Interest only loans** (38.8%)[9]: the customer pays every month the interest and amortises the capital at maturity. An appropriate repayment vehicle such as a pension plan, mutual funds, etc is needed. This is a regular product in the United Kingdom market for which Santander UK applies restrictive policies in order to mitigate the risks inherent in it. For example, maximum LTV of 50%, higher cut-off in the admission score or the evaluation of the payment capacity simulating the amortization of capital and interest payments instead of just interest.

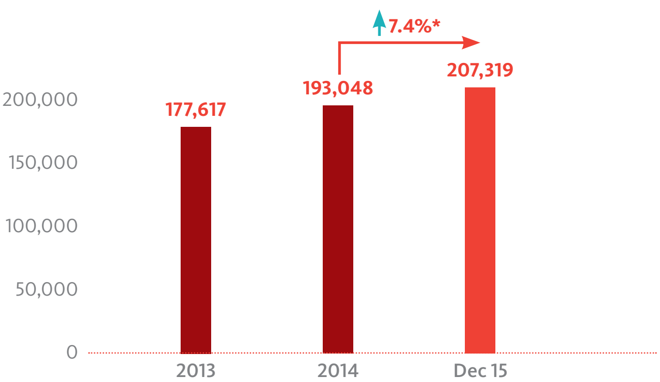
- **Flexible loans** (12.9%): This type of loan contractually enables the customer to modify the monthly payments or make additional provision of funds up to a pre-established limit, as well as having disbursements from previously paid amounts above that limit.

- **Buy to Let** (3.4%): Buy to let mortgages (purchase of a property to then rent it out) account for a small percentage of the total portfolio. Admission was halted between 2009 and 2013 when it was reactivated following the improvement in market conditions and approval with strict rick policies. In 2015, these mortgages represented around 10% of the total admission.

The evolution of the mortgage portfolio over the last three years is shown below:

Mortgage portfolio: change over time

Million euros

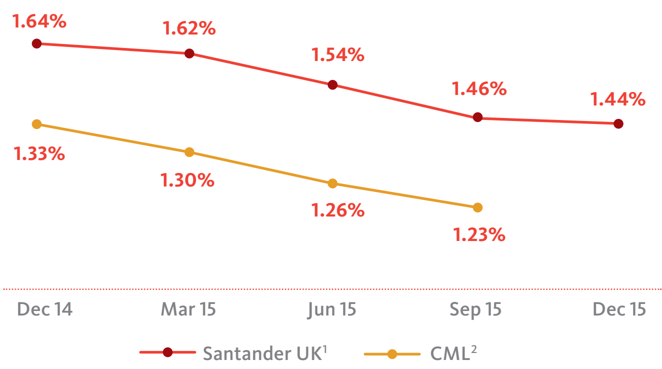


* Real growth, discounting exchange rate effect, is 2%.

There was slight growth of 2.0% (discounting the exchange rate impact) at December 2015, accompanied by a favourable environment for the property market with rising prices.

In 2015, as can be seen in the chart below, the NPL ratio dropped from 1.64% in 2014 to 1.44% at December 2015, slightly above that of the United Kingdom banking industry as a whole, according to the Council of Mortgage Lenders (CML).

Mortgage portfolio NPL ratio: change over time



1. Santander UK data according to amount of cases.
2 CML data according to volume of cases.

The decline in the NPL ratio was sustained by the evolution of non-performing loans, which improved significantly thanks to a more favourable economic environment, as well as the increased NPL exits due to the improvements in the efficiency of the recovery teams. The amount of non-performing loans thus dropped by 10.2%, following the trend seen in 2014.

It is also necessary to point out the more conservative focus adopted in Santander UK's definition of a NPL, in line with the criteria set by the Bank of Spain and Grupo Santander, with regard to the standard applied in the United Kingdom market. This focus includes the classification as doubtful of the following operations:

- Customers with payment delays of between 30 and 90 days and who have been declared publicly insolvent (via bankruptcy process) in the previous two years.

- Operations in which once the maturity date is reached there is still capital of the loan pending payment with a maturity of more than 90 days, although the client remains up to date with the monthly payments.

- Forbearance operations which, in accordance with the corporate policy, are considered as 'payment agreements' and thus classified as doubtful.

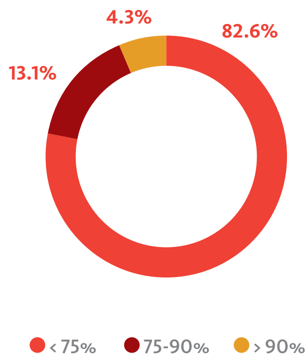
Excluding these concepts, which are not included for calculating the NPL ratio in the United Kingdom market, and under which EUR 445 million were classified as NPLs at the end of 2015, the ratio of the mortgage portfolio was 1.22%, well below the aforementioned 1.44% and close to that published by the Council of Mortgage Lenders.

The strict credit policies limit the maximum loan-to-value (LTV) to 90% for those loans that amortise interest payments and capital, and to 50% for those that amortize interest regularly and the capital at maturity. These policies were applied, bringing the simple arithmetic average LTV of the portfolio to 45.3% and the average weighted LTV to 41.1%. The proportion of the portfolio with a LTV of more than 100% was reduced to 1.7% from 2.4% in 2014.

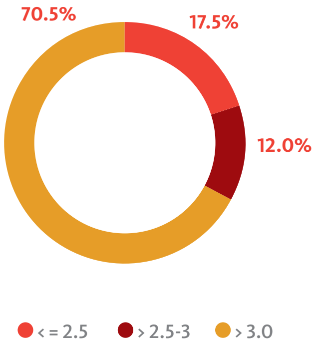
9. Percentage calculated for loans with the total or an interest only component.

The following charts show the LTV structure for the stock of residential mortgages and the distribution in terms of the income multiple of new loans in 2015:

■ *Loan to value* (average 45.3%)[1]



■ *Income multiple* (average 3.1)[2]



1. *Loan to value:* relation between the amount of the loan and the appraised value of the property. Based on indicess.
2. *Income multiple:* Income multiple: relation between the total original amount of the mortgage and the customer's annual gross income declared in the loan request.

Credit risk policies currently used explicitly forbid loans regarded as high risk (subprime mortgages) and establish demanding requirements for credit quality, both for operations and for clients. For example, as of 2009 mortgages with a loan-to-value of more than 100% have not been allowed.

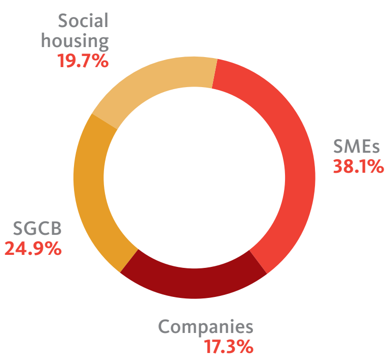
An additional indicator of the portfolio's good performance is the reduced volume of foreclosed properties, which in December 2015 amounted to EUR 62 million, less than 0.03% of the total mortgage exposure. Efficient management of these cases and the existence of a dynamic market for this type of housing enables sales to take place in a short period of time (around 18 weeks on average), contributing to the good results.

D.1.3.1.3. SMEs and companies

As shown in the chart on the segmentation of the portfolio at the beginning of this section, lending to SMEs and Companies (EUR 52,576 million) represented 12% of the total at Santander UK.

The following sub-segments are included in these portfolios:

■ SME and companies portfolio: segments



SMEs: this segment includes those small firms belonging to the business lines of small business banking and regional business centres. Total lending at December 2014 was EUR 20,036 million, with a NPL ratio of 3.8% (4.2% at the start of the year).

Companies: This includes companies who have a risk analyst assigned. It also includes portfolios considered as not strategic (legacy and non-core). Total lending at December was EUR 9,119 million, with a NPL ratio of 2% (2.2% at the start of the year).

SGCB: includes companies under the Santander Global Corporate Banking risk management model. Lending at December amounts to EUR 13,072 mn with an NPL ratio of 0.001%.

Social housing: this includes lending to companies that build, sell and rent social housing. This segment is supported by local governments and the central government and has no NPLs. Outstanding stood at EUR 10,349 million at the end of December.

In line with the objective of becoming the reference bank for SMEs and companies, the most representative portfolios of this segment had grown by around 3.6% at December 2015 in net terms.

D.1.3.2. Spain

D.1.3.2.1. Overview of the portfolio

Total credit risk (including guarantees and documentary credits) in Spain (excluding the real estate unit, commented on later) amounted to EUR 173,032 million (20% of the Group), with an adequate level of diversification by both product and customer segment.

Growth in new lending in main individual and business segment portfolios was consolidated in 2015, underpinned by the improved economic situation and the various strategies implemented by the Bank. In annual terms, total credit risk dropped 5% due mainly to lower lending to public authorities and the pace of repayment still being much higher than the growth of new lending in the other segments.

■ Credit risk by segment
Million euros

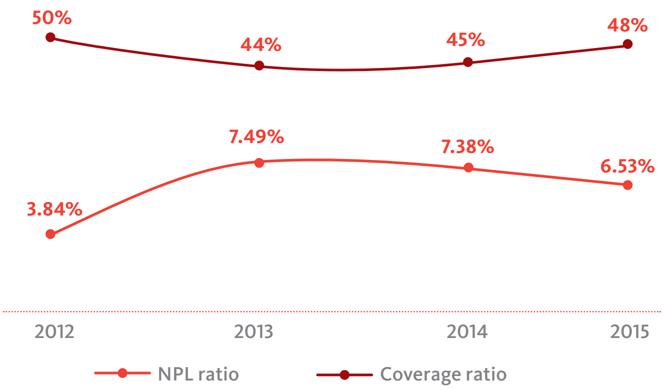
	2015	2014	2013	Var 15/14	Var 14/13
Total credit risk*	**173,032**	**182,974**	**189,783**	**-5%**	**-4%**
Home mortgages	47,924	49,894	52,016	-4%	-4%
Rest of loans to individuals	16,729	17,072	17,445	-2%	-2%
Companies	92,789	96,884	106,042	-4%	-9%
Public administrations	15,590	19,124	13,996	-18%	37%

* Including guarantees and documentary credits.

The NPL ratio for the total portfolio was 6.53%, 85 b.p less than in 2014. The fall in lending (which increased the NPL ratio by 42 b.p.) was offset by the better NPL figure (which reduced the ratio by 127 b.p.). This improvement was mainly due to the gross NPL entries, 22% lower than 2014, and, to a lower degree, to the normalisation of several restructured positions and portfolio sales.

The coverage ratio rose 3 p.p. to levels of 48%, continuing with the increase reported in 2014.

NPL ratio and coverage ratio



Below are the main portfolios.

D.1.3.2.2. Home mortgages

Lending to households to acquire a home in Spain amounted to EUR 48,404 million at the end of 2015 (28% of total credit). 99% of those homes have a mortgage guarantee.

Lending to households to acquire homes*

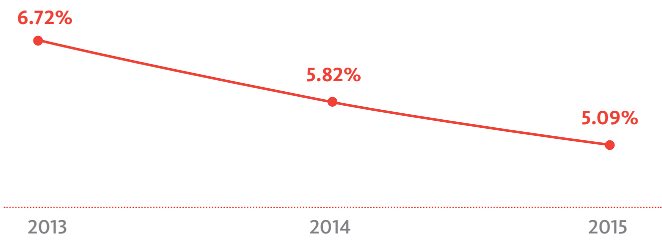
Million euros

	2015	2014	2013
Gross amount	**48,404**	**50,388**	**52,879**
Without mortgage guarantee	480	493	863
With mortgage guarantee	47,924	49,894	52,016
Of which doubtful	**2,477**	**2,964**	**3,956**
Without mortgage guarantee	40	61	461
With mortgage guarantee	2,437	2,903	3,495

* Not including the Santander Consumer España mortgage portfolio (EUR 2,382 million in 2015, with EUR 90 million of doubtful loans).

The NPL ratio of mortgages to households to acquire a home was 5.09%, 73 b.p.less than in 2014, supported by steadily falling gross NPL entries.

NPL ratio of mortgages for homes in Spain

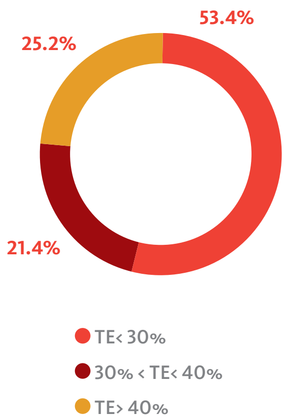


The portfolio of mortgages for homes in Spain kept its medium-low profile and with limited expectations of a further deterioration:

- All mortgages pay principle right from the start.
- Early amortization is usual and so the average life of the operation is well below that in the contract.
- The borrower responds with all his assets and not just the home.
- High quality of collateral concentrated almost exclusively in financing the first home.
- The average affordability rate was maintained at 28%.
- Some 69% of the portfolio has a loan-to-value of less than 80% (total risk/latest available valuation of the home).

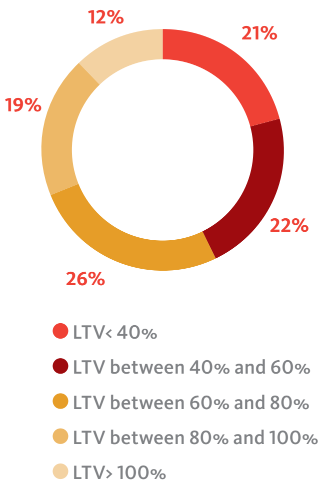
Affordability ratio %

Average 28.4%



Loan to value

%

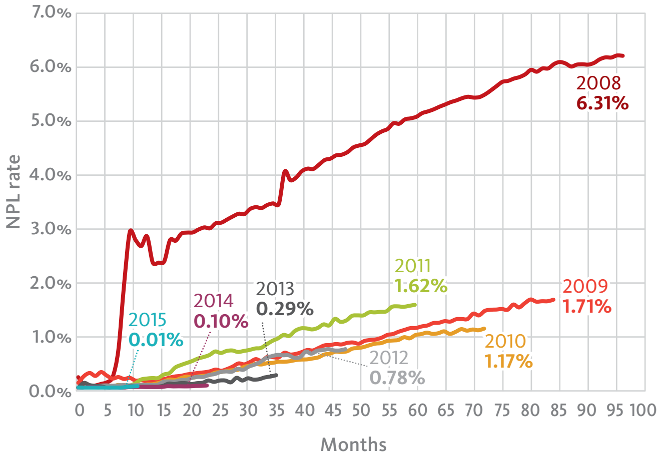


Loan to value: percentage indicating the total risk/latest available valuation of the home.

Affordability ratio: relation between the annual instalments and the customer's net income.

In 2015, the vintages performance remained strong, underpinned by the quality measures deployed in 2008 since 2008 and also a shift in demand towards better profiles, which is shown in falling NPL entries.

Maturity of vintages



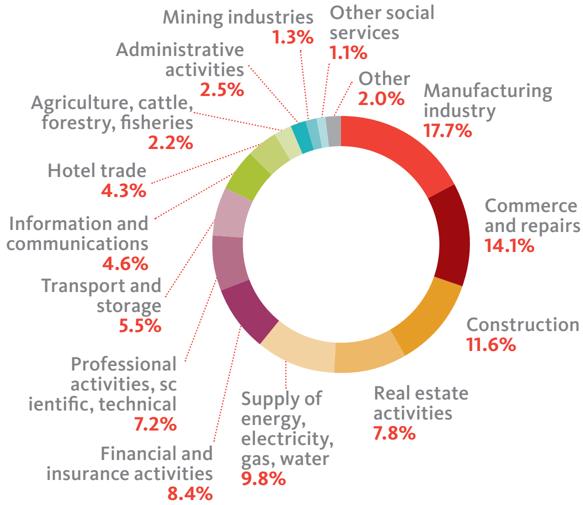
D.1.3.2.3. Companies portfolio

Credit risk assumed directly with SMEs and companies (EUR 92,889 million) is the main segment in lending in Spain (54% of the total).

Most of the portfolio (94%) corresponds to clients who have been assigned a analyst who monitors the borrower continuously throughout the risk cycle. In 2014, as part of the *Santander Advanced* project, the criteria of clients with an individual analyst was changed and the number of clients with continuous monitoring increased.

It is a highly diversified portfolio, with over 191,290 active customers and without significant concentrations in any one particular business segment.

Companies portfolio distribution



The NPL ratio of this portfolio was 7,64%, 127 b.p. lower than 2014, with gross entries in default 30% lower than the previous year.

D.1.3.2.4. Property activity in Spain

The Group manages, in a separate unit, run-off real estate activity in Spain[10], which includes loans to clients mainly for real estate promotion, and has a specialised management model, stakes in real estate companies[11] and foreclosed assets.

The Group's strategy in the last few years has been to reduce the volume of these loans which at the end of 2015 stood at EUR 6,991 million in net terms (around 2% of loans in Spain and less than 1% of the Group's loans). The portfolio's composition is as follows:

- Net loans are EUR 2,596 million, EUR 1,191 million less than in December 2014 and with a coverage of 56%.
- Net foreclosed assets at year end were EUR 3,707 million, with coverage of 55%.
- The value of the stakes in real estate companies was EUR 688 million.

The gross exposure in loans and foreclosures continued the downward trend of previous years and fell 59% between 2008 and 2015.

10. For more detail on the real estate portfolio see note 54 of the Audit Report and the Annual Financial Statements.
11. As of December 2014, the stake in Metrovacesa was consolidated by global integration.

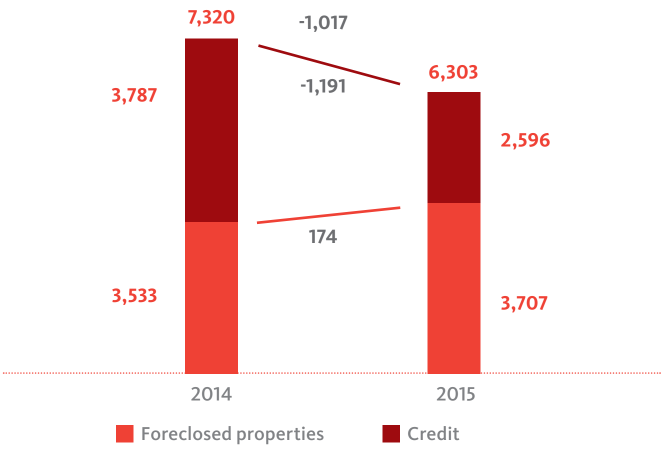
The changes over time and the classification of the credit and foreclosed assets portfolios are shown in the table below:

Credits and foreclosed assets portfolio
Million euros

	2015			2014		
	Gross balance	% coverage	Net balance	Gross balance	% coverage	Net balance
1. Credit	5,959	56%	2,596	8,276	54%	3,787
a. Normal	48	0%	48	102	0%	102
b. Substandard	387	30%	270	1,209	35%	784
c. Doubtful	5,524	59%	2,278	6,965	58%	2,901
2. Foreclosed	8,253	55%	3,707	7,904	55%	3,533
TOTAL 1+2	**14,212**	**56%**	**6,303**	**16,180**	**55%**	**7,320**

Under the perimeter of management of the real estate unit, net exposure was reduced by 14% in 2015.

Change in net exposure over time



By type of real estate that guarantees the loans and foreclosed assets, the coverage levels are as follows:

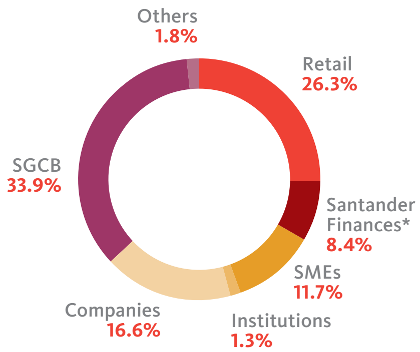
Coverage by guarantee type
Million euros

	Real estate loans		Foreclosed assets		Total	
	Exposure	Coverage	Exposure	Coverage	Exposure	Coverage
Completed buildings	2,735	43%	2,292	46%	5,027	44%
Promotions under construction	137	43%	832	49%	969	48%
Land	2,302	67%	5,081	60%	7,383	62%
Other guarantees	785	75%	48	60%	833	74%
TOTAL	**5,959**	**56%**	**8,253**	**55%**	**14,212**	**56%**

D.1.3.3. Brazil

Credit risk in Brazil amounts to EUR 72,173 million, down 20.3% against 2014 and largely due to the depreciation of the Brazilian currency. Santander Brasil thus accounts for 8.5% of all Grupo Santander's lending. It is adequately diversified and with a mainly retail profile (46.4% to individuals, consumer finance and SMEs).

Portfolio mix
%



* Santander Financiamentos: unit specialised in consumer finance (mainly auto finance).

At the close of 2015, this unit reported 5.70% growth at an unchanged exchange rate, in line with the average growth rate for private banks in the country.

The **strategy** focused on the **change** of mix used in recent years was continued during 2015. Stronger growth was obtained in the segments with a more conservative profile, leading to greater weight in higher credit quality products. In the individuals segment, growth in particularly strong in the mortgage portfolio and in the payroll discount ('consignado' credit) loans portfolio created through the joint-venture between Santander Brasil and Banco Bonsucesso. Unsecured products such as special cheque and cards have fallen in both individuals and in SMEs. In companies (legal entities), the strongest growth was to be found in the business and corporate banking portfolios, with significant positions in dollars in both cases, thus benefiting from the BRL's depreciation against the dollar.

Below are the levels of lending and growth of the main segments at a constant exchange rate.

Lending: segmentation

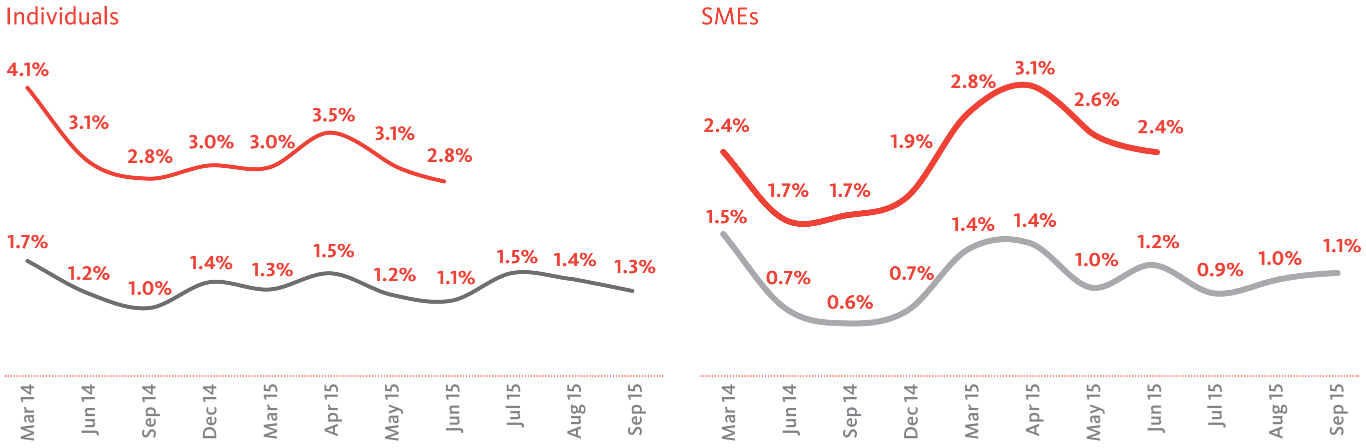
Million euros. Fixed exchange rate at 31 December, 2015

	2015	2014	2013	15 / 14	14 / 13
Individuals	**18,964**	**18,399**	**17,549**	**3%**	**5%**
Mortgages	6,107	5,168	3,823	18%	35%
Consumer	7,009	7,847	8,820	-11%	-11%
Cards	4,403	4,265	3,993	3%	7%
Others	1,445	1,120	912	29%	23%
Santander Financiamentos	**6,040**	**6,529**	**6,781**	**-7%**	**-4%**
SMEs and large companies	**44,840**	**40,740**	**34,038**	**10%**	**20%**
SMEs	8,440	7,976	8,413	6%	-5%
Companies	11,959	10,766	9,020	11%	19%
Corporate	24,441	21,998	16,605	11%	32%

The leading indicators on the credit profile of new loans (vintages), which are continuously tracked, are shown below. These are transactions over 30 days in arrears at three and six months respectively from their origination date, in order to anticipate any possible impairment in portfolios. These allow the Entity to define corrective measures if deviations against the expected scenarios are detected. As we can see, these vintages were kept at comfortable levels through proactive risk management.

Vintages. Changes in the Over 30* ratio over time at three and six months from each vintage admission

As a percentage



* Ratio calculated as the total amount of operations that are more than 30 days overdue on the total amount of the vintage.

Over30 Mob3 Over30 Mob 6

At the close of 2015, the NPL ratio stood at 5.98% (93 b.p. against the previous year). This increase was the result of the following factors: the country's economic recession and additional problems in industries with the highest sensitivity to commodity prices, particularly in the energy and oil sectors. Consequently, NPL entries in the Business and Santander Global Corporate Banking segments have increased.

Faced with this situation, Santander Brazil has deployed a **set of measures designed to reinforce risk management**. These measures are geared towards improving the quality of new lending, and also allaying the effects of this challenging economic situation on the portfolio. This set of measures, which is known as the ***Defence Plan***, is based on preventive management of arrears, thus enabling the Bank to anticipate possible further customer impairments. The defensive measures set out in this Plan include the following:

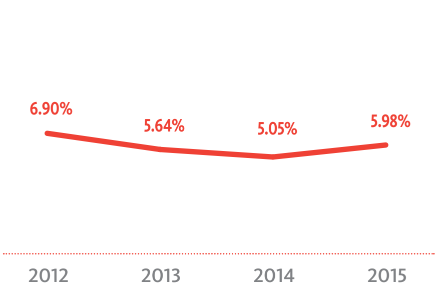
- Reduction of limits in products/medium-high risk clients.
- Implementing limits on maximum debt.
- Migration of revolving towards fixed instalment products.
- Higher collateralisation of portfolio.
- Improvements in admission models, which have to be more precise and predictive, and in collection channels.
- More individualised treatment in SMEs of a certain size (non-standardised model).
- Management of risk appetite by sectors and restriction of powers in critical sectors.

Santander Brazil is using this proactive risk management, based on the knowledge of our customers, to strengthen its position during the current economic cycle. This is shown by the change in the impairment rate (over 90 rate) of the loan portfolio, which stood at 3.24% at the close of 2015, and which was consistently lower than the average for Brazilian private banks in 2015 (4.20%).

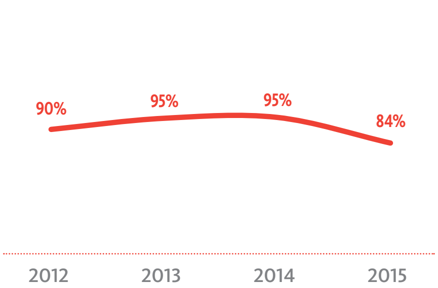
The cost of credit fell during the year from 4.9% in 2014 to 4.5% in 2015 due to growth in provisions being lower than the growth in lending, and also through the strategy of changing the product mix.

The NPL coverage rate stood at 83.7% at 2015 year-end, indicating an 11.7 pp decrease on the previous year-end. This fall is the result of the previously mentioned NPL rate increase, and the change in the portfolio mix, where there was an increase in the weight of mortgage lending, which requires lower provisions since it is secured by collateral.

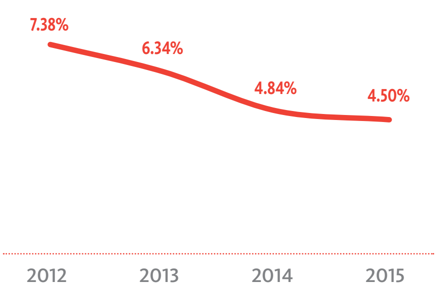
NPL ratio



Coverage ratio



Cost of credit



D.1.4. Other credit risk optics

D.1.4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with clients, mainly with credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives to provide service to Group clients.

According to chapter six of the CRR (EU regulation 575/2013), the credit risk of the counterparty is the risk that the client in an operation could enter into non-payment before the definitive settlement of the cash flows of this operation. It includes the following types of operations: derivative instruments, operations with repurchase commitment, stock lending commodities, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring the exposure, one is with the Mark to Market (MtM) methodology (replacement value of derivatives or drawn amount in committed credit lines) and the other, introduced in mid 2014 for some countries and products, which incorporates the calculation of the exposure by Monte Carlo simulation. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recovery.

After markets close, exposures are re-calculated by adjusting all operations to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is done through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any Group unit to be known at each moment.

Exposures in counterparty risk: over the counter (OTC) operations and organised markets

The total exposure **at the end of 2015** on the basis of management criteria in terms of positive market value after applying netting agreements and collateral by counterparty risk activities was EUR 18,761 million (net exposure of EUR 52,148 million) and was concentrated in high credit quality counterparties (78.3% of risk with counterparties has a rating equal to or more than A-).

In addition, at September 2015 credit valuation adjustments (CVA) of EUR 850.9 million were registered (+8.3% % vs. 2014 due mainly to the general decline in credit quality of the main Brazilian counterparties) and debt valuation adjustments (DVA) of EUR 530.8 million (+133%, largely due to the increase in spread of Banco Santander and to a lesser degree, as a result of changes in the corporate DVA calculation methodology)[12].

Around 93% of the counterparty risk operations in nominal terms was with financial institutions and central counterparty institutions (CCP in English) with whom we operate almost entirely under netting and collateral agreements. The rest of operations with customers who are not financial institutions are, in general, operations whose purpose is hedging. Occasionally, operations are conducted for purposes other than hedging, always with specialised clients.

Distribution of counterparty risk by customer rating (in terms of nominals)*

AAA	1.06%
AA	2.52%
A	74.74%
BBB	18.69%
BB	2.95%
B	0.04%
REST	0.01%

* Ratings based on equivalences between internal ratings and credit agency ratings.

12. The definition and methodology for calculating the CVA and DVA are set out in D.2.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA) of this Report.

Counterparty risk: distribution by nominal risk and gross market value*

Million euros

	2015			2014			2013		
		Market value			Market value			Market value	
	Nominal	Positive	Negative	Nominal	Positive	Negative	Nominal	Positive	Negative
CDS protection bought**	32,350	80	529	38,094	60	769	45,968	86	887
CDS protection sold	26,195	428	52	31,565	658	48	38,675	763	89
Total credit derivatives	**58,545**	**508**	**581**	**69,659**	**717**	**817**	**84,642**	**849**	**976**
Equity forwards	980	5	6	1,055	117	17	2,125	76	20
Equity options	23,564	959	1,383	36,616	1,403	2,192	58,964	1,686	2,420
Equity spot	20,643	794	-	19,947	421	-	10,041	1,103	-
Equity swaps	28	-	1,210	472	-	701	685	-	265
Equities - organised markets	6,480	-	-	8,616	-	-	9,117	-	-
Total equity derivatives	**51,695**	**1,758**	**2,598**	**66,705**	**1,941**	**2,910**	**80,931**	**2,865**	**2,705**
Fixed-income forwards	11,340	39	66	3,905	3	124	3,089	1	0
Fixed-income options	789	8	-	423	4	0	-	0	-
Fixed-income spot	3,351	-	-	5,055	-	-	1,906	-	-
Fixed income - organised markets	831	-	-	1,636	-	-	2,091	-	-
Total fixed income derivatives	**16,311**	**47**	**66**	**11,018**	**8**	**124**	**7,086**	**1**	**0**
Forward and spot rates	148,537	5,520	3,315	151,172	3,633	2,828	101,216	2,594	1,504
Exchange-rate options	32,421	403	644	44,105	530	790	46,290	604	345
Other exchange rate derivatives	189	1	4	354	3	6	125	2	1
Exchange-rate swaps	522,287	20,096	21,753	458,555	14,771	15,549	411,603	9,738	8,530
Exchange rate - organised markets	-	-	-	-	-	-	-	-	-
Total exchange rate derivatives	**703,434**	**26,019**	**25,716**	**654,187**	**18,936**	**19,173**	**559,233**	**12,940**	**10,380**
Asset swaps	22,532	950	1,500	22,617	999	1,749	22,594	901	1,634
Call money swaps	190,328	2,460	1,792	264,723	1,228	1,150	235,981	698	608
Interest rate structures	8,969	2,314	3,031	23,491	2,215	2,940	37,398	1,997	2,553
Forward interest rates- FRAs	178,428	19	78	171,207	13	63	117,011	16	18
IRS	3,013,490	85,047	85,196	2,899,760	95,654	94,624	2,711,552	58,164	54,774
Other interest-rate derivatives	194,111	3,838	3,208	218,167	4,357	3,728	230,735	3,870	3,456
Interest rate - organised markets	26,660	-	-	38,989	-	-	31,213	-	-
Total interest-rate derivatives	**3,634,518**	**94,628**	**94,806**	**3,638,955**	**104,466**	**104,253**	**3,386,485**	**65,648**	**63,043**
Commodities	468	130	40	1,020	243	112	1,363	265	78
Commodities - organised markets	59	-	-	208	-	-	446	-	-
Total commodity derivatives	**526**	**130**	**40**	**1,228**	**243**	**112**	**1,809**	**265**	**78**
Total gross derivatives	**4,431,000**	**123,089**	**123,805**	**4,392,303**	**126,312**	**127,389**	**4,077,320**	**82,567**	**77,183**
Total derivatives - organised markets * **	**34,028**			**49,449**			**42,866**		
Repos	**128,765**	**3,608**	**3,309**	**166,047**	**3,871**	**5,524**	**152,105**	**9,933**	**7,439**
Securities lending	**30,115**	**10,361**	**1,045**	**27,963**	**3,432**	**628**	**19,170**	**2,919**	**672**
Total counterparty risk	**4,623,908**	**137,058**	**128,159**	**4,635,762**	**133,615**	**133,541**	**4,291,461**	**95,419**	**85,294**

* Figures with management criteria.

** Credit derivatives bought including hedging of loans.

*** Refers to listed derivatives transactions (proprietary portfolio). Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.

Counterparty risk: exposure in terms of market value and credit risk equivalent including mitigation effect[1]

Million euros

	2015	2014	2013
Market value netting effect[2]	34,210	28,544	27,587
Collateral received	15,450	11,284	9,451
Exposure by market value[3]	18,761	17,260	18,136
Net CER[4]	52,148	50,077	58,485

1. Figures with management criteria. Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.
2. Market value used to include the effects of mitigation agreements so as to calculate exposure for counterparty risk.
3. Considering the mitigation of the netting agreements and having deducted the collateral received.
4. CER/Credit risk equivalent: net value of replacement plus the maximum potential value, minus collateral received. Includes regulatory EAD for organised markets (EUR 41 million in December 2015, EUR 71 million in 2014 and EUR 60 million in 2013).

Counterparty risk: distribution of nominals by maturity*

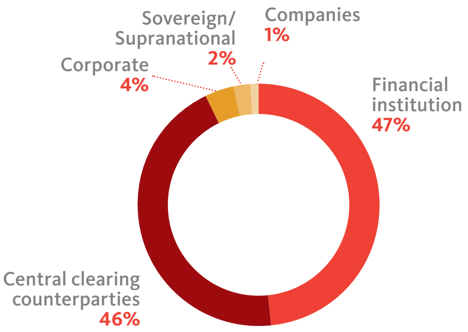
Million euros

	1 year**	1-5 years	5-10 years	Over 10 years	TOTAL
CDS protection bought ***	31,583	767	0	0	32,350
CDS protection sold	23,817	2,159	219	0	26,195
Total credit derivatives	**55,400**	**2,926**	**219**	**0**	**58,545**
Equity forwards	822	158	0	0	980
Equity options	22,316	715	63	470	23,564
Equity spot	20,027	401	0	215	20,643
Equity swaps	27	1	0	0	28
Equities - organised markets	4,563	1,915	1	0	6,480
Total equity derivatives	**47,756**	**3,190**	**64**	**685**	**51,695**
Fixed-income forwards	11,001	313	12	14	11,340
Fixed-income options	262	527	0	0	789
Fixed-income spot	2,504	603	99	146	3,351
Fixed income - organised markets	831	0	0	0	831
Total fixed income derivatives	**14,598**	**1,442**	**111**	**160**	**16,311**
Forward and spot rates	136,304	10,169	929	1,136	148,537
Exchange-rate options	29,919	1,842	283	377	32,421
Other exchange rate derivatives	159	28	2	0	189
Exchange-rate swaps	491,960	21,691	4,985	3,652	522,287
Exchange rate - organised markets	-	-	-	-	-
Total exchange rate derivatives	**658,342**	**33,729**	**6,198**	**5,165**	**703,434**
Asset swaps	6,483	15,585	243	220	22,532
Call money swaps	181,909	4,622	2,621	1,176	190,328
Interest rate structures	8,522	434	10	3	8,969
Forward interest rates- FRAs	178,240	47	141	0	178,428
IRS	2,871,123	94,584	35,985	11,798	3,013,490
Other interest-rate derivatives	176,529	11,752	4,815	1,016	194,111
Interest rate - organised markets	13,725	12,935	0	0	26,660
Total interest-rate derivatives	**3,436,530**	**139,959**	**43,815**	**14,213**	**3,634,518**
Commodities	422	45	0	1	468
Commodities - organised markets	35	24	0	0	59
Total commodity derivatives	**457**	**68**	**0**	**1**	**526**
Total gross derivatives	**4,193,930**	**166,439**	**50,406**	**20,225**	**4,431,000**
Total derivatives - organised markets ******	**19,153**	**14,874**	**1**	**0**	**34,028**
Repos	**114,485**	**9,417**	**3,035**	**1,828**	**128,765**
Securities lending	**17,989**	**6,462**	**3,892**	**1,772**	**30,115**
Total counterparty risk	**4,345,557**	**197,192**	**57,334**	**23,825**	**4,623,908**

* Figures with management criteria.
** The collateral replacement term is considered to be the maturity date in transactions with collateral agreements.
*** Credit derivatives acquired including hedging of loans.
**** Refers to listed bought transactions (proprietary). Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.

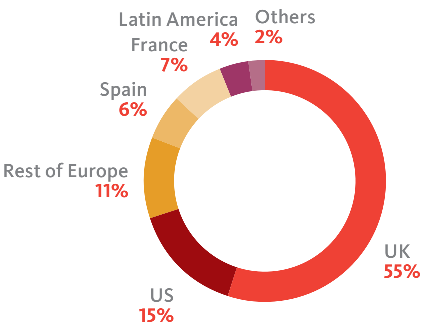
The distribution of the activity by type of counterparty in terms of notional amounts was concentrated mainly in financial institution (47%) and central clearing counterparties (46%).

Counterparty risk by customer type



As regards to geographic distribution, 55% of the activity in terms of notional amounts was with UK counterparties (whose weight within the total is due to the increasing use of clearing houses), 15% with North American counterparties, 7% with French ones, 6% with Spanish counterparties, and of note among the rest is 11% with other European countries and 4% with Latin America.

Counterparty risk by geography



Counterparty risk, organised markets and clearing houses
The Group's policies seek to anticipate wherever possible the implementation of measures resulting from new regulations regarding operations of OTC derivatives, repos and stock lending, both if settled by clearing house or if remaining bilateral. In recent years, there has been a gradual standardisation of OTC operations in order to conduct clearing and settlement via houses of all new trading operations required by the new rules, as well as foster internal use of the electronic execution systems.

As regards the operations of organised markets, although counterparty risk management is not considered to include credit risk for this type of transaction[13], since the coming into force of the new CRD IV (Capital Requirements Directive) and CRR (Capital Requirements Regulation) - which transpose the principles of Basel III - in 2014, regulatory credit exposure for these types of transactions form part of capital calculations.

The following table show the relative share in total derivatives of new operations settled by clearing house at close of 2015 and the significant evolution of operations settled by clearing house since 2013.

Distribution of counterparty risk in accordance with settlement channel and product type*
Nominal in million euros

	Bilateral		CCP**		Organised markets ***		
	Nominal	%	Nominal	%	Nominal	%	Total
Derivatives	56,767	97.0%	1,778	3.0%	-	0.0%	58,545
Equity derivatives	45,174	87%	42	0.1%	6,479	12.5%	51,695
Fixed-income derivatives	15,415	94.5%	65	0.4%	831	5.1%	16,311
Exchange rate derivatives	691,679	98.3%	11,755	1.7%	-	0.0%	703,434
Interest rate derivatives	1,564,716	43.1%	2,043,142	56.2%	26,660	0.7%	3,634,518
Commodities derivatives	468	88.9%	-	0.0%	58.6	11.1%	526
Repos	84,086	65.3%	44,679	34.7%	-	0.0%	128,765
Securities lending	30,115	100.0%	-	0.0%	-	0.0%	30,115
Total general	**2,488,419**	**53.8%**	**2,101,460**	**45.4%**	**34,028**	**0.7%**	**4,623,908**

* Figures with management criteria.
** Central counterparties (CCP).
*** Refers to listed derivatives transactions (proprietary portfolio). Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.

13. Credit risk is eliminated by the organised markets acting as counterparty in the transactions, as they are equipped with mechanisms to safeguard their financial position using deposit and collateral replacement systems and processes to ensure liquidity and transparency in transactions.

Distribution of risk settled by CCP and organised markets by product and change over time*

Nominal in million euros

	2015	2014	2013
Credit derivatives	1,778	1,764	949
Equity derivatives	6,522	8,686	9,228
Fixed-income derivatives	896	1,651	2,092
Exchange rate derivatives	11,755	484	616
Interest rate derivatives	2,069,802	1,778,261	1,321,709
Commodities derivatives	59	208	446
Repos	44,679	57,894	55,435
Securities lending	-	-	46
Total	**2,135,489**	**1,848,948**	**1,390,519**

* Figures with management criteria.

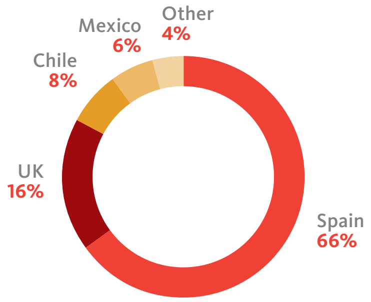
The Group actively manages operations not settled by clearing house and seeks to optimise their volume, given the requirements of spreads and capital that the new regulations impose on them.

In general, transactions with financial institutions are done under netting and collateral agreements, and constant efforts are made to ensure that the rest of operations are covered under this type of agreement. Generally, the collateral agreements that the Group signs are bilateral ones with some exceptions mainly with multilateral institutions and securitisation funds.

The collateral received under the different types of collateral (CSA, OSLA, ISMA, GMRA, etc) signed by the Group amounted to EUR 15,450 million (of which EUR 11,524 million corresponded to collateral received by derivatives), mostly effective (81%), and the rest of the collateral types are subject to strict policies of quality as regards the type of issuer and its rating, debt seniority and haircuts applied.

The chart below shows the geographic distribution:

Collateral received. Geographic distribution



Off-balance sheet credit risk

The off-balance sheet risk corresponding to funding and guarantee commitments with wholesale clients was EUR 90,795 million and with the following distribution by products:

Off balance sheet exposure

Million euros

	Maturity				
Product	**< 1 year**	**1-3 year**	**3-5 year**	**> 5 year**	**Total**
Funding*	11,207	13,728	33,229	6,329	**64,493**
Technical guarantees	3,589	10,034	1,667	281	**15,571**
Financial and commercial guarantees	3,998	4,396	986	684	**10,065**
Foreign trade**	451	119	92	4	**665**
Total	**19,245**	**28,277**	**35,974**	**7,298**	**90,795**

* Mainly including credit lines committed bilaterally and syndicated.
** Mainly including stand-by letters of credit.

Activity in credit derivatives

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and within trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits such as Value at Risk (VaR)[14], nominal by rating, sensitivity to the spread by rating and name, sensitivity to the rate of recovery and to correlation. Jump-to-default limits are also set by individual name, geographic area, sector and liquidity.

In notional terms, the CDS position incorporates EUR 28,335 million[15] of acquired protection and EUR 26,190 million of sold protection.

At December 31, 2015, the sensitivity of lending to increases in spreads of one basis point was marginal, and much lower than in 2014, of - EUR 1.5 million, and the average VaR was EUR 2.4 million, lower than in 2014 (EUR 2.9 million).

D.1.4.2. Risk of concentration

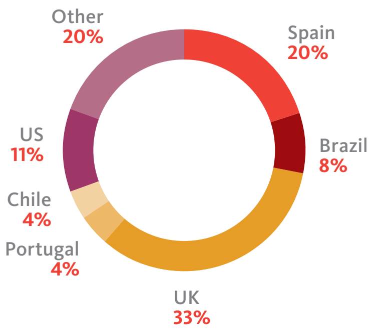
Control of risk concentration is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The board, via the risk appetite, determines the maximum levels of concentration, as detailed in section B.3.1. Risk appetite and structure of limits. In line with the risk appetite, the executive risk committee establishes the risk policies and reviews the exposure levels appropriate for adequate management of the degree of concentration of the credit risk portfolios.

14. The VaR definition and calculation methodology is in section D.2.2.2.1. Value at Risk (VaR) of this Report.
15. This figures excludes around EUR 3,189 million nominal of CDS which cover loans that for accounting purposes are recorded as financial guarantees instead of credit derivatives as their change in value has no impact on results or reserves in order to avoid accounting asymmetry.

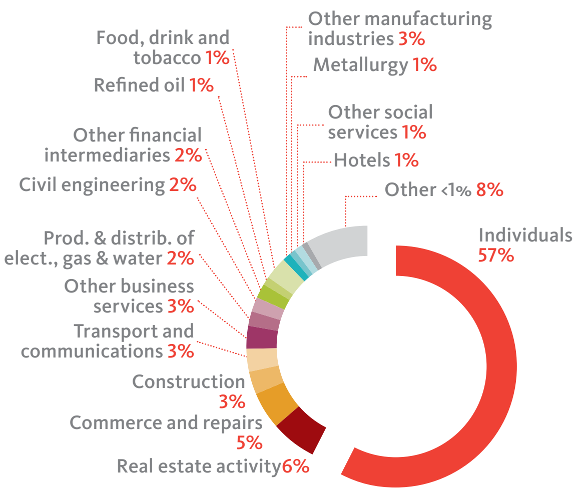
In geographic terms, credit risk with customers is diversified in the main markets in which the Group operates, as shown in the chart below.

Credit risk with customers



Some 57% of the Group's credit risk corresponds to individual customers, who, due to their inherent nature, are highly diversified. In addition, the portfolio is also well distributed by sectors, with no significant concentrations in specific sectors. The following chart shows the distribution at the end of the year.

Sector diversification



The Group is subject to the regulation on large risks contained in the fourth part of the CRR (EU regulations 575/2013), according to which the exposure contracted by an entity with a client or group of clients linked among themselves will be considered a 'large exposure' when its value is equal to or more than 10% of the eligible capital. In addition, in order to limit the large exposures no entity can assume with a client or group of linked clients an exposure whose value exceeds 25% of its eligible capital, after taking into account the impact of the reduction of credit risk contained in the regulation.

At December 2015, after applying risk mitigation techniques and regulations applicable to large risks, all the declared groups were below 4.9% of eligible equity except for two entities: a central EU counterparty entity which was 7.3%, and an EU corporate group with 6.8%.

The regulatory credit exposure with the 20 largest groups within the sphere of large risks represented 5.8% of outstanding credit risk with clients (lending plus balance sheet risks). As for regulatory credit exposure with financial institutions, the top 10 represented EUR 19,119 million.

The Group's risks division works closely with the financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques such as using credit derivatives and securitisation to optimise the risk-return relation of the whole portfolio.

D.1.4.3. Country risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks that could affect international financial activity (wars, natural disasters, balance of payments crisis, etc).

At 31 December 2015, exposure to potential country-risk provisions was EUR 193 million (EUR 176 million in December 2014). At the close of 2015, total provisions stood at EUR 25 million compared with EUR 22 million at the end of the previous year.

The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in operations that are clearly profitable for the bank, and which enhance the global relationship with customers.

D.1.4.4. Sovereign risk and vis-á-vis the rest of public administrations

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar entity (portfolio of public debt) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

This criterion, historically used by Grupo Santander, has some differences with that of the European Banking Authority (EBA) used for its regular stress exercises. The main ones are that the EBA's criterion does not include risk with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general (including regional and local ones) and not only the state sector.

Exposure to sovereign risk (according to the criteria applied in the Group) mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks, the establishment of deposits with the excess of liquidity and of fixed-income portfolios maintained within the risk management strategy for structural interest of the balance sheet and in trading books in treasuries. The great majority of these exposures are in local currency and are funded on the basis of customer deposits captured locally, and also in local currency.

Exposures in the local sovereign but in currencies different to the official one of the country of issuance is not very significant (EUR 11,116 million, 5.6% of the total sovereign risk), and less so the exposure in non-local sovereign issuers, which means cross-border risk (EUR 2,719 million, 1.38% of total sovereign risk).

In general, the total exposure to sovereign risk has remaimed at adequate levels to support the regulatory and strategic motives of this portfolio.

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows the percentage of exposure by rating levels[16].

Exposure by level of rating
%

	30 Sep. 2015	31 Dec. 2014	31 Dec. 2013
AAA	34%	29%	36%
AA	4%	4%	6%
A	22%	28%	27%
BBB	33%	32%	26%
Lower than BBB	7%	7%	5%

Exposure to sovereign risk (EBA criteria)
Million euros

31 Dec 2015	Portfolio: Trading and Others at FV	Portfolio: Available for sale	Portfolio: Loan portfolio	Portfolio: Held to maturity portfolio	Total net direct exposure
Spain	8,954	26,443	11,272	2,025	**48,694**
Portugal	104	7,916	1,987	0	**10,007**
Italy	2,717	0	0	0	**2,717**
Greece	0	0	0	0	**0**
Ireland	0	0	0	0	**0**
Rest Eurozone	(211)	143	69	0	**1**
UK	(786)	5,808	141	0	**5,163**
Poland	13	5,346	42	0	**5,401**
Rest of Europe	120	312	238	0	**670**
US	280	4,338	475	0	**5,093**
Brazil	7,274	13,522	947	2,186	**23,929**
Mexico	6,617	3,630	272	0	**10,519**
Chile	193	1,601	3,568	0	**5,362**
Rest of America	155	1,204	443	0	**1,802**
Rest of the world	3,657	1,687	546	0	**5,890**
Total	**29,087**	**71,950**	**20,000**	**4,211**	**125,248**

31 Dec 2014	Portfolio: Trading and Others at FV	Portfolio: Available for sale	Portfolio: Loan portfolio	Total net direct exposure
Spain	5,778	23,893	15,098	**44,769**
Portugal	104	7,811	589	**8,504**
Italy	1,725	0	0	**1,725**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest Eurozone	(1,070)	3	1	**(1,066)**
UK	(613)	6,669	144	**6,200**
Poland	5	5,831	30	**5,866**
Rest of Europe	1,165	444	46	**1,655**
US	88	2,897	664	**3,649**
Brazil	11,144	17,685	783	**29,612**
Mexico	2,344	2,467	3,464	**8,275**
Chile	593	1,340	248	**2,181**
Rest of America	181	1,248	520	**1,949**
Rest of the world	4,840	906	618	**6,364**
Total	**26,284**	**71,194**	**22,205**	**119,683**

16. Based on internal ratings.

The sovereign risk distribution by rating level was affected in the last few years by many rating revisions of the sovereign issuers of the countries where the Group operates.

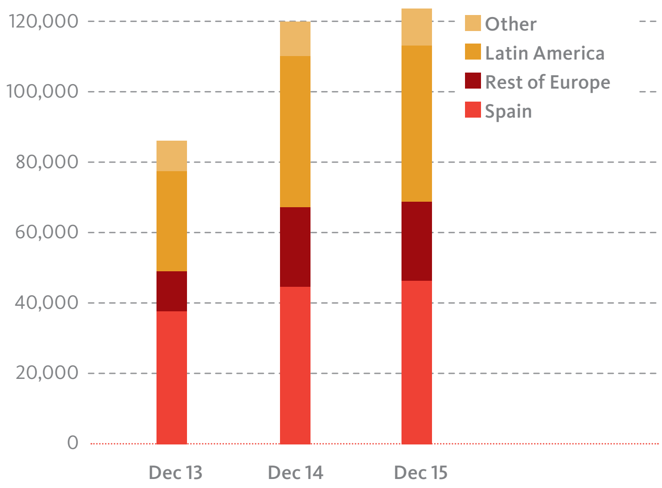
On the basis of the EBA criteria already mentioned, the exposure to public administrations at the end of each of the last three years was as follows (figures in million euros)[17].

Exposure is moderate and the levels are similar to those in 2014. The sovereign risk exposure of Spain (where the Group has its headquarters) is not high in terms of total assets (3.6% at the end of December 2015), compared to its peers.

The sovereign exposure in Latin America is almost all in local currency, recorded in local books and concentrated in short-term maturities of lower interest rate risk and greater liquidity.

Sovereign and rest of public administrations risk: Net direct exposure (EBA criterion)

Million euros



31 Dec 2013	Portfolio			
	Trading and Others at FV	Available for sale	Loan portfolio	Total net direct exposure
Spain	4,359	21,144	12,864	**38,367**
Portugal	149	2,076	583	**2,807**
Italy	1,310	77	0	**1,386**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest Eurozone	(1,229)	67	0	**(1,161)**
UK	(1,375)	3,777	0	**2,402**
Poland	216	4,770	43	**5,030**
Rest of Europe	5	117	0	**122**
US	519	2,089	63	**2,671**
Brazil	8,618	8,901	223	**17,743**
Mexico	3,188	2,362	2,145	**7,695**
Chile	(485)	1,037	534	**1,086**
Rest of America	268	619	663	**1,550**
Rest of the world	5,219	596	148	**5,964**
Total	**20,762**	**47,632**	**17,268**	**85,661**

D.1.4.5. Social and environmental risk

Banco Santander considers social and environmental issues to be a crucial part of risk analysis and decision making processes in its financing transactions. The Bank has applied process to identify, analyse and assess credit transactions subject to Group policy, policies based on the Equator Principle criteria, which the Bank signed up to 2009. In accordance with these principles, the social and environmental impact of project finance operations and corporate loans with a known purpose (bridging loans with forbearance envisaged via project finance and corporate financing to construct or increase a specific project) is analysed.

The methodology used is set out below.

- For project finance operations with an amount equal to or more than $10 million, corporate loans with known destiny for a project with an amount equal to more than $100 million, with Santander's share equal to or more than $50 million, an initial questionnaire is filled out, of a generic nature, designed to establish the project's risk in the socio-environmental sphere (according to categories A, B and C, from greater to lower risk, respectively) and the operation's degree of compliance with the Equator Principles.

- For those projects classified within the categories of greater risk (categories A and B), a more detailed questionnaire has to be filled out, adapted according to the sector of activity.

- According to the category and location of the projects a social and environmental audit is carried out (by independent external auditors). The Bank also gives training courses in social and

17. In addition at December 31, 2015, the Group maintained direct net exposures in derivatives whose reasonable value was EUR 2,070 million, as well as indirect net exposures in derivatives whose reasonable value was EUR 25 million.

environmental matters to risk teams as well as to those responsible for business of all the areas involved.

In 2015, the Group took part in funding 55 projects under the Equator principles. The total amount of debt in these 55 projects amounts to EUR 29,953 million.

During the second half of 2015, the Bank's social-environmental task force, led by the Chief Compliance Officer, with representatives of the Compliance, Corporate Communications, Marketing and Research, Risks, Business, Internal Governance and Legal Counsel corporate areas, has carried out a project to analyse and improve the status of social-environmental policies. The analysis has been based on a benchmarking exercise with six of Santander's peers who have a similar size and geographical location, including the most important NGO (Non-Governmental Organisations) trends in this field.

As a result of this analysis, improvements to socio-environmental policies were proposed and were approved by the Bank's board of directors on 22 December 2015. The proposals will now be gradually applied in the different Santander geographies.

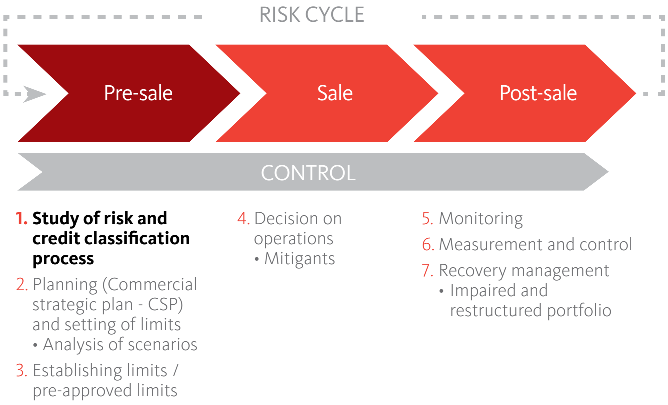
Sector wide policies establish the criteria used to limit financial activities relating to the defence, energy and soft commodities (e.g. products such as palm oil, soy and timber) sectors. These policies prohibit banks from funding certain activities, and place restrictions on others (transactions which will be closely monitored due to their social and environmental risk, and which will only be approved if they meet certain requirements). The review of policies not only includes new activities and sectors, but also defines a broader scope of application compared to those applied until 2015, given that the restricted transactions are applied across the board in wholesale banking, and the bans are applied to all transactions.

D.1.5. Credit risk cycle

The process of credit risk management consists of identifying, analysing, controlling and deciding on the risks incurred by the Group's operations. The business areas, senior management and the risk areas are all involved.

The board and the executive risk committee take part in the process, to set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework of the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and presale planning.



D.1.5.1. Study of risk and credit rating process

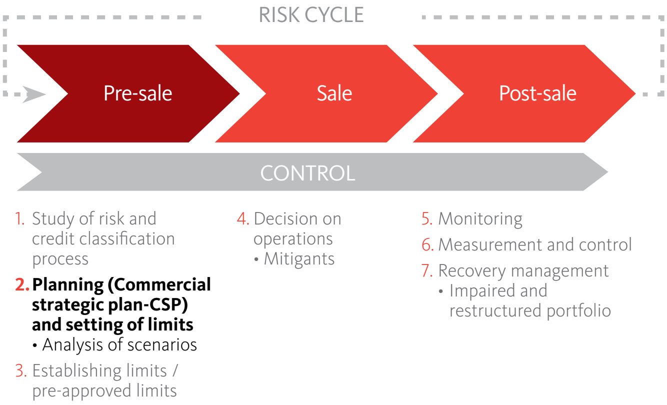
Generally speaking, risk study consists of analysing a customer's capacity to meet his contractual commitments with the Bank and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed.

With this objective, since 1993 the Group has made use of models to allocate customer solvency classifications, which are known as ratings. These mechanisms are used in the wholesale segment (sovereign, financial institutions and corporate banking), as well as the rest of companies and institutions in this category.

The rating is the result of a quantitative model based on balance sheet ratios or macroeconomic variables, which is supplemented by the expert advice of the analyst.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The regularity of the reviews increases in the case of customers who reach certain levels in the automatic warning systems and in those classified as special watch. The rating tools are also revised in order to adjust the accuracy of the rating granted.

While ratings are used for wholesale and other companies and institutions, scoring techniques are used more commonly for the individuals and SMEs segment. In the latter type, a score is assigned to the customer for decision making, as set out in the 'Decisions on operations' section.



D.1.5.2. Planning (Strategic Commercial Plan)

The purpose of this phase is to limit efficiently and comprehensively the risk levels assumed by the Group.

The credit risk planning process serves to set the budgets and limits at portfolio level. Planning is articulated via the strategic commercial plan, ensuring the conjunction of the business plan, the credit policy on the basis of the risk appetite and of the necessary resources to achieve it. It has come about, therefore, as a joint initiative between the commercial area and risks, and is meant to be not only a management tool but also a form of teamwork.

The highest executive risk committee of each entity is responsible for authorising the monitoring the plan. It is validated and monitored at corporate level.

The SCPs are used to arrange the map of all the Group's lending portfolios.

Analysis of scenarios

In line with what is described in section B.3.3. Analysis of scenarios of this Report, credit risk scenario analysis enables senior management to better understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of the provisions made and the capital to stress scenarios.

These exercises are carried out for all the Group's relevant portfolios and are articulated as follows:

- Definition of reference scenarios (at both the global level as well as for each of the Group's units).
- Determining the value of the risk parameters and metrics (probability of default, loss at default, etc) to different scenarios.
- Estimated expected loss associated with each one of the scenarios put forward and the other important credit risk metrics deriving from the parameters obtained (NPLs, provisions, ratios, etc.).
- Analysis of the evolution of the credit risk profile at the portfolio, segment, unit and Group levels in the face of different scenarios and compared to previous years.

The simulation models employed by the Group use data from a complete economic cycle in order to calibrate the performance of risk factors in the face of changes in macroeconomic variables. These models are submitted to backtesting processes and regular fine tuning in order to guarantee they reflect correctly the relationship between macroeconomic variables and risk parameters.

A series of controls and comparisons are run to ensure that the metrics and calculations are adequate, thus completing the process.

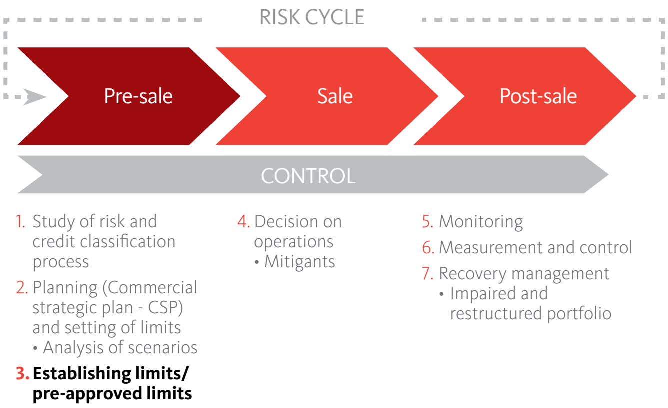
The projections of the risk and loss parameters, normally with a time frame of three years, are executed under various economic scenarios which include the main macroeconomic variables (GDP, unemployment rate, house prices, inflation, etc).

The economic scenarios defined are backed by different levels of stress, from the baseline scenario or the most probable one to stress scenarios which, although unlikely, are possible.

These scenarios are defined by Grupo Santander's research department in coordination with the counterparts of each unit and using as a reference the figures published by the main international institutions.

A global stress scenario is defined describing a world crisis situation and the way it would affect each of the countries in which the Grupo Santander operates. In addition, a local stress scenario is defined which affects in an isolated way some of the main units and with a greater degree of stress than the global stress scenario.

The entire process takes place within a corporate governance framework, and is thus adapted to the growing importance of this framework and to best market practices, assisting the Group's senior management in obtaining knowledge and decision making.



D.1.5.3. Establishing limits / pre-approved limits

Limits are planned and established using documents agreed between the business and risk areas and approved by the executive risk committee or committees delegated by it, and in which the expected results of business, in terms of risk and return are set out, as well as the limits to which this activity is subject and management of the associated risks by group / customer.

At the same time, in the wholesale sphere and the rest of companies and institutions analysis is conducted at the client level. When certain circumstances concur, the client is assigned an individual limit (pre-approved limit).

In this way, a pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. The result of pre-classification is the maximum risk level that a client or group can assume in terms of amount of maturity. A more streamlined version of pre-approved limits is used for those companies which meet certain requirements (high knowledge, rating, etc).

1. Study of risk and credit classification process
2. Planning (Commercial strategic plan - CSP) and setting of limits
   • Analysis of scenarios
3. Establishing limits / pre-approved limits
4. **Decision on operations**
   • Mitigants
5. Monitoring
6. Measurement and control
7. Recovery management
   • Impaired and restructured portfolio

D.1.5.4. Decisions on operations

The sales phase consists of the decision-taking process which analyses and resolves operations. Approval by the risks area is a prior requirement before contracting any risk operation. This process must take into account the policies defined for approving operations and take into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the right balance between risk and profitability.

In the sphere of individual customers, companies and SMEs with lower revenue, large volumes of credit operations can be managed more easily with the use of automatic decision models for classifying the customer/transaction binomial. Lending is classified into homogeneous risk groups, on the basis of the information on the features of the operation and of its owner.

As already indicated, the prior phase of setting limits can follow two different paths, giving rise to different types of decision in the sphere of **companies**:

- Automatic and verifying if there is capacity for the proposed operation (in amount, product, maturity and other conditions) within the limits authorised under the framework of pre-classification. This process is generally applied to corporate pre- classifications.

- Always requiring the authorisation of the analyst although the operation meets the amount, maturity and other conditions set in the pre-approved limit. This process applies to the pre-classification of companies under individualised management of retail banking.

Credit risk mitigation techniques

Grupo Santander applies various forms of credit risk reduction on the basis, among other factors, of the type of client and product. As we will later see, some are inherent in specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The various mitigation techniques can be grouped into the following categories:

Determination of a net balance by counterparty

Netting is the possibility of determining a net balance between operations of the same type, under the umbrella of a framework agreement such as ISDA or similar.

It consists of aggregating the positive and negative market values of derivative transactions that Santander has with a certain counterparty, so that in the event of default it owes (or Santander owes, if the net is negative) a single net figure and not a series of positive or negative values corresponding to each operation closed with the counterparty.

An important aspect of the contracts framework is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to net the risks of all operations covered by the contract with a same counterparty.

Real guarantees

These are those goods that are subject to compliance with the guaranteed obligation and which can be provided not only by the client but also by a third party. The real goods or rights that are the object of the guarantee can be:

- Financial: cash, deposit of securities, gold, etc.

- Non-financial: property (both homes as well as commercial premises, etc), other property goods.

From the standpoint of risk admission, the highest level of real guarantees is required. In order to calculate the regulatory capital, only those guarantees that meet the minimum qualitative requirements set out in the Basel agreements are taken into consideration.

A very important example of a real financial guarantee is **collateral**. This is a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions of derivatives with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateralisation, the final purpose, as in the netting technique, is to reduce the counterparty risk.

The operations subject to the collateral agreement are regularly valued (normally day to day) and, on the net balance resulting from this valuation, the parameters defined in the contract are applied so that a collateral amount is obtained (normally cash or securities), which is to be paid to or received from the counterparty.

As regards **property collaterals**, there are regular re-appraisal processes, based on real market values for the different types of property, which meet all the requirements set by the regulator.

Implementation of the mitigation techniques follows the minimum requirements established in the manual of credit risk management policies, and consists of ensuring:

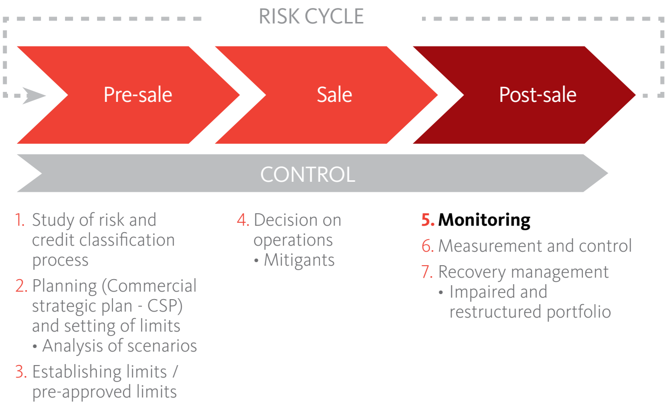
- Legal certainty. The possibility of legally requiring the settlement of guarantees must be examined and ensured at all times.
- The lack of substantial positive correlation between the counterparty and the value of the collateral.
- The correct documentation of all guarantees.
- The availability of documentation of the methodologies used for each mitigation technique.
- Adequate monitoring and regular control.

Personal guarantees and credit derivatives

This type of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover the credit risk by acquiring protection from a third party, through which the bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded in non-organised markets. The coverage with credit derivatives, mainly through credit default swaps, is contracted with front line banks.

The information on mitigation techniques is in 'Credit risk reduction techniques of the **Prudential Relevance Report (Pillar III)**'. There is also more information on credit derivatives in the section 'Activity in credit derivatives' in section D.1.4.1. Credit risk by activity in financial markets of this Report.



D.1.5.5. Monitoring / Anticipation

Monitoring is a continuous process of constant observation, which allows changes that could affect the credit quality of clients to be detected early on, in order to take measures to correct the deviations that impact negatively.

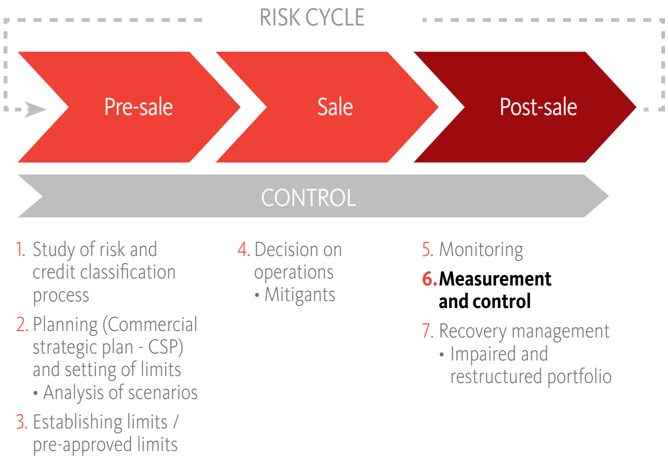
Monitoring is based on segmentation of customers, and is carried out by local and global risk dedicated teams, supplemented by internal audit. In the individuals model, this function is carried out through customer behaviour assessment models.

The function consists, among other things, of identifying and tracking clients under special monitoring, reviewing ratings and continuous monitoring of indicators of standardised clients.

The system called **companies in special monitoring** (FEVE) identifies four levels on the basis of the degree of concern arising from the circumstances observed (extinguish, secure, reduce, monitor). The inclusion of a company in FEVE does not mean there have been defaults, but rather the advisability of adopting a specific policy toward that company and establishing the person and time frame for it. Clients in FEVE are reviewed at least every six months, and every quarter for the most serious cases. A company can end up in special watch as a result of monitoring, a review conducted by internal audit, a decision of the person responsible for the company or the entry into functioning of the system established for automatic warnings.

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

As regards the risks of individual clients, businesses and SMEs with a low turnover, the main indicators are monitored in order to detect shifts in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.



D.1.5.6. Measurement and control

As well as monitoring clients' credit quality, Grupo Santander establishes the control procedures needed to analyse the current credit risk profile and its evolution, through different credit risk phases.

The function is developed by assessing the risks from various perspectives that complement one another, establishing as the main elements control by countries, business areas, management models, products, etc, facilitating early detection of points of specific attention, as well as preparing action plans to correct any deteriorations.

Each element of control admits two types of analysis:

1. Quantitative and qualitative analysis of the portfolio
Analysis of the portfolio controls, permanently and systematically, the evolution of risk with respect to budgets, limits and standards of reference, assessing the impacts of future situations, exogenous as well as those resulting from strategic decisions, in order to establish measures that put the profile and volume of the risks portfolio within the parameters set by the Group.

The credit risk control phase uses, among others and in addition to traditional metrics, the following metrics:

- **CMN (Change in Managed NPLs plus net write-offs)**

The CMN measures how NPLs change during a period, discounting write-offs and taking loan loss recoveries into account.

It is an aggregate measure at portfolio level that allows a response to deteriorations observed in the evolution of NPLs.

It is the result of the final balance less the initial balance of non-performing loans of the period under consideration, plus the write-offs in this period less loan loss recoveries in the same period.

The VMG and its components play a key role as variables of monitoring.

- **Expected loss (EL) and capital**

Expected loss is the estimate of the economic loss that would occur during the next year of the portfolio existing at a given moment.

It is one more cost of activity, and must impact on the price of operations. Its calculation is mainly based on three parameters:

- Exposure at Default (EaD): maximum amount that could be lost as a result of a default.

- Probability of Default (PD): the probability of a client's default during the year.

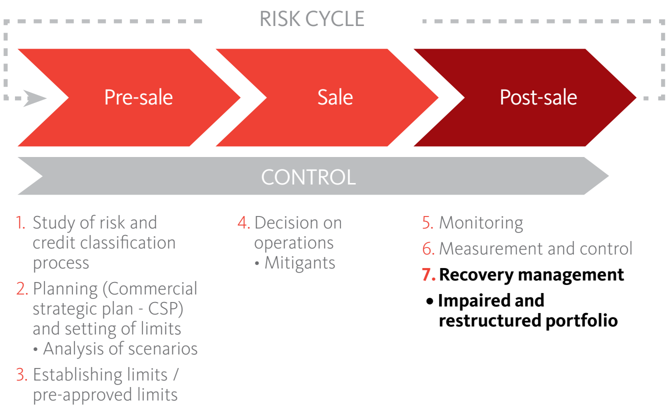
- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It is calculated by discounting at the time of the default the amounts recovered during the whole recovery process and this figure is then compared in percentage terms with the amount owed by the client at that moment.

Other relevant aspects regarding the risk of operations are covered, such as quantification of off-balance sheet exposures or the expected percentage of recoveries, related to the guarantees associated with the operation, as well as other issues such as the type of product, maturity, etc.

The risk parameters also enable economic and regulatory capital to be calculated. The integration in management of the metrics of capital is vital for rationalising its use. More detail is available in chapter D.8. Capital risk.

2.- Evaluation of the control processes
Evaluation of the control processes includes systematic and regular revision of the procedures and methodology, developed throughout the credit risk cycle, in order to guarantees their effectiveness and validity.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes Oxley law, a corporate tool was established in the Group's intranet to document and certificate all the sub processes, operational risks and controls that mitigate them. The risks division assesses every year the efficiency of internal control of its activities.



D.1.5.7. Recovery management

Recovery activity is a significant element in the Bank's risk management. This function is carried out by the recovery area, which defines a global strategy and an enterprise wide focus on recovery management.

The Group has a corporate management model which sets the guidelines and general lines of action to be applied in the various countries, always taking into account the local particularities that the recovery activity requires (economic environment, business model or a mixture of both). The recovery areas are business areas that directly manage clients; the corporate model thus has a business focus, whose creation of value on a sustained basis is based on effective and efficient collection management, whether by regularisation of balances pending payment or by total recovery.

The recovery management model requires adequate co-ordination of all the management areas (business of recoveries, commercial, technology and operations, human resources and risks). It is subject to constant review and continuous improvement in the processes and management methodology that sustain it, through applying the best practices developed in the various countries.

In order to conduct recovery management adequately, it is done in four phases: irregularity or early non-payment, recovery of non-performing loans, recovery of write-offs and management of foreclosed assets. Indeed, the recovery function begins before the first non-payment when the client shows signs of deterioration and ends when the debt has been paid or regularised. The function aims to anticipate non-compliance and is focused on Pre-saletive management.

The current macroeconomic environment directly impacts the non-payment index and customers' bad loans. The quality of portfolios is thus fundamental for the development and growth of our businesses in different countries. Debt reimbursement and recovery functions are given a special and continuous focus, in order to ensure that this quality always remains within the expected levels.

The diverse features of our clients makes segmentation necessary in order to manage recoveries adequately. Massive management of large collectives of clients with similar profiles and products is conducted through processes with a high technological component, while personalised management focuses on customers that, because of their profile, require a specific manager and more individualised management.

Recovery activity has been aligned with the socio-economic reality of various countries and different risk management mechanisms, with adequate criteria of prudence, have been used on the basis of their age, guarantees and conditions, always ensuring, as a minimum, the required classification and provisions.

Particular emphasis in the recovery function is placed on management of the aforementioned mechanisms for early management, in line with corporate policies, taking account of the various local realities and closely tracking vintages, stocks and performance. These policies are renewed and regularly adopted in order to reflect both the better management practices as well as the regulatory changes applied.

As well as measures focused on adapting operations to the client's payment capacity, also noteworthy is recovery management seeking solutions other than judicial ones for advance payment of debts.

One of the ways to recover debt from clients, who have suffered a severe deterioration in their repayment capacity, is repossession (judicial or in lieu of payment) of the real estate assets that serve as guarantees of the loans. In countries with a high exposure to real estate risk, such as Spain, there are very efficient sales management instruments which enable the capital to be returned to the bank and reduce the stock in the balance sheet at a much faster speed than the rest of banks.

D.2. Trading market risk and structural risks

Organisation of this section

We will first describe the activities subject to market risk, setting out the different types and risk factors.

Then we will look at each one of the market risks on the basis of the finality of the risk, distinguishing the risk of market trading and structural risks, and, within the latter, structural risks of the balance sheet and pension and actuarial risks.

The most relevant aspects to take into account such as the principal magnitudes and their evolution are set out for each type of risk, the methodologies and metrics employed in Santander and the limits used for their control.

D.2.1. Activities subject to market risk and types of market risk

The scope of activities subject to market risk includes transactions in which net worth risk is borne due to changes in market factors. Thus they include trading risks and also structural risks which are also affected by market shifts.

This risk comes from the change in risk factors—interest rates, inflation rates, exchange rates, share prices, the spread on loans, commodity prices and the volatility of each of these elements— as well as from the liquidity risk of the various products and markets in which the Group operates.

- **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.

- **Inflation rate risk** is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, whose return is linked to inflation or to an actual change in the rate.

- **Exchange rate risk** is the sensitivity of the value of a position in a currency different to the base currency to a potential movement in exchange rates. Hence, a long or open position in a foreign currency will produce a loss if that currency depreciates against the base currency. Among the positions affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any foreign currency transactions.

- **Equity risk** is the sensitivity of the value of positions opened in equities to adverse movements in the market prices or in expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, and equity swaps).

- **Credit spread risk** is the risk or sensitivity of the value of positions opened in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. Spread is the difference between financial instruments that quote with a margin over other benchmark instruments, mainly the IRR of Government bonds and interbank interest rates.

- **Commodities price risk** is the risk derived from the effect of potential changes in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with clients.

- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by all financial instruments whose valuation model has volatility as a variable. The most significant case are financial options portfolios.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

There are **other types of market risk,** whose coverage is more complex. They are as follows:

- **Correlation risk.** Correlation risk is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (for example, an interest rate and the price of a commodity).

- **Market liquidity risk.** Risk when a Group entity or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the cost of the transaction. Market liquidity risk can be caused by the reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or the instability of the markets. It increases as a result of the concentration of certain products and currencies.

- **Prepayment or cancellation risk.** When the contractual relationship in certain transactions explicitly or implicitly permits the possibility of early cancellation without negotiation before maturity, there is a risk that the cash flows may have to be reinvested at a potentially lower interest rate. It affects mainly mortgage loans or mortgage securities.

- **Underwriting risk.** This occurs as a result of an entity's participation in underwriting a placement of securities or another type of debt, assuming the risk of partially owning the issue or the loan due to non-placement of all of it among potential buyers.

Pension and actuarial risks, which are described later on, also depend on shifts in market factors.

On the basis of the finality of the risk, activities are segmented in the following way:

a) **Trading:** financial services to customers and purchase-sale and positioning mainly in fixed-income, equity and currency products. The SGCB (Santander Global Corporate Banking) division is mainly responsible for managing it.

b) **Structural risks:** we distinguish between balance sheet risks and pension and actuarial risks:

b.1) **Structural balance sheet risks:** market risks inherent in the balance sheet excluding the trading portfolio. Management decisions on these risks are taken by the ALCO committees of each country in coordination with the Group's ALCO committee and are executed by the financial management division. This management seeks to inject stability and recurrence into the financial margin of commercial activity and to the Group's economic value, maintaining adequate levels of liquidity and solvency. The risks are:

- **Structural interest rate risk:** this arises from mismatches in the maturities and repricing of all assets and liabilities.

- **Structural exchange rate risk/hedging:** Exchange rate risk occurs when the currency in which the investment is made is different from the euro in companies that consolidate and those that do not (structural exchange rate). In addition, this item also includes positions of exchange rate hedging of future results generated in currencies other than the euro (hedging of results).

- **Structural equity risk:** this involves investments via stakes in financial or non-financial companies that are not consolidated, as well as portfolios available for sale formed by equity positions.

b.2) **Pension and actuarial risk**

- **Pension risk:** the risk assumed by the Bank in relation to the pension commitments with its employees. The risk lies in the possibility that the fund does not cover these commitments in the period of accrual of the provision and the profitability obtained by the portfolio is not sufficient and obliges the Group to increase the level of contributions.

- **Actuarial risk:** unexpected losses produced as a result of an increase in the commitments with the insurance takers, as well as losses from an unforeseen rise in costs.

D.2.2. Trading market risk

D.2.2.1. Key figures and change over time

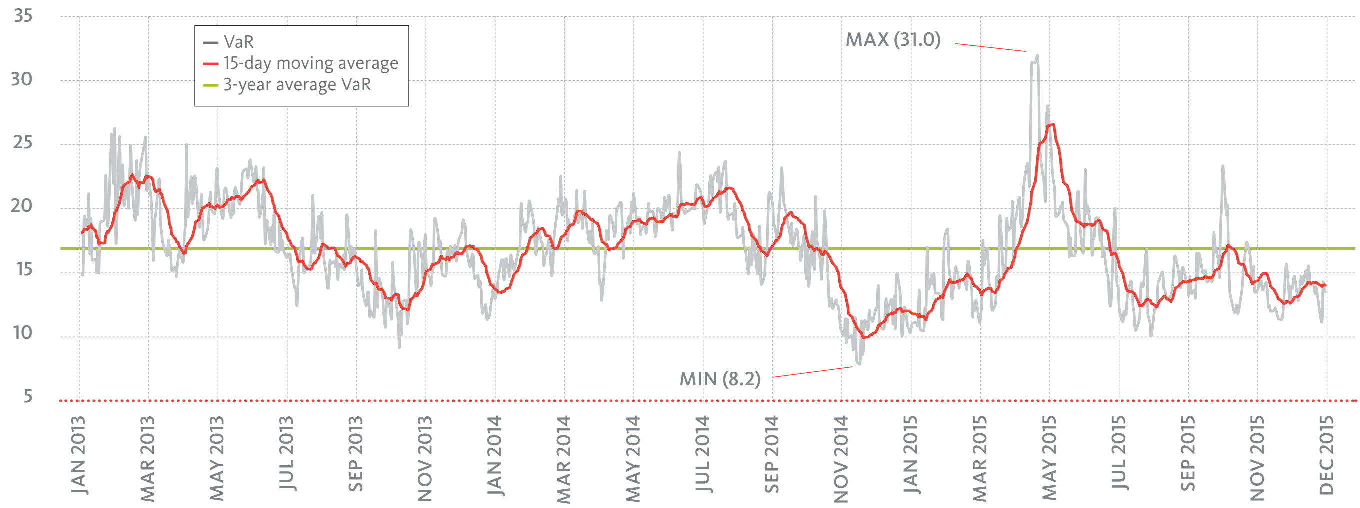
Grupo Santander's trading risk profile remained relatively low in 2015, in line with previous years, due to the fact that traditionally the Group's activity has been focused on providing services to its customers, with limited exposure to complex structured products and diversification by geographic area and risk factor.

D.2.2.1.1. VaR analysis[18]

During the 2015 year, Grupo Santander maintained its strategy of concentrating its trading activity on customer business, minimising where possible exposures of directional risk opened in net terms. This was seen in the VaR evolution of the SGCB trading portfolio, which was around the average of the last three years and ended 2015 at EUR 13.6 million[29].

VaR 2013-2015: change over time

Million euros. VaR at a 99% over a one day horizon.



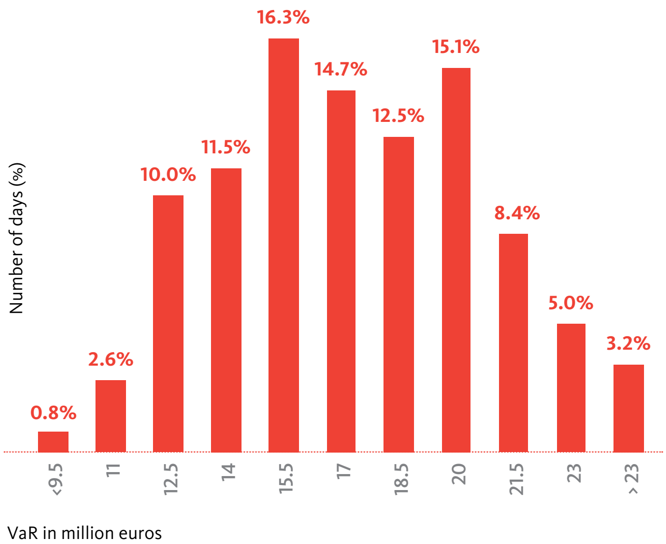
VaR during 2015 fluctuated between EUR 10.3 million and EUR 31 million. The most significant changes were related to changes in exchange rate and interest rate exposure and also market volatility.

The average VaR in 2015 was EUR 15.6 million, very similar to the two previous years (EUR 16.9 million in 2014 and EUR 17.4 million in 2013).

The following chart shows a frequency histogram of risk measured in terms of VaR between 2013 and 2015. The accumulation of days with levels of between EUR 9.5 and 23 million (96%) is shown. Values of higher than EUR 23 million (3.2%) largely occur in periods mainly affected by temporary spikes in volatility mainly in the Brazilian real against the dollar and also interest rates during the Greek bail-out period.

VaR risk histogram

VaR at a 99% over a one day horizon.
Number of days (%) in each range.



18. Value at Risk. The VaR definition and calculation methodology is in section D.2.2.2.1. Value at Risk (VaR)
19. Regarding trading activity in financial markets of SGCB (Santander Global Corporate Banking). As well as the trading activity of SGCB, there are other positions catalogued for accounting purposes. The total VaR of trading of this accounting perimeter was EUR 14.5 million.

Risk per factor

The following table displays the average and latest VaR values at 99% by risk factor over the last three years, and the lowest and highest values in 2015 and the Expected Shortfall (ES) at 97.5%[20] at the close of 2015:

VaR statistics and Expected Shortfall by risk factor [21, 22]
Million euros, VaR at 99% and ES at 97.5% with one day time horizon.

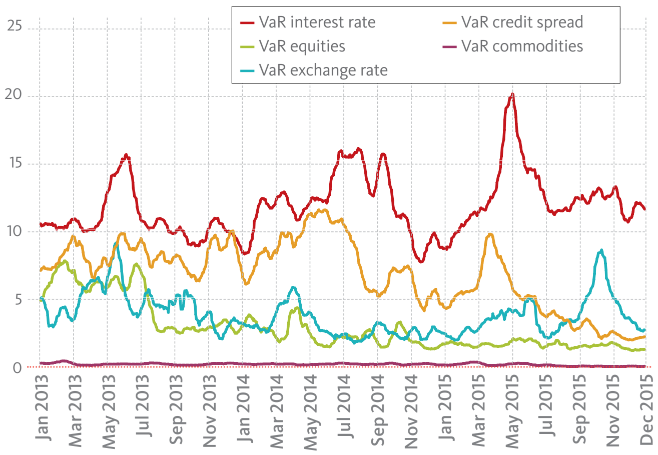
		2015					2014		2013	
		VaR (99%)				ES (97.5%)	VaR		VaR	
		Minimum	Average	Maximum	Latest	Latest	Average	Latest	Average	Latest
Total trading	**Total**	**10.3**	**15.6**	**31.0**	**13.6**	**14.0**	**16.9**	**10.5**	**17.4**	**13.1**
	Diversification effect	**(5.0)**	**(11.1)**	**(21.3)**	**(5.8)**	**(5.7)**	**(13.0)**	**(9.3)**	**(16.2)**	**(12.3)**
	Interest rate	9.7	14.9	28.3	12.7	12.7	14.2	10.5	12.7	8.5
	Equities	1.0	1.9	3.8	1.1	1.1	2.7	1.8	5.6	4.7
	Exchange rates	1.6	4.5	15.2	2.6	2.4	3.5	2.9	5.4	4.7
	Credit spread	1.9	5.2	13.7	2.9	3.4	9.3	4.6	9.6	7.2
	Commodities	0.0	0.2	0.6	0.1	0.1	0.3	0.1	0.3	0.3
Europe	**Total**	**7.4**	**11.6**	**24.8**	**11.1**	**11.2**	**12.2**	**7.3**	**13.9**	**9.9**
	Diversification effect	**(1.1)**	**(8.3)**	**(17.2)**	**(5.6)**	**(5.8)**	**(9.2)**	**(5.5)**	**(14.1)**	**(9.0)**
	Interest rate	6.1	10.6	25.1	10.9	10.7	8.9	6.2	9.3	6.6
	Equities	0.8	1.4	2.9	1.0	1.0	1.7	1.0	4.3	2.6
	Exchange rates	0.7	3.3	10.7	1.9	1.8	2.9	1.5	5.2	3.7
	Credit spread	1.6	4.4	11.5	2.8	3.4	7.6	3.9	9.0	5.8
	Commodities	0.0	0.2	0.6	0.1	0.1	0.3	0.1	0.3	0.3
Latin America	**Total**	**5.4**	**10.6**	**27.4**	**9.7**	**6.7**	**12.3**	**9.8**	**11.1**	**6.9**
	Diversification effect	**(0.5)**	**(4.8)**	**(10.6)**	**(4.4)**	**(1.5)**	**(3.5)**	**(12.2)**	**(5.3)**	**(6.7)**
	Interest rate	5.7	10.7	27.2	9.3	6.4	11.8	9.8	9.6	5.9
	Equities	0.5	1.5	3.2	0.5	0.6	2.1	3.0	3.2	2.9
	Exchange rates	0.7	3.2	8.2	4.3	1.3	2.0	9.2	3.5	4.7
US and Asia	**Total**	**0.3**	**0.9**	**2.0**	**0.9**	**0.8**	**0.7**	**0.7**	**0.8**	**0.5**
	Diversification effect	**(0.1)**	**(0.5)**	**(1.4)**	**(0.4)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.4)**	**(0.2)**
	Interest rate	0.2	0.8	1.6	0.8	0.8	0.7	0.7	0.7	0.5
	Equities	0.0	0.1	1.8	0.0	0.0	0,1	0.0	0.1	0.0
	Exchange rates	0.2	0.4	1.1	0.4	0.3	0.3	0.2	0.4	0.2
Global activities	**Total**	**0.3**	**1.6**	**3.0**	**0.4**	**0.3**	**2.3**	**1.9**	**1.5**	**2.0**
	Diversification effect	**0.1**	**(0.6)**	**(2.7)**	**(0.2)**	**(0.1)**	**(0.6)**	**(0.6)**	**(0.3)**	**(0.5)**
	Interest rate	0.0	0.5	3.0	0.1	0.0	0.6	0.4	0.3	0.4
	Credit spread	0.3	1.6	2.8	0.4	0.0	2.2	1.9	1.5	2.1
	Exchange rates	0.0	0.0	0.2	0.0	0.3	0.0	0.2	0.1	0.0

20. These types of measures are outlined in section D.2.2.2.2. *Stressed VaR* (sVaR) and *Expected Shortfall* (ES). Following the recommendation of the BCBS in its Fundamental review of the trading book: a revised market risk framework (October 2013), the confidence level of 97.5% means approximately a risk level similar to that which the VaR captures with a 99% confidence level.
21. The VaR of global activities includes operations that are not assigned to any particular country.
22. In Latin America, United States and Asia, the VaR levels of the credit spread and commodity factors are not shown separately because of their scant or zero materiality.

At the end of 2015, VaR had increased by EUR 3 million against 2014, although average VaR was down by EUR 1.4 million. By risk factor, the average VaR increased in interest rates and in exchange rates, while it fell in equities and credit spread. By geographies, it slightly increased in the United States/Asia, while it was down in the other geographies.

The VaR evolution by risk factor in general was stable in the last few years. The transitory rises in VaR of various factors is explained more by transitory increases in the volatility of market prices than by significant changes in positions.

VaR by risk factor: change over time
Million euros. VaR at a 99% with one day time horizon (15 day moving average).



Lastly, the table below compares the VaR figures with stressed VaR[25] figures for trading activity of the two portfolios with highest average VaR in 2015.

Stressed VaR vs. VaR in 2015: main portfolios
Million euros. Stresses VaR and VaR at 99% with one-day time horizon.

		Min	Average	Max	Latest
Spain-G10	VaR (99%)	4.0	8.9	15.9	8.8
	Stressed VaR (99%)	11.4	19.4	26.8	13.5
Brazil	VaR (99%)	4.5	9.5	25.6	9.4
	Stressed VaR (99%)	8.1	16.6	39.9	14.2

D.2.2.1.2. Gauging and backtesting measures
The real losses can differ from the forecasts by the VaR for various reasons related to the limitations of this metric, which are set out in detail later in the section on the methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame. This can detect anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc).

Santander calculates and evaluates three types of backtesting:

- ***'Clean' backtesting****:* the daily VaR is compared with the results obtained without taking into account the intraday results or the changes in the portfolio's positions. This method contrasts the effectiveness of the individual models used to assess and measure the risks of the different positions.
- ***Backtesting on complete results***: the daily VaR is compared with the day's net results, including the results of the intraday operations and those generated by commissions.
- ***Backtesting on complete results without mark-ups or fees***: the daily VaR is compared with the day's net results from intraday operations but excluding those generated by mark-ups and commissions. This method aims to give an idea of the intraday risk assumed by the Group's treasuries.

For the first case and for the total portfolio, there were four exceptions of Value at Earnings (VaE)[24] at 99% in 2015 (days on which daily profit was higher than VaE) on 15 January, 23 January, 19 May and 3 December. These were primarily caused by strong shifts in the euro's exchange rates against the Swiss franc and the pound, and of the euro and dollar against the Brazilian real. The high VaE levels at the end of the year were due to the depreciation of the Argentinian peso after exchange restrictions in the country were lifted.

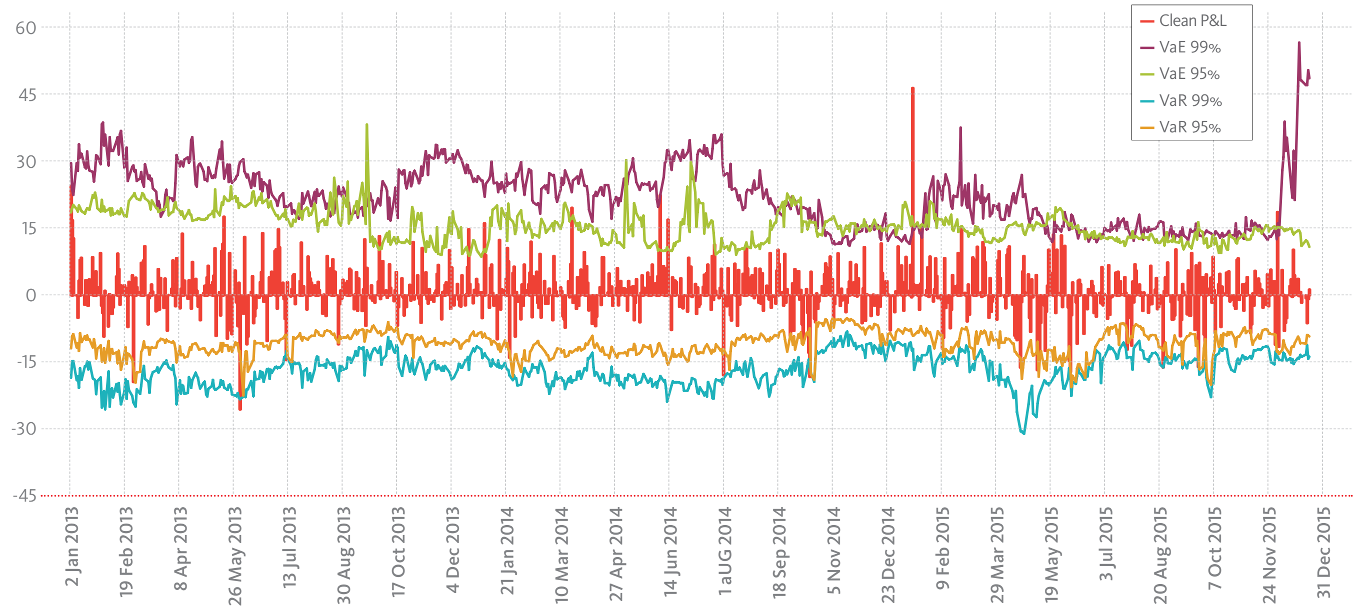
There was also an exception of VaR at 99% (days on which the daily loss was higher than the VaR) on 24 September, caused mainly, as in the above cases, by high volatility in exchange rates, in this case of the euro and dollar against the Brazilian real.

The number of exceptions responded to the expected performance of the VaR calculation model, which works with a confidence level of 99% and an analysis period of one year (over a longer period of time, an average of two or three exceptions a year is expected).

23. Described in section D.2.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES).
24. The VaE definition and calculation methodology is in section D.2.2.2.1. Value at Risk (VaR).

Backtesting of trading portfolios: daily results vs. previous day's VaR

Million euros



D.2.2.1.3. Distribution of risks and management results[25]

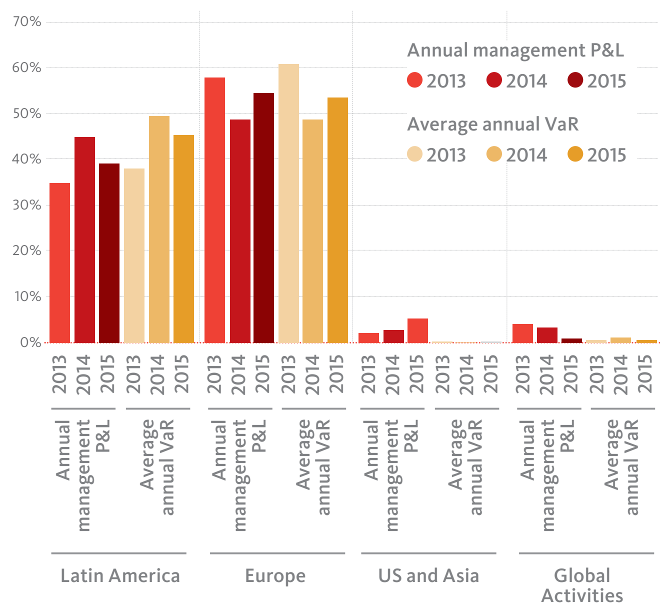
Geographic distribution

In trading activity, the average contribution of Latin America to the Group's total VaR in 2015 was 45.1% compared with a contribution of 39.7% in economic results. Europe, with 53.6% of global risk, contributed 54% of results. In relation to prior years, there was a gradual homogenisation in the profile of activity in the Group's different units, focused generally on providing service to professional and institutional clients.

Below is the geographic contribution (by percentage) to the Group total, both in risks, measured in VaR terms, as well as in results, measured in economic terms.

Binomial VaR - Management results: Geographic distribution

Average VaR (at 99% with a 1 day time horizon) and Annual cumulative management P&L (EUR mn), % of annual totals.



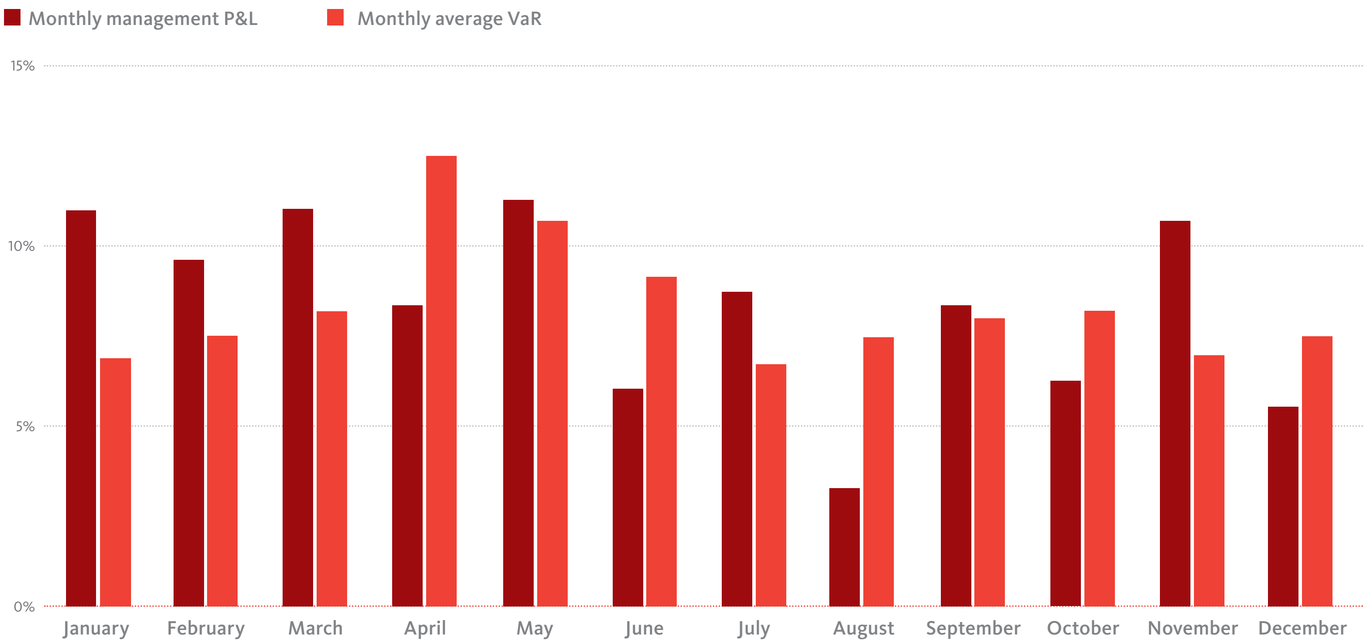
25. Results in terms similar to Gross Margin (excluding operating costs, the financial would be the only cost).

Distribution of risk by time

The following chart shows the risk assumption profile, in terms of VaR, compared to results in 2015. The average VaR remained relatively stable, albeit with higher values in the second quarter, while results evolved in a more regular way during the first half of the year, and were lower in the second half.

Temporary distribution of risks and P/L in 2015: percentages of annual totals

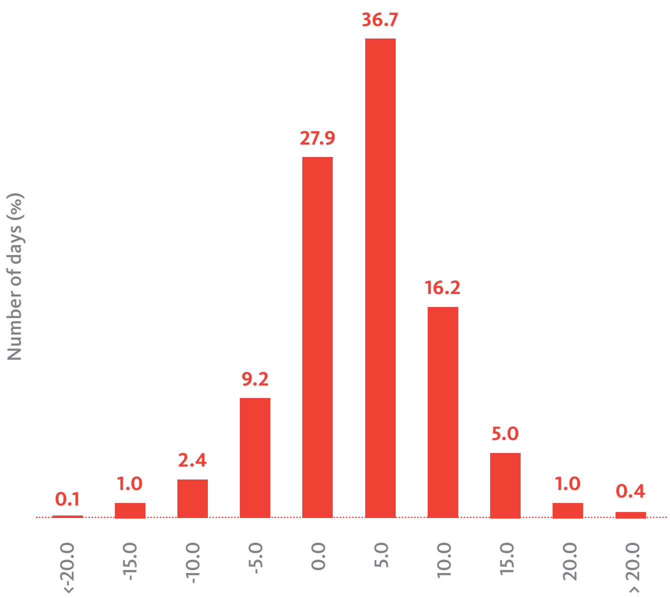
VaR (at 99% with a 1 day time horizon) and annual cumulative management P&L (EUR mn), % of annual totals.



The following frequency histogram shows the distribution of daily economic results on the basis of their size between 2013 and 2015. It shows that on over 97.4% of days on which the markets were open daily returns[28] were in a range of between -EUR 15 and +15 million.

Daily (MtM) management P&L frequency histogram

Daily management P&L 'clean' of fees and intraday operations (EUR mn). Number of days (%) in each range.



26. Yields 'clean' of fees and results of intraday derivative operations.

D.2.2.1.4. Risk management of derivatives

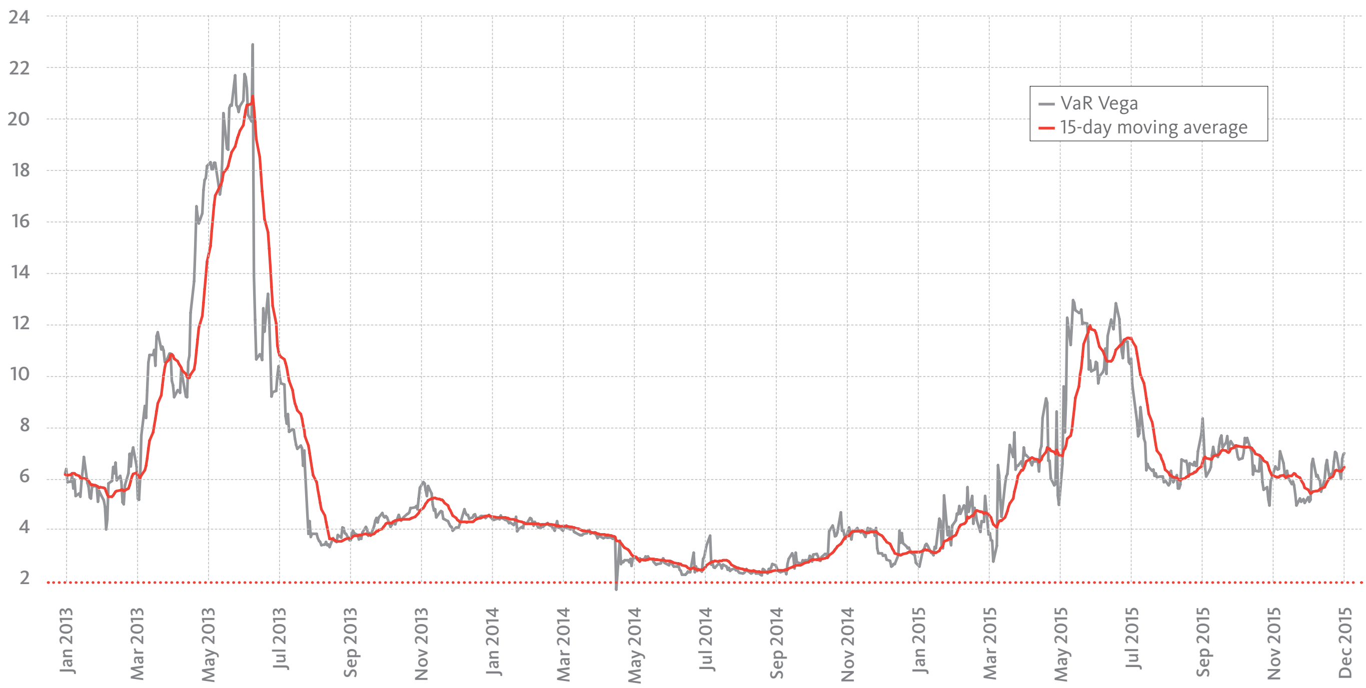
Derivatives activity is mainly focused on marketing investment products and hedging risks for clients. Management is focused on ensuring that the net risk opened is the lowest possible.

These transactions include options on equities, fixed-income and exchange rates. The units where this activity mainly takes place are: Spain, Santander UK, and, to a lesser extent, Brazil and Mexico.

The chart below shows the VaR Vega[27] performance of structured derivatives business over the last three years. It fluctuated at around an average of EUR 6 million. In general, the periods with higher VaR levels related to episodes of significant rises in volatility in the markets. The evolution of VaR Vega in the second quarter of 2013 was the result of the increased volatility of euro and US dollar interest rate curves, coinciding with a strategy of hedging client operations of significant amounts.

Although in **2015, VaR Vega** was similar to the previous year in the first quarter of the year, in the two next quarters it was affected by high market volatility due to events such as Greece's bail-out, high stock market volatility in China or Brazil's currency depreciation and rating downgrade, as well as the BRL's strong depreciation against the euro and the dollar.

Change in risk over time (VaR) of the derivatives business
Million euros. VaR vega at a 99% over a one day horizon.



As regards the VaR by risk factor, on average, the exposure was concentrated, in this order, in interest rates, equities, exchange rates and commodities. This is shown in the table below:

Financial derivatives. Risk (VaR) by risk factor
Million euros. VaR at a 99% over a one day horizon.

	2015				2014		2013	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	**2.6**	**6.8**	**12.8**	**7.0**	**3.3**	**2.7**	**8.0**	**4.5**
Diversification effect	(0.0)	(2.3)	(3.9)	(1.7)	(2.1)	(2.6)	(3.8)	(2.7)
VaR Interest rate	1.7	6.5	12.6	7.3	2.4	1.7	6.6	4.1
VaR equities	0.7	1.5	2.4	0.8	1.8	2.0	3.4	1.8
VaR exchange rate	0.4	1.1	2.1	0.6	1.2	1.6	1.7	1.3
VaR commodities	0.0	0.1	0.4	0.0	0.0	0.1	0.1	0.1

27. Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

Exposure by business unit was concentrated in Spain, Santander UK, Mexico and Brazil (in that order).

Financial derivatives. Risk (VaR) by unit

Million euros. VaR at a 99% over a one day horizon.

	2015				2014		2013	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	**2.6**	**6.8**	**12.8**	**7.0**	**3.3**	**2.7**	**8.0**	**4.5**
Spain	1.3	6.6	12.6	6.9	2.4	1.5	7.0	3.8
Santander UK	0.6	0.9	1.3	0.9	1.4	0.9	2.2	1.6
Brazil	0.3	0.7	1.5	0.4	0.8	0.7	1.2	0.9
Mexico	0.2	0.8	1.8	0.3	0.9	1.3	1.2	1.2

The average risk in 2015 (EUR 6.8 million) is slightly lower compared to 2013 and higher than in 2014, for the reasons explained above.

Grupo Santander continues to have a very limited exposure to instruments or complex structured vehicles, reflecting a management culture one of whose hallmarks is prudence in risk management. At the end of 2015, the Group had:

- **Hedge funds**: the total exposure is not significant (EUR 219.8 million at close of December 2015) and most of it is indirect, largely acting as counterparty in derivatives transactions, and also in financing transactions for those funds. This exposure has low loan-to-value levels of around 16.7% (collateral of EUR 1,225.1 million at the close of December). The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- **Monolines**: Santander's exposure to bond insurance companies (monolines) was, EUR 137.9 million as of December 2015 , mainly indirect exposure, EUR 136.1 million[28] by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is to double default, with the primary underlying assets are of high credit quality. The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non-payment by any of these insurance companies through a credit default swap). Exposure was virtually unchanged vs. 2014.

In short, the exposure to this type of instrument, as the result of the Group's usual operations, continued to decline in 2015. This was mainly due to the integration of positions of institutions acquired by the Group, as Sovereign in 2009. All these positions were known at the time of purchase, having been duly provisioned. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

Santander's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.

- The availability in the market of observable data (inputs) needed to be able to apply this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.

- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed appropriate.

D.2.2.1.5. Issuer risk in trading portfolios

Trading activity in credit risk is mainly conducted in the Treasury Units in Spain. It is done by taking positions in bonds and credit default swaps (CDS) at different maturities on corporate and financial references, as well as indexes (Itraxx, CDX).

The accompanying table shows the major positions at year-end in Spain, distinguishing between long (purchases of bonds and sales of CDS protection) and short (sales of bonds and purchases of CDS protection) positions.

28. Collateral provided by monoline in bonds issued by US states (Municipal Bonds), which amounted to EUR 19.1 million at December 2015, are not considered to be exposure.

Million euros. Data at 31 December 2015

	Largest 'long' positions (sale of protection)		Largest 'short' positions (purchase of protection)	
	Exposure at default (EAD)	% total EAD	Exposure at default (EAD)	% total EAD
1st reference	131	5.09%	(32)	4.30%
2nd reference	124	4.82%	(25)	3.36%
3rd reference	59	2.29%	(23)	3.09%
4th reference	56	2.10%	(23)	3.09%
5th reference	51	1.98%	(20)	2.68%
Sub-total top 5	**419**	**16.29%**	**(124)**	**16.64%**
Total	**2.572**	**100.00%**	**(745)**	**100.00%**

Note: zero recoveries are supposed (LCR=0) in the EaD calculation

D.2.2.1.6. Analysis of scenarios

Various stress scenarios were calculated and analysed regularly in 2015 (at least monthly) at the local and global levels for all the trading portfolios and using the same risk factor assumptions.

Maximum volatility scenario (worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad-hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). A historic volatility equivalent to six standard deviations is applied. The scenario is defined by taking for each risk factor the movement which represents the greatest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms. At year-end, that scenario implied, for the global portfolio, rising interest rates in Latin American markets and low interest rates in core markets, falls in stock markets, depreciation of all currencies against the euro, and widening credit spreads and volatility. The results for this scenario at 31 December 2015 are shown in the following table.

Stress scenario: Maximum volatility (worst case)
Million euros. Data at 31 December 2015

	Interest rates	Equities	Exchange rates	Credit spread	Commodities	Total
Total Trading	**(130.1)**	**(3.3)**	**(10.4)**	**(20.2)**	**(0.1)**	**(164.2)**
Europe	(119.7)	(1.5)	(0.3)	(19.8)	(0.1)	(141.4)
Latin America	(10.2)	(1.8)	(10.1)	0.0	0.0	(22.1)
US	0.0	0.0	0.0	0.0	0.0	0.0
Global Activities	(0.3)	0.0	0.0	(0.4)	0.0	(0.7)
Asia	0.0	0.0	0.0	0.0	0.0	0.0

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the mark to market (MtM) result, would be, if the stress movements defined in the scenario materialised in the market, EUR 164.2 million. This loss would be concentrated in Europe (in the following order: interest rates, credit spread and equities) and Latin America (in the following order: interest rates, exchange rates and equities).

Other global stress scenarios

Abrupt crisis: an ad hoc scenario with sharp market movements. Rise in interest rate curves, sharp falls in stock markets, large appreciation of the dollar against other currencies, rise in volatility and in credit spreads.

11 September crisis: historic scenario of the 11 September 2001 attacks with a significant impact on the US and global markets. This is sub-divided into two scenarios: I) maximum accumulated loss until the worst moment of the crisis; and II) the maximum loss in a day. In both cases, there are drops in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against other currencies.

'Subprime' crisis: historic scenario of the US mortgage crisis. The objective of the analysis is to capture the impact on results of the reduction in liquidity in the markets. Two time horizons were used (one day and 10 days), in both cases there are falls in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against other currencies.

EBA adverse scenario: the scenario proposed by the European Banking Authority (EBA) in April 2014 as part of the EBA 2014 EU-Wide Stress Test. This involves an adverse scenario for European banks over a time horizon from 2014 to 2016. The scenario reflects the systemic risks considered the most serious threats to the stability of the European Union's banking sector. These include: an increase in bond yields worldwide; incremental deterioration of credit quality in countries with weak demand; political reforms grinding to a halt, endangering the sustainability of public finances; and insufficient adjustments to balance sheets to maintain reasonable market finance.

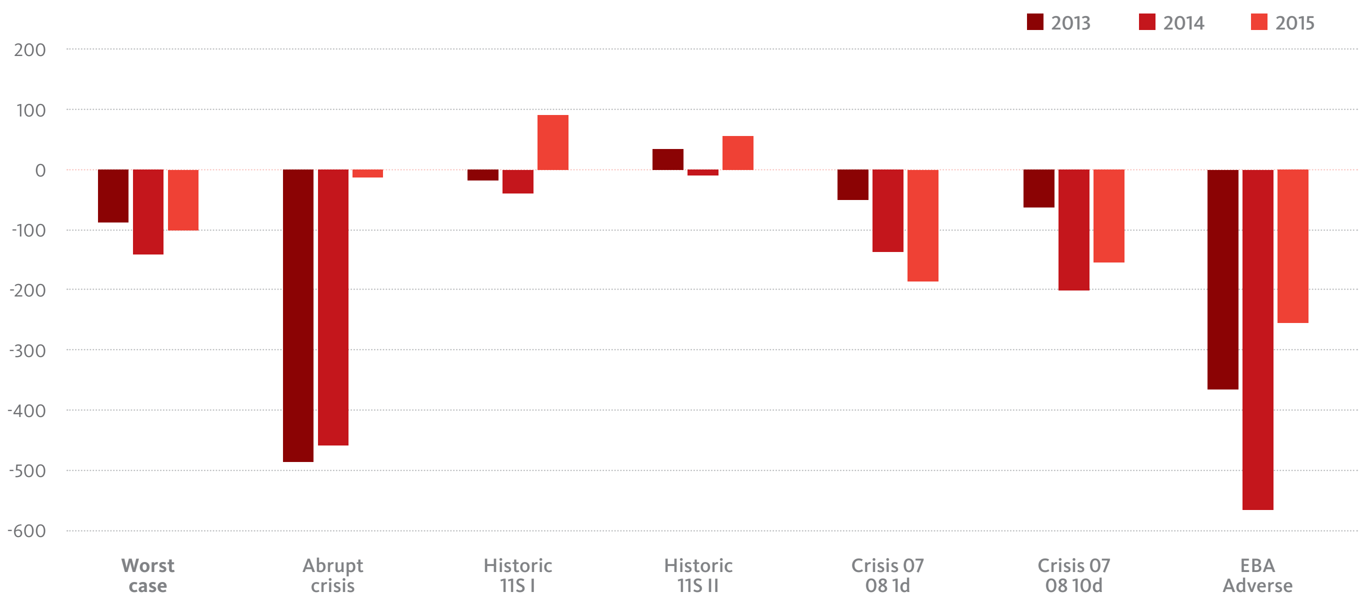
This latter scenario replaced the sovereign debt crisis scenario in November 2014. This historic scenario identified four geographic zones (the US, Europe, Latin America and Asia) and included interest rate rises, falls in stock markets and volatilities, widening credit spreads, and depreciation of the euro and Latin American currencies, and appreciation of Asian currencies, against the dollar.

Every month a consolidated stress test report is drawn up with explanations of the main changes in results for the various scenarios and units. An early warning mechanism has also been established so that when the loss for a scenario is high in historic terms and/or in terms of the capital consumed by the portfolio in question, the relevant business executive is informed.

The results of these global scenarios for the last three years are shown in the following table:

Stress test results. Comparison of the 2013-2015 scenarios (annual averages)

Million euros



D.2.2.1.7. Linkage with balance sheet items. Other alternative risk measures

Below are the balance sheet items in the Group's consolidated position that are subject to market risk, distinguishing the positions whose main risk metric is VaR from those where monitoring is carried out with other metrics. The items subject to market trading risk are highlighted.

Relation of risk metrics with balances in group's consolidated position
Million euros. Data at 31 December 2015.

	Balance sheet amount	Main market risk metric: VaR	Main market risk metric: Other	Main risk factor for 'Other' balance
Assets subject to market risk	**1,340,260**	**198,357**	**1,141,903**	
Cash and deposits at central banks	81,329	-	81,329	Interest rate
Trading portfolio	147,287	146,102	1,185	Interest rate, credit spread
Other financial assets at fair value	45,043	44,528	515	Interest rate, credit spread
Available-for-sale financial assets	122,036	-	122,036	Interest rate, equities
Investments	3,251	-	3,251	Equities
Hedging derivatives	7,727	7,727	-	Interest rate, exchange rate
Loans	835,992	-	835,992	Interest rate
Other financial assets[1]	35,469	-	35,469	Interest rate
Other non-financial assets[2]	62,126	-	62,126	
Liabilities subject to market risk	**1,340,260**	**168,582**	**1,171,678**	
Trading portfolio	105,218	104,888	330	Interest rate, credit spread
Other financial liabilities at fair value	54,768	54,757	11	Interest rate, credit spread
Hedging derivatives	8,937	8,937	-	Interest rate, exchange rate
Financial liabilities at amortised cost[3]	1,039,517	-	1,039,517	Interest rate
Provisions	14,494	-	14,494	Interest rate
Other financial liabilities	8,352	-	8,352	Interest rate
Equity	98,753	-	98,753	
Other non-financial liabilities	10,221	-	10,221	

1. Includes adjustments to macro hedging, non-current assets held for sale, reinsurance assets, and insurance contracts linked to pensions and fiscal assets.
2. Includes intangible assets, material assets and other assets.
3. Macro-hedging adjustment.

For activity managed with metrics other than VaR, alternative measures are used, mainly: sensitivity to different risk factors (interest rate, credit spread, etc).

In the case of the trading portfolio, the securitisations and 'level III' exposures (those in which non-observable market data constitutes a significant input in the corresponding internal valuation models) are excluded from the VaR measurement.

Securitisations are mainly treated as if they were part of the credit risk portfolio (in terms of default, recovery rate, etc). For 'level III' exposures, which are not very significant in Grupo Santander (basically derivatives linked to the home price index —HPI— in market activity in Santander UK, and interest rate and correlation derivatives for share prices in the parent bank's market activity), as well as in general for inputs that cannot be observed in the market (correlation, dividends, etc), a very conservative policy is followed: this is reflected in valuation adjustments as well as sensitivity.

D.2.2.2. Methodologies

D.2.2.2.1. Value at Risk (VaR)

The standard methodology that Grupo Santander applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and quickly. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

Value at Earnings (VaE) is also calculated. This measures the maximum potential gain with a certain level of confidence and time frame, applying the same methodology as for VaR.

VaR by historic simulation has many advantages as a risk metric (it sums up in a single number the market risk of a portfolio; it is based on market movements that really occurred without the need to make assumptions of functions forms or correlations between market factors, etc), but also has limitations.

Some limitations are intrinsic to the VaR metrics, regardless of the methodology used in their calculation, including:

- The VaR calculation is calibrated at a certain level of confidence, which does not indicate the levels of possible losses beyond it.
- There are some products in the portfolio with a liquidity horizon greater than that specified in the VaR model.
- VaR is a static analysis of the risk of the portfolio, and the situation could change significantly during the following day, although the likelihood of this occurring is very low.

Using the historic simulation methodology also has its limitations:

- High sensitivity to the historic window used.
- Inability to capture plausible events that would have significant impact, if these do not occur in the historic window used.
- The existence of valuation parameters with no market input (such as correlations, dividend and recovery rate).
- Slow adjustment to new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Some of these limitations are overcome by using Stressed VaR and Expected Shortfall, calculating VaR with exponential decay and applying conservative valuation adjustments. Furthermore, as previously stated, the Group regularly conducts analysis and backtesting of the accuracy of the VaR calculation model.

D.2.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES)

In addition to standard VaR, Stressed VaR is calculated daily for the main portfolios. The calculation methodology is the same as for VaR, with the two following exceptions:

- The historical observation period for the factors: when calculating Stressed VaR a window of 260 observations is used, rather than 520 for VaR. However, this is not the most recent data: rather, the data used is from a continuous period of stress for the portfolio in question. This is determined for each major portfolio by analysing the history of a subset of market risk factors selected based on expert judgement and the most significant positions in the books.
- Unlike VaR, Stressed VaR is obtained using the percentile with uniform weighting, not the higher of the percentiles with exponential and uniform weightings.

Moreover, the Expected Shortfall (ES) is also calculated, estimating the expected value of the potential loss when this is higher than that returned by VaR. Unlike VaR, ES has the advantages of capturing the risk of large losses with low probability (tail risk) and being a subadditive metric[29]. Going forward, in the near term the Basel Committee has recommended replacing VaR with Expected Shortfall as the baseline metric for calculating regulatory capital for trading portfolios[30]. The Committee considers that ES with a 97.5% confidence interval delivers a similar level of risk to VaR at a 99% confidence interval. Equal weights are applied to all observations when calculating ES.

D.2.2.2.3. Analysis of scenarios

The Group uses other metrics in addition to VaR, giving it greater control over the risks it faces in the markets where it is active. These measures include scenario analysis. This consists of defining alternative behaviours for various financial variables and obtaining the impact on results of applying these to activities. These scenarios may replicate events that occurred in the past (such as a crisis) or determine plausible alternatives that are unrelated to past events.

The potential impact on earnings of applying different stress scenarios is regularly calculated and analysed, particularly for trading portfolios, considering the same risk factor assumptions. Three scenarios are defined, as a minimum: plausible, severe and extreme. Taken together with VaR, these reveal a much more complete spectrum of the risk profile.

A number of trigger thresholds have also been established for global scenarios, based on their historical results and the capital associated with the portfolio in question. When these triggers are activated, the portfolio managers are notified so they can take appropriate action. The results of the global stress exercises, and any breaches of the trigger thresholds, are reviewed regularly, and reported to senior management, when this is considered appropriate.

D.2.2.2.4. Analysis of positions, sensitivities and results

Positions are used to quantify the net volume of the market securities for the transactions in the portfolio, grouped by main risk factor, considering the delta value of any futures or options. All risk positions can be expressed in the base currency of the unit and the currency used for standardising information. Changes in positions are monitored on a daily basis to detect any incidents, so they can be corrected immediately.

Measurements of market risk sensitivity estimate the variation (sensitivity) of the market value of an instrument or portfolio to any change in a risk factor. The sensitivity of the value of an instrument to changes in market factors can be obtained using

29. According to the financial literature, subaddivity is a desirable property for a coherent risk metric. This property establishes that f(a+b) is less than or equal to f(a)+f(b). Intuitively, it assumes that the more instruments and risk factors there are in a portfolio, the lower the risks, because of the benefits of diversification. Whilst VaR only offers this property for some distributions, ES always does so.Fundamental review of the trading book: a revised market risk framework (Basel Committee consultation document on banking supervision, October 2013).

30. Fundamental review of the trading book: a revised market risk framework (Consultative document of the Basel Committee on banking supervision, October 2013).

analytical approximations by partial derivatives or by complete revaluation of the portfolio.

In addition, the statement of income is also drawn up every day, providing an excellent indicator of risk, enabling us to identify the impact of changes in financial variables on the portfolios.

D.2.2.2.5. Derivatives activities and credit management
Also noteworthy is the control of derivative activities and credit management which, because of its atypical nature, is conducted daily with specific measures. First, the sensitivities to price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) are controlled. Second, measures such as the sensitivity to the spread, jump-to-default, concentrations of positions by level of rating, etc, are reviewed systematically.

With regard to the credit risk inherent to trading portfolios, and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, a further metric is also calculated: the Incremental Risk Charge (IRC). This seeks to cover the risks of non-compliance and ratings migration that are not adequately captured in VaR, through changes in the corresponding credit spreads. This metric is basically applied to fixed-income bonds, both public and private, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset backed securities, etc.). IRC is calculated using direct measurements of loss distribution tails at an appropriate percentile (99.9%), over a one year horizon. The Monte Carlo methodology is used, applying one million simulations.

D.2.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)
Grupo Santander incorporates credit valuation adjustment (CVA) and debt valuation adjustment (DVA) when calculating the results of trading portfolios. The CVA is a valuation adjustment of over the-counter (OTC) derivatives, as a result of the risk associated with the credit exposure assumed by each counterparty.

The **CVA is calculated** by taking into account the potential exposure with each counterparty in each future maturity. The CVA for a particular counterparty is therefore the sum of the CVAs over all such future terms. The following inputs are used:

- Expected exposure: including, for each operation the current market value (MtM) as well as the potential future risk (add-on) to each maturity. CVA also considers mitigating factors such as collateral and netting agreements, together with a decay factor for derivatives with interim payments.
- Severity: the percentage of final loss assumed in case of credit/ non-payment of the counterparty.
- Probability of default: for cases in which there is no market information (spread curve traded through CDS, etc.), general proxies generated on the basis of companies with listed CDS of the same sector and external rating as the counterparty are used.
- Discount factor curve.

The Debt Valuation Adjustment (DVA) is a valuation adjustment similar to the CVA, but in this case as a result of Grupo Santander's risk that counterparties assume in OTC derivatives.

D.2.2.3. System for controlling limits
Setting market risk and liquidity limits is designed as a dynamic process which responds to the Group's risk appetite level (described in section B.3.1. Risk appetite and structure of limits). This process is part of an annual limits plan drawn up by the Group's senior management, involving every Group entity.

The market risk limits used in Grupo Santander are established based on different metrics and try to cover all activity subject to market risk from many perspectives, applying a conservative approach. The main ones are:

- VaR limits.
- Limits of equivalent and/or nominal positions.
- Interest rate sensitivity limits
- Vega limits.
- Delivery risk limits for short positions in securities (fixed income and securities).
- Limits to constrain the volume of effective losses, and protect results generated during the period:
  - *Loss trigger.*
  - *Stop loss.*
- Credit limits:
  - Total exposure limit.
  - Jump to default by issuer limit.
  - Others.
- Limits for origination transactions.

These general limits are complemented by other sub-limits to establish a sufficiently granular limits framework for effective control of the market risk factors to which the Group is exposed in its trading activities. Positions are monitored on a daily basis, at both the unit and global levels, with exhaustive control of changes to portfolios, so as to identify any incidents that might need immediate correction. Meanwhile, the daily drawing up of the income statement by the risks area is an excellent indicator of risks, as it allows the impact that changes in financial variables have had on portfolios to be identified.

Implementation of the Volcker Rule throughout the Group in July 2015 required activities to be reorganised to ensure compliance with this new regulation, the preparation of new metrics and the definition of limits at the desk level.

Three categories of limits were established based on the scope of approval and control: global approval and control limits, global approval limits with local control, and local approval and control limits. The limits are requested by the business executive of each country/entity, considering the particular nature of the business and so as to achieve the budget established, seeking consistency between the limits and the risk/return ratio. The limits are approved by the corresponding risk bodies.

Business units must comply with the approved limits at all times. In the event of a limit being exceeded, the local business executives have to explain, in writing and on the day, the reasons for the excess and the action plan to correct the situation, which in general might consist of reducing the position until it reaches the prevailing limits or setting out the strategy that justifies an increase in the limits.

If the business unit fails to respond to the excess within three days, the global business executives will be asked to set out the measures to be taken in order to make the adjustment to the existing limits. If this situation lasts for 10 days as of the first excess, senior risk management will be informed so that a decision can be taken: the risk takers could be made to reduce the levels of risk assumed.

D.2.3. Structural balance sheet risks[31]

D.2.3.1. Main figures and trends

The market risk profile inherent in Grupo Santander's balance sheet, in relation to its asset volumes and shareholders' funds, as well as the budgeted financial margin, remained moderate in 2015, in line with previous years.

D.2.3.1.1. Structural interest rate risk

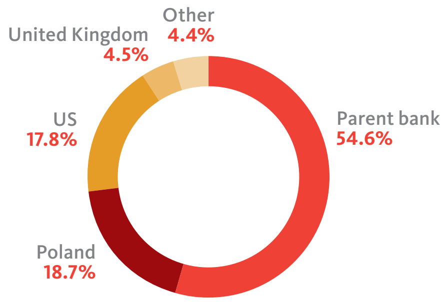
Europe and the United States

Against a backdrop of low interest rates, the main balance sheets in mature markets - the parent bank, the UK and the US - show positive economic value and net interest income sensitivities to interest rate rises.

Exposure levels in all countries are moderate in relation to the annual budget and equity levels.

At December 2015, net interest income risk at one year, measured as sensitivity to parallel changes of ±100 basis points, was concentrated in the yield curve for the euro, at EUR 257 million, the Polish zloty, at EUR 83 million, and the US dollar, at EUR 78 million, all relating to risks of rate cuts.

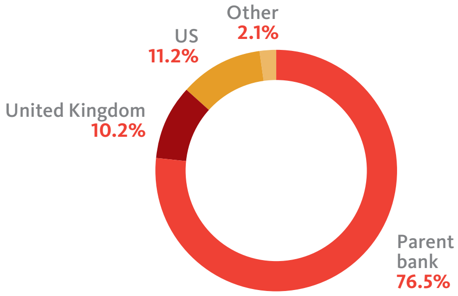
Net interest income (NII) sensitivity[32]
% of total



Other: Portugal and SCF.

At the same date, the most relevant risk to the economic value of equity, measured as its sensitivity to parallel changes in the yield curve of ±100 basis points was in the euro interest rate curve, at EUR 3,897 million, for the risk of rate cuts. The amounts at risk for the dollar and sterling curves were EUR 691 million and EUR 488 million, respectively, also for rate cuts. These scenarios are extremely unlikely in practice at present.

Economic value of equity (EVE) sensitivity[33]
% of total



Other: Poland, Portugal and SCF.

The following tables set out the interest-rate risk of the balance sheets of the parent bank and Santander UK by maturity, at the end of 2015.

31. This includes the whole balance sheet with the exception of trading portfolios.
32. Sensitivity to the worst-case scenario between +100 and -100 basis points.
33. Sensitivity to the worst-case scenario between +100 and -100 basis points.

Parent bank: Interest rate repricing gap[34]

Million euros. 31 December 2015

	Total	3 months	1 year	3 years	5 years	>5 years	Not sensitive
Assets	406,911	163,194	74,166	15,330	16,622	24,750	112,849
Liabilities	433,522	151,763	51,924	78,622	24,389	49,350	77,473
Off balance sheet	26,611	29,194	(1,607)	6,857	1,291	(9,124)	0
Net gap	**0**	**40,626**	**20,635**	**(56,435)**	**(6,477)**	**(33,725)**	**35,376**

Santander UK: Interest rate repricing gap[35]

Million euros. 31 December 2015

	Total	3 months	1 year	3 years	5 years	>5 years	Not sensitive
Assets	354,986	189,895	35,303	67,239	26,452	13,757	22,340
Liabilities	353,850	203,616	31,591	29,027	19,161	33,939	36,516
Off balance sheet	(1,137)	(25,363)	1,736	14,713	(1,653)	9,430	0
Net gap	**0**	**(39,083)**	**5,448**	**52,925**	**5,638**	**(10,752)**	**(14,176)**

In general, the gaps by maturities are kept at reasonable levels in relation to the size of the balance sheet.

Latin America

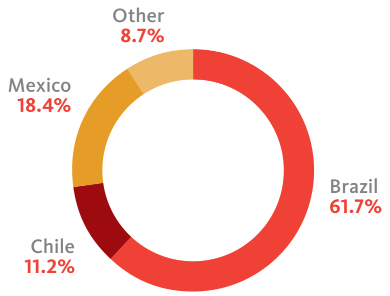
Latin American balance sheets are positioned for interest rate cuts for both economic value and net interest income, except for net interest income in Mexico, where excess liquidity is invested in the short term in the local currency.

In 2015, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

At the end of the year, net interest income risk over one year, measured as sensitivity to parallel ± 100 basis point movements, was concentrated in three countries, Brazil (EUR 124 million), Mexico (EUR 37 million) and Chile (EUR 23 million), as shown in the chart below.

Net interest income (NII) sensitivity[36]

% of total

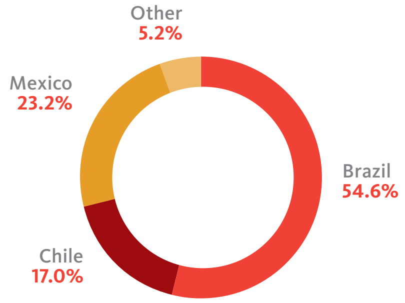


Other: Argentina, Uruguay and Peru.

Risk to the value of equity over one year, measured as sensitivity to parallel ± 100 basis point movements, was also concentrated in Brazil (EUR 425 million), Mexico (EUR 180 million) and Chile (EUR 132 million).

Economic value of equity (EVE) sensitivity[37]

% of total



Other: Argentina, Uruguay and Peru.

34. Aggregate gap for all currencies on the balance sheet of the parent bank unit, in euros.
35. Aggregate gap for all currencies on the balance sheet of the Santander UK unit, in euros.
36. Sensitivity to the worst-case scenario between +100 and -100 basis points.
37. Sensitivity to the worst-case scenario between +100 and -100 basis points.

The table below shows the interest-rate risk maturity structure of the Brazil balance sheet in December 2015.

Brazil: Interest rate repricing gap[38]

Million euros. 31 December 2015

	Total	3 months	1 year	3 years	5 years	>5 years	Not sensitive
Assets	160,088	79,089	21,096	17,908	4,510	12,731	24,754
Liabilities	160,088	108,719	7,818	7,526	4,257	4,303	27,464
Off balance sheet	0	(20,886)	14,613	2,863	783	1,679	948
Net gap	**0**	**(50,516)**	**27,890**	**13,246**	**1,036**	**10,106**	**(1,762)**

Balance sheet structural interest rate VaR

In addition to sensitivities to interest rate movements (in which, assessments of ±100 bp movements are supplemented by assessments of ±25 bp, ±50 bp and ±75 bp movements to give a fuller understanding of risk in countries with very low rates), Santander also uses other methods to monitor structural balance sheet risk from interest rates: these include scenario analysis and VaR calculations, applying a similar methodology to that for trading portfolios.

The table below shows the average, minimum, maximum and year-end values of the VaR of structural interest rate risk over the last three years:

Balance sheet structural interest rate risk (VaR)

Million euros. VaR at a 99% confidence interval over a one day horizon.

	2015			
	Minimum	Average	Maximum	Latest
Structural interest rate VaR*	**250.5**	**350.0**	**775.7**	**264.2**
Diversification effect	(90.8)	(181.1)	(310.7)	(189.1)
Europe and US	171.2	275.2	777.0	210.8
Latin America	170.1	255.9	309.3	242.6

* Includes credit spread VaR on ALCO portfolios.

	2014			
	Minimum	Average	Maximum	Latest
Structural interest rate VaR*	**411.3**	**539.0**	**698.0**	**493.6**
Diversification effect	(109.2)	(160.4)	(236.2)	(148.7)
Europe and US	412.9	523.0	704.9	412.9
Latin America	107.6	176.4	229.4	229.4

* Includes credit spread VaR on ALCO portfolios.

	2013			
	Minimum	Average	Maximum	Latest
Structural interest rate VaR*	**580.6**	**782.5**	**931.0**	**681.0**
Diversification effect	(142.3)	(164.7)	(182.0)	(150.3)
Europe and US	607.7	792.5	922.0	670.0
Latin America	115.2	154.6	191.0	161.3

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk measured in terms of VaR at a 99% confidence interval over a one year horizon averaged EUR 350 million in 2015. Of note is the wide diversification between the balance sheets in Europe and the United States on the one hand and those in Latin America on the other, as is the reduction in VaR in Europe and the USA.

D.2.3.1.2. Structural exchange-rate risk/Hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and hedging of these investments.

This management is dynamic and seeks to limit the impact on the core capital ratio of movements in exchange rates[39]. In 2015, hedging levels of the core capital ratio for exchange rate risk were maintained at around 100%.

At the end of 2015, the largest exposures of permanent investments (with their potential impact on equity) were, in order, in pounds sterling, US dollars, Brazilian reais, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions of a permanent nature with exchange-rate derivatives.

In addition, the Financial Management area is responsible for managing exchange-rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

D.2.3.1.3. Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as available for sale portfolios (capital instruments) or as equity stakes, depending on their envisaged time in the portfolio.

The equity portfolio of the banking book at the end of 2015 was diversified in securities in various countries, mainly Spain, the USA, China, Brazil and the Netherlands. Most of the portfolio is invested in the financial and insurance sectors; other sectors, to a lesser extent, are professional, scientific and technical activities, public administrations (stake in Sareb), manufacturing industry, the transport sector and warehousing.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. At the end of December 2015, the VaR at 99% with a one day time frame was EUR 208.1 million (EUR 208.5 and EUR 235.3 million at the end of December 2014 and 2013, respectively).

38. Aggregate gap for all currencies on the balance sheet of the Brazil unit, in euros.
39. In early 2015, the criteria for coverage of the core capital ratio was changed from phase-in to fully loaded.

D.2.3.1.4. Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of Santander Global Corporate Banking (the VaR for this activity is described in section D.2.2.1.1. VaR analysis) distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rates and equities.

In general, structural VaR is not high in terms of the Group's volume of assets or equity.

Structural VaR

Million euros. VaR at a 99% confidence interval over a one day horizon

	2015				2014		2013	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
VaR estructural	**561.6**	**698.5**	**883.5**	**710.2**	**718.6**	**809.8**	**857.6**	**733.9**
Diversification effect	(325.7)	(509.3)	(1.042.6)	(419.2)	(364.1)	(426.1)	(448.3)	(380.2)
VaR Interest rate*	250.5	350.0	775.7	264.2	539.0	493.6	782.5	681.0
VaR exchange rate	428.7	634.7	908.6	657.1	315.3	533.8	254.5	197.8
VaR equities	208.1	223.2	241.8	208.1	228.4	208.5	269.0	235.3

* Includes credit spread VaR on ALCO portfolios.

D.2.3.2. Methodologies

D.2.3.2.1. Structural interest rate risk

The Group analyses the sensitivity of its net interest income and equity value to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

The financial measures to adjust the positioning to that desired by the Group are agreed on the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, the sensitivity of net interest income and of equity value to changes in interest rate levels, the duration of equity and Value at Risk (VaR), for the purposes of calculating economic capital.

Interest rate gap of assets and liabilities

This is the basic concept for identifying the entity's interest rate risk profile and measuring the difference between the volume of sensitive assets and liabilities on and off the balance sheet that reprice (i.e. that mature or are subject to rate revisions) at certain times (buckets). This provides an immediate approximation of the sensitivity of the entity's balance sheet and its net interest income and equity value to changes in interest rates.

Net interest income (NII) sensitivity

This is a key measure of the profitability of balance sheet management. It is calculated as the difference in the net interest income resulting from a parallel movement in interest rates over a particular period. The standard period for measuring net interest income sensitivity is one year.

Economic value of equity (EVE) sensitivity

This measures the interest rate risk implicit in equity value - which for the purposes of interest rate risk is defined as the difference between the net current value of assets and the net current value of liabilities outstanding - based on the impact that a change in interest rates would have on these values.

Treatment of liabilities without defined maturity

In the corporate model, the total volume of the balances of accounts without maturity is divided between stable and unstable balances. This separation between stable and unstable balances is obtained from a model that is based on the relation between balances and their own moving averages.

From this simplified model, the monthly cash flows are obtained and used to calculate NII and EVE sensitivities.

This model requires a variety of inputs:

- Parameters inherent in the product.
- Performance parameters of the client (in this case analysis of historic data is combined with the expert business view)
- Market data
- Historic data of the portfolio.

Pre-payment treatment for certain assets
The pre-payment issue mainly affects fixed-rate mortgages in units where the relevant interest rate curves for the balance sheet are at low levels. This risk is modelled in these units, and this can also be applied, with some modifications, to assets without defined maturity (credit card businesses and similar).

The usual techniques used to value options cannot be applied directly because of the complexity of the factors that determine borrower pre-payments. As a result, the models for assessing options must be combined with empirical statistical models that seek to capture pre-payment performance. Some of the factors conditioning this performance are:

- **Interest rate:** the differential between the fixed rate on the mortgage and the market rate at which it could be refinanced, net of cancellation and opening costs.
- **Seasoning:** pre-payment tends to be low at the start of the instruments life cycle (signing of the contract) and grow and stabilize as time passes.
- **Seasonality:** redemptions or early cancellations tend to take place at specific dates.
- **Burnout:** decreasing trend in the speed of pre-payment as the instrument's maturity approaches, which includes:

a) *Age:* defines low rates of pre-payment.

b) *Cash pooling*, defines as more stable those loans that have already overcome various waves of interest rate falls. In other words, when a portfolio of loans has passed one or more cycles of downward rates and thus high levels of pre-payment, the 'surviving' loans have a significantly lower pre-payment probability.

c) Others: geographic mobility, demographic, social and available income factors, etc.

The series of econometric relations that seek to capture the impact of all these factors is the probability of pre-payment of a loan or pool of loans and is denominated the pre-payment model.

Value at Risk (VaR)
For balance sheet activity and investment portfolios, this is defined as the 99% percentile of the distribution function of losses in equity value, calculated based on the current market value of positions and returns over the last two years, at a particular level of statistical confidence over a certain time horizon. As with trading portfolios, a time frame of two years or at least 520 days from the reference date of the VaR calculation is used.

D.2.3.2.2. Structural exchange-rate risk/Hedging of results
These activities are monitored via position measurements, VaR and results, on a daily basis.

D.2.3.2.3. Structural equity risk
These activities are monitored via position measurements, VaR and results, on a monthly basis.

D.2.3.3. System for controlling limits
As already stated for the market risk of trading, under the framework of the annual limits plan, limits are set for balance sheet structural risks, responding to Grupo Santander's risk appetite level.

The main ones are:

- Balance sheet structural interest rate risk
  - Limit on the sensitivity of net interest income to one year.
  - Limit of the sensitivity of equity value.
- Structural exchange rate risk:
  - Net position in each currency (for hedging positions of results).

In the event of exceeding one of these limits or their sub limits, the relevant risk management executives must explain the reasons and facilitate the measures to correct it.

D.2.4. Pension and actuarial risks

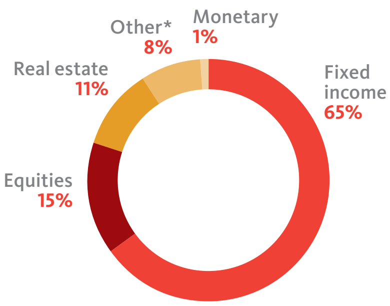
D.2.4.1. Pension risk
When managing the pension fund risks of employees (defined benefit), the Group assumes the financial, market, credit and liquidity risks it incurs for the assets and investment of the fund, as well as the actuarial risks derived from the liabilities, and the responsibilities for pensions to its employees.

The Group's objective in the sphere of controlling and managing pension risk focuses on identifying, measuring, monitoring, mitigating and communicating this risk. The Group's priority is thus to identify and mitigate all the focuses of risk.

This is why the methodology used by Grupo Santander estimates every year the combined losses in assets and liabilities in a defined stress scenario from changes in interest rates, inflation, stocks markets and properties, as well as credit and operational risk.

Main figures
The main figures for the pension funds of employees with defined contribution plans are set out in note 25 of the Group's auditor's report and annual consolidated financial statements, which report the details and movements of provisions for pensions, as well as the main hypotheses used to calculate the actuarial risk and the risk of the fund, including changes in the value of assets and liabilities and details of the investment portfolios assigned to them.

The investor profile of the aggregated portfolio of employees' pension funds is medium-low risk, as around 65% of the total portfolio is invested in fixed-income assets, as set out in the following chart:



* Includes positions in hedge funds, private equity and derivatives
Figures as of 31 December 2015

D.2.4.2. Actuarial risk

Actuarial risk is produced by biometric changes in the life expectancy of those with life assurance, from the unexpected increase in the indemnity envisaged in non-life insurance and, in any case, from unexpected changes in the performance of insurance takers in the exercise of the options envisaged in the contracts.

The following are actuarial risks:

Risk of life liability: risk of loss in the value of life assurance liabilities caused by fluctuations in risk factors that affect these liabilities:

- **Mortality/longevity risk**: risk of loss from movements in the value of the liabilities deriving from changes in the estimation of the probability of death/survival of those insured.
- **Morbidity risk**: risk of the loss from movements in the value of the liabilities deriving from changes in estimating the probability of disability/incapacity of those insured.
- **Redemption/fall risk**: risk of loss from movements in the value of the liabilities as a result of the early cancellation of the contract, of changes in the exercise of the right of redemption by the insurance holders, as well as options of extraordinary contribution and/or suspending contributions.
- **Risk of costs**: risk of loss from changes in the value of the liabilities derived from negative variances in envisaged costs.
- **Catastrophe risk**: losses caused by catastrophic events that increase the entity's life liability.

Risk of non-life liability: risk of loss from the change in the value of the non-life insurance liability caused by fluctuations in risk factors that affect these liabilities:

- **Premium risk**: loss derived from the insufficiency of premiums to cover the disasters that might occur.
- **Reserve risk**: loss derived from the insufficiency of reserves for disasters, already incurred but not settled, including costs from management of these disasters.
- **Catastrophe risk**: losses caused by catastrophic events that increase the entity's non-life liability.

Main figures

In the case of Grupo Santander, actuarial risk embraces the activity of the Group's fully-owned subsidiaries, which are subject not only to risk of an actuarial nature, but whose activity is also impacted by the other financial, non-financial and transversal risks defined by the Group.

As of 31 December 2015, the volume of assets managed by the companies in Spain and Portugal that belong 100% to Grupo Santander amounted to EUR 25,956 million, of which EUR 21,444 million relates directly to commitments with insurance holders, as follows:

- EUR 14,663 million are commitments guaranteed (wholly or partly) by the companies themselves.
- EUR 6,781 million are commitments where the risks are assumed by the insurance holders.

D.3. Liquidity risk and funding

Structure of this section

Following an **introduction** to the concept of liquidity risk and funding in Grupo Santander [pag. 250], we present the **liquidity management framework** put in place by the Group, including monitoring and control of liquidity risk [pag. 250-254].

We then look at the **funding strategy** developed by the Group and its subsidiaries over the last few years [pag. 254-256], with particular attention to the **evolution of liquidity in 2015.** For the last year, we examine changes in the liquidity management ratios and the business and market trends that gave rise to these [pag. 256-260].

The section ends with a qualitative description of the **prospects** for funding for the next year for the Group and its main countries [pag. 260].

D.3.1. Introduction to the treatment of liquidity risk and funding

- Santander has developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in its main units, even during stress in the markets.
- In the last few years, as a result of the economic and regulatory changes arising from the global economic and financial crisis, it has been necessary to adapt the funding strategies to new commercial business trends, market conditions and new regulatory requirements.
- In 2015, Santander continued to improve in specific aspects based on a very comfortable liquidity position at the level of the Group and in the subsidiaries, with no significant changes in liquidity management or funding policies or practices. All of this enables us to face 2016 from a good starting point, with no restrictions on growth.

Liquidity management and funding have always been basic elements in Banco Santander's business strategy and a fundamental pillar, together with capital, in supporting its balance sheet strength.

The Group adopts a decentralised funding model, based on autonomous subsidiaries that are self-sufficient in their liquidity needs. Each subsidiary is responsible for covering the liquidity needs of its current and future activity, either through deposits captured from its customers in its area of influence or through recourse to the wholesale markets in which it operates, within a management and supervision framework coordinated at the Group level.

The funding structure has shown its great effectiveness in situations of high levels of market stress, as it prevents the difficulties of one area from affecting the funding capacity of other areas, and thus of the Group as a whole, as could happen in the case of a centralised funding model.

Moreover, at Grupo Santander this funding structure benefits from the advantages of a solid retail banking model with a significant presence in ten high potential markets, focused on retail clients and high efficiency. All of this gives our subsidiaries substantial capacity to attract stable deposits, as well as a strong issuance capacity in the wholesale markets of these countries, generally in their own currency, backed by the strength of their franchise and belonging to a leading group.

D.3.2. Liquidity management

Management of structural liquidity aims to fund the Group's recurring activity in optimum conditions of maturity and cost, avoiding the assumption of undesired liquidity risks.

Santander's **liquidity management** is based on the following principles:

- **Decentralised liquidity model.**
- **Needs** derived from **medium-** and **long-term** activity must be **financed** by **medium-** and **long -term instruments.**
- **High contribution from customer deposits,** derived from the retail nature of the balance sheet.
- **Diversification of wholesale funding sources** by instruments/ investors, markets/currencies and terms.
- **Limited recourse to wholesale short-term funding.**

- **Availability of sufficient liquidity reserves,** including the discounting capacity in central banks to be used in adverse situations.

- **Compliance with regulatory liquidity requirements** required at Group and subsidiary level, as a new conditioning factor in management.

The effective application of these principles by all the institutions that comprise the Group required the development of a unique **management framework** built upon three essential pillars:

- A solid organisational and governance model that ensures the involvement of the senior management of subsidiaries in decision-taking and its integration into the Group's global strategy.

- In-depth balance sheet analysis and measurement of liquidity risk, supporting decision-taking and its control.

- Management adapted in practice to the liquidity needs of each business.

D.3.2.1. Organisational model and governance

The decision-making process for all structural risks, including liquidity and funding risk, is carried out by local asset and liability committees (ALCO) in coordination with the global ALCO.

The global ALCO is the body empowered by Banco Santander's board to coordinate asset and liability management (ALM) throughout the Group, including liquidity and funding management, which is conducted via the local ALCOs and in accordance with the corporate ALM framework.

This body is chaired by the Bank's executive chairman and comprises an executive vice-chairman (who is, in turn, chairman of the executive risk committee), the chief executive officer, the chief financial officer, the senior executive vice president for risk and other senior executives responsible for the business and analysis units who provide advice.

In line with these principles and the ALM corporate framework, the function of liquidity and funding management is supported by:

- The **board of directors,** as the highest body responsible for management of the Group.

- The **local ALCO committees,** which define at each moment the objective liquidity positioning and strategies to ensure and/or anticipate the funding needs of their business, always within the risk appetite set by the board and regulatory requirements.

- The **global ALCO committee,** which conducts the parent bank's ALM management, as well as coordinating and monitoring the function in the Group's other units.

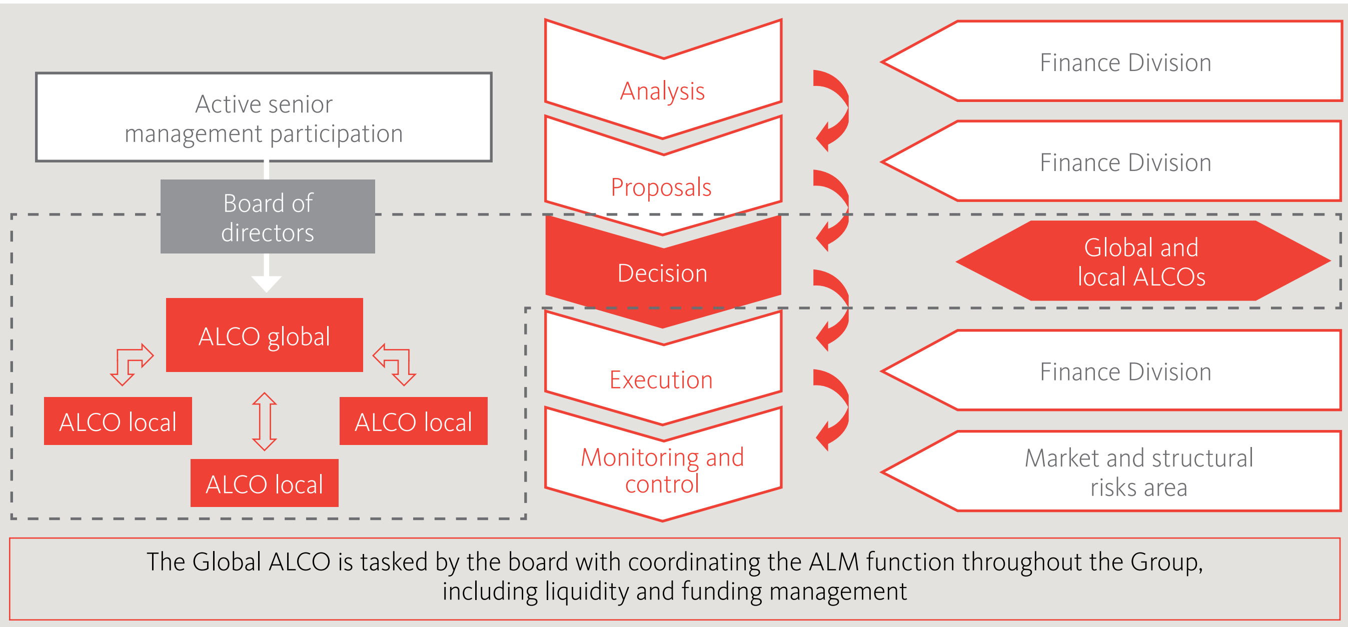
- The **Financial Management** area, which manages on a day to day basis, conducting analysis, proposing strategies and carrying out the measures adopted within the positioning defined by the ALCOs.

- The **Market Risk** area, responsible for on-going monitoring and control of compliance with the limits established. This independent control function is completed a posteriori by regular reviews conducted by Internal Audit.

- All of this supported by an independent **Operations area** that guarantees the integrity and quality of the information used for managing and controlling liquidity.

Governance-Grupo Santander: liquidity and funding risk

Decision making structure and functions



This governance model has been strengthened over the last few years by being integrated into a more global vision of the Group's risks: **Santander's risk appetite framework.** This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

The liquidity risk profile and appetite aims to reflect the Group's strategy for developing its businesses, which consists of structuring the balance sheet in the most resistant way possible to potential liquidity stress scenarios Liquidity appetite metrics have been put in place that reflect the application of the principles of the Group's liquidity management model at the individual level, with specific levels for the structural funding ratio and minimum liquidity horizons under various stress scenarios, as indicated in the following sections.

In parallel, analysis is being carried out of a range of scenarios to consider the additional needs that might arise in the face of various events with very serious features, even if their probability of occurrence is very low. These could affect various balance sheet items and sources of funding in different ways (renewal of wholesale funding, outflows of deposits, impairment of liquid assets, etc), whether through conditions in global markets or specific to the Group.

Over the next few years, the metrics used in the liquidity risk appetite framework will be enhanced with the incorporation of those monitored and controlled by the financial management area at Group level and the main units, be they regulatory metrics or of any other type.

The new metrics used in 2015 were the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR). The former measures the relationship between structural funding sources and needs, whilst the latter is a regulatory ratio that measures the strength of a bank in the face of a short-term (30 day) liquidity crisis, through its high-quality liquid assets.

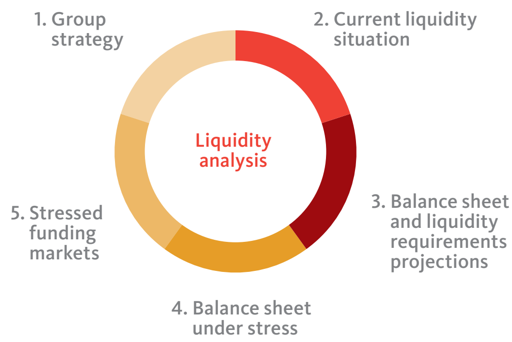
D.3.2.2. Balance sheet analysis and measurement of liquidity risk

Decision-making on liquidity and funding is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and state of liquidity), of the future liquidity needs of the various units and businesses (projection of liquidity), as well as access to and the situation of funding sources in the wholesale markets.

The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs with stable funding sources, optimising the impact of its cost on the income statement.

This requires monitoring of the structure of balance sheets, forecasting short and medium-term liquidity and establishing the basic metrics.

Balance sheet analysis and measurement of liquidity risk



The inputs for drawing up the Group's various contingency plans are obtained from the results of the analysis of balance sheets, forecasts and scenarios, which, in turn, enable a whole spectrum of potential adverse circumstances to be anticipated.

All these actions are in line with the practices being fostered by the Basel Committee and the various regulators (in the European Union, the European Banking Authority) to strengthen the liquidity of banks. Their objective is to define a framework of principles and metrics that, in some cases, are close to being implemented and, in others, still being developed.

The first **ILAAP (Internal Liquidity Adequacy Assessment Process)** was carried out in 2015. This comprises an internal self-assessment process of the adequacy of liquidity, which must be integrated into the Group's other risk management and strategic processes. The ILAAP addresses both quantitative and qualitative aspects. All of the Group's units have maintained robust liquidity levels, in both the baseline scenario and under potential stress scenarios. Although our supervisor (SSM) did not require us to undertake this exercise in 2015, it did use it as in input in the SREP (Supervisory Review and Evaluation Process) and for Pillar II requirements.

The content of the ILAAP largely shares the liquidity management structure we have been developing over recent years. It includes a qualitative block, which describes our business model, the organisation of our subsidiaries, the organisation of our liquidity management, the controls put in place, and governance and reporting to the governance bodies. The qualitative block analyses liquidity through metrics criteria and stress scenarios, at both the group and subsidiary level. The methodology used by the Group in this analysis over recent years is set out in the following sections.

Fuller details on the measures, metrics and analysis used by the Group and its subsidiaries to manage and control liquidity risk are set out below:

Methodology for monitoring and controlling liquidity risk. The Group's liquidity risk metrics aim to:

- **Achieve greater efficiency** in measuring and controlling liquidity risk.
- **Support financial management,** with measures adapted to the form of managing the Group's liquidity.

- **Alignment with the regulatory requirements** derived from the transposition of Basel III in the European Union, in order to avoid conflicts between limits and facilitate management.

- **Serve as an early warning system,** anticipating potential risk situations by monitoring certain indicators.

- **Achieve the involvement of countries.** The metrics are developed on the basis of common and homogeneous concepts that affect liquidity, but they require analysis and adaptation by each unit.

There are two types of basic metrics used to control liquidity risk: short term and structural. The first category basically includes the liquidity gap and the second one the balance sheet's net structural position. As an additional element, the Group develops various stress scenarios. Further details of three of these metrics are as follows:

a) Liquidity gap

The liquidity gap provides information on the potential cash inflows and outflows, both contractual and estimated, over a certain period of time by applying certain hypotheses. The liquidity gap is drawn up for each of the main entities and each of the main currencies in which the Group operates.

In practice, and given the different performances of a particular item in the Group's subsidiaries, there are common standards and methodologies to homogenize the construction of the liquidity risk profiles for each unit, so they can be presented in a comparable way to the Bank's senior management.

As a result, and given that this analysis must be conducted at the individual level of each subsidiary for its autonomous management, a consolidated view of the Group's liquidity gaps is of very limited use for managing and understanding liquidity risk. Of note in the various analyses made using the liquidity gap is that for wholesale funding. On the basis of this analysis, a metric has been defined to guarantee that sufficient liquid assets are maintained in order to attain a minimum liquidity horizon, under the assumption of non-renewal of wholesale funding at maturity.

The minimum liquidity horizons are determined in a corporate and homogeneous way for all units/countries, which must calculate their wholesale liquidity metric in the main currencies in which they operate.

Bearing in mind the market tensions in the last few years of global crisis, this wholesale liquidity gap has been closely monitored in the parent bank and in the euro zone units.

At the end of 2015, all units were in a comfortable position in the horizons established at the corporate level for this scenario.

b) Net structural position

The objective of this metric is to determine the reasonableness of the funding structure of the balance sheet. The Group's criterion is to ensure that the structural needs (lending, fixed assets, etc) are covered by an adequate combination of wholesale sources and a stable base of retail deposits, to which is added capital and other permanent liabilities.

Each unit draws up its liquidity balance sheet in accordance with the features of their businesses and compares them with the various funding sources they have. This determines the funding structure that must be met at all times with a key premise: basic businesses must be financed with stable funds and medium- and long-term funding. All of this guarantees the Bank's sound financial structure and the sustainability of its business plans.

At the end of 2015, the Group had a structural liquidity surplus of more than EUR 149,000 million, equivalent to 14% of net liabilities (vs. 15% of net liabilities in 2014).

c) Analysis of scenarios

As an additional element to these metrics, the Group develops various stress scenarios. The main objective of these is to identify the critical aspects of potential crises and define the most appropriate management measures to tackle each of these situations.

Generally speaking, the units take into account three scenarios in their liquidity analysis: idiosyncratic, local systemic and global systemic. These scenarios are the minimum standard analysis established for all the Group's units for reporting to senior management. Each of the units also develops ad hoc scenarios that replicate significant historic crises or specific liquidity risks in their environment.

- Idiosyncratic crisis: only affects the Bank but not its environment. This is basically reflected in wholesale funds and in retail deposits, with various percentages of outflows depending on the severity defined.

  This category includes studying a specific crisis scenario affecting a local unit as a result of a crisis in the parent bank, Banco Santander. This scenario was particularly relevant in 2012 because of significant tension in the markets with regard to Spain and other countries on the periphery of the euro zone, a situation amply overcome since then.

- Local systemic crisis: an attack by the international financial markets on the country where the unit is located. Each unit would be affected to varying degrees, depending on its relative position in the local market and the image of soundness it transmits. The factors that would be affected in such a scenario include, for example, wholesale funding because of closure of markets, and liquid assets linked to the country, which would suffer significant falls in their value.

- Global systemic crisis: In this scenario some of the factors mentioned in the scenarios above are stressed, paying particular attention to the most sensitive aspects from the standpoint of the unit's liquidity risk.

An additional combined scenario is also prepared for the parent. This considers extremely severe impacts on both solvency and liquidity, such as, for example, Banco Santander having to face reputational problems caused by mismanagement, powerfully impacting its ability to access liquidity in the market, and assuming these problems occur against a backdrop of a local (i.e. Spain) macroeconomic crisis, further penalising the assets available to the Bank to meet its needs. Consequently, the impacts on assets and liabilities are the result of the most severe combination of the idiosyncratic and local-systemic (Spain) scenarios.

Defining scenarios and calculating metrics under each of them is directly linked to the process of drawing up and executing the liquidity contingency plan, which is the responsibility of the financial management area.

At the end of 2015, and in a scenario of a potential systemic crisis affecting the wholesale funding of units in Spain (following the previously mentioned 2012 scenario), Grupo Santander maintained an adequate liquidity position. The wholesale liquidity metric horizon in Spain (included within the liquidity gap measures) showed levels higher than the minimums established, during which the liquidity reserve would cover all wholesale funding maturities, in the event of them not being renewed.

As well as these three metrics, several other internal and market variables were defined as early warning indicators of possible crises, revealing their nature and severity. Their integration into daily liquidity management enables anticipation of situations that could affect the Group's liquidity risk. Although these alerts vary from country to country and from bank to bank on the basis of specific determinants, some of the parameters used are common to the Group, such as Banco Santander's CDS level, the evolution of customer deposits and trends in official central bank interest rates.

D.3.2.3. Management adapted to business needs

As already pointed out, Grupo Santander's liquidity management is carried out at the level of subsidiaries and/or business units in order to finance their recurring activities at appropriate prices and maturities. The main balance sheet items related to the Group's business and funding its major business units are as follows:

Main units and balance sheet items

Billion euros. December 2015

	Total assets	Net loans	Deposits	M/LT funding
Spain	327	155	175	57
Portugal	50	28	29	5
Santander Consumer Finance	89	74	33	18
Poland	29	19	21	0
UK	383	283	232	70
Brazil	139	60	57	20
Mexico	65	30	28	2
Chile	46	32	24	7
Argentina	11	6	8	0
US	131	84	60	37
Group Total	**1,340**	**787**	**678**	**217**

* Customer loans excluding loan-loss provisions.

** Including retail commercial paper in Spain.

*** M/LT issues in markets, securitisations and other collateralised funding in the market and funds taken from FHLB lines. All in their nominal value.

In practice, and in line with the funding principles set out, liquidity management in these units consists of:

- Drawing up a liquidity plan every year, based on the funding needs derived from the budgets of each business and the methodology already described. On the basis of these liquidity needs and taking into account prudent limits on recourse to short-term markets, the Financial Management area establishes an issuance and securitisation plan for the year for each subsidiary/global business.
- Monitoring, throughout the year, the evolution of the balance sheet and of the funding needs of the subsidiaries/businesses that gives rise to updating the plan.
- Monitoring and managing compliance by units with regulatory ratios, as well as overseeing the level of asset encumbrance in each unit's funding, from both the structural standpoint and the component with the shortest maturity.
- Maintaining an active presence in a large number of wholesale funding markets that enables an appropriate structure of issues to be sustained, diversified by products and with a conservative average maturity.

The effectiveness of this management at Group level is based on implementation in all subsidiaries. Each subsidiary budgets its liquidity needs based on their intermediation activity and assesses its capacity to access wholesale markets in order to establish an issuance and securitisation plan, in coordination with the Group.

Traditionally, the Group's main subsidiaries have been self-sufficient as regards their structural financing. The exception is Santander Consumer Finance (SCF) which needs the support of other Group units, particularly that of Banco Santander, S.A., given its nature as a consumer finance specialist operating mainly via dealers.

This support –always at market prices based on maturity and the internal rating of the borrowing unit– has been on a sustained downward trend and currently relates almost entirely to the needs of new portfolios and business units incorporated in the context of the agreement with Banque PSA Finance. In 2016, this requirement for greater financial support from the Group will continue, as there are no more units to incorporate. Over the medium term, the development of wholesale funding capacity in the new units, as required by the Santander model, will enable this support to be reduced.

D.3.3. Funding strategy and evolution of liquidity in 2015

D.3.3.1. Funding strategy

Santander's funding activity over the last few years has focused on extending its management model to all Group subsidiaries, including new incorporations, and, in particular, adapting the strategies of the subsidiaries to the increasingly demanding requirements of both markets and regulators. These requirements have not been the same for all markets and reached much higher levels of difficulty and pressure in some areas, such as on the periphery of Europe.

It is possible, however, to extract a series of **general trends** implemented by Santander's subsidiaries in their funding and liquidity management strategies **since** the **beginning of the crisis.** These are the following:

- **Maintaining adequate and stable medium and long-term wholesale funding levels at the Group level.** This funding represented 21% of the liquidity balance at the end of 2015, similar to the level over recent years, but well below the 28% at the end of 2008, when wholesale liquidity, then more abundant and at lower cost, was yet to suffer the tensions of the crisis.

  In general, this wholesale activity has been modulated in each unit on the basis of regulatory requirements, the generation of internal funds in the business and decisions to hold sufficient liquidity reserves.

- **Ensuring a sufficient volume of assets that can be discounted in central banks as part of the liquidity reserve** (as defined on page 258 of this section) to cater for stress situations in wholesale markets.

  The Group has significantly increased its total discounting capacity in the last few years, from EUR 85,000 million at the end of 2008 to more than EUR 195,000 million at present.

- **Strong liquidity generation from the commercial business through lower credit growth and increased emphasis on attracting customer deposits**

  The changes in the Group's lending over recent years have been the result of reductions in the Spain and Portugal units, caused by rapid deleveraging in those countries, coupled with growth in the bank's other markets, through both expansion of developing units and businesses (the US, Germany, Poland and UK Companies) and sustained business growth in emerging economies (Latin America). Overall, the Group's net loans have increased by EUR 146,000 million since December 2008, an increase of 26%.

  In parallel, the volume of customer deposits has increased by EUR 262,495 million, due to the focus on liquidity during the crisis and the Group's capacity to attract retail deposits through its branches. This represents a 62% increase since December 2008, more than double the increase in net loans over the same period. Deposits have increased in all commercial units, both in deleveraging and growing economies, where they are growing in line with loans.

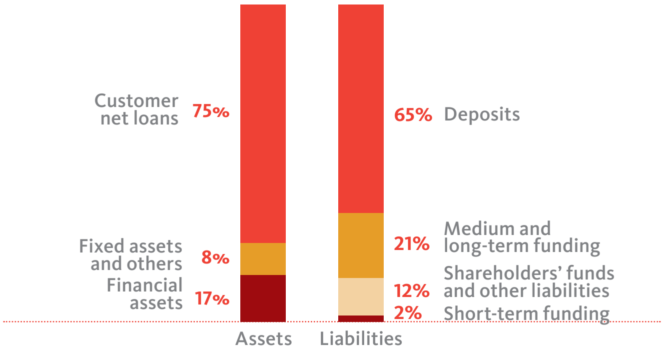
  As in 2014, in 2015 these trends for loans and deposits were interrupted at the Group level. This was caused by, on the one hand, lower deleveraging and recovering production in the economies most affected by the crisis, and, on the other, the focus on reducing liability costs in mature economies with historically low interest rates. As a result the gap between loan and deposit balances has stopped shrinking, and even started to edge upwards slightly over the last two years.

All these developments in businesses and markets, built on the foundations of a solid liquidity management model, enable Santander to enjoy a very robust **funding structure** today. The basic features of this are:

- **High share of customer deposits in a retail banking balance sheet.** Customer deposits are the main source of the Group's funding, representing around two-thirds of the Group's net liabilities (i.e. of the liquidity balance) and 86% of net loans at the end of 2015.

  They are also very stable funds given their origin mainly in business with retail customers (89% of the Group's deposits come from retail and private banks, whilst the remaining 11% come from large corporate and institutional clients).

Grupo Santander liquidity balance sheet*
% December 2015



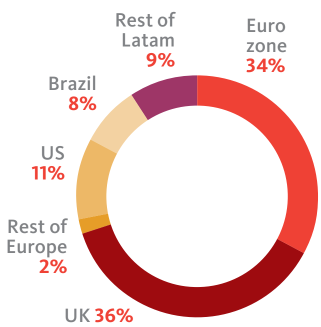
* Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.

- **Diversified wholesale funding focused on the medium and long term, with a very small relative short-term component** Medium and long term wholesale funding accounts for 21% of the Group's net funding and comfortably covers the lending not financed by customer deposits (commercial gap).

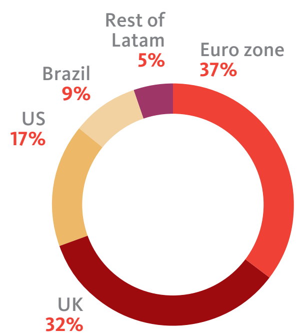
  This funding is well balanced by instruments (approximately 40% senior debt, 30% securitisations and structured products with guarantees, 20% covered bonds, and the rest preferred shares and subordinated debt) and also by markets so that those with the highest weight in issues are those where investor activity is the strongest.

The following charts show the geographic distribution of customer loans in the Group, and its medium and long-term wholesale funding, so that their similarity can be appreciated.

Net customer loans
December 2015



M/LT wholesale funding
December 2015



The bulk of medium and long-term wholesale funding consists of debt issues. Their outstanding balance at the end of 2015 was EUR 149,393 million in nominal terms, with an adequate maturity profile and average maturity of 3.9 years).

The distribution of this by instrument, evolution over the last three years and maturity profile was as follows:

Medium and long-term debt issuances. Grupo Santander
Million euros

	Outstanding balance at nominal value		
	December 2015	December 2014	December 2013
Preferred shares	8,491	7,340	4,376
Subordinated debt	12,262	8,360	10,030
Senior debt	83,630	68,457	60,195
Covered bonds	45,010	56,189	57,188
Total	**149,393**	**140,346**	**132,789**

Distribution by contractual maturity. December 2015*

	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	over 5 years	Total
Preferred shares	0	0	0	0	0	0	0	8,491	8,491
Subordinated debt	0	7	224	1,058	84	1,079	2,178	7,633	12,262
Senior debt	3,337	4,994	4,327	2,902	5,305	21,617	30,636	10,512	83,630
Covered bonds	2,627	1,444	1,458	1,477	1,669	8,714	10,170	17,452	45,010
Total*	**5,964**	**6,444**	**6,008**	**5,438**	**7,058**	**31,410**	**42,984**	**44,087**	**149,393**

* In the case of issues with a put option in favour of the holder, the maturity of the put option is considered instead of the contractual maturity.
Note: there are no additional guarantees for any of the senior debt issued by the Group's subsidiaries.

In addition to debt issues, medium and long-term wholesale funding is completed by securitised bonds placed on the market, and collateralised and other specialist financing amounting to close to EUR 67,508 million, with a maturity of less than two years.

The wholesale funding of short-term issuance programmes is a residual part of the Group's financial structure, accounting for around 2% of net funding, which is related to treasury activities and is comfortably covered by liquid financial assets.

The outstanding balance at the end of 2015 was EUR 24.448 million, mainly captured by the UK unit and the parent bank through existing issuance programmes: various certificate of deposit and commercial paper programmes in the UK, 39%; European commercial paper and US commercial paper and the domestic programmes of the parent bank, 22%, and programmes in other units, 39%.

In short, Santander enjoys a solid financing structure based on an essentially retail banking balance sheet that enables the Grupo Santander to comfortably cover its structural liquidity needs (loans and fixed assets) with permanent structural funds (deposits, medium and long-term funding and equity), giving rise to a large surplus in structural liquidity.

D.3.3.2. Evolution of liquidity in 2015

The key aspects at the level of Group liquidity in 2015 were:

- **Comfortable liquidity ratios,** backed by balanced commercial activity and greater capturing of medium and long-term wholesale finance, absorbing the growth in lending.

- **Compliance with regulatory ratios:** the requirement to comply with the LCR ratio (Liquidity Coverage Ratio) came into effect in 2015. At the end of 2015, the Group's LCR stood at 146%, well in excess of the minimum required (60% in 2015 - the percentage should increase steadily to 100% in 2018).

- **Large liquidity reserve,** stronger than 2014 in quantity (EUR 257,740 million) and quality (52% of the total are high quality liquid assets).

- **Reduced weight of encumbered assets** in structural medium and long-term funding operations: around 14% of the Group's extended balance sheet (under European Banking Authority —EBA— criteria) at the end of 2015.

i. Basic liquidity ratios at comfortable levels
The table shows the evolution of the basic metrics for monitoring liquidity at the Group level over the last few years:

Grupo Santander monitoring metrics

	2008	2012	2013	2014	2015
Net loans/net assets	79%	75%	74%	74%	75%
Net loan-to-deposit ratio (LTD ratio)	150%	113%	112%	113%	116%
Customer deposits and medium and long-term funding/net loans	104%	117%	118%	116%	114%
Short-term wholesale funding/net liabilities*	7%	2%	2%	2%	2%
Structural liquidity surplus (% net liabilities*)	4%	16%	16%	15%	14%

* Balance sheet for liquidity management purposes.

Note: in 2012 and 2013 customer deposits include retail commercial paper in Spain (excluding short term wholesale funding). The 2012 and 2013 ratios include SCUSA by global integration, the same as in 2014.

At the end of 2015, and compared to 2014, Grupo Santander recorded:

- A stable ratio of net loans/net assets (total assets less trading derivatives and interbank balances) at 75%, as a result of improved credit conditions following ending of deleveraging in mature markets. This high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance sheet.

- Net loan-to-deposit ratio (LTD ratio) at 116%, within a very comfortable range (below 120%). This evolution shows the recovery of credit in mature markets, both organic as well as inorganic (incorporation of consumer businesses in Europe), and the greater focus on optimising the cost of retail deposits in countries with low interest rates.

- There was a decline in the ratio of customer deposits and medium and long-term financing/lending, for similar reasons to the LTD ratio, given that the rise in the Group's capture of wholesale funds was also lower than the rise in lending. This ratio stood at 114% in 2015 (116% in 2014).

- The Group's reduced recourse to short-term wholesale funding was maintained. The ratio was around 2%, in line with previous years.

- Lastly, the Group's structural surplus (i.e. the excess of structural funding resources - deposits, medium and long-term funding and capital - over structural liquidity needs - fixed assets and loans) increased in 2015, to an average of EUR 159,000 million, around 4% higher than at the end of 2014.

  At 31 December 2015, the consolidated structural surplus stood at EUR 149,109 million. This consists of fixed-income assets (EUR 158,818 million) and equities (EUR 19,617 million), partly offset by short-term wholesale funding (EUR -24,448 million) and net interbank and central bank deposits (EUR -4,878 million). In relative terms, the total volume was equivalent to 14% of the Group's net liabilities, a similar level to the end of 2014.

In summary, Grupo Santander had a comfortable liquidity position at the end of 2015, as a result of the performance of its subsidiaries.

The table below sets out the most frequently used liquidity ratios for Santander's main units at the end of December 2015:

Liquidity ratios for the main units
% December 2015

	Net loan-to-deposit ratio	Deposits+M & LT funding/net loans
Spain	89%	149%
Portugal	97%	121%
Santander Consumer Finance	226%	69%
Poland	88%	115%
UK	122%	107%
Brazil	106%	128%
Mexico	107%	101%
Chile	133%	98%
Argentina	78%	130%
US	140%	115%
Group Total	**116%**	**114%**

Note: in Spain, including retail commercial paper in deposits.

Generally speaking, there were **two drivers** behind the evolution of the Group's liquidity and that of its subsidiaries in **2015**:

1. Widening of the commercial gap, continuing the change of trend that began in 2014, reinforced by non-organic components (SCF).

2. Continuing intensity of issuance activity, particularly by the European and US units, against a backdrop of more favourable conditions in wholesale markets.

In 2015, the Group as a whole attracted EUR 56,000 million in medium and long-term funding.

In terms of **instruments**, the biggest increase was in issuances of medium and long-term fixed-income instruments (senior debt, covered bonds, subordinated debt and preferred shares), up 16% to more than EUR 42,000 million, with a larger weight of senior debts than covered bonds. Spain was the largest issuer, followed by the UK and Santander Consumer Finance units, the three of which accounted for 87% of the issuances.

The remaining EUR 14,400 million of medium and long-term finance related to securitisations and finance with guarantees, which remained stable compared to 2014. US and European units specialising in the consumer segment accounted for 85% of the total.

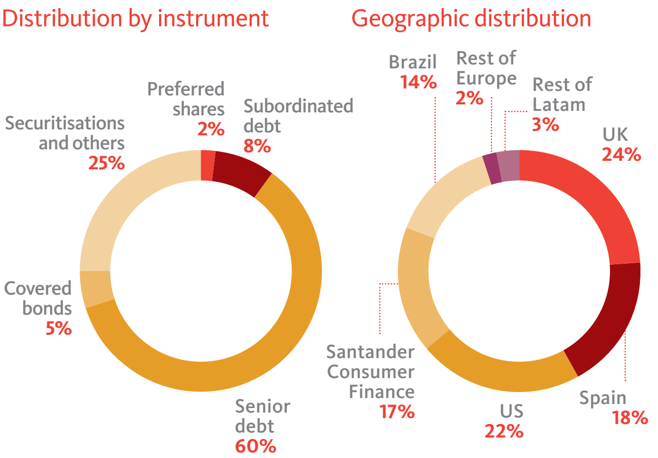
By **geographic area**, Santander Consumer Finance, Brazil and the US recorded the largest increases, supported by increased senior debt issuances.

In the United States, Santander Consumer Finance USA continued to increase its securitisation activity and its recourse to warehouse lines to fund strong growth in new lending and the portfolio. Santander Consumer Finance notched up EUR 4,200 million in securitisations, considerably lower than in 2014, but offset by the increased issuances of senior debt mentioned above.

The chart below sets out in greater detail their distribution by instruments and geographic areas:

Medium and long-term funding placed in the market (issuances and securitisations)

January-December 2015



In summary, Grupo Santander maintained comfortable access to the markets in which it operates, strengthened by the incorporation of new issuing units. It was involved in issuances and securitisations in 14 currencies in 2015, in which 18 issuers from 15 countries participated, with an average maturity of around 4 years, slightly up on the previous year.

ii. Compliance ahead of schedule with regulatory ratios

Under its liquidity management model, over the last few years Grupo Santander has been managing the implementation, monitoring and compliance - ahead of schedule - with the new liquidity requirements established under international financial regulations.

LCR *(Liquidity Coverage Ratio)*

In 2014, and after approval by the Basel Committee of the final definition of the liquidity coverage ratio (LCR), a delegated act of the European Commission was adopted defining the criteria for calculating and implementing this metric in the European Union in the CRD IV sphere. Implementation was delayed until October 2015, although the initial compliance level of 60% was maintained. This percentage will be gradually increased to 100% in 2018.

The Group's strong short-term liquidity starting position, combined with autonomous management of the ratio in all major units, enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated and individual levels. As of December 2015, the Group's LCR ratio stood at 146%, comfortably exceeding the regulatory requirement. Although this requirement has only been set at the Group level, the other subsidiaries also comfortably exceed this minimum ratio.

NSFR *(Net Stable Funding Ratio)*

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and is pending transposition to local regulations.

As regards this ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs deriving from commercial activity funded by medium and long-term instruments and limited recourse to short-term funds. All of this enables it to maintain a balanced liquidity structure, which is reflected in NSFR levels at Group level and for most subsidiaries exceeding 100% at the end of 2015, even though this is not required until 2018.

In short, the liquidity models and management of the Group and its main subsidiaries have enabled them to meet both regulatory metrics ahead of schedule.

iii. High liquidity reserve

This is the third major aspect reflecting the Group's comfortable liquidity position during 2015.

The liquidity reserve is the total volume of highly liquid assets for the Group and its subsidiaries. This serves as a last resort recourse at times of maximum stress in the markets, when it is impossible to obtain funding with adequate maturities and prices.

As a result, this reserve includes deposits in central banks and cash, unencumbered sovereign debt, discounting capacity with central banks, assets eligible as collateral and undrawn credit lines in official institutions (Federal Home Loans Banks in the US).

All of this reinforces the solid liquidity position that Santander's business model (diversified, retail banking focus, autonomous subsidiaries, etc.) confers on the Group and its subsidiaries.

At the end of 2015, Grupo Santander's liquidity reserve amounted to EUR 257,740 million, 12% higher than at year-end 2014 and 3% above the average for the year. The structure of this volume by asset type according to cash value (net of haircuts) was as follows:

Liquidity reserve

Cash value (net of haircuts) in million euros

	2015	2015 average	2014
Cash and deposits at central banks	48,051	46,703	47,654
Unencumbered sovereign debt	85,454	75,035	52,884
Undrawn credit lines granted by central banks	110,033	112,725	115,105
Assets eligible as collateral and undrawn credit lines	14,202	15,703	14,314
Liquidity reserve	**257,740**	**250,165**	**229,957**

Note: the reserve excludes other assets of high liquidity such as listed fixed income and equity portfolios.

This increase was accompanied by a qualitative rise in the Group's liquidity reserve, deriving from the varied evolution of its assets. The first two categories (cash and deposits in central banks + unencumbered sovereign debt), the most liquid (or high quality liquidity assets in Basel's terminology, as first line of liquidity), increased by more than the average. They rose by EUR 32,967 million, increasing their share of total reserves at the end of the year to 52% (44% in 2014).

Under the autonomy conferred by the funding model, each subsidiary maintains a suitable composition of assets in its liquidity reserve for its business and market conditions (for example, capacity to mobilise their assets or recourse to additional discounting lines, such as in the US).

Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use. There are however regulatory restrictions in most countries limiting activity between related parties.

The geographic distribution of the liquidity reserve is: 51% in the UK, 27% in the Eurozone, 9% in the US, and the remaining 9% in Poland and Latin America.

Location of liquidity reserve

Million euros

UK	130,309	51%
Eurozone	69,719	27%
US	23,234	9%
Brazil	10,384	4%
Rest	24,094	9%
Total	**257,740**	

iv. Asset encumbrance in financing transactions

Lastly, it is worth pointing out Grupo Santander's moderate use of assets as collateral in the structural funding sources of the balance sheet.

In line with the guidelines established by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both assets on the balance sheet contributed as collateral in operations to obtain liquidity as well as those off-balance sheet assets received and re-used for a similar purpose, as well as other assets associated with liabilities for different funding reasons.

The report on the Grupo Santander information required by the EBA at the end of 2015 is given below.

Encumbered assets on balance sheet

Billion euros	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets
Assets	**323.3**		**1,017.0**	
Credit and loans	217.8		725.9	
Equities	13.2	13.2	10.5	10.5
Debt instruments	74.6	74.5	105.5	105.4
Other assets	17.7		175.1	

Grupo Santander
Encumbrance of collateral received

Billion euros	Fair value of encumbered collateral received and debt issued by the encumbered entity	Fair value of collateral received and debt issued by the entity available for encumbrance
Collateral received	**44.9**	**52.0**
Credit and loans	1.2	0.0
Equities	0.9	1.7
Debt instruments	42.8	45.1
Other collateral received	0.0	5.2
Debt instruments issued by the entity other than covered loans and securitisations	0.0	5.6

Grupo Santander
Encumbered assets and collateral received, and related liabilities

Billion euros	Liabilities, contingent liabilities and securities lending associated with the encumbered assets	Assets encumbered and collateral received, including debt instruments issued by the entity other than guaranteed bonds and securitisations, encumbered
Total sources of encumbrances (carrying value)	302.6	368.3

On-balance sheet asset encumbrance amounted to EUR 323,300 million, over two-thirds of which is accounted for by loans (mortgages, corporate, etc.). Off-balance sheet asset encumbrance stood at EUR 44,900 million, mainly relating to debt securities received as collateral in operations to acquire assets which were re-used. The total for the two categories was EUR 368,300 million, giving rise to a volume of associated liabilities of EUR 302,600 million.

At the end of 2015, total asset encumbrance in financing operations represented 26% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,437 million as of December 2015). This ratio stands at levels in the preceding year. The Group's recourse to TLTRO during 2015 has been offset by maturities of secured debt (mainly mortgage covered bonds) which have been replaced with unsecured funding

Lastly, it is important to note the different natures of the sources of encumbrance within these, as well as their role in funding the Group:

- 44% of total asset encumbrance corresponds to collateral contributed in medium and long-term funding operations (with a residual maturity of over 1 year) to finance the commercial activity on the balance sheet. This puts the level of asset encumbrance in funding transactions understood as 'structural' at 11% of the extended balance sheet, using EBA criteria.
- The other 56% corresponds to short-term market transactions (with a residual maturity of less than 1 year) or collateral contributed in operations with derivatives and whose purpose is not to finance the ordinary activity of businesses but efficient short-term liquidity management.

D.3.4. Funding outlook for 2016

Grupo Santander starts 2016 with a comfortable liquidity position, with a good outlook for financing over the coming year. However, there are risks to this rosier picture, including instability in financial markets, adjustments in China's economy and changes in monetary policy at major central banks.

With maturities which can be assumed in the coming quarters, due to the reduced weight of short-term maturities and a dynamic of medium and long-term issues similar to that of a year ago, the Group will manage these needs in each country together with the specific needs of each business, including the envisaged incorporation of new portfolios and businesses, particularly consumer business in Europe.

The expected scenario of increased growth and new incorporations will generate moderate liquidity requirements in our units, in both mature and emerging economies.

In most cases, the **Group's business units** can draw on surpluses from the end of 2015. There is also ample access to wholesale markets, particularly in Europe because of the European Central Bank's quantitative easing programme. Taken together, these factors will enable the Group's subsidiaries to maintain adequate liquidity structures for their balance sheets.

In Spain, where there is a surplus of deposits over loans, a moderate recovery in lending is envisaged after a long period of deleveraging, with a continuing focus on optimising the cost of funds. Liquidity ratios will be strengthened with an eye to the forthcoming returns of LTRO funds.

Of note in the other European units will be increasing issuance and securitisation activity in Santander Consumer Finance, backed by the strength of its business and the quality of its assets. As already discussed, in 2016 the consolidation of new portfolios will require a greater dependence on short-term funds in the rest of the Group.

In the UK, the strong performance of commercial activity and the capturing of clients will strengthen the deposit base as the basic source of credit growth. The expected favourable situation in the markets will enable the unit to optimise its medium and long-term sources of finance. The United States, also with balanced growth in loans and deposits, will focus on diversifying its wholesale financing sources, both in Santander Bank as well as Santander Consumer USA, which will contribute to reducing its leverage with respect to the funds guaranteed.

In Latin America, as in the previous year, the emphasis will remain on financing business activities from deposits, while fostering issuances in the wholesale markets open to the Group's major units.

In addition, and at Group level, Santander is continuing its long-term plan to issue funds eligible as capital. This plan seeks to enhance the Group´s current regulatory ratios efficiently, and also takes into account future regulatory requirements. Specifically, this includes fulfilment of TLAC (total loss-absorbing capacity) requirements, which come into effect in 2019 for systemically-important financial institutions. Although this is currently just an international agreement and awaits transposition into European regulations, the Group is already incorporating it into its issuance plans to meet potential requirements. The pace of issues over recent years are estimated to be sufficient to meet future needs.

Within this general picture, the Group's various units took advantage of good conditions in the markets at the beginning of 2016 to make issues and securitisations at very tight spreads, capturing more than EUR 4,000 million in January.

D.4. Operational risk

D.4.1. Definition and objectives

Following the Basel framework, Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, employees or systems, or external events.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their sphere of action.

The Group's objective in controlling and managing operational risk is to identify, measure, evaluate, monitor, control, mitigate and communicate this risk.

The Group's priority is to identify and mitigate risk focuses, regardless of whether they produce losses or not. Measurement also helps to establish priorities for operational risk management.

In 2015, the Group continued to drive the improvement of its operational risk management model through a range of initiatives fostered through the Risks area. Some of the most significant of these include completion of the document tree for operational risk management policies as part of the 'Documenta' project, progress with the AORM (Advanced Operational Risk Management) transformation project as part of the Group's ARM (Advanced Risk Management) strategy. This programme seeks to enhance operational risk management capacity through an advanced risk measurement approach, helping to reduce future exposure and losses impacting the income statement.

Grupo Santander has been calculating regulatory capital using the standardised approach set down in the EU Capital Requirements Directive. The AORM programme will help Grupo Santander develop internal models for estimating capital in its main geographic areas, both for economic capital and stress testing, and for potential application as regulatory capital.

The report on Prudential Significance/Pillar III in section 4 includes information on the calculation of capital requirements for operational risk.

D.4.2. Operational risk management and control model

D.4.2.1. Operational risk management cycle

The Group's operational risk management incorporates the following elements:

The various phases of the operational risk management and control model are:

- Identify the operational risk inherent in all the Group's activities, products, processes and systems.
- Define the target profile of operational risk, specifying the strategies by unit and time frame, by establishing the OR appetite and tolerance for the budget of annual losses and monitoring thereof.
- Promote the involvement of all employees in the operational risk culture, through adequate training in all spheres and at all levels.
- Measure and assess operational risk objectively, continuously and consistently with regulatory standards (Basel, Bank of Spain) and the sector.
- Continuously monitor operational risk exposure, and implement control procedures, improve internal knowledge and mitigate losses.
- Establish mitigation measures that eliminate or minimise operational risk.
- Produce regular reports on operational risk exposure and the level of control for senior management and the Group's areas and units, and inform the market and regulatory bodies.
- Define and implement the methodology needed to calculate internal capital in terms of expected and unexpected loss.

The following are needed for each of the aforementioned processes:

- Define and implement systems that enable operational risk exposure to be monitored and controlled in the Group's day-to-day management activity, taking advantage of existing technology and achieving the maximum automation of applications.
- Define and document policies for managing and controlling operational risk, and implement methodologies and management tools for this risk in accordance with regulations and best practices.

The advantages of Grupo Santander's operational risk management model include:

- It fosters development of an operational risk culture.
- It allows comprehensive and effective operational risk management (identification, measurement and assessment, control and mitigation, and information).
- It improves knowledge of existing and potential operational risks and assigns them to business and support lines.
- Operational risk information helps to improve processes and controls, and reduces losses and the volatility of revenues.
- It facilitates the establishment of operational risk appetite limits.

D.4.2.2. Risk identification, measurement and assessment model

A series of quantitative and qualitative corporate techniques and tools has been defined to identify, measure and assess operational risk. These are combined to produce a diagnosis on the basis of the risks identified and an assessment of the area or unit through their measurement and evaluation.

The quantitative analysis of this risk is carried out mainly with tools that register and quantify the potential level of losses associated with operational risk events:

- An **internal database of events**, the objective of which is to capture all of the Group's operational risk events. The capture of operational risk events is not restricted by thresholds (i.e. there are no exclusions for reasons of amount), and events with both accounting (including positive effects) and non-accounting impact are captured.

  Accounting reconciliation processes have been put in place to guarantee the quality of the information in the databases. The main events for the Group and each operational risk unit are especially documented and reviewed.

- An **external database of events**, as the Grupo Santander participates in international consortiums, such as the Operational Risk Exchange (ORX). The use of external databases has been stepped up, providing quantitative and qualitative information leading to a more detailed and structured analysis of events in the sector and enabling adequate preparation of the scenario analysis exercises described below.
- **Analysis of OR scenarios**. An expert opinion is obtained from the business lines and from risk and control managers to identify potential events with a very low probability of occurrence, but which could result in a very high loss for an institution. The possible effects of these are assessed and extra controls and mitigating measures are identified to reduce the likelihood of high economic impact.

  In 2015 a corporate scenarios methodology was implemented in the Group's main geographic areas.

- **Capital calculation through the standard approach** (see the corresponding section in the report on Prudential Relevance Report/Pillar III).

The tools defined for qualitative analysis seek to assess aspects (coverage/exposure) linked to the risk profile, enabling the existing control environment to be captured. These tools are mainly:

- **Operational risk control self-assessment (RCSA)**. Self-assessment of operational risk is a qualitative process that seeks to determine the main operational risks for a unit, assigning these to the relevant function based on the judgement and experience of a group of experts in each function.

The RCSA process identifies and assesses the material operational risks that could stop a business or support unit achieving its objectives. It seeks to identify these operational risks, assessing them in inherent and residual terms, evaluating the design and operation of the controls and identifying mitigation measures whenever the associated risk levels are unacceptable to risk managers.

The Group has put in place an on-going operational risk self-assessment process: this ensures that material risks are assessed at least once a year. This process combines expert judgement and participation in workshops involving all interested parties, particularly the first-line of defence responsible for the risks and their control. These workshops are run by a facilitator, who is neutral and has no decision-making authority, helping the Group achieve its desired results.

The Group also produces focused assessments of specific operational risk sources, enabling transversal identification of risk levels at a greater degree of granularity. These are applied in particular to technological risks and factors that could lead to regulatory non-compliance, and areas that are exposed to money laundering and terrorism financing risks. The two latter areas, together with related plans for 2016, are set out in greater detail in the section D.5. Compliance and conduct risk.

- **Corporate indicators system**. These are various types of statistics and parameters that provide information on an institution's risk exposure and control environment. These indicators are regularly reviewed in order to flag up any changes that could reveal risk problems.

  In 2015, the Group evolved its corporate indicators to monitor the main risk concentrations in the Group and the industry. It has also fostered the use of indicators in all spheres of the organisation, from front-line risk managers down. The objective is to incorporate the most relevant risk indicators into the metrics that form the basis for constructing the operational risk appetite.

- **Audit and regulatory recommendations**. These provide relevant information on inherent risk due to internal and external factors, enabling weaknesses in the controls to be identified.

- **Customer complaints**. The Group's increasing systemisation of the monitoring of complaints and their root causes also provides relevant information for identifying and measuring risk levels.

- **Other specific instruments** that enable more detailed analysis of technology risk, such as control of critical system incidents and cyber-security events. The capture of this information was incorporated into the corporate operational risk tool in 2015.

- **Specific assessment of risks** related to technological infrastructure management processes, the acquisition and development of solutions, control of information security and IT governance.

D.4.2.3. Implementation of the model and initiatives

Almost all the Group's units are now incorporated into the model with a high degree of uniformity. However, the different pace of implementation and historical depth of the respective databases means that the degree of progress varies from country to country.

As set out in section D.4.1. Definition and objectives, the Group accelerated its transformation to an advanced operational risk management (AORM) approach in 2015. This programme seeks both to consolidate the current operational risk management framework and to adopt best practices in the market, based on monitoring of an integrated and consolidated operational risk profile, for proactive management of business strategy and tactical decisions.

This programme involves a number of key areas (risk appetite, self-assessment, scenarios, metrics, etc.) that enable the Group to refine the improvements it is implementing: these will mostly be completed in 2016, covering the ten main geographic areas. A monitoring structure has been set up at the highest organisational levels, both at the corporate centre and in the local units, to ensure adequate monitoring of progress.

This programme is supported by the development of a customised and integrated operational risk solution (Heracles, based on the external SAP GRC platform). This tool and the transformation plan will be fully implemented in all of the Group's geographic areas in 2016.

The main activities and global initiatives adopted to ensure effective operational risk management are:

- Development and implementation of the operational risk framework, policies and procedures, both at the corporate level and in the geographic areas.

- Creation of operational risk control units in the Risks areas (second line of defence) and designation of coordinators responsible for OR in the various spheres of the first lines of defence.

- A new definition of a complete group of operational risk taxonomies (risks, controls, root causes, etc.), enabling more granular, thorough and consistent management of operational risk throughout the Group.

- Development of a new operational risk appetite structure, enabling increased granularity in risk tolerance for the Group's most significant risk concentrations.

- Establishment of a process for escalating incidents, setting down the criteria for communication and escalation of operational risk events based on their relevance. The relevance of operational risk is defined based on thresholds set for each type of impact.

- Implementation of training programme at all levels of the organisation (from the board to the employees most exposed to risk in the first line of the business) and initiatives for the sharing of experiences (best practice sessions, launch of a monthly newsletter, etc.).

- Fostering of mitigation plans for aspects of particular relevance (information security and cyber-security in the widest sense, control of suppliers, etc.): monitoring of the implementation of corrective measures and projects under development.

- Improvements to the quality and granularity of the information on such risks analysed and presented to the main decision making forums.

- Improvements to contingency and business-continuity plans, and, in general, crisis-management (this initiative is linked to the viability and resolution plans).

- Fostering the control of risk associated with technology (application development and maintenance, design, implementation and maintenance or technological platforms, output of IT processes, etc.).

In the particular case of controlling suppliers mentioned above, following the development and approval of the corporate framework for agreements with third parties and control of suppliers in 2014, work continued throughout 2015 to define and develop the procedures, processes and tools needed for implementation. To this end, Group entities have been working on defining, implementing and monitoring action plans so as to adapt current processes to the new requirements of the model, paying particular attention to:

- Identification, assignment and communication of roles and responsibilities.

- Creation of specific committees for each geographic area to deal with issues relating to suppliers.

- Definition and monitoring of indicators.

- Preparation and maintenance of up-to-date inventories of suppliers of critical services.

- Training and awareness raising of risks associated with suppliers and other third parties.

The Group is continuing to work on the implementation of the model, reinforcing and standardising the activities to be carried out throughout the management lifecycle for suppliers and other third parties.

D.4.2.4. Operational risk information system

The Group has a corporate information system that supports the operational risk management tools and facilitates information and reporting functions and needs at both the local and corporate levels.

This system includes modules for registering events, mapping and assessing risks, indicators, and mitigation and reporting systems, and applies to all Group entities.

As part of the implementation of the advanced operational risk management approach, and taking into account the synergies that will be produced in the control sphere (integration of operational risk control functions in the widest sense and compliance, documentation and certification process particularities for the internal model into a single tool), the Group is in the process of installing a new GRC (governance, risk and compliance) tool based on the SAP system, known as Heracles. The objective of Heracles is to improve decision making for operational risk management throughout the organisation.

This objective will be achieved by ensuring that those responsible for risks in every part of the organisation have a comprehensive vision of their risk, and the supporting information they need, when they need it. This comprehensive and timely vision of risk is facilitated by the integration of various risk and control programs, such as risk assessment, scenarios, events, assessment of control activities and metrics using a common taxonomy, and methodological standards. This integration provides a more accurate risk profile and significantly improves efficiency by cutting out redundant and duplicated effort.

Heracles also enables the interaction of everybody involved in operational risk management with the information in the system, but subject to their specific needs or limited to a particular sphere. However, it is always draws on a single source of information for all of the functions involved.

In 2015, the Group worked on automating the loading of information into operational risk management systems, and on improving reporting capabilities in the context of the project to comply with regulations on effective aggregation and reporting principles (Risk Data Aggregation/Risk Reporting Framework - RDA/RRF).

In order to achieve the objectives for this project, a reference technological architecture has been developed, providing solutions for information capture and feeding an integrated and reliable database (Golden Source) that is used for the generation of operational risk reports.

D.4.2.5. Training

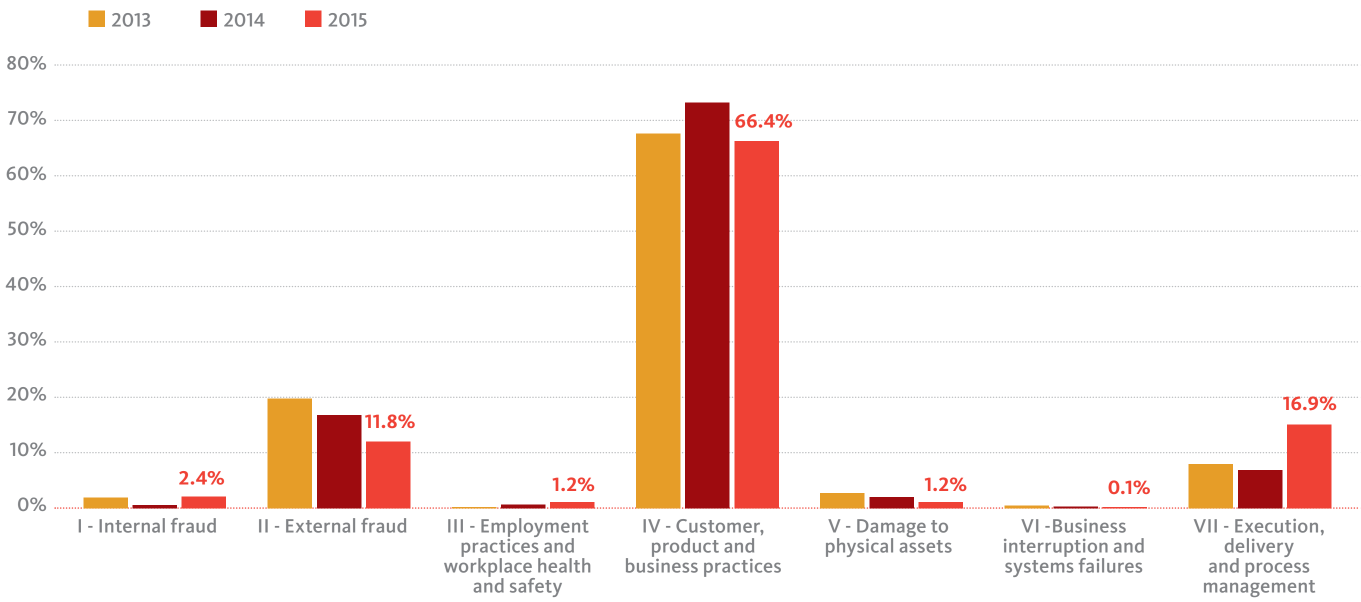
The Group fosters awareness and knowledge of operational risk at all levels of the organisation. In 2014, a range of training initiatives were carried out, including e-learning programmes for all Group employees (general, computer security, business continuity plan) and training activities for groups requiring specific knowledge. These activities included training for employees in wholesale businesses, e-learning for executives and directors, and courses for operational risk coordinators on the first line of defence.

D.4.3. Evolution of the main metrics

As regards the databases of events, and after consolidating the information received, the evolution of net losses (including both losses incurred and net provisions) by Basel[40] risk category over the last three years is set out in the chart below:

Distribution of net losses by operational risk category[41]

% of total



The evolution of losses by category shows a slight reduction in relative terms for practices with clients, products and business, although these continue to be the largest item.

The most relevant losses by type and geographic region in 2015 related to judicial cases in Brazil and customer compensation in the UK.

In **Brazil**, the roll out of a set of measures to improve customer service (the *Trabalhar Bem*[42] programme) has enabled us to reduce losses from judicial cases.

The increase in compensation for customers in the **UK** is due mainly to sales of Payment Protection Insurance. The claims received relate to a widespread practice in the UK banking sector. Provisions for possible future claims were increased in 2015, according to the Bank's best estimates after having analysed the decision of the local authority to limit the deadline on claims.

The most noteworthy factors in the other operational risk categories include a decrease of fraud, in relative terms, and an increase in losses on process execution, delivery and management, mainly relating to provisions for process errors in the UK.

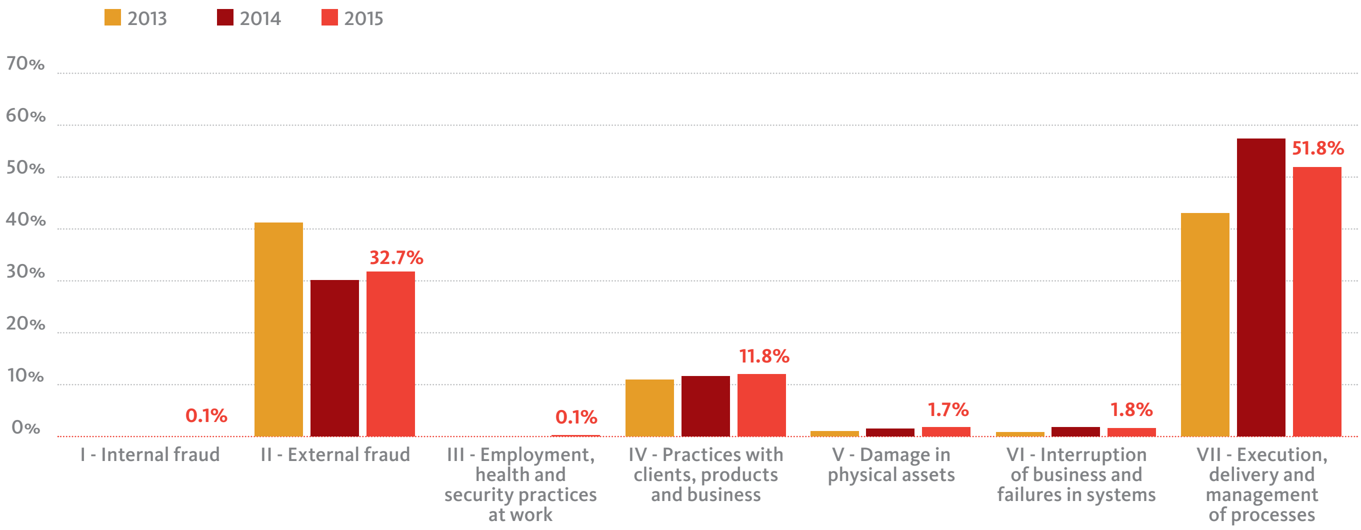
40. The Basel categories include the risks set out in chapter D.5. Compliance and conduct risk.

41. In accordance with local practices, the remuneration of employees in Brazil is managed as personnel expenses for the entity, without prejudice to its treatment under the Basel operational risk framework, and is therefore not included.

42. Refer to section D.4.4., Mitigation measures, for further details.

The chart below shows the evolution of the number of operational risk events by Basel category over the last three years:

Distribution of number of events by operational risk category[43]
% of total



In 2015, the Group analysed the number of internal events and put a new procedure in place for escalation of relevant events (in terms of both financial impact and number of customers affected), enabling us to process these with more effective corrective measures. The concentration of relevant events compared to total events remained at very low levels, and was lower than in the previous year.

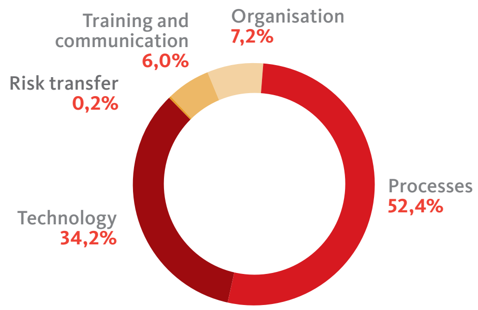
D.4.4. Mitigation measures

The model requires the Group to monitor the mitigation measures put in place for the main sources of risk identified through operational risk management tools and the organisational and development model, and by preventative implementation of policies and procedures for managing and controlling operational risk.

The Group model combines these measures in a shared database, enabling us to assign each mitigation measure and the various tools used (events, indicators, self-assessment, scenarios, recommendations and prevention policies).

The percentage of measures distributed by type was as follows:

2015 mitigation – type of measure
%



The main mitigation measures centred on improving the security of customers in their usual operations, the management of external fraud, continued improvements in processes and technology, and management of the sale of products and adequate provision of services.

Regarding the reduction of fraud, the main specific measures were:

Card fraud:
- Roll out of chip cards:
  - Implementation of the standard in all the Group's geographic areas in line with the timeframe set down by the payment media industry.

43. In accordance with local practices, the remuneration of employees in Brazil is managed as personnel expenses for the entity, without prejudice to its treatment under the Basel operational risk framework, and is therefore not included.

- Replacement of vulnerable cards with new cards based on advanced authentication CDA technology, reducing the risk of cloning through more robust and complete encryption algorithms.

- Robust (Full Grade) validation of card transactions, including more checks, always carried out online.

- Implementation of the secure ecommerce standard (3DSecure) for internet purchases and requiring additional security codes for transactions, including the use of one-time passwords (OTP-SMS).

- Incorporation of anti-skimming detectors and passive elements in ATMs to stop card cloning.

- Review of card limits based on the product and customer segment, to adjust these for risk levels.

- Application of specific fraud monitoring rules and detection tools to block suspicious transactions abroad.

Electronic fraud:

- Implementation of specific protection measures for mobile banking, such as identification and registration of customer devices (Device Id).

- An improved Internet banking authentication system, with additional checks depending on the risk level for the customer or transaction.

- Checks of online banking transactions through a second factor based on one-time use passwords. Evolution of technology, depending on the geographic area (for example, based on image codes (QR) generated from data for the transaction).

Cyber-Security Program and information security plan

The Group has put in place the Santander Cyber-Security Program to foster and complement the actions already underway. This covers:

- governance, integrating the three lines of defence;
- an approach based on cyber-resilience, including identification, prevention, protection, detection and reaction activities;
- aspects of cyber-security relating to training, access control, segregation of functions and secure software development;
- initiatives to enhance organisation.

In 2015 the Group also continued paying full attention to cyber-security risks, which affect all companies and institutions, including those in the financial sector. This situation is a cause of concern for all entities and regulators, prompting the implementation of preventative measures to be prepared for any attack of this kind.

The Group has put in place the Santander Cyber-Security Program to foster and complement the actions already underway. The global aim is for this programme to be implemented in all Group banks, and covers: i) governance, integrating the three lines of defence; ii) an approach based on cyber-resilience, including identification, prevention, protection, detection and reaction activities; iii) aspects of cyber-security relating to training, access control, segregation of functions and secure software development; and iv) initiatives to enhance organisation.

The Group has evolved its internal cyber-security model to reflect international standards (including, the US NIST —National Institute of Standards and Technology— framework) and incorporate mature concepts. It has also continued its implementation of its cyber-security master plans in Group entities, including:

- Provision of specific budgets to improve cyber-security protection mechanisms against threats in the Group's entities and geographic areas.

- Contracting of cyber-security insurance at the corporate level.

- Improvement of the Security Operations Centre (SOC), increasing its sphere of activity.

- Participation in cyber-security exercises in various Group geographies, to assess responses to such incidents.

- Cooperation with international forums to identify best practices and share information on threats.

The Group has also launched a training programme in this area, with a new course being implemented on the e-learning platform. This course will give precise guidelines for action, as well as examples of the main current patterns of cyber attacks and electronic fraud.

In addition, observation and analytical assessment of the events in the sector and in other industries enables us to update and adapt our models for emerging threats.

Other relevant mitigation measures:

A number of local initiatives have been put in place to tackle external fraud involving identity theft and loan applications, given the significance of this for the Group and the industry. These include, enhancing quality controls for verifying customer identification alerts, evidence of income and applicant documentation (in the US) and plans to improve analysis of proposals (in Brazil).

With regard to mitigation measures relating to customer practices, products and business, Grupo Santander is involved in continuous improvement and implementation of corporate policies on aspects such as the selling of products and services and prevention of money laundering and terrorism financing. Detailed information on these areas can be found in section D.5.2. Compliance risk control and supervision.

The 'Working Well' *(Trabalhar Bem)* project in Brazil is also relevant to this category of operational risk, seeking to provide the Bank's customers with a better service, with fewer incidents and complaints. This project includes various lines of action to improve selling practices and customer protection, including: influencing design decisions for products and services, analysis and solution of the root causes of customer complaints, development of a complaints management and monitoring structure, and improvement of protection networks at contact points.

D.4.5. Business continuity plan

The Group has a business continuity management system (BCMS), which ensures that the business processes of our entities continue to operate in the event of a disaster or serious incident.

The basic objective is to:

- Minimise the possible damage from an interruption to normal business operations on people, and adverse financial and business impacts for the Group.
- Reduce the operational effects of a disaster, providing predefined and flexible guidelines and procedures to be used to re-launch and recover processes.
- Restart time-sensitive business operations and associated support functions, in order to achieve business continuity, stable profits and planned growth.
- Protect the public image of, and confidence in, Grupo Santander.
- Meet the Group's obligations to its employees, customers, shareholders and other stakeholders.

During 2015, the Group continued to advance in implementing and continuously improving its business continuity management system. This included consolidating the implementation of the three lines of defence in relation to business continuity, including newly created businesses and divisions in the management scope.

Furthermore, and based on the improvements made to the viability and resolution plans (for more details see section B.3.4. Recovery and resolution plans), **a new comprehensive crisis-management model has been defined** for operational and reputational crises. This refines the communication protocols for the functions involved in the decision to escalate a situation involving calling a new meeting of the crisis management committee. This also involves a redefinition of the current business continuity committee to provide adequate support to the head of operational risk Crisis Management Director in escalating issues to, and supporting, the CFO (the Crisis Management Director).

D.4.6. Other aspects of control and monitoring of operational risk

Analysis and monitoring of controls in market operations
Due to the specific nature and complexity of financial markets, the Group considers it necessary to continuously improve operational control procedures to keep them in line with new regulations and best practices in the market. Thus, during the year, it continued to improve the control model for this business, attaching particular importance to the following points:

- Analysis of the individual operations of each Treasury operator in order to detect possible anomalous behaviour. During the year all the thresholds applied to each of the controls were reviewed with the other control areas, implementing specific limits for each desk.
- Implementation of a new tool that enables compliance with new record keeping requirements for monitoring communication channels.
- Strengthening of controls on cancelling and modifying operations and calculation of the actual cost thereof, where these are due to operational errors.
- Strengthening of controls on contributions of prices to market indexes.
- Development of additional controls to detect and prevent irregular operations (such as controls on triangular sales).
- Development of extra controls for access to systems registering front office operations (for example, to detect shared usernames).
- Adaptation of existing controls and development of new controls to comply with the new Volcker requirements.
- Formalisation of IT procedures, tools and systems for cyber-security protection, prevention and training.
- Development of the Keeping in B project. This involves a range of inter-disciplinary teams seeking to reinforce aspects relating to corporate governance, compliance with money laundering and credit risk controls and procedures, financial and operational architecture, technological platforms, regulatory and organisational aspects and sufficiency of resources.

For more information on issues relating to regulatory compliance in markets, refer to section D.5.4. Regulatory compliance.

The business is also undertaking a global transformation and evolution of its operational risk management model. This involves modernising its technology platforms and operational processes to incorporate a robust control model, enabling a reduction of the operational risk associated with its business.

Corporate information

The operational risk function has an operational risk management information system that provides data on the Group's main elements of risk. The information available for each country and unit in the operational risk sphere is consolidated to give a global vision with the following features:

- Two levels of information: corporate with consolidated information, and individual for each country or unit.

- Dissemination among Grupo Santander's countries and units of the best practices identified through a combined study of the results of qualitative and quantitative analysis of operational risk.

Information on the following aspects is drawn up:

- Grupo Santander's operational risk management model and the Group's main units and countries.

- The perimeter of operational risk management.

- Monitoring of risk appetite metrics.

- The risk profile by country and risk category, and the main operational risk concentrations.

- Operational risk capital.

- The action plans associated with each risk source.

- Distribution of losses by geographic area and risk category.

- Evolution of losses (accumulated annual, deviation on previous year and against budget) and provisions by detection and accounting dates.

- Analysis of the database of relevant internal and external events.

- Analysis of the most relevant risks detected from different information sources, such as the self-assessment exercises for operational and technological risk and operational risk scenarios.

- Assessment and analysis of risk indicators.

- Mitigating and active management measures.

- Business continuity and contingency plans.

This information forms the basis for complying with reporting requirements to the executive risk committee, the board risk committee, the operational risk committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander regards insurance as a key element in the management of operational risk. Common guidelines for co-ordination among the various functions involved in the insurance management cycle to mitigate operational risk were promoted in 2015. These mainly involved the insurance areas themselves and operational risk control areas, but also the first line risk management areas, pursuant to the procedure designed in 2014.

These guidelines incorporate the following activities:

- Identification of all risks in the Group that can be covered by insurance, including identification of new insurance coverage for risks already identified in the market.

- Establishment and implementation of criteria to quantify the insurable risk, backed by analysis of losses and loss scenarios that enable the Group's level of exposure to each risk to be determined.

- Analysis of coverage available in the insurance market, as well as preliminary design of the conditions that best suit the identified and assessed needs.

- Technical assessment of the protection provided by the policy, its costs and the elements retained in the Group (franchises and other elements at the responsibility of the insured) in order to make contracting decisions.

- Negotiating with suppliers and award of contracts in accordance with the procedures established by the Group.

- Monitoring of incidents declared in the policies, as well as of those not declared or not recovered due to an incorrect declaration, establishing protocols for action and specific monitoring forums.

- Analysis of the adequacy of the Group's policies for the risks covered, taking appropriate corrective measures for any shortcomings detected.

- Close cooperation between local operational risk executives and local insurance coordinators to strengthen mitigation of operational risk.

- Active involvement of both areas in the global insurance sourcing unit, the Group's highest technical body for defining coverage strategies and contracting insurance, the forum for monitoring the risk insured (created specifically in each geography to monitor the activities mentioned in this section) and the corporate operational risk committee.

This year, the Group has also contracted a cyber-insurance policy to cover the possible consequences of cyber-attacks.

Finally, it has adapted its in-house insurance model to improve the definition of functions and the coordination of the internal and external parties involved, so as to optimise protection of the income statement.

D.5. Compliance and conduct risk

D.5.1. Scope, aim, definitions and objective

The Compliance function comprises all matters related to regulatory compliance, prevention of money laundering and terrorism financing, governance of products and consumer protection, and reputational risk.

To achieve this, the Compliance function fosters the adherence of the Santander Group to the rules, supervisory requirements, principles and values of good conduct by setting standards, debating, advising and informing in the interest of employees, customers, shareholders and the wide community.

In the Grupo Santander's current corporate configuration of three lines of defence, Compliance is an independent second-line control function that reports directly to the board of directors and the committees thereof, through the GCCO, who does so periodically and independently. The Compliance function reports to the CEO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

In line with what is described in section B.1. Map of risks and in accordance with the current General Risk Framework of the Grupo Santander approved by the Board of Directors of Banco Santander, the following are described as compliance risks:

- **Compliance risk:** risk due to not complying with the legal framework, the internal rules or the requirements of regulators and supervisors.
- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered to them and their suitability and appropiateness for each specific customer.
- **Reputational risk:** risk arising from damage to the perception of the Bank by public opinion, its customers, investors or any other interested party.

The Group's objective in the sphere of compliance and conduct is to minimise the probability that irregularities occur; and that any irregularities that should occur are identified, assessed, reported and quickly resolved.

Other control functions (risks) and support functions (legal, T&O, etc) also take part in controlling these risks.

D.5.2. Compliance risk control and supervision

According to the configuration of lines of defence in the Grupo Santander and, in particular, within the Compliance function, primary responsibility for the management of such function's risks lies in the first line of defence, jointly with the business units that directly originate such risks and the Compliance function. This is performed either directly or through allocation of compliance activities or tasks to this first line.

Further, setting, promoting and achieving units' adherence to corporate frameworks, policies and standards across the Group is the responsibility of the Compliance function in its task of control and supervision as the second line of defence. To do so, controls are put in place and their application is monitored and verified. Reporting to governance and administrative bodies is the responsibility of the Compliance function, which is also responsible for advising and informing to senior management in these matters and fostering a culture of compliance, all of these within the framework of an annual programme whose effectiveness is periodically reviewed.

In compliance, the GCCO is responsible for reporting to governance and administrative bodies; who is also responsible for advising and informing senior management in these matters and fostering a culture of compliance, all of these within the framework of an annual programme whose effectiveness is periodically reviewed. This is independently of the reporting on all the Group's risks (also including compliance risks) performed by the vice chairman of Risks and the CRO to the governance and administration bodies.

The Compliance function provides the basic components for managing these risks (frameworks and policies for combating money-laundering, codes of conduct, marketing of products, reputational risks, etc.) and ensures that the rest are duly tended to by the corresponding units of the Group (responsible financing, data protection, customers' complaints, etc.), having established the opportune control and verification systems, in the second line of defence of Compliance.

Internal audit - as part of its third-line functions - performs tests and reviews necessary to verify that adequate controls and oversight mechanisms are being applied, and that the Group's rules and procedures are being followed.

The essential elements of Compliance risk management are based on resolutions adopted by the board of directors, as the highest responsible body, by means of the approval of corporate frameworks that regulate significant matters, and the Santander Group's General Code of Conduct. Such frameworks are approved at corporate level by the Banco Santander, S.A. as the Group parent, and subsequently approved by the units by means of the latter's adhesion to the same, in order to carry out transposition in a manner that takes into account applicable local requirements.

The corporate frameworks of the Compliance function are as follows:

- General compliance framework.
- Products and services marketing framework.
- Complaint management framework.
- Anti-money laundering and terrorist financing framework.

These corporate frameworks are developed following Grupo Santander's internal governance and are consistent with the Parent-subsidiary relationship model.

The General Code of Conduct sets out the ethical principles and rules of conduct that must govern the actions of all Grupo Santander's employees and it is being supplemented in certain matters by the rules found in other codes and internal rules and regulations.

The Code also lays down the following:

- the Compliance functions and responsibilities set out in the same.
- the rules governing the consequences of non-compliance
- a whistleblowing channel for the submission and processing of reports of allegedly irregular conduct.

Regulatory compliance, under the Board Risk Committee and of the regulatory compliance committee, is responsible for the effective implementation and monitoring of the General Code of Conduct.

D.5.3. Governance and the organisational model

In the exercise of its general function of supervision, the board of directors of the Banco Santander, S.A. is responsible for approving the appointment of the head of Compliance (the Group Chief Compliance Officer – GCCO), and the framework for this function and its implementing policies. In addition, the board is the holder of the Group's General Code of Conduct and of the corporate structures that implement this function.

In order to strengthen the independence of the compliance function as a function of internal control and provided it with sufficient relevance, the executive committee, at its meeting on February 2, 2015, agreed to appoint an executive vice-president as chief compliance officer (GCCO). For these purposes, in 2015 and pursuant to its mandate, a programme for the transformation of the compliance function at global level is being carried out (Target Operating Model for Compliance, TOM) and will be implemented over a period of three years, with the aim of elevating and bringing this function in line with the best standards in the financial industry.

Reporting on the compliance function to the board is done monthly.

Mention must also be made of the adequate coordination with the operational risk function, which collects different loss events deriving from compliance and conduct risks, and which, through risk governance - which includes a common overview of all the group risks - also reports to the board of directors and to its committees.

D.5.3.1. Governance

The following corporate committees, each with their corresponding local replicas, are collegiate bodies with competencies in Compliance:

The **regulatory compliance committee** is the collegiate body that has powers in all matters inherent in regulatory compliance, without detriment to those assigned to the two specialised bodies in the area (corporate committee of marketing as regards the commercialisation of products and services, the monitoring committee and the anti-money laundering and terrorist financing committee.

The regulatory compliance committee held five meetings in 2015.

The **products and services commercialisation committee** is the collegiate body of governance for the validation of products and services. The initial proposal and authorisation of new products and services is the responsibility of units, while such proposals and their alignment with corporate policies must be subject to corporate validation. Its objectives and functions are based on the minimisation of inappropriate commercialisation of products and services to customers, taking into account consumer protection. Its functions are performed at both corporate and local level.

The committee assesses the appropriateness of adjusting products and services to the framework where they are going to be marketed, paying special attention to ensuring:

- That the stipulations set out in the corporate commercialisation frameworks and policies, and in general, the internal or external laws (for example, not granting loans for investment products, limiting the bank's roles as underlying in commercialised structures, etc.) are fulfilled.

- That the target audience is clearly established, in accordance with its features and needs, clearly stating which customers it is not considered suitable for (e.g. aspects such as the customer's commercial segment, customer's age, geographical jurisdiction, etc.).

- That the criteria and controls are in place to assess how suitable the products is for the customer are defined at the time of the sale. This will include, depending on the type of product and the commercial treatment applied in each case, an assessment of the customer's financial capacity to meet the payments associated with the product/service, the appropriateness of the customer's knowledge and previous investment experience, and the adequate diversification of his investment portfolio, as the case may be.

- That the suitable documentation (advertising, commercial, pre-contractual, contractual and post-contractual) for each product/service, customer and commercialisation type be determined, and in each case, that the information be conveyed to customers clearly and transparently. This information can refer to:

    - Explaining how the product or service works, presenting, in an objective and transparent way, the information on the product/service's characteristics, terms and conditions, costs, risks and the calculation methodology, and not giving rise to unreasonable expectations or causing the customer to choose an inappropriate product/service.

    - Frequency and content of the post-contractual information sent to customers, including details of the effective costs incurred and information on the product's profitability and assessment, as the case may be.

- That training/certification plans, and checks on such plans, are in place to ensure that sales employees in the different channels have the required training and have sufficient information about the characteristics of the product/service, in order to be able to sell it appropriately.

The products and services commercialisation committee met 13 times in 2015 and analysed 104 new products/services, not having validated three of them.

The corporate monitoring committee is the Group's collegiate governance body in monitoring of products and services, and for the assessment of customer claims in all Group units. Approved products and services are monitored locally through local monitoring committees or similar bodies, and their conclusions are reported directly to the corporate monitoring committee.

The monitoring committee held 34 meetings in 2015 at which incidents were resolved and information was analysed on the monitoring of products and services of the Group's units.

The anti-money laundering and terrorist financing committee (formerly called the Analysis and Resolution Committee, CAR) is the collegiate body in this area, setting frameworks, policies and general objectives. It also validates the rules and regulations of other Group collegiate bodies and units in relation to prevention and coordination.

In order to strengthen governance of the function and to preserve its independence, the objectives and functions of the aforementioned committees have been reviewed in order to adjust them to the Group's governance model, in the adaptation of the TOM.

D.5.3.2. Organisational model

Derived from the aforementioned transformation programme (TOM) and with the objective of attaining an integrated view and management of Compliance risks, the organisational structure of the function has been modified in accordance with a hybrid approach, in order to converge specialised Compliance risks (vertical functions) with an aggregate and standardised view of them (cross-cutting functions).

Hence, the Compliance structure is organised as follows to contribute to the Group's mission in this field:

Cross-cutting functions

- Coordination with units.

- Governance, planning and consolidation.

- Compliance processes and information systems.

Vertical functions

- Regulatory compliance.

- Governance of products and consumer protection.

- Anti-money laundering and combating terrorist financing.

- Reputational risk.

D.5.4. Regulatory compliance

The following functions are in place for adequate control and supervision of regulatory compliance risks:

- Implement the Group's General Code of Conduct and other codes and rules developing the same. Advise on resolving doubts that arise from such implementation.

- Cooperate with Internal Audit in the regular reviews of compliance with the general code and with the codes and other rules developing it, without detriment to the regular reviews which, on matters of regulatory compliance, are to be conducted directly.

- Prepare compliance programmes in relation with specific rules, or modifications thereof, for submission to the regulatory compliance committee and, as the case may be, subsequent approval by the board of directors or the committees thereof.

- Regularly report to the RSRCC and the board of directors on the development of the framework and the implementation of the compliance programme.

- Assess changes that need to be introduced into the compliance programme, particularly in the event of detecting unregulated risk situations and procedures susceptible to improvement, and propose the changes to the committee of regulatory compliance or the RSRCC.

- Receive and handle the accusations made by employees or third parties via the whistle blowing channel.

- Direct and coordinate investigations into the possible committing of acts of non-compliance, being able to request support from Internal Audit and propose to the Irregularities Committee the sanctions that might be applicable in each case.

- Supervise mandatory training activity on Compliance programme.

The Compliance TOM orients the focus of the regulatory Compliance function in the following areas:

1. Compliance in employee matters.

2. Compliance in organisational aspects.

3. Compliance of market regulations.

4. Conduct in the securities markets.

1. Employees

The objective of regulatory compliance with respect to employees –on the basis of the General Code of Conduct – is to establish standards in corporate defence and conflicts of interest and, from a regulatory perspective, set guidelines for remuneration and in dealings with suppliers.

In corporate defence, the responsibility is undertaken of minimising the impact of the penal responsibility of companies for any crimes committed on account of and for the benefit of them by administrators or representatives and by employees as a result of a lack of control.

The system of managing risks for the prevention of penal crimes, which was audited in 2015, obtained the AENOR certification in 2014.

A key element in this system is the whistle blowing channel. There are five main whistle blowing channels in the Group, which registered some 400 communications in 2015.

2. Organisational aspects

This is a new aspect for regulatory compliance. The aim is to set standards, from a regulatory perspective, in record keeping, and in safeguarding the right to the protection of personal data, specifically, those of our customers.

Second-line work is also performed for the general Group compliance of US FATCA tax regulation.

3. Market regulations

In 2015, a contribution was made to the corporate project of adjustment to the US Volcker Rule, which limits proprietary trading to very specific cases that the group controls by means of a compliance programme. Compliance of other specific security markets regulations are also monitored: as in the field of derivatives, that which is established by Title VII of the US Dodd Frank Act or its European counterpart, EMIR (European Market Infrastructure Regulation).

Regulatory compliance is also responsible for disclosing relevant Group information to the markets. Banco Santander made public 98 relevant facts in 2015, which are available on the Group's web site and that of the National Securities Market Commission (CNMV).

4. Code of Conduct in Securities Markets (CCSM)

The Code of Conduct in Securities Markets (CCSM), supplemented by the Code of Conduct for Analysis Activity, and other implementing rules, contains Group policies in this field and defines, inter alia, the following responsibilities for regulatory compliance:

- Register and control sensitive information known and generated by the Group.

- Maintain the lists of securities affected and related personnel, and watch the transactions conducted with these securities.

- Monitor transactions with restricted securities according to the type of activity, portfolios or collectives to whom the restriction is applicable.

- Receive and deal with communications and requests to carry out own account trading.

- Control own account trading of the relevant personnel and manage possible non-compliance of CCSM.

- Identify, register and resolve conflicts of interest and situations that could give rise to them.

- Analyse activities suspicious of constituting market abuse and, where appropriate, report them to the supervisory authorities.

- Resolve doubts on the CCSM.

At present, 13,000 people are considered relevant persons under the CCSM in the Group.

D.5.5. Governance of products and consumer protection

As a result of the transformation of the compliance function into the new TOM model, the old reputational risk office has been renamed as governance of products and consumer protection, and broadens its authority to strengthen adequate control and supervision of the marketing risks of products and services, promotion of transparency and a simple, personal and fair approach to customers to protect their rights and ensure that policies and procedures take consumers' perspective into account. To do so, the following functions have been established, and organised on the basis of two corporate frameworks and a set of policies that lay down basic principles and guidelines in this field:

Frameworks

- **Corporate commercialisation framework:** uniform system for the marketing of products and services, with the aim of minimising exposure to risks and possible claims arising from such fields in all phases (validation, pre-sales, sales, post-sales following).

- **Complaint management framework:** uniform system for the systematised management of registration, control, management and analysis of the cause of complaints by different categories, thus allowing for identifying reasons for customer dissatisfaction, offering appropriate solutions in each case and improving, as necessary, the processes giving rise to them.

Functions

- Foster units' adherence to aforementioned corporate frameworks.

- Facilitate the functions of the corporate commercialisation committee, ensuring correct validation of any new product or service proposed by any Group subsidiary or the parent prior to the launch thereof.

- Preserve internal consumer protection, with the objective of improving relations with the Group, effectively promoting their rights, facilitating a solution to any controversies, in accordance with best practices through any channel, and fostering financial knowledge. The objective is to contribute to lasting relationships with customers.

- Identify, analyse and control fiduciary risk generated by private banking, asset management, insurance and outsourced activity of custody services for customers' financial instruments. Fiduciary risk is the risk that arises from the administration of financial instruments on customers' behalf. This process of fiduciary risk management requires the following activities, in addition to an admission process:

  - regular assessment of compliance of products' mandates, such that the risk associated to customers' position is always handled in the customer's best interest.

  - monitoring the final performance of the investments both with regard to the fiduciary relations with the client who expects the best performance as well as with regard to competitors.

  - regular monitoring of third-party custody providers.

- collect, analyse and report to Group governance bodies the information necessary to carry out an adequate analysis of the marketing risk of products, services and claims, with a twofold view: the possible impact on customers and on the Group, and on the monitoring of products and services throughout their life cycle.

- supervise subsidiaries' processes of marketing and of customer complaint management, making proposals for improvement and following up on actions plans to mitigate risks.

The following were the main activities carried out by this function in 2015:

- In addition to the aforementioned analysis, of the 104 products and services submitted to the corporate commercialisation committee:

  i. analysis and validation of 27 products or services considered to be not new.

  ii. reviewing compliance of agreements in 63 structured notes issued by Santander International Products Plc. (subsidiary fully owned by Banco Santander S.A.) and

  iii. resolution of 182 consultations by different areas and countries.

- Updating of the contents and formats of documents that regulate the validation and monitoring of products and services in order to incorporate the best practices identified in the Group in this areas. These documents were validated by the committee (July 2015) and then communicated to the subsidiaries, as they are considered benchmark documents that Group units must use as the basis for developing or adapting their own procedures in these areas. The main innovations are:

  i. checklist which includes an assessment of the degree to which the proposal is aligned with the simple, personal and fair values of the corporate culture.

  ii. update of the draft memorandum provided to Group units as guidelines for submitting initiatives to the pertinent commercialisation committee.

  iii. update of the monitoring report submitted to Group units to assist in setting minimum and homogeneous contents for tracking and reporting on marketed products and services and

  iv. extending the monitoring scope to all products and services, regardless of the date on which they were validated.

- supervise local monitoring of marketed products and services, with special attention focused on some units that require it due to the type of products and customers they have.

- Monitor the the fiduciary risk of customers' equity in real estate investment funds and pension funds all managed by Santander Asset Management, the holding company owned by the group.

- Analyse and consolidate complaint information and management thereof from 25 local units and 36 business units and 10 branch offices of Santander Global Corporate Banking.

Corporate projects

- Darwin Project: development of corporate tools to improve safeguarding of customers' rights:

  i. MRF claim management tool, used in the registration, management and traceability of customer cases in order to comply with regulators' and consumers' expectations;

  ii. tool based on *Text & Speech Analytics ARCA (Application for Root Cause Analysis)*, complying with the Joint Committee guidelines of the European regulators. The tool processes all complaints cases in order to create uniform groups of information or clusters, and identify the cause of customers' problems in order to mitigate them.

- Classification of financial products under a corporate methodology (rating of one to five): during the year, monitoring of implementation of technology developments in subsidiaries that will allow for maintaining this classification in systems and apply pertinent marketing criteria, with implementation estimated for the first half of 2016.

- Conduct costs arising from marketing (pilot Spain with the idea of spreading conclusions and synergies throughout the rest of the Group): the Corporation has led a collecting of processes and data of Santander España, in order to prepare and action plain aimed at setting up a procedure for identifying and recording, in a centralised, comprehensive, complete and reliable manner, all costs relating to conduct risks arising from marketing.

D.5.6. Anti-money laundering and terrorist financing

The following functions are in place for the adequate control and supervision of money laundering and terrorist financing risks:

- For Grupo Santander, it is a strategic objective to have an advanced and efficient anti-money laundering and terrorist financing system, constantly adapted to the latest international regulations and with the capacity to confront the appearance of new techniques by criminal organisations.

- Its action is structured based on the corporate framework which establishes the principles and basic action guidelines to set minimum standards that Grupo Santander's units must observe. It is formulated in accordance with the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and the obligations and provisions of European directives concerning the prevention of the financial system being used for money laundering and for combating terrorist financing.

- The local units, in their role as first line of defence, are responsible for managing and coordinating the systems and procedures for anti-money laundering and terrorist financing in the countries where the Group operates, as well as the investigation and treatment of communications of suspicious transactions and of the information requirements of the corresponding authorities. Each of these local units has persons responsible for this function.

- Corporate systems and processes have been established in all units, based on decentralised operational technology systems, which can provide the corporate function with local management information and data, and also reporting, monitoring and control. These systems are used to apply an active and preventive management in the analysis, identification and monitoring of transactions suspected to be involved in money laundering or terrorist financing.

- Grupo Santander is a founding member of the Wolfsberg Group, with other major international financial entities. The Wolfsberg Group aims to establish international standards to increase the effectiveness of the anti-money laundering and combating terrorism financing programmes in the financial community. A number of initiatives have been launched to address different areas of concern. Supervisory authorities and experts in this area believe that the principles and guidelines set by the Wolfsberg Group represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

The prevention organisation assists 168 different Group units established in 31 countries. There are 900 professionals in the Group performing the anti-money laundering and combating of terrorism financing function, and 81% of them are exclusively engaged on this task.

The main activity indicators for 2015 are as follows:

- Subsidiaries reviewed: 109

- Cases investigated: 84,748

- Communications to authorities: 21,485

- Training for employees: 129,233

The Group has both local and corporate training plans, with the aim of covering all employees. There are also specific training plans for the most sensitive areas related to anti-money laundering and terrorist financing.

D.5.7. Reputational risk

As a result of the transformation of the compliance function through the implementation of the TOM model, very significant progress has been made in the specification of the details of the reputational risk model.

The specific characteristic of reputational risk, originating in a wide variety of sources which, when combined with the stakeholder's view,requires a unique approach, control and management model, different from other risks.

The reputational risk model is based on an eminently preventative approach, but it is also based on efficient crisis management processes.

Reputational risk management is to be incorporated into both business and support activities, and in internal processes. It should, therefore, allow for integrating functions of risk control and supervision in its activities.

The reputational risk model also involves an integrated understanding not only of the bank's activities and processes in the performance of its activity, but also of how it is perceived by stakeholders (employees, customers, shareholders and investors, and society at large) in different environments. This approach requires close coordination between the management, support and control functions with the different stakeholders.

Reputational risk governance is thus included as a part of compliance governance, as indicated. The compliance function reports to the senior management about reputational risk questions, once the data regarding the sources of reputational risk has been consolidated.

D.5.8. Risk assessment model of compliance and risk appetite

The Group risk appetite for compliance risks stems from a non appetite declaration for risks of this type, in order to clearly reduce the probability of any economic, regulatory or reputational impact occurring within the Group. Compliance risk is organised in a homogeneous way in units, by establishing a common methodology, which consists of setting a series of compliance risk indicators and assessment matrices which are prepared for each local unit.

The corporate compliance function has assessed the regulatory risk (risk assessment) in 2015, focusing on the Group's main countries. Actions plans designed to allay high risks which derive from risk assessment are monitored on a quarterly basis, country by country.

In accordance with the new compliance TOM, in 2015 the Group launched new indicators and established an initial risk assessment in regulatory consumer protection and products governance, anti-money laundering and funding of terrorism, and reputational risk functions.

From 2015 on, risk assessment is going to be consolidated in order to have a comprehensive overview of all compliance risks, so that such risks can be integrated with all the Group's other risks, and so the board of directors may have a holistic vision of these risks. This will allow the Group to have a single overview of how compliance risk appetite is established, how it is monitored and what corrective measures need to be deployed, if necessary. This task is performed in accordance with the same methodologies and indicators as in the risk function, so that they are integrated in the Group's risk appetite framework. Incurred losses resulting from compliance risks are added to the common event data base that is managed by the Risk function, in order to have a complete oversight, and also to provide an integrated control and management of non-financial risks.

The TOM model implementation is expected to include a revised taxonomy of the different types of compliance risks, as first level risks. The aim of this taxonomy is to clearly identify the compliance risks and so be able to ready for possible stress tests in the future.

D.5.9. Transversal corporate projects

In Risk Assessment, a methodology has been established for assessing compliance risks, training of all Group units, and in coordination with the operational risk function, the launching of an assessment exercise.

Lastly, the Risk Data Aggregation (RDA) project, in collaboration with the risk function, consists of a risk indicators models, which have been identified by the vertical functions, and which are required in a corporate tool in order to provide management information.

D.6. Model risk

Grupo Santander has far-reaching experience in the use of models to help make all kinds of decisions, and risk management decisions in particular.

A model is taken to be a any metric based on a quantitative method, system or estimate which provides a simplified representation of reality, using statistical, economic, financial or mathematical techniques for processing information and obtaining a result based on a series of assumptions and subject to a certain degree of uncertainty. The use of models helps decisions to be taken more rapidly and objectively, generally justified by analysis of large amounts of information.

When models are used extensively, so-called Model Risk emerges, which is defined as a number of possible adverse impacts, including losses, produced by decisions based on erroneous models or models that have been misused.

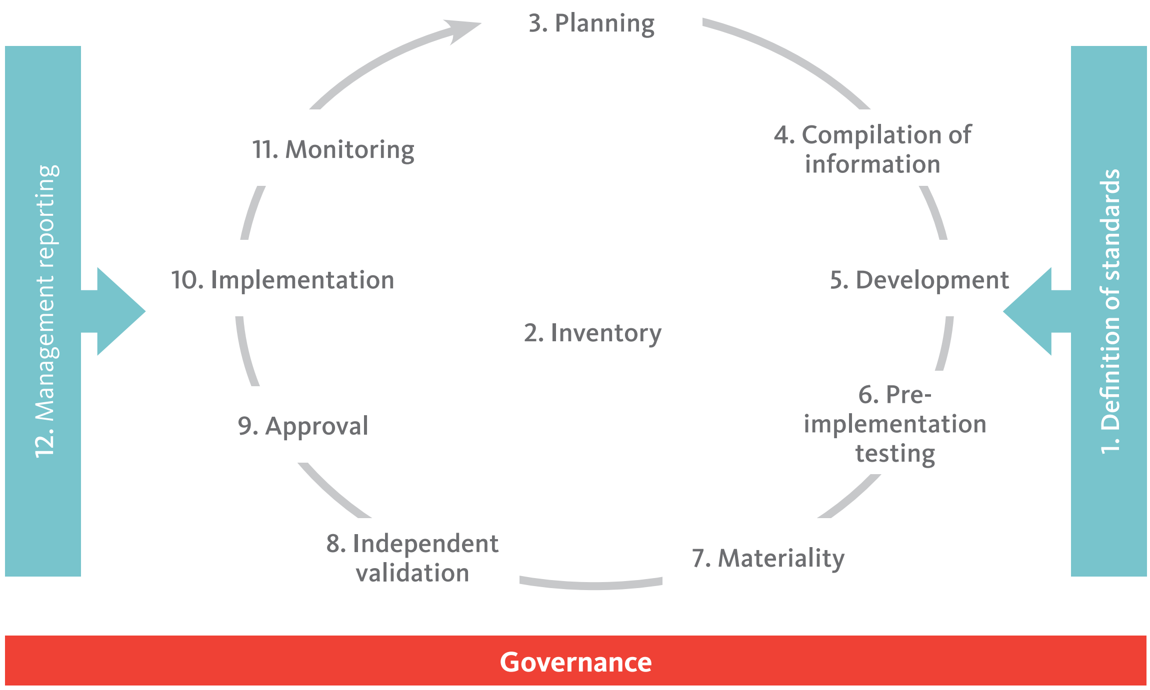
According to this definition, the sources of Model Risk are as follows:

- the model itself, due to the utilisation of incorrect or incomplete data, or due to the modelling method used and its implementation in systems
- improper use of the model

Grupo Santander has been working on the definition, management and control of Model Risk in recent years, and took a major step forward in 2015 by creating a specific area within its Risk division to control this type of contingency. The area encompasses the old model validation unit and a specific control team.

The function is deployed at the corporation and also at each of the Group's main entities. In order to carry out this function, a control framework has been defined with details concerning questions such as organisation, governance, model management and model validation.

Management and control of Model Risk is based on the life cycle of a model as defined by Grupo Santander, shown below:



1.- Definition of standards

The Group has defined a set of standards to develop, monitor and validate its models. Any models used by the Group must meet these standards, regardless of whether they are developed internally or are acquired from third parties. The standards provide a guarantee of quality for the models used by the Group for decision-making purposes.

2.- Inventory

One key feature of proper management of Model Risk is a complete exhaustive inventory of the models used.

Grupo Santander has a centralised inventory, created on the basis of a uniform taxonomy for all models used at the various business units. The inventory contains all relevant information on each of the models, enabling all of them to be properly monitored according to their relevance. The inventory enables transversal analyses to conducted on the information (by geographic area, types of model, importance etc.), thereby easing the task of strategic decision-making in connection with models.

3.- Planning

This phase involves all those affected by the model life cycle –users, developers, validators, data providers, IT etc.– and draws up and establishes priorities.

This planning takes place once a year at each of the Group's largest entities, and is approved by local governance bodies, and validated by the corporation.

4.- Compilation of information

As already mentioned, the data used to create models are a main source of Model Risk. Data must be reliable and complete, and must have sufficient historic depth to ensure that the model developed is suitable.

Grupo Santander has specialist teams to provide the information used to build models, information which has previously been certified by the owners.

5.- Development

This is the model's construction phase, based on the needs laid down in the Models Plan and the information furnished to this end by the specialists.

Most of the models used by the Santander Group are developed by internal methodology teams, though some models are also outsourced from external providers. Development must meet the standards established in either case.

6.- Pre-implementation testing

When the models have been built, the developers and their owners subject them to a battery of tests to ensure that they are functioning as expected, and make any adjustments necessary to this end.

7.- Materiality

Each Group model must be associated with a level of materiality or importance, which is established by an agreement among the parties involved.

The criteria for establishing materiality are documented in a corporate policy, which is transposed and approved at each of the Group' s major entities.

Materiality determines the depth, frequency and scope of the validations and monitoring of the model, in addition to the governance bodies that must take decisions concerning the model.

Materiality constitutes basic information for proper model risk management, and constitutes a field in the corporate inventory.

8.- Independent validation

Internal validation of models is not only a regulatory requirement in certain cases, but it is also a key feature for proper management and control of Grupo Santander's model risk.

Hence, as indicated above, a specialist unit is in place which is totally independently of both developers and users, draws up a technical opinion of the suitability of internal models to their purposes, and sets out conclusions concerning their robustness, utility and effectiveness.

At the present time internal validation covers any models used in the risk function, be they models for credit risk, market risk, structural or operational risk, economic or regulatory capital risk, models for provisions and stress test models including, in the latter case, models to estimate items on the institution's balance sheet and income statement.

The scope of validation includes not only the more theoretical or methodological aspects, but also IT systems and the data quality they allow, which determines their effectiveness. In general, it includes all relevant aspects of management in general (controls, reporting, uses, senior management involvement etc.).

After each model has been revised, the validation opinion is converted into a score on a scale of one to five as the model risk appraised by the internal validation team.

This corporate internal validation environment at Grupo Santander is fully aligned with the internal validation criteria of advanced models produced by the financial regulators to which the Group is subject. This maintains the criterion of a separation of functions for units developing and using the models (first line of defence), internal validation units (second line of defence) and internal audit (third line of defence) as the ultimate layer of control, checking the effectiveness of the function and its compliance with internal and external policies and procedures, and commenting on its level of effective independence.

9.- Approval

Before they are rolled out and actually used, models must be submitted for approval by the proper body, in accordance with their materiality.

10.- Implementation

This is the phase during which the newly developed model is implemented in the system in which it will be used. As already mentioned, the implementation phase is another possible source of model risk, and it is therefore essential that tests be conducted by technical units and the owners of the model to certify that it has been implemented pursuant to the methodological definition.

11.- Monitoring

A model is designed and built on the basis of certain information and circumstances, which may change with the passage of time. Models must therefore be regularly checked to ensure that they are still working properly, and adapted or redesigned if this is not the case.

The frequency and depth of monitoring is established on the basis of the models' materiality.

12.- Management reporting

Senior management at Grupo Santander, in the various units and also at the Corporation itself, regularly monitors model risk in a set of reports that provide a consolidated view of the Group's model risk and enable decisions to be taken in this regard.

13.- Governance

The Model Risk Management Framework stipulates that the body taking responsibility for authorising risk management models to be used is the Models Committee. Each business unit has a models committee which takes responsibility for decisions concerning approval of the local usage of these models when the approval of the corporate models committee has been secured. Under the current policy, all models submitted to a models committee must have an internal validation report.

D.7. Strategic risk

Grupo Santander considers strategic risk to be what it calls a transversal risk. During 2015, a **strategic risk control and management model** has been designed, and will be used as a reference for Group subsidiaries. This model includes the risk definition, the functional aspects and the description of the main processes associated with strategic management and control.

Strategic risk is the risk which is associated with strategic decisions and with changes in the entity's general conditions, which have an important impact on its business model in both the mid and long term.

The entity's **business model** is a key factor for strategic risk. The business model should be feasible and sustainable, deliver acceptable results each year and for at least the next three years.

There are three categories or types of strategic risk:

- **Business model risk:** the risk associated with the entity's business model. This includes the risk of the business model being obsolescent, of it being irrelevant, and/or losing value, and so not be able to deliver the expected results. This risk is caused both by external factors (macroeconomic, regulatory, social and political questions, changes in the banking industry, etc.) and also internal ones (strength and stability of the income statement, distribution model/channels, revenue and expenses structure, operational efficiency, adequacy of human resources and systems, etc).

- **Strategy design risk:** the risk associated with the strategy set out in the entity's five-year strategic plan. Specifically, it includes the risk that the strategic plan may not be adequate per se, or due to its assumptions, and thus the Bank will not be able to deliver on its expected results. It is also important to consider the opportunity cost of designing another more adequate strategy or the lack of action through not designing it.

- **Strategy execution risk:** the risk associated with the process of implementing five-year strategic plans and three-year plans. As the strategy is implemented in the mid and long term, it often has execution risk due to the complexity and many variables involved in it. Other risk area to be borne in mind are possibly inadequate resources, change management, and, lastly, lack of capacity to cope with changes in the business environment.

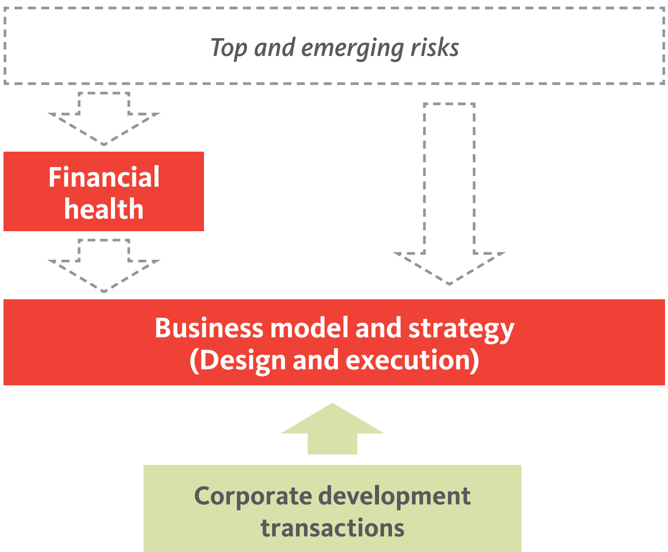
As far as strategic risk management and control are concerned, transversal risks associated with **corporate development** should also be taken into account, as they can pose an important risk to the business model. Such risks are: those which entail a change in the entity's scope and activity, acquisitions or disposals of significant holdings and assets, joint ventures, strategic alliances, shareholder agreements and capital transactions.

Lastly, there is another type of risks which may not have a strategic origin (credit, market, operational, compliance risks, etc.). Such risks can have a significant impact on the entity's financial strength, and may in turn affect the entity's strategy and business model. Hence, it is important to identify, assess, manage and control them.

Thus, **Top Risks**: they are risks with a significant impact on the entity's results, liquidity or capital or risks which could entail undesirable considerations. These risks can bring the entity nearer to default.

While **Emerging and Evolving Risks**: are risks which have not previously appeared or which have been presented in a different way. These risks often involve a certain degree of uncertainty and are difficult to quantify, but they can have a significant impact during a mid-long term time frame.

The chart below shows how the above risks impact the Group's business model and strategy.



D.8. Capital risk

Organisation of this section

After an **introduction** to the concept of capital risk and **solvency levels at the close of 2015**, the key capital figures are outline (pag. pag.281-282].

Next we describe the **regulatory framework** from a capital standpoint [pag. 282-283].

After that, the **regulatory capital** and **economic capital** figures are presented [pag. 283-287].

Lastly, we describe the **capital planning process and stress tests** in Grupo Santander [pag. 287-289].

For further details, refer to the Prudential Risk Report of Grupo Santander (Pillar III).

D.8.1. Introduction

Santander defines capital risk as the risk that the Group or some of its companies do not have the amount and/or quality of sufficient equity to meet the minimum regulatory requirements set for operating as a bank, to fulfil on the market's expectations about its/ their credit solvency and support business growth and the strategic possibilities they present, in accordance with the strategic plan. Of note are the following objectives:

- complying with the internal objectives for capital and solvency.
- meeting regulatory requirements.
- aligning the Bank's strategic plan with the capital expectations of outside agents (rating agencies, shareholders and investors, customers, supervisors, etc.)
- supporting the growth of the businesses and exploit the strategic opportunities that arise.

Grupo Santander has a comfortable solvency position, above the levels required by regulators and by the European Central bank, our supervisor. In 2015, the Group continued to bolster its capital ratios in view of the adverse economic setting and to comply with new regulatory requirements. In early 2015, it carried out a EUR 7.5 billion accelerated book building operation, and established a dividend policy which assures organic capital generation.

At 31 December 2015, the Group's main capital ratios are as follows:

	Fully loaded	Phase-in
Common Equity (CET1)	10.05%	12.55%
Tier1	11.00%	12.55%
Total Ratio	13.05%	14.40%
Leverage ratio	4.73%	5.38%

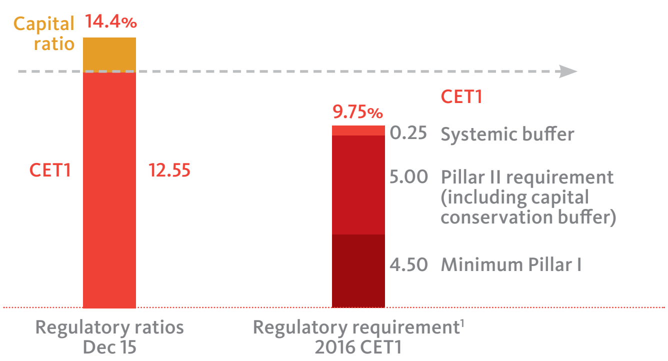
Phase-in ratios are calculated applying the transitional Basel III implementation schedules, while Fully loaded ratios are calculated using the final standard.

On 3 February, 2016, the European Central Bank authorised the use of the Alternative Standard Method to calculate capital requirements at consolidated level for operational risk in Banco Santander (Brasil) S.A. The impact of this authorization on the Group's risk-weighted assets (-EUR 7,836 million), and, consequently, on its capital ratios, has not been taken into account in the data published on 27 January and which are presented in this report.

At the end of 2015, the ECB sent every entity a notification setting out the minimum prudential capital requirements for the following year. For 2016, Grupo Santander must maintain a minimum phase-in CET1 capital ratio at the consolidated level of 9.75% (9.5% being the Pillar I, Pillar II and capital buffer requirements and 0.25% the requirement for being a Systemically Important Financial Institution). As can be seen from the table above, the Group's capital exceeds the ECB's minimum requirement.

Regulatory capital

%



1. Minimum prudential requirements established by the ECB based on the supervisory review and assessment process (SREP)

The Group is working towards its goal of having a CET1 fully loaded of more than 11% by 2018.

Capital

The Group considers the following capital concepts:

Regulatory capital

- **Capital requirements:** the minimum volume of own funds required by the regulator to ensure the solvency of the entity, depending on its credit, market and operational risks.
- **Eligible capital:** the volume of own funds considered eligible by the regulator to meet capital requirements. The main elements are accounting capital and reserves.

Economic capital

- **Self-imposed capital requirement:** the minimum volume of own funds required by the Group to absorb unexpected losses resulting from current exposure to the risks assumed by the entity at a particular level of probability (this may include other risks in addition to those considered in regulatory capital).
- **Available capital:** the volume of own funds considered eligible by the entity under its management criteria to meet its capital requirements.

Cost of capital

The minimum return required by investors (shareholders) as remuneration for the opportunity cost and risk assumed by investing in the entity's capital. The cost of capital represents a 'cut-off rate' or 'minimum return' to be achieved, enabling us to analyse the activity of our business units and assess their efficiency.

Return on risk adjusted capital (RORAC)

This is the return (net of tax) on economic capital required internally. Therefore, an increase in economic capital decreases the RORAC. For this reason, the Bank requires transactions or business units involving higher capital consumption to deliver higher returns.

This considers the risk of the investment, and is therefore a risk-adjusted measurement of returns.

Using the RORAC enables the Bank to manage its business more effectively, assess the real returns on its business - adjusted for the risk assumed - and to be more efficient in its business decisions.

Value creation

The profit generated in excess of the cost of economic capital. The Bank creates value when risk adjusted returns (measured by RORAC) exceed its cost of capital, and destroys value when the reverse occurs. This measures risk adjusted returns in absolute terms (monetary units), complementing the RORAC approach.

Expected loss

This is the loss due to insolvency that the entity will suffer over an economic cycle, on average. Expected loss considers insolvencies to be a cost that can be reduced by appropriate selection of loans.

Leverage ratio

This is a regulatory metric that monitors the solidity and robustness of a financial institution by comparing the size of the entity to its capital.

It is calculated as the ratio between Tier1 capital and leverage exposure, which considers the size of the balance sheet with certain adjustments for derivatives, security funding transactions and contingency accounts.

Control of capital risks is not just a question of complying with current regulatory ratios. The regulatory changes affecting the Group, our key regulatory capital figures and leverage ratio, economic capital, return on risk adjusted capital) and capital planning and stress tests performed by the Group to assure our solvency, are explained in the following sections.

D.8.2. Regulatory framework

The standards known as Basel III came into force in 2014, setting new global standards for banks' capital and liquidity.

From the standpoint of capital, Basel III redefines what is considered as available capital in financial institutions (including new deductions and raising the requirements of eligible capital instruments), increases the minimum capital required, demands that institutions operate permanently with capital buffers and adds new requirements in the risks considered.

In Europe, the new standards have been implemented via EU directive 2013/36, known as CRD IV, and its regulations 575/2013 (CRR), which is directly, applied in all EU countries (Single Rule Book). These standards are also subject to regulatory developments entrusted to the European Banking Authority (EBA).

CRD IV was introduced into Spanish law through Act 10/2014 on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015. The CRR is directly applicable in Member States from 1 January 2014 and repeals those lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the instruments and elements of capital that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV will also be phased in gradually, starting in 2016 and reaching full implementation in 2019.

After it was implemented, the Basel Committee on Banking Supervision has said that it intends to amend the capital regulations in the following sections:

- Standard credit risk method (open for public consultation until March 2016).
- Standard market risk method (Fundamental review of trading book).
- Standard operational risk method (there will be a public consultation in early 2016).
- IRB Internal Models: reducing the eligible options in design of models, particularly in certain portfolios.
- Internal market models: allow supervisors to withdraw authorisation to use this on the trading desk, reduce hedge mitigation and reduce diversification mitigation.
- Operational risk internal models: a consultation will be made on whether to eliminate them.
- Securitisations: the treatment of securitisations which fit the definition of 'simple, transparent and comparable' will be modified.
- Minimum requirements (*floors*): the BCBS has said that it intends to replace the current floor of 80% of RWA calculated under Basel I with floors consisting of one for each risk type, defined based on the new revised standard methods.
- Structural interest rate risk: the Committee has said that it intends to establish a capital requirement for the structural interest rate risk on banks' balance sheets.
- Calibration of leverage ratio: a minimum benchmark of 3% has been established, and will be reviewed in 2017. In recent publications, both the BCBS and the EVA have recommended a ratio of between 4% and 5%. Its calibration is expected to be completed in 2016 and it should be implemented in 2018.

Most of these regulatory modifications will be defined in 2016.

Grupo Santander shares the ultimate objective that the regulator pursues with this new framework, which is to make the international financial system more stable and solid. For years Grupo Santander has collaborated by supporting regulators and taking part in the studies promoted by the Basel Committee and the European Banking Authority (EBA), and coordinated at the local level by the Bank of Spain to calibrate the regulations.

Lastly, the TLAC (Total Loss Absorption Capacity) required of Global Systemically Important Entities (G-SIBs) was approved in the last G-20 meeting held in Antalya in November 2015. This is a very important milestone in terms of regulation. The TLAC means that banks must have a sufficient buffer of liabilities (capital and convertible debt) to be able to absorb losses, either through conversion to capital or by accepting a 'haircut'. The objective is that when facing a risk of insolvency, a bank should be able to recover its solvency without needing to be bailed out by national governments. This regulation is pending incorporation into the prevailing regulatory framework. However, the Financial Stability Board (FSB) has set a 3-year implementation schedule, such that it comes into effect in 2019. This proposes a minimum requirement for January 2019 equivalent to the higher of 16% of risk-weighted assets or 6% of leverage exposure; and for January 2022, the higher of either 18% of risk-weighted assets or 6.75% of leverage exposure.

The regulation requires that liabilities eligible for computation in this requirement must be subordinate to other non-eligible liabilities, and may include common equity, preferred issues eligible as Tier1 capital, subordinated debt eligible as Tier2 capital and at least 33% in the form of senior and junior debt.

The regulation stipulates that this requirement should be met at the consolidated level and at the level of each resolution group, as defined in the living wills. It also sets down certain restrictions on the financial support that a parent can provide to a subsidiary to comply with these requirements.

In Europe, Directive 2014/59/EU, known as the 'BRRD', was implemented. The BRRD has similar goals to the TLAC regulation.

This Directive also includes the concept of loss absorption and a minimum required eligible liability (MREL) requirement, which is similar to the TLAC. However, there are some differences in the ratios established, the scope of application and certain other definitions. The MREL applies to all entities operating in Europe, and is not limited solely to systemically important institutions. This began to apply on 1 January 2016, based on an 'bank by bank' calibration, with a 48-month transition period. It only applies to EU territory.

The MREL will be reviewed at the end of 2016, following the EBA submitting a report to the European Commission.

Furthermore, in 2015 the European Banking Authority has conducted the 2015 transparency exercise, in which it published information on risk-weighted assets, capital, solvency, and the details of sovereign positions at December 2014 and 2015 for 105 banks from 21 European countries, covering 67% of total assets in the European banking system. This exercise was aimed to promote transparency and to provide information on European banks' capital and solvency, encouraging market discipline and the Union's financial stability. The results underscore Grupo Santander's comfortable capital and solvency position, ahead of its peers in many core metrics.

D.8.3. Regulatory capital

The regulatory capital framework is based on three pillars:

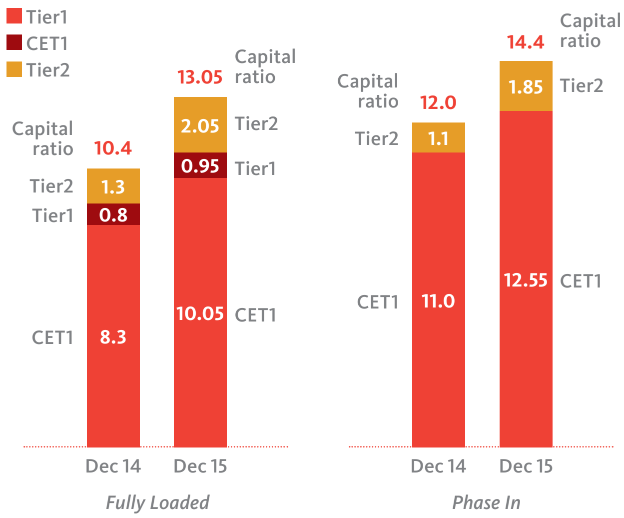
- Pillar I sets the minimum capital requirement for credit, market and operational risk, allowing the possibility of using internal ratings and internal models (IRB approach) for calculating credit-risk-weighted exposures, internal models (VaR) for market risk and internal models for operational risk. The aim is to make the regulatory requirements more sensitive to the risks actually incurred by financial institutions in carrying on their business activities.
- Pillar II establishes a system of supervisory review, aimed at improving banks' internal risk management and capital adequacy assessment in line with their risk profile.

• Lastly, Pillar III deals with financial information transparency and market discipline.

In 2015, the solvency target set was reached, despite negative one-off impacts. Our CET1 ratio fully loaded stands at 10.05% at the close of 2015, proving our organic capital generation capacity, which is of 10 b.p. a quarter. The key regulatory capital figures are indicated below:

	Fully loaded		Phase-in	
	Dec 15	Dec 14	Dec 15	Dec 14
Common equity (CET1)	58,705	48,129	73,478	64,250
Tier1	64,209	52,857	73,478	64,250
Capital total	76,205	60,394	84,346	70,483
Risk-weighted assets	583,893	582,207	585,633	585,621
CET1 Ratio	10.05%	8.27%	12.55%	10.97%
Tier1 Ratio	11.00%	9.08%	12.55%	10.97%
Total capital ratio	13.05%	10.37%	14.40%	12.03%

Capital
%



The table below shows risk-weighted assets (RWAs) in the main geographic areas and type of risk.

Cifras en millones de euros

Deployment of models

As regards credit risk, Grupo Santander continued its plan to implement Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities, as well as by the need for coordination between supervisors of the validation processes of internal models.

The Group operates in countries where the legal framework among supervisors is the same, as is the case in Europe via the Capital Directive. However, in other jurisdictions, the same process is subject to the cooperation framework between the supervisor in the home country and that in the host country with different legislations. This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

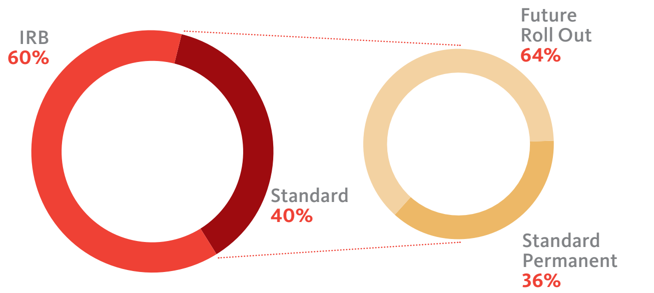
Santander continued to pursue this objective during 2015 through its plan to gradually implement the necessary technology platforms and methodological improvements to be able to gradually apply the advanced IRB approach for the calculation of regulatory capital in the rest of the Group's units.

Grupo Santander currently has the supervisory authorisation to use advanced approaches for calculating the regulatory capital requirements by credit risk for the parent bank and the main subsidiaries in Spain, United Kingdom, Portugal, and certain portfolios in Mexico, Brazil, Chile, Santander Consumer Finance Spain and the US. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe. In 2015, authorisation was received for the vehicle portfolio of Santander Consumer Nordics, maintaining the IRB approach for the companies and retail portfolios of the joint venture with PSA Francia.

The current proportion of use of IRB and standard methods is as follows:

Exposure at default (EAD)

%



With regard to operational risk, Grupo Santander currently applies the standard approach to calculating regulatory capital, as set out in the European Capital Directive. During 2015, the Group increased the pace of transformation towards an advanced operational risk management (AORM) approach. The AORM programme will help Grupo Santander to develop internal models for estimating capital in its main geographic areas, both for economic capital and stress testing, and for potential application as regulatory capital.

As regards the other risks explicitly addressed in Pillar I of the Basel Capital Accord, in terms of market risk the Santander Group has permission to use its internal model for the treasury trading activity in Spain, Chile, Portugal and Mexico, thus continuing the plan of gradual implementation for the rest of the units presented to the Bank of Spain.

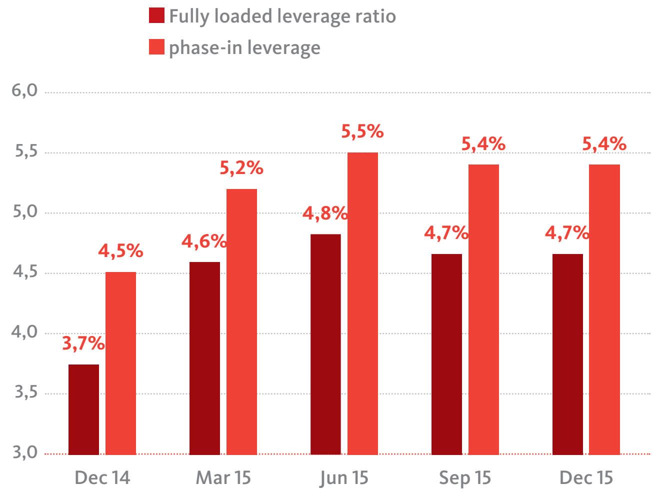
Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The CRD IV was amended on 17 January 2015 by modifying Regulation (EU) no. 575/2013 to harmonise the calculation criteria with those set forth in the *Basel III leverage ratio framework and disclosure requirements* document by the BCBS.

This ratio is calculated as the ratio between Tier1 divided by the leverage exposure. This exposure is calculated as the sum of the following items:

- Accounting assets, without derivatives and not including items considered to be deductions in Tier1 (for example, it include the balance of loans but not the goodwill).
- Off-balance sheet items (guarantees, unused credit limits granted, documentary credits, in the main) weighted by the credit limits.
- Inclusion of the net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.
- A charge for the potential risk of security funding transactions.
- Lastly, it includes a charge for the risk of credit derivative swaps.

The ratios published by the Group since 2014 are indicated below:



The leverage ratio is still undergoing calibration and it is not compulsory until 2018. For the time being, a reference of 3% has been set (the Bank's ratio is higher). During this period, the only obligation is to disclose the data to the market. More details are available in the Prudential Relevance Report (Pillar III) which is published on the Group website.

Global systemically important financial institutions

Grupo Santander is one of the 30 entities which have been classified as global systematically importance banks (G-SIB).

The designation as a systemically important entity is based on a measurement established by the regulators (the FSB and BCBS) based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity). This information is requested annually from banks with leverage exposure in excess of EUR 200,000 million (76 banks in December 2014), which are required to disclose it (refer to the information on www.gruposantander.com).

Based on this information, Banco Santander scored 208.4 points.

The fact that Santander is considered as a G-SIB means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (we are included in the group of banks with the smallest capital buffer, 1%), in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

Refer to the Prudential Relevance Report (Pillar III) for more information.

D.8.4. Economic capital

Economic capital is the capital needed, in accordance with an internally developed model, to support all the risks of business with a certain level of solvency. In the case of Santander, the solvency level is determined by the long term rating objective of 'A' (two notches above Spain's rating), which means a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

Santander's economic capital model includes in its measurement all significant risks incurred by the Group in its operations (risk of concentration, structural interest rate, business, pensions and others beyond the sphere of Pillar I regulatory capital). Moreover, economic capital incorporates the diversification impact, which in the case of Grupo Santander is vital, because of its multinational and business nature, in order to determine the global risk profile and solvency.

Economic capital is a key tool for the internal management and development of the Group's strategy, both from the standpoint of assessing solvency, as well as risk management of portfolios and businesses.

From the solvency standpoint, the Group uses, in the context of Basel Pillar II, its economic model for the capital self-assessment process (ICAAP). For this, the business evolution and capital needs are planned under a central scenario and alternative stress scenarios. The Group is assured in this planning of maintaining its solvency objectives even in adverse scenarios.

The economic capital metrics also enable risk-return objectives to be assessed, setting the prices of operations on the basis of risk, evaluating the economic viability of projects, units and lines of business, with the overriding objective of maximising the generation of shareholder value.

As a homogeneous measurement of risk, economic capital can be used to explain the risk distribution throughout the Group, putting in a metric comparable activities and different types of risk.

The economic capital requirement at the end of December 2015 was EUR 71,671 million, EUR 20,706 million below the EUR 92,377 million available economic capital.

The table below sets out the available economic capital:

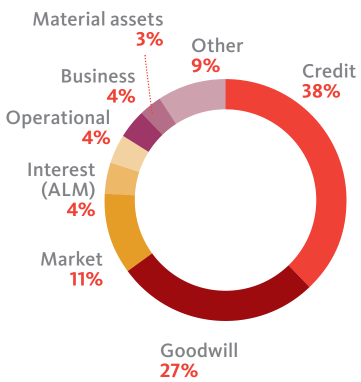
Million euros

	Dec 15	Dec 14
Net capital and issue premiums	52,004	44,851
Reserves and retained profits	49,673	46,227
Valuation adjustments	(15,448)	(11,429)
Minority interests	6,148	4,131
Base economic capital available	**92,377**	**83,780**
Required economic capital	71,671	69,278
Excess Capital	20,706	14,502

The main difference with the regulatory CET1 comes from the treatment of goodwill and other intangibles, which we consider as one more requirement of capital instead of as a deduction from the available capital.

The distribution of economic capital needs by type of risk at the end of December 2015 is shown in the following chart:

Million euros



Credit	26,893
Goodwill	19,178
Market	8,227
Interest (ALM)	2,550
Operational	3,233
Business	3,226
Material assets	1,838
Other	6,527
TOTAL ECONOMIC CAPITAL	**71,671**

The table below sets out Grupo Santander's distribution by types of risk and geographic area at the end of December 2015:

Cifras en millones de euros

Grupo Santander
Total requirements: 71,671

Corporate centre 25,503	Continental Europe 19,265	UK 8,159	Latin America 10,840	US 7,904
Total risks:	**Total risks:**	**Total risks:**	**Total risks:**	**Total risks:**
Goodwill: 75%	Credit: 54%	Credit: 61%	Credit: 58%	Credit: 64%
Market: 20%	Market: 10%	Structural (pensions): 15%	Structural (interest): 10%	Operational: 9%
DTAs: 4%	DTAs: 10%	Operational: 9%	DTAs: 9%	Material assets: 7%
Other: 1%	Business: 7%	Business: 7%	Business: 8%	Intangible assets: 6%
	Other: 19%	Other: 8%	Other: 15%	Business: 6%
				Other: 9%

The distribution of economic capital among the main business areas reflects the diversified nature of the Group's business and risk. Continental Europe represents 42% of the capital, Latin America including Brazil 23%, the United Kingdom 18% and the United States 17%.

Outside the operating areas, the corporate centre assumes, principally, the risk from goodwill and the risk derived from the exposure to structural exchange rate risk (risk derived from maintaining stakes in subsidiaries abroad denominated in currencies other than the euro).

The benefit of diversification contemplated in the economic capital model, including both the intra-risk diversification (equivalent to geographic) as well as inter-risks amounted to approximately 30%.

Return on risk adjusted capital (RORAC) and creation of value

Grupo Santander has been using RORAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Measurement of the Group units' management, using budgetary tracking of capital consumption and RORAC.
- Analyse and set prices in the decision-taking process for operations (admission) and clients (monitoring).

RORAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk- adjusted return higher than the cost of the Group's capital, aligning risk and business management with the intention of maximising the creation of value, the ultimate aim of the Group's senior management.

The Group regularly assesses the level and evolution of value creation (VC) and the risk-adjusted return (RORAC) of its main business units. The VC is the profit generated above the cost of the economic capital (EC) employed, and is calculated as follows:

Value creation =profit – (average EC x cost of capital).

The profit used is obtained by making the necessary adjustments to the accounting profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the free return of risk the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of the Banco Santander share in relation to the market's performance. The Group's cost of capital for 2015 was 9.31% (vs. 11.59% the previous year, in which there was greater market volatility).

The Group's internal management includes an annual revision of the cost of capital and also an estimated cost of capital for each business unit, taking into account the specific features of each market, under the philosophy of subsidiaries autonomous in capital and liquidity, in order to assess if each business is capable of generating value individually.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is only creating shareholder value when that return exceeds the cost of capital.

The performance of the business units in 2015 in value creation varied. The Group's results, and thus the RORAC figures and value creation, are conditioned by the different evolution of the economic cycle in the Group's units.

The creation of value and the RORAC for the Group's main business areas at December 2015 are shown below:

	Dec 15		Dec 14	
Main segments	**RORAC**	**Value creation**	**RORAC**	**Value creation**
Continental Europe	13.9%	883	13.6%	358
UK	22.5%	1,065	20.4%	634
Latin America	33.8%	2,746	29.7%	2,401
US	13.4%	308	19.5%	412
Total business units	**20.2%**	**5,001**	**20.4%**	**3,805**

D.8.5. Planning of capital and stress exercises

Stress tests on capital have become particularly important as a dynamic evaluation tool of the risks and solvency of banks. A new model of evaluation, based on a dynamic (forward-looking) approach, is becoming a key element for analysing the solvency of banks.

It is a forward-looking assessment, based on macroeconomic as well as idiosyncratic scenarios of little probability but plausible. It is necessary to have for it robust planning models, capable of transferring the impact defined in projected scenarios to the different elements that influence the bank's solvency.

The ultimate objective of the stress exercises is to carry out a full assessment of the risks and solvency of banks, which enables possible capital requirements to be calculated in the event that they are needed because of banks' failure to meet the capital objectives set, both regulatory and internal.

Internally, Grupo Santander has defined a process of stress and capital planning not only to respond to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The goal of the internal process of stress and capital planning is to ensure sufficient current and future capital, including for adverse though plausible economic scenarios. Starting from the Group's initial situation (defined by its financial statements, capital base, risk parameters and regulatory ratios), the envisaged results are estimated for different business environments (including severe recessions as well as 'normal' macroeconomic situations), and the Group's solvency ratios are obtained for a period usually of three years.

This process provides a comprehensive view of the Group's capital for the time frame analysed and in each of the scenarios defined. It incorporates the metrics of regulatory capital, economic capital and available capital.

The structure of the process is shown below:

1 Macroeconomic scenarios	→ **Central** and of **recession** → **Idiosyncratic:** based on specific risks → **Multiannual** time frame
2 Projection of the balance sheet and income statement	→ Projection of **volumes. Business** strategy → **Spreads** and **cost of funding** → **Commissions** and **operating** costs → **Market** shocks and **operational** losses → Credit losses and **provisions**. PD and LGD PIT models
3 Projection of capital requirements	→ **Consistent** with the projected **balance** sheet → **Risk parameters** (PD, LGD and EaD)
4 Solvency analysis	→ **Capital base** available. Profit and dividends → **Impact of regulations and regulatory requirements** → **Capital and solvency ratios** → **Compliance** with capital **objectives**
5 Action plan	→ In the event of not meeting objectives or regulatory requirements

The structure facilitates achieving the ultimate objective which is capital planning, by turning it into an element of strategic importance for the Group which:

- Ensures the solvency of current and future capital, including in adverse economic scenarios.
- Enables comprehensive management of capital and incorporates an analysis of the specific impacts, facilitating their integration into the Group's strategic planning.
- Enables a more efficient use of capital.
- Supports the design of the Group's capital management strategy.
- Facilitates communication with the market and supervisors.

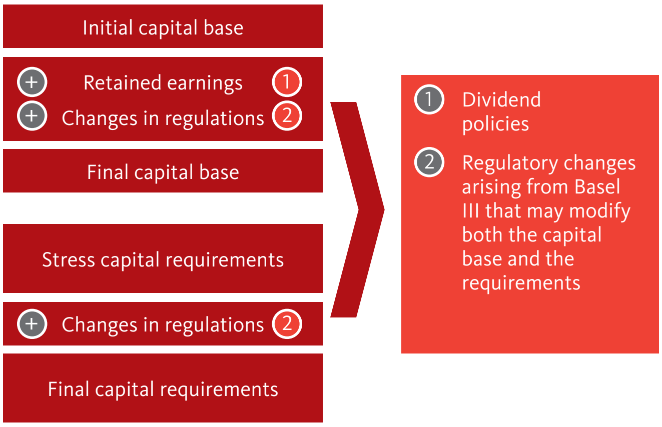
In addition, the whole process is developed with the maximum involvement of senior management and its close supervision, as well as under a framework that ensures that the governance is the suitable one and that all elements that configure it are subject to adequate levels of challenge, review and analysis.

One of the key elements in capital planning and stress analysis exercises, due to its particular importance in forecasting the income statement under defined stress scenarios, consists of calculating the provisions needed under these scenarios, mainly those to cover losses in the credit portfolio. Specifically, to calculate credit portfolio loan loss provisions, Grupo Santander uses a methodology that ensures that at all times there is a level of provisions that covers all the projected credit losses for its internal models of expected loss, based on the parameters of Exposure at Default (EaD), Probability of Default (PD) and Loss Given Default (LGD).

This methodology is widely accepted and it similar to that used in previous stress exercises (for example, the EBA stress exercises in 2011 and 2014 or the health check on the Spanish banking sector in 2012).

Lastly, the capital planning and stress analysis process culminates with analysis of solvency under the various scenarios designed and over a defined time frame, in order to assess the sufficiency of capital and ensure the Group fulfils both the capital objectives defined internally as well as all the regulatory requirements.

Quantification of capital sufficiency



In the event of not meeting the capital objectives set, an action plan will be prepared which envisages the measures needed to be able to attain the desired minimum capital. These measures are analysed and quantified as part of the internal exercises, although it is not necessary to put them into force as Santander exceeds the minimum capital thresholds.

This internal process of stress and capital planning is conducted in a transversal way throughout Grupo Santander, not only at the consolidated level, but also locally in the Group's units as they use the process of stress and capital planning as an internal management tool and to respond to their local regulatory requirements.

Throughout the recent economic crisis, Grupo Santander was submitted to five stress tests which demonstrated its strength and solvency in the most extreme and severe macroeconomic scenarios. All of them, thanks mainly to the business model and geographic diversification in the Group, showed that Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In the first (CEBS 2010), the Group was the entity with a low impact on its solvency ratio, except for those banks that benefited from not distributing a dividend. In the second, carried out by the EBA in 2011, Santander was not only among the small group of banks that improved their solvency in the stress scenario, but also the bank with the highest profits.

In the stress exercises conducted by Oliver Wyman on Spanish banks in 2012 (top-down and then bottom-up), Banco Santander again showed its strength to give with full solvency the most extreme economic scenarios. It was the only bank that improved its core capital ratio, with a surplus of more than EUR 25,000 million over the minimum requirement.

Lastly, in the recent stress test carried out in 2014 by the European Central Bank, in conjunction with the European Banking Authority, Grupo Santander was the bank with the smallest impact from the adverse scenario among its international peers (EUR 20,000 million capital surplus above the minimum requirement). These results show, once again, that Grupo Santander's business model enables it to face with greater robustness the most severe international crises.

As already mentioned, as well as the regulatory exercises of stress, Grupo Santander annually conducts since 2008 internal exercises of resilience within its self-assessment process of capital (Pillar II). All of them showed, in the same way, Grupo Santander's capacity to face the most difficult scenarios, both globally as well as in the main countries in which it operates.

Appendix: EDTF transparency

Banco Santander has traditionally maintained a clear commitment to transparency. By virtue of this transparency, it has played an active role in the Enchanced Disclosure Task Force (EDTF) promoted by the Financial Stability Board (FSB) in order to improve the quality and comparability of the risk information that banks provide to the market. Several studies have analysed the degree of adoption of the 32 recommendations formulated by the EDTF in October 2012, in which Santander stands out as one of the banks that is leading globally the practical application of this initiative.

The table below sets out where the EDTF recommendations can be found in the information published by Grupo Santander.

		EDTF recommendations	Annual report*	Audit report and annual accounts *	IRP (Pillar III) *
General	1	Index with risk information	Executive summary		Appendix V; Appendix VI; 3.4
	2	Terminology and risk measures	B.1.; D.1.5.; D.2.1.-D.2.4.; D.3.2.	Notes 54b, 54c, 54d, 54e	Appendix IV
	3	Top and emerging risk	C		5.2; 5.3.7
	4	New regulatory ratios and compliance plans	D.1.; D.3.; D.8.	Notes 54c, 54e, 54j	1; 4.6.3.2- 6.5.3.3
Risk governance and risk management and business model	5	Organisation of risk management, processes and functions	B; D.3.2.	Notes 54b, 54e	5; 4.2; 4.3; 4.4
	6	Risk culture and internal measures	A; B.4.	Notes 54a, 54b	5
	7	Business model risks, risk management and appetite	B; D.8.	Notes 54b, 54j	5.1; 5.3; 11.8;
	8	Stress test uses and process	B.3.1.-B.3.3.; D.1.5.; D.2.2.-D.2.3.; D.3.2.; D.8.4.	Notes 54b, 54c, 54d, 54e, 54j	4.7.1
Capital adequacy and risk-weighted assets	9	Minimum capital requirements (Pillar I)	D.8.	Note 54j	Executive summary; 4.6.1: 4.6.3; 4.6.4
	10	Composition of regulatory capital and reconciliation to the balance sheet			3.6; 4.6.1 Anexo III.a y III.c
	11	Flow statement of movements in regulatory capital			4.6; 4.6.1; Appendix III.b; Appendix III.c
	12	Capital planning	D.8.4.	Note 54j	4.7.1
	13	Business activities and RWAs	D.8.	Note 54j	4.6.3
	14	Capital requirements by method of calculation and portfolio			4.6; 4.6.3;6.4
	15	Credit risk by Basel portfolios			4.6.3.1.1; 6.2-6.4
	16	RWA flow statement by type of risk			Executive summary; 4.6.3.1; 4.6.3.3; 4.6.3.4
	17	Backtesting of models (Pillar III)			6.7; 6.9; 8.2.5
Liquidity	18	Liquidity needs, management and liquidity reserve	D.3.2.; D.3.3.	Note 54e	9
Funding	19	Encumbered and unencumbered assets	D.3.3.	Note 54e	9.3.2 (IV.)
	20	Contractual maturities of assets, liabilities and off-balance sheet balances	D.3.3.	Note 54e	-
	21	Funding plan	D.3.3.; D.3.4	Note 54e	9.3
Market risk	22	Balance sheet reconciliation to trading and non-trading positions	D.2.2.	Note 54d	-
	23	Significant market risk factors	D.2.1.-D.2.3.	Note 54d	8.1; 8.2
	24	Market risk measurement model limitations	D.2.2.	Note 54d	8.2; 8.2.6
	25	Management techniques for measuring and assessing the risk of loss	D.2.2.	Note 54d	8.2.1; 8.2.2; 8.2.3; 8.2.4; 8.2.5
Credit risk	26	Credit risk profile and reconciliation to balance sheet items	D.1.2.	Note 54c	6.2
	27	Policies for impaired or non-performing loans and forbearance portfolio	D.1.2.	Note 54c	-
	28	Conciliation of non-performing loans and provisions	D.1.2.	Note 54c	6.2
	29	Counterparty risk resulting from derivative transactions	D.1.4.	Note 54c	6.10
	30	Credit risk mitigation	D.1.5.	Note 54c	6.11
Other risks	31	Other risks	D.4.; D.6.; D.7.	Notes 54f, 54h, 54i	10; 11; 12
	32	Discussion of risk events in the public domain	D.5.	Note 54g	11
IFRS 9		The recommendations regarding the adoption of IFRS 9 which transversally affect the various EDTF recommendations can be consulted in table 1 (pg. 194-196) which outlines the proposed model and the implementation strategy as well as the regulatory and complementary guidelines	C (Table 1)		

* The location refers to chapters or sections of this Annual report. In the case of capital recommendations and risk-weighted assets, they also refer to sections of the information of Prudential Relevance (Pillar III). In addition, the navigation map has the cross-references of the information published by the Group (Annual report, Pillar III, Auditor's report and annual consolidated accounts).

Annex

Historical data. 2005 - 2015

Balance sheet	Mill. US$	2015 € Million	2014 € Million	2013 € Million	2012 € Million	2011 € Million
Total assets	1,459,141	1,340,260	1,266,296	1,134,128	1,282,880	1,251,008
Net customer loans	860,996	790,848	734,711	684,690	731,572	748,541
Customer deposits	743,715	683,122	647,628	607,836	626,639	632,533
Customer funds under management	1,170,967	1,075,565	1,023,437	946,210	990,096	984,353
Stockholders' equity	95,849	88,040	80,806	70,327	71,797	74,459
Total managed funds	1,640,149	1,506,520	1,428,083	1,270,042	1,412,617	1,382,464
Income statement						
Net interest income	35,688	32,189	29,548	28,419	31,914	28,883
Gross income	50,192	45,272	42,612	41,920	44,989	42,466
Net operating income	26,278	23,702	22,574	21,762	24,753	23,055
Profit before taxes	10,584	9,547	10,679	7,378	3,565	7,858
Attributable profit to the Group	6,614	5,966	5,816	4,175	2,283	5,330

Per share data (1)	US$	2015 Euros	2014 Euros	2013 Euros	2012 Euros	2011 Euros
Attributable profit to the Group	0.45	0.40	0.48	0.39	0.23	0.60
Dividend	0.22	0.20	0.60	0.60	0.60	0.60
Share price	4.962	4.558	6.996	6.506	6.100	5.870
Market capitalisation (million)	71,628	65,792	88,041	73,735	62,959	50,290

Euro / US$ = 1.089 (balance sheet) and 1.109 (income statement)
(1) Figures adjusted to capital increase in 2008.

Historical data. 2005 - 2015

2010	2009	2008	2007	2006	2005
€ Million	€ Million	€ Million	€ Million	€ Million	€ Million
1,217,501	1,110,529	1,049,632	912,915	833,873	809,107
724,154	682,551	626,888	571,099	523,346	435,829
616,376	506,976	420,229	355,407	331,223	305,765
985,269	900,057	826,567	784,872	739,223	651,360
75,018	69,678	57,587	55,200	44,852	39,778
1,362,289	1,245,420	1,168,355	1,063,892	1,000,996	961,953

27,728	25,140	20,019	14,443	12,480	10,659
40,586	38,238	32,624	26,441	22,333	19,076
22,682	22,029	17,807	14,417	11,218	8,765
12,052	10,588	10,849	10,970	8,995	7,661
8,181	8,943	8,876	9,060	7,596	6,220

2010	2009	2008	2007	2006	2005
Euros	Euros	Euros	Euros	Euros	Euros
0.94	1.05	1.22	1.33	1.13	0.93
0.60	0.60	0.63	0.61	0.49	0.39
7.928	11.550	6.750	13.790	13.183	10.396
66,033	95,043	53,960	92,501	88,436	69,735

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

Corporate center

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
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General information

Telephone: 902 11 22 11 (Central Services)
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Customer attention department

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atenclie@gruposantander.com

Ombudsman

Mr José Luis Gómez-Dégano,
Apartado de Correos 14019
28080 Madrid
Spain

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All customers, shareholders and the general public can use Santander's official social network channels in all the countries in which the Bank operates.

Santander

www.santander.com

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Financial Statements and Directors' Report for the year ended 31 December 2015, together with Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Banco Santander, S.A.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banco Santander, S.A. ("the Bank") and Subsidiaries composing, together with the Bank, Santander Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Bank's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Santander Group in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 1.b to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Bank's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Santander Group as at 31 December 2015, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Banco Santander, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Ignacio Gutiérrez

12 February 2016

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Financial Statements and Directors’ Report for the year ended 31 December 2015

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55).
In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2015, 2014 AND 2013

(Millions of Euros)

ASSETS	Note	2015	2014 (*)	2013 (*)
CASH AND BALANCES WITH CENTRAL BANKS		81,329	69,428	77,103
FINANCIAL ASSETS HELD FOR TRADING:		147,287	148,888	115,289
Loans and advances to credit institutions	6	*2,293*	*1,815*	*5,503*
Loans and advances to customers	10	*6,081*	*2,921*	*5,079*
Debt instruments	7	*43,964*	*54,374*	*40,841*
Equity instruments	8	*18,225*	*12,920*	*4,967*
Trading derivatives	9	*76,724*	*76,858*	*58,899*
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:		45,043	42,673	31,381
Loans and advances to credit institutions	6	*26,403*	*28,592*	*13,444*
Loans and advances to customers	10	*14,293*	*8,971*	*13,196*
Debt instruments	7	*3,717*	*4,231*	*3,875*
Equity instruments	8	*630*	*879*	*866*
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		122,036	115,250	83,799
Debt instruments	7	*117,187*	*110,249*	*79,844*
Equity instruments	8	*4,849*	*5,001*	*3,955*
LOANS AND RECEIVABLES:		831,637	781,635	714,484
Loans and advances to credit institutions	6	*50,256*	*51,306*	*56,017*
Loans and advances to customers	10	*770,474*	*722,819*	*650,581*
Debt instruments	7	*10,907*	*7,510*	*7,886*
HELD-TO-MATURITY INVESTMENTS	7	4,355	-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	36	1,379	1,782	1,627
HEDGING DERIVATIVES	11	7,727	7,346	8,301
NON-CURRENT ASSETS HELD FOR SALE	12	5,646	5,376	4,892
INVESTMENTS:	13	3,251	3,471	5,536
Associates	13	*1,659*	*1,775*	*1,829*
Jointly controlled entities	13	*1,592*	*1,696*	*3,707*
INSURANCE CONTRACTS LINKED TO PENSIONS	14	299	345	342
REINSURANCE ASSETS	15	331	340	356
TANGIBLE ASSETS:		25,320	23,256	13,654
Property, plant and equipment-		*19,335*	*16,889*	*9,974*
For own use	16	*7,949*	*8,324*	*7,787*
Leased out under an operating lease	16	*11,386*	*8,565*	*2,187*
Investment property	16	*5,985*	*6,367*	*3,680*
INTANGIBLE ASSETS:		29,430	30,401	26,241
Goodwill	17	*26,960*	*27,548*	*23,281*
Other intangible assets	18	*2,470*	*2,853*	*2,960*
TAX ASSETS:		27,814	27,956	26,944
Current		*5,769*	*5,792*	*5,751*
Deferred	27	*22,045*	*22,164*	*21,193*
OTHER ASSETS	19	7,376	8,149	5,814
Inventories		*1,013*	*1,099*	*80*
Other		*6,363*	*7,050*	*5,734*
TOTAL ASSETS		**1,340,260**	**1,266,296**	**1,115,763**

LIABILITIES AND EQUITY	Note	2015	2014 (*)	2013 (*)
FINANCIAL LIABILITIES HELD FOR TRADING:		105,218	109,792	94,673
Deposits from central banks	20	*2,178*	*2,041*	*3,866*
Deposits from credit institutions	20	*77*	*5,531*	*7,468*
Customer deposits	21	*9,187*	*5,544*	*8,500*
Marketable debt securities	22	-	-	*1*
Trading derivatives	9	*76,414*	*79,048*	*58,887*
Short positions	9	*17,362*	*17,628*	*15,951*
Other financial liabilities		-	-	-
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS:		54,768	62,317	42,311
Deposits from central banks	20	*16,486*	*6,321*	*2,097*
Deposits from credit institutions	20	*8,551*	*19,039*	*9,644*
Customer deposits	21	*26,357*	*33,127*	*26,484*
Marketable debt securities	22	*3,373*	*3,830*	*4,086*
Subordinated liabilities		-	-	-
Other financial liabilities	24	*1*	-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		1,039,343	961,052	863,114
Deposits from central banks	20	*38,872*	*17,290*	*9,788*
Deposits from credit institutions	20	*109,207*	*105,147*	*76,534*
Customer deposits	21	*647,578*	*608,956*	*572,853*
Marketable debt securities	22	*201,656*	*193,059*	*171,390*
Subordinated liabilities	23	*21,153*	*17,132*	*16,139*
Other financial liabilities	24	*20,877*	*19,468*	*16,410*
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	36	174	31	87
HEDGING DERIVATIVES	11	8,937	7,255	5,283
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	21	1
LIABILITIES UNDER INSURANCE CONTRACTS	15	627	713	1,430
PROVISIONS:		14,494	15,376	14,589
Provision for pensions and similar obligations	25	*8,272*	*9,412*	*9,126*
Provisions for taxes and other legal contingencies	25	*2,577*	*2,916*	*2,727*
Provisions for contingent liabilities and commitments	25	*618*	*654*	*693*
Other provisions	25	*3,027*	*2,394*	*2,043*
TAX LIABILITIES:		7,725	9,379	6,079
Current		*2,160*	*4,852*	*4,254*
Deferred	27	*5,565*	*4,527*	*1,825*
OTHER LIABILITIES	26	10,221	10,646	8,554
TOTAL LIABILITIES		**1,241,507**	**1,176,582**	**1,036,121**
EQUITY				
SHAREHOLDERS' EQUITY:	30	102,402	91,663	84,480
Share capital	31	*7,217*	*6,292*	*5,667*
Registered		*7,217*	*6,292*	*5,667*
Less: Uncalled capital		-	-	-
Share premium	32	*45,001*	*38,611*	*36,804*
Reserves	33	*45,760*	*41,160*	*38,056*
Accumulated reserves (losses)	33	*45,469*	*40,973*	*37,793*
Reserves (losses) of entities accounted for using the equity method	33	*291*	*187*	*263*
Other equity instruments	34	*214*	*265*	*193*
Equity component of compound financial instruments	34	-	-	-
Other	34	*214*	*265*	*193*
Less: Treasury shares	34	*(210)*	*(10)*	*(9)*
Profit for the year attributable to the Parent		*5,966*	*5,816*	*4,175*
Less: Dividends and remuneration	4	*(1,546)*	*(471)*	*(406)*
VALUATION ADJUSTMENTS		(14,362)	(10,858)	(14,152)
Available-for-sale financial assets	29	*844*	*1,560*	*35*
Cash flow hedges	36	*171*	*204*	*(233)*
Hedges of net investments in foreign operations	29	*(3,597)*	*(3,570)*	*(1,874)*
Exchange differences	29	*(8,383)*	*(5,385)*	*(8,768)*
Non-current assets held for sale		-	-	-
Entities accounted for using the equity method	29	*(232)*	*(85)*	*(446)*
Other valuation adjustments	29	*(3,165)*	*(3,582)*	*(2,866)*
NON-CONTROLLING INTERESTS	28	10,713	8,909	9,314
Valuation adjustments		*(1,227)*	*(655)*	*(1,541)*
Other		*11,940*	*9,564*	*10,855*
TOTAL EQUITY		**98,753**	**89,714**	**79,642**
TOTAL LIABILITIES AND EQUITY		**1,340,260**	**1,266,296**	**1,115,763**
MEMORANDUM ITEMS:				
CONTINGENT LIABILITIES	35	40,115	44,078	41,049
CONTINGENT COMMITMENTS	35	221,457	208,040	172,797

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated balance sheet as at 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013
(Millions of Euros)

	Notes	(Debit) Credit 2015	2014 (*)	2013 (*)
Interest and similar income	38	57,198	54,656	51,447
Interest expense and similar charges	39	(24,386)	(25,109)	(25,512)
NET INTEREST INCOME		**32,812**	**29,547**	**25,935**
Income from equity instruments	40	455	435	378
Share of results of entities accounted for using the equity method	13 & 41	375	243	500
Fee and commission income	42	13,042	12,515	12,473
Fee and commission expense	43	(3,009)	(2,819)	(2,712)
Gains/losses on financial assets and liabilities (net)	44	(770)	3,974	3,234
Held for trading		*(2,312)*	*2,377*	*1,733*
Other financial instruments at fair value through profit or loss		*325*	*239*	*(6)*
Financial instruments not measured at fair value through profit or loss		*1,265*	*1,427*	*1,622*
Other		*(48)*	*(69)*	*(115)*
Exchange differences (net)	45	3,156	(1,124)	160
Other operating income		3,067	5,214	5,903
Income from insurance and reinsurance contracts issued	46	*1,096*	*3,532*	*4,724*
Sales and income from the provision of non-financial services	46	*711*	*343*	*322*
Other	46	*1,260*	*1,339*	*857*
Other operating expenses		(3,233)	(5,373)	(6,205)
Expenses of insurance and reinsurance contracts	46	*(998)*	*(3,395)*	*(4,607)*
Changes in inventories	46	*(590)*	*(255)*	*(229)*
Other	46	*(1,645)*	*(1,723)*	*(1,369)*
GROSS INCOME		**45,895**	**42,612**	**39,666**
Administrative expenses		(19,302)	(17,899)	(17,452)
Staff costs	47	*(11,107)*	*(10,242)*	*(10,069)*
Other general administrative expenses	48	*(8,195)*	*(7,657)*	*(7,383)*
Depreciation and amortisation charge	16 & 18	(2,418)	(2,287)	(2,391)
Provisions (net)	25	(3,106)	(3,009)	(2,445)
Impairment losses on financial assets (net)		(10,652)	(10,710)	(11,227)
Loans and receivables	10	*(10,194)*	*(10,521)*	*(10,986)*
Other financial instruments not measured at fair value through profit or loss	7 & 29	*(458)*	*(189)*	*(241)*
PROFIT FROM OPERATIONS		**10,417**	**8,707**	**6,151**
Impairment losses on other assets (net)		(1,092)	(938)	(503)
Goodwill and other intangible assets	17 & 18	*(701)*	*(701)*	*(41)*
Other assets		*(391)*	*(237)*	*(462)*
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	49	112	3,136	2,152
Gains from bargain purchases arising in business combinations	3	283	17	-
Gains/(losses) on non-current assets held for sale not classified as discontinued operations	50	(173)	(243)	(422)
PROFIT BEFORE TAX		**9,547**	**10,679**	**7,378**
Income tax	27	(2,213)	(3,718)	(2,034)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**7,334**	**6,961**	**5,344**
LOSS FROM DISCONTINUED OPERATIONS (net)	37	-	(26)	(15)
CONSOLIDATED PROFIT FOR THE YEAR		**7,334**	**6,935**	**5,329**
Profit attributable to the Parent		*5,966*	*5,816*	*4,175*
Profit attributable to non-controlling interests	28	*1,368*	*1,119*	*1,154*
EARNINGS PER SHARE				
From continuing and discontinued operations				
Basic earnings per share (euros)	4	*0.40*	*0.48*	*0.39*
Diluted earnings per share (euros)	4	*0.40*	*0.48*	*0.38*
From continuing operations				
Basic earnings per share (euros)	4	*0.40*	*0.48*	*0.39*
Diluted earnings per share (euros)	4	*0.40*	*0.48*	*0.38*

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated income statement for the year ended 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

(Millions of Euros)

	2015	2014 (*)	2013 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**7,334**	**6,935**	**5,329**
OTHER RECOGNISED INCOME AND EXPENSE	**(4,076)**	**4,180**	**(5,913)**
Items that will not be reclassified to profit or loss	**445**	**(703)**	**188**
Actuarial gains/(losses) on defined benefit pension plans	695	(1,009)	502
Non-current assets held for sale	-	-	-
Income tax relating to items that will not be reclassified to profit or loss	(250)	306	(314)
Items that may be reclassified to profit or loss	**(4,521)**	**4,883**	**(6,101)**
Available-for-sale financial assets:	(1,216)	2,324	(99)
Revaluation gains/(losses)	*(555)*	*3,604*	*1,150*
Amounts transferred to income statement	*(661)*	*(1,280)*	*(1,250)*
Other reclassifications	-	-	*1*
Cash flow hedges:	(91)	589	47
Revaluation gains/(losses)	*(105)*	*934*	*463*
Amounts transferred to income statement	*14*	*(345)*	*(416)*
Amounts transferred to initial carrying amount of hedged items	-	-	-
Other reclassifications	-	-	-
Hedges of net investments in foreign operations:	(27)	(1,730)	1,117
Revaluation gains/(losses)	*(27)*	*(1,730)*	*1,074*
Amounts transferred to income statement	-	-	*38*
Other reclassifications	-	-	*5*
Exchange differences:	(3,518)	4,189	(7,028)
Revaluation gains/(losses)	*(3,518)*	*4,184*	*(7,020)*
Amounts transferred to income statement	-	*5*	*(37)*
Other reclassifications	-	-	*29*
Non-current assets held for sale:	-	-	-
Revaluation gains/(losses)	-	-	-
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Entities accounted for using the equity method:	(147)	361	(294)
Revaluation gains/(losses)	*(156)*	*266*	*(283)*
Amounts transferred to income statement	*9*	*95*	*23*
Other reclassifications	-	-	*(34)*
Other recognised income and expense	-	-	-
Income tax relating to items that may be reclassified to profit or loss	478	(850)	156
TOTAL RECOGNISED INCOME AND EXPENSE	**3,258**	**11,115**	**(584)**
Attributable to the Parent	*2,462*	*9,110*	*(504)*
Attributable to non-controlling interests	*796*	*2,005*	*(80)*

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

(Millions of Euros)

	Equity attributable to the Parent												
	Shareholders' equity												
			Reserves										
	Share capital	**Share premium**	**Accumulated reserves (losses)**	**Reserves (losses) of entities accounted for using the equity method**	**Other equity instruments**	**Less: Treasury shares**	**Profit for the year attributable to the Parent**	**Less: Dividends and remuneration**	**Total shareholders' equity**	**Valuation adjustments**	**Total**	**Non-controlling interests**	**Total equity**
Ending balance at 31/12/14 (*)	**6,292**	**38,611**	**40,973**	**187**	**265**	**(10)**	**5,816**	**(471)**	**91,663**	**(10,858)**	**80,805**	**8,909**	**89,714**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**6,292**	**38,611**	**40,973**	**187**	**265**	**(10)**	**5,816**	**(471)**	**91,663**	**(10,858)**	**80,805**	**8,909**	**89,714**
Total recognised income and expense	-	-	-	-	-	-	**5,966**	-	**5,966**	**(3,504)**	**2,462**	**796**	**3,258**
Other changes in equity	**925**	**6,390**	**4,496**	**104**	**(51)**	**(200)**	**(5,816)**	**(1,075)**	**4,773**	-	**4,773**	**1,008**	**5,781**
Capital increases	925	6,575	(65)	-	-	-	-	-	7,435	-	7,435	320	7,755
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	(20)	(20)
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	101	-	-	-	101	-	101	890	991
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	(673)	-	-	-	-	(1,546)	(2,219)	-	(2,219)	(461)	(2,680)
Transactions involving own equity instruments (net)	-	-	16	-	-	**(200)**	-	-	(184)	-	(184)	-	(184)
Transfers between equity items	-	(185)	5,426	104	-	-	(5,816)	471	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	761	761
Equity-instrument-based payments	-	-	-	-	(188)	-	-	-	(188)	-	(188)	107	(81)
Other increases/(decreases) in equity	-	-	(208)	-	36	-	-	-	(172)	-	(172)	(589)	(761)
Ending balance at 31/12/15	**7,217**	**45,001**	**45,469**	**291**	**214**	**(210)**	**5,966**	**(1,546)**	**102,402**	**(14,362)**	**88,040**	**10,713**	**98,753**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2015.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

(Millions of Euros)

	Equity attributable to the Parent (*)												
	Shareholders' equity												
			Reserves										
	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests (*)	Total equity (*)
Ending balance at 31/12/13	**5,667**	**36,804**	**37,858**	**263**	**193**	**(9)**	**4,370**	**(406)**	**84,740**	**(14,152)**	**70,588**	**9,314**	**79,902**
Adjustments due to changes in accounting policies	**-**	**-**	**(65)**	**-**	**-**	**-**	**(195)**	**-**	**(260)**	**-**	**(260)**	**-**	**(260)**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**5,667**	**36,804**	**37,793**	**263**	**193**	**(9)**	**4,175**	**(406)**	**84,480**	**(14,152)**	**70,328**	**9,314**	**79,642**
Total recognised income and expense	-	-	-	-	-	-	**5,816**	**-**	**5,816**	**3,294**	**9,110**	**2,005**	**11,115**
Other changes in equity	**625**	**1,807**	**3,180**	**(76)**	**72**	**(1)**	**(4,175)**	**(65)**	**1,367**	**-**	**1,367**	**(2,410)**	**(1,043)**
Capital increases	625	1,932	(30)	-	-	-	-	-	2,527	-	2,527	(524)	2,003
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	78	-	-	-	78	-	78	-	78
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	(438)	-	-	-	-	(471)	(909)	-	(909)	(380)	(1,289)
Transactions involving own equity instruments (net)	-	-	40	-	-	(1)	-	-	39	-	39	-	39
Transfers between equity items	-	(125)	4,033	(76)	(63)	-	(4,175)	406	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	1,465	1,465
Equity-instrument-based payments	-	-	-	-	(51)	-	-	-	(51)	-	(51)	-	(51)
Other increases/(decreases) in equity	-	-	(425)	-	108	-	-	-	(317)	-	(317)	(2,971)	(3,288)
Ending balance at 31/12/14	**6,292**	**38,611**	**40,973**	**187**	**265**	**(10)**	**5,816**	**(471)**	**91,663**	**(10,858)**	**80,805**	**8,909**	**89,714**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2015.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

(Millions of Euros)

	Equity attributable to the Parent (*)												
	Shareholders' equity												
			Reserves										
	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests (*)	Total equity (*)
Ending balance at 31/12/12	**5,161**	**37,412**	**36,898**	**255**	**250**	**(287)**	**2,205**	**(650)**	**81,244**	**(6,590)**	**74,654**	**9,672**	**84,326**
Adjustments due to changes in accounting policies	-	-	(53)	-	-	-	78	-	25	(2,882)	(2,857)	(257)	(3,114)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**5,161**	**37,412**	**36,845**	**255**	**250**	**(287)**	**2,283**	**(650)**	**81,269**	**(9,472)**	**71,797**	**9,415**	**81,212**
Total recognised income and expense	-	-	-	-	-	-	**4,175**	-	**4,175**	**(4,680)**	**(504)**	**(80)**	**(584)**
Other changes in equity	**506**	**(608)**	**948**	**8**	**(57)**	**278**	**(2,283)**	**244**	**(964)**	**-**	**(964)**	**(21)**	**(985)**
Capital increases	506	(506)	(7)	-	-	-	-	-	(7)	-	(7)	(2)	(9)
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	103	-	-	-	103	-	103	-	103
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	(412)	-	-	-	-	(406)	(818)	-	(818)	(747)	(1,565)
Transactions involving own equity instruments (net)	-	-	(28)	-	-	278	-	-	250	-	250	-	250
Transfers between equity items	-	(102)	1,836	8	(109)	-	(2,283)	650	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	169	169
Equity-instrument-based payments	-	-	-	-	(41)	-	-	-	(41)	-	(41)	-	(41)
Other increases/(decreases) in equity	-	-	(441)	-	(10)	-	-	-	(451)	-	(451)	559	108
Ending balance at 31/12/13	**5,667**	**36,804**	**37,793**	**263**	**193**	**(9)**	**4,175**	**(406)**	**84,480**	**(14,152)**	**70,328**	**9,314**	**79,642**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

(Millions of Euros)

	2015	2014 (*)	2013 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES:	**12,857**	**(3,939)**	**(34,852)**
Consolidated profit for the year	7,334	6,935	5,329
Adjustments made to obtain the cash flows from operating activities-	20,614	18,772	17,894
Depreciation and amortisation charge	2,418	2,287	2,391
Other adjustments	18,196	16,485	15,503
Net increase/decrease in operating assets-	62,408	88,438	(13,533)
Financial assets held for trading	1,013	12,931	(8,440)
Other financial assets at fair value through profit or loss	2,376	11,012	3,426
Available-for-sale financial assets	15,688	27,968	(4,149)
Loans and receivables	46,554	35,644	(2,767)
Other operating assets	(3,223)	883	(1,603)
Net increase/decrease in operating liabilities-	49,522	60,144	(68,031)
Financial liabilities held for trading	(2,655)	(4,667)	4,320
Other financial liabilities at fair value through profit or loss	(8,011)	19,786	(2,781)
Financial liabilities at amortised cost	58,568	46,747	(63,939)
Other operating liabilities	1,620	(1,722)	(5,631)
Income tax recovered/paid	(2,205)	(1,352)	(3,577)
B. CASH FLOWS FROM INVESTING ACTIVITIES:	**(6,218)**	**(6,005)**	**677**
Payments-	10,671	9,246	3,322
Tangible assets	7,664	6,695	1,877
Intangible assets	1,572	1,218	1,264
Investments	82	18	181
Subsidiaries and other business units	1,353	1,315	-
Non-current assets held for sale and associated liabilities	-	-	-
Held-to-maturity investments	-	-	-
Other payments related to investing activities	-	-	-
Proceeds-	4,453	3,241	3,999
Tangible assets	2,386	986	500
Intangible assets	2	-	39
Investments	422	324	295
Subsidiaries and other business units	565	1,004	1,578
Non-current assets held for sale and associated liabilities	940	927	1,587
Held-to-maturity investments	138	-	-
Other proceeds related to investing activities	-	-	-
C. CASH FLOWS FROM FINANCING ACTIVITIES:	**8,960**	**(62)**	**(1,676)**
Payments-	7,248	8,094	8,528
Dividends	1,498	909	818
Subordinated liabilities	2,239	3,743	1,915
Redemption of own equity instruments	-	-	-
Acquisition of own equity instruments	3,225	3,442	5,592
Other payments related to financing activities	286	-	203
Proceeds-	16,208	8,032	6,852
	4,787	4,351	1,027
Subordinated liabilities	7,500		
Issuance of own equity instruments	3,048	-	-
Disposal of own equity instruments	873	3,498	5,560
Other proceeds related to financing activities	**(3,698)**	**183**	**265**
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**11,901**	**2,331**	**(5,534)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**69,428**	**(7,675)**	**(41,385)**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**77,103**	**118,488**
G. CASH AND CASH EQUIVALENTS AT END OF YEAR	**81,329**	**69,428**	**77,103**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR:			
Cash	7,436	7,491	6,697
Cash equivalents at central banks	73,893	61,937	70,406
Other financial assets	-	-	-
Less: Bank overdrafts refundable on demand	-	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**81,329**	**69,428**	**77,103**

(*) Presented for comparison purposes only. See Notes 1.d and 37.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of cash flows for the year ended 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A. and Companies composing Santander Group

Notes to the consolidated financial statements
for the year ended 31 December 2015

1. Introduction, basis of presentation of the consolidated financial statements and other information

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on the Bank can be consulted on the website of the Bank (www.santander.com) and at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group" or "Santander Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Group's consolidated financial statements for 2013 were approved by the shareholders at the Bank's annual general meeting on 28 March 2014. The Group's consolidated financial statements for 2014 were approved by the shareholders at the Bank's annual general meeting on 27 March 2015. The 2015 consolidated financial statements of the Group and the 2015 financial statements of the Bank and of substantially all the Group companies have not yet been approved by their shareholders at the respective annual general meetings. However, the Bank's board of directors considers that the aforementioned financial statements will be approved without any changes.

b) Basis of presentation of the consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in conformity with the International Financial Reporting Standards ("IFRSs") previously adopted by the European Union ("EU-IFRSs").

In order to adapt the accounting system of Spanish credit institutions to the new standards, the Bank of Spain issued Circular 4/2004, of 22 December, on Public and Confidential Financial Reporting Rules and Formats.

The Group's consolidated financial statements for 2015 were formally prepared by the Bank's directors (at the board meeting on 12 February 2016) in accordance with International Financial Reporting Standards as adopted by the European Union and with Bank of Spain Circular 4/2004 and Spanish corporate and commercial law applicable to the Group, using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 to these consolidated financial statements and, accordingly, they present fairly the Group's equity and financial position at 31 December 2015 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in its consolidated equity and the consolidated cash flows in 2015. These consolidated financial statements were prepared from the accounting records kept by the Bank and by the other Group entities, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases applied by the Group.

The notes to the consolidated financial statements contain supplementary information to that presented in the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these financial statements.

Adoption of new standards and interpretations issued

The following standards came into force and were adopted by the European Union in 2015:

- Improvements to IFRSs, 2011-2013 cycle (obligatory for reporting periods beginning on or after 1 July 2014) - these improvements introduce minor amendments to IFRS 3, IFRS 13 and IAS 40.

The application of the aforementioned accounting standards did not have any material effects on the Group's consolidated financial statements.

Also, at the date of preparation of these consolidated financial statements, the following amendments with an effective date subsequent to 31 December 2015 were in force:

- Disclosure Initiative (Amendments to IAS 1) (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - the main objective of these amendments is to improve financial statement presentation and disclosures. To this end, the amendments introduce certain qualifications relating to materiality, aggregation and disaggregation of items and the structure of the notes.

- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments clarify that when an item of property, plant and equipment or an intangible asset is accounted for using the revaluation model, the total gross carrying amount of the asset is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset, so that the accumulated depreciation or amortisation is equal to the difference between the gross carrying amount and the carrying amount of the asset after revaluation (after taking into account any impairment losses).

- Amendments to IASs 16 and 41 - Bearer Plants (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - under these amendments, plants of this nature are now within the scope of IAS 16 and must be accounted for in the same way as property, plant and equipment rather than at their fair value.

- Amendments to IAS 27 - Equity Method in Separate Financial Statements (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments permit the use of the equity method as an option in the separate financial statements of an entity for accounting for investments in subsidiaries, joint ventures and associates.

- Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments specify how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

- Improvements to IFRSs, 2012-2014 cycle (obligatory for reporting periods beginning on or after 1 January 2016, early application permitted) - these improvements introduce minor amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

In addition, the Group decided to apply early the following standards (the application of which is obligatory under IASB-IFRSs for annual reporting periods beginning on or after 1 July 2014) under IFRSs adopted by the European Union, as permitted by the corresponding standard:

- Amendments to IAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions - these amendments allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met, without having to perform calculations to attribute the reduction to each year of service.

- Improvements to IFRSs, 2010-2012 cycle - these improvements introduce minor amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24 and IAS 38.

The application of the aforementioned accounting standards did not have any material effects on the Group's consolidated financial statements.

Lastly, at the date of preparation of these consolidated financial statements, the following standards which effectively come into force after 31 December 2015 had not yet been adopted by the European Union:

- IFRS 9, Financial Instruments: Classification and Measurement, Hedge Accounting and Impairment (obligatory for reporting periods beginning on or after 1 January 2018). The conceptual change is important in all sections. The financial asset classification and measurement model changes, with the business model being the focal point. The approach of the hedge accounting model attempts to rely more on economic risk management and require fewer rules. Lastly, the impairment model evolves from an incurred loss approach to an expected loss approach.

- IFRS 15, Revenue from Contracts with Customers (obligatory for annual reporting periods beginning on or after 1 January 2018) - the new standard on the recognition of revenue from contracts with customers. It supersedes the following standards and interpretations currently in force: IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services. Under IFRS 15, an entity recognises revenue in accordance with the core principle of the standard by applying the following five steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations identified in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

- IFRS 16 Leases (obligatory for annual reporting periods beginning on or after 1 January 2019) - this new standard on leases supersedes IAS 17. IFRS 16 introduces a single lessee accounting model; a lessee is required to recognise, with limited exceptions, a right-of-use asset and a lease liability. By contrast, in the case of lessor accounting, a dual model will continue to be used, similar to that currently established in IAS 17.

- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (without a defined mandatory effective date) - these amendments establish that a gain or loss must be recognised for the full amount when the transaction involves assets that constitute a business (whether the business is housed in a subsidiary or not). When the transaction involves assets that do not constitute a business, a partial gain or loss is recognised, even if these assets are housed in a subsidiary.

The Group is currently analysing the possible effects of these new standards and interpretations.

All accounting policies and measurement bases with a material effect on the consolidated financial statements for 2015 were applied in their preparation.

c) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the consolidated financial statements estimates were occasionally made by the senior management of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets (see Notes 6, 7, 8, 10, 12, 13, 16, 17 and 18);

- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 25);

- The useful life of the tangible and intangible assets (see Notes 16 and 18);

- The measurement of goodwill arising on consolidation (see Note 17);

- The calculation of provisions and the consideration of contingent liabilities (see Note 25);

- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 20, 21 and 22); and

- The recoverability of deferred tax assets (see Note 27).

Although these estimates were made on the basis of the best information available at 2015 year-end, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statement.

d) Information relating to 2014 and 2013

The information relating to 2014 and 2013 contained in these notes to the consolidated financial statements is presented with the information relating to 2015 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2014 and 2013.

As required by the applicable accounting standards, the balances relating to the segment reporting disclosed in Note 52 for the years ended 31 December 2014 and 2013 were adjusted with respect to those shown in the consolidated financial statements for 2014, as a result of the amendments to the management and presentation criteria mentioned in that note.

In 2014 the Group recognised the effects of the accounting changes introduced by the application of IFRIC 21, Levies, which amended the accounting for the contributions made by Santander UK to the Financial Services Compensation Scheme, as well as for those made by the Spanish financial institutions in the Group to the Deposit Guarantee Fund. The consolidated statements of changes in total equity for 2014 and 2013 include the impact on equity at the beginning of each of those years arising from the retrospective application of the aforementioned interpretation, which gave rise to a reduction in equity of EUR 260 million at 1 January 2014 (1 January 2013: EUR 63 million).

Also, in 2013 the Group applied the accounting changes introduced by the amendment to IAS 19, Employee Benefits, which, inter alia, eliminated the possibility of deferring recognition of a portion of actuarial gains and losses. The consolidated statement of changes in total equity for 2013 includes the impact on equity at the beginning of that year arising from the retrospective application of the aforementioned amendment, which gave rise to a reduction in equity of EUR 3,051 million at 1 January 2013.

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

The aim is to secure the Group's solvency and guarantee its economic capital adequacy and its compliance with regulatory requirements, as well as an efficient use of capital.

To this end, the regulatory and economic capital figures and their associated metrics -return on risk-weighted assets (RORWA), return on risk-adjusted capital (RORAC) and value creation of each business unit- are generated, analysed and reported to the relevant governing bodies on a regular basis.

Within the framework of the internal capital adequacy assessment process (Pillar II of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.) and the macroeconomic scenarios defined by the Group's economic research service. These estimates are used by the Group as a reference when planning the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables (GDP, interest rates, housing prices, etc.) that mirror historical crises that could happen again or plausible but unlikely stress situations.

Following is a brief description of the regulatory capital framework to which Santander Group is subject.

In December 2010 the Basel Committee on Banking Supervision published a new global regulatory framework for international capital standards (Basel III) which strengthened the requirements of the previous frameworks, known as Basel I and Basel II, and other requirements additional to Basel II (Basel 2.5), by enhancing the quality, consistency and transparency of the capital base and improving risk coverage. On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

Directive 2013/36 (CRD IV) was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015. Regulation 575/2013 is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

Regulation 575/2013 (CRR) establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. These phase-in arrangements were incorporated into Spanish regulations through the approval of Royal Decree-Law 14/2013 and Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

The Basel regulatory framework is based on three pillars. Pillar I sets out the minimum capital requirements to be met, and provides for the possibility of using internal ratings and models (the Advanced Internal Ratings-Based (AIRB) approach) in the calculation of risk-weighted exposures. The aim is to render regulatory requirements more sensitive to the risks actually borne by entities in carrying on their business activities. Pillar II establishes a supervisory review system to improve internal risk management and internal capital adequacy assessment based on the risk profile. Lastly, Pillar III defines the elements relating to disclosures and market discipline.

At 31 December 2015, the Group met the minimum capital requirements established by current legislation.

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

The Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%.

Accordingly, the Group continued in 2015 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Group units.

To date the Group has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, as well as for certain portfolios in Germany, Mexico, Brazil, Chile, the Nordic countries (Norway, Sweden and Finland), France and the United States. In 2015 approval was obtained for the auto loan portfolios of the consumer finance unit in the Nordic countries, and the foundation IRB approach was maintained for the corporate and retail portfolios in France which joined the Group following the agreement reached with Banque PSA Finance (see Note 3.b xiii).

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorised to use its internal model for market risk for its treasury trading activities in Madrid, Chile, Portugal and Mexico.

Also, the Group has regulatory approval for its corporate methodology, enabling it to calculate, for the market risk of the trading book, the incremental default and migration risk charge (IRC – Incremental Risk Charge) and stressed value at risk (VaR).

In 2015 the Group stepped up the pace of its transition towards an advanced operational risk management (AORM) approach. The objective of the AORM programme is, on the one hand, to bolster the current operational risk management framework and, on the other, to achieve best market practices and to leverage the monitoring of an integrated consolidated operational risk profile in order to proactively direct the business strategy and tactical decision-making. The AORM programme will enable the Group to have capital estimation models in place in the main geographical areas, both for economic capital and stress testing purposes and with a view to their potential application for regulatory capital purposes. For the purpose of calculating regulatory capital for operational risk, Santander Group has been applying the standardised approach provided for under the European Capital Requirements Directive. On 3 February 2016, the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil) S.A.

f) *Environmental impact*

In view of the business activities carried on by the Group entities, the Group does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these consolidated financial statements.

g) *Events after the reporting period*

No significant events occurred from 1 January 2016 to the date on which these consolidated financial statements were authorised for issue.

2. Accounting policies

The accounting policies applied in preparing the consolidated financial statements were as follows:

a) *Foreign currency transactions*

i. Functional currency

The Group's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

ii. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency (currency of the main economic environment in which the entity operates), and

- Translation to euros of the balances held in the functional currencies of entities whose functional currency is not the euro.

Translation of foreign currency to the functional currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in EMU countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.

- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

- Income and expenses are translated at the average exchange rates for the year for all the transactions performed during the year. When applying this criterion, the Group considers whether there have been significant changes in the exchange rates in the year which, in view of their materiality with respect to the consolidated financial statements taken as a whole, would make it necessary to use the exchange rates at the transaction date rather than the aforementioned average exchange rates.

- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

Translation of functional currencies to euros

The balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for the year.

- Equity items, at the historical exchange rates.

iii. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under Exchange differences in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under Valuation adjustments - Exchange differences.

The exchange differences arising on the translation to euros of the financial statements denominated in functional currencies other than the euro are recognised in equity under Valuation adjustments - Exchange differences in the consolidated balance sheet, whereas those arising on the translation to euros of the financial statements of entities accounted for using the equity method are recognised in equity under Valuation adjustments - Entities accounted for using the equity method, until the related item is derecognised, at which time they are recognised in profit or loss.

iv. Entities located in hyperinflationary economies

In 2009 the Group sold substantially all its businesses in Venezuela and at 31 December 2013 its net assets in that country amounted to only EUR 1 million. At 31 December 2015 and 2014, the Group did not have any net assets in Venezuela.

In view of the foregoing, at 31 December 2015, 2014 and 2013 none of the functional currencies of the consolidated entities and associates located abroad related to hyperinflationary economies as defined by International Financial Reporting Standards as adopted by the European Union. Accordingly, at the end of the last three reporting periods it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

v. Exposure to foreign currency risk

The Group hedges a portion of its long-term foreign currency positions using foreign exchange derivative financial instruments (see Note 36). Also, the Group manages foreign currency risk dynamically by hedging its short-term position (with a potential impact on profit or loss) in order to limit the impact of currency depreciations while optimising the finance cost of the hedges.

The following tables show the sensitivity of consolidated profit and consolidated equity to the changes in the foreign currency positions resulting from all the Group's foreign currency items caused by 1% variations in the various foreign currencies in which the Group has material balances.

The estimated effect on the consolidated equity attributable to the Group and on consolidated profit of a 1% appreciation of the euro against the corresponding currency is as follows:

	Millions of euros					
	Effect on consolidated equity			Effect on consolidated profit		
Currency	2015	2014	2013	2015	2014	2013
US dollar	(167.2)	(114.6)	(74.2)	(8.7)	(14.9)	(9.0)
Chilean peso	(23.7)	(23.3)	(16.2)	(5.0)	(6.2)	(6.7)
Pound sterling	(194.2)	(195.0)	(173.1)	(13.0)	(12.6)	(7.9)
Mexican peso	(19.7)	(18.1)	(9.7)	(5.9)	(6.7)	(7.8)
Brazilian real	(93.1)	(138.9)	(73.8)	(13.6)	(3.5)	(3.9)
Polish zloty	(32.8)	(34.1)	(32.5)	(3.9)	(3.8)	(3.8)

Similarly, the estimated effect on the Group's consolidated equity and on consolidated profit of a 1% depreciation of the euro against the corresponding currency is as follows:

	Millions of euros					
	Effect on consolidated equity			Effect on consolidated profit		
Currency	2015	2014	2013	2015	2014	2013
US dollar	170.5	117.0	75.7	8.8	15.2	9.2
Chilean peso	24.1	23.8	16.5	5.1	6.4	6.9
Pound sterling	198.2	198.9	176.6	13.2	12.8	8.0
Mexican peso	20.1	18.5	9.9	6.0	6.8	8.0
Brazilian real	94.9	141.8	75.4	13.8	3.6	4.0
Polish zloty	33.4	34.8	33.1	4.0	3.9	3.8

The foregoing data were obtained as follows:

a. Effect on consolidated equity: in accordance with the accounting policy detailed in Note 2.a.iii, the exchange differences arising on the translation to euros of the financial statements in the functional currencies of the Group entities whose functional currency is not the euro are recognised in consolidated equity. The possible effect that a change in the exchange rates of the related currency would have on the Group's consolidated equity was therefore determined by applying the aforementioned change to the net value of each unit's assets and liabilities -including, where appropriate, the related goodwill- and by taking into consideration the offsetting effect of the hedges of net investments in foreign operations.

b. Effect on consolidated profit: the effect was determined by applying the fluctuations in the average exchange rates used for the year, as indicated in Note 2.a.ii, to translate to euros the income and expenses of the consolidated entities whose functional currency is not the euro, taking into consideration, where appropriate, the offsetting effect of the various hedging transactions in place.

The estimates used to obtain the foregoing data were performed considering the effects of the exchange rate fluctuations in isolation from the effect of the performance of other variables whose changes would affect equity and profit or loss, such as variations in the interest rates of the reference currencies or other market factors. Accordingly, all variables other than the exchange rate fluctuations were kept constant with respect to their positions at 31 December 2015, 2014 and 2013.

b) Basis of consolidation

i. Subsidiaries

Subsidiaries are defined as entities over which the Bank has the capacity to exercise control; the Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and effects of the transactions between consolidated companies are eliminated on consolidation.

On acquisition of control of a subsidiary, its assets, liabilities and contingent liabilities are recognised at their acquisition-date fair values. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 17). Negative differences are recognised in profit or loss on the date of acquisition.

Additionally, the share of third parties of the Group's equity is presented under Non-controlling interests in the consolidated balance sheet (see Note 28). Their share of the profit for the year is presented under Profit attributable to non-controlling interests in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

At 31 December 2015, the Group controlled the following companies in which it held an ownership interest of less than 50% of the share capital: (i) Luri 1, S.A., (ii) Luri 2, S.A., (iii) Luri Land, S.A and (iv) Super Pagamentos e Administração de Meios Eletrônicos, S.A. The percentage ownership interests in the aforementioned companies were 26%, 30%, 28.20% and 44.62%, respectively (see Appendix I). Although the Group holds less than half the voting power, it manages and, as a result, exercises control over these entities. The company object of the first three entities is the acquisition of real estate and other general operations relating thereto, including rental, and the purchase and sale of properties; the company object of the latter entity is the provision of payment services.

The impact of the consolidation of these companies on the Group's consolidated financial statements is immaterial.

The Appendices contain significant information on the subsidiaries.

ii. Interests in joint ventures (jointly controlled entities)

Joint ventures are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more parties have interests in entities so that decisions about the relevant activities require the unanimous consent of all the parties sharing control.

In the consolidated financial statements, investments in jointly controlled entities are accounted for using the equity method, i.e. at the Group’s share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with a jointly controlled entity are eliminated to the extent of the Group's interest therein.

At 31 December 2015, the Group exercised joint control of Luri 3, S.A., despite holding 10% of its share capital. This decision is based on the Group's presence on the company's board of directors, in which the agreement of all members is required for decision-making.

The Appendices contain significant information on the jointly controlled entities.

iii. Associates

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. It is presumed that the Bank exercises significant influence if it holds 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate.

There are certain investments in entities which, although the Group owns 20% or more of their voting power, are not considered to be associates because the Group is not in a position to exercise significant influence over them. These investments are not significant for the Group and are recognised under Available-for-sale financial assets.

The Appendices contain significant information on the associates.

iv. Structured entities

When the Group incorporates entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes (also called structured entities since the voting or similar power is not a key factor in deciding who controls the entity), the Group determines, using internal criteria and procedures and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, for those entities to which this policy applies (mainly investment funds and pension funds), the Group analyses the following factors:

- Percentage of ownership held by the Group; 20% is established as the threshold above which a more in-depth analysis is performed.

- Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.

- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.

- Existence of currently exercisable removal rights (possibility of removing the manager from his position) since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.

- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance as to indicate that the manager is acting as the principal Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to an exposure that would lead the Group to a different conclusion.

These structured entities also include the securitisation special purpose vehicles, which are consolidated in the case of the SPVs over which, based on the aforementioned analysis, it is considered that the Group continues to exercise control.

The balances associated with unconsolidated structured entities are not material with respect to the Group's consolidated financial statements.

v. Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations whereby the Group obtains control over an entity are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, which is normally the consideration transferred, defined as the acquisition-date fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity instruments issued, if any, by the acquirer. In cases where the amount of the consideration to be transferred has not been definitively established at the acquisition date, but rather depends on future events, any contingent consideration is recognised as part of the consideration transferred and measured at its acquisition-date fair value; also, acquisition-related costs do not for these purposes form part of the cost of the business combination.

- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet; the Group also estimates the amount of any non-controlling interests and the fair value of the previously held equity interest in the acquiree.

- Any positive difference between the aforementioned items is recognised as discussed in Note 2.m. Any negative difference is recognised under Gains from bargain purchases arising in business combinations in the consolidated income statement.

Goodwill is only measured and recognised once, when control of a business is obtained.

vi. Changes in the levels of ownership interests in subsidiaries

Acquisitions and disposals not giving rise to a change in control are recognised as equity transactions, and no gain or loss is recognised in the income statement and the initially recognised goodwill is not remeasured.

The difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

Similarly, when control over a subsidiary is lost, the assets, liabilities and non-controlling interests and any other items recognised in valuation adjustments of that company are derecognised from the consolidated balance sheet, and the fair value of the consideration received and of any remaining equity interest is recognised. The difference between these amounts is recognised in profit or loss.

vii. Acquisitions and disposals

Note 3 provides information on the most significant acquisitions and disposals in 2015, 2014 and 2013.

c) *Definitions and classification of financial instruments*

i. Definitions

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An equity instrument is a contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A financial derivative is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The preference shares contingently convertible into ordinary shares eligible as Additional Tier 1 capital ("CCPSs") -perpetual preference shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into a variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidable group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Group as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Group estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and jointly controlled entities (see Note 13).
- Rights and obligations under employee benefit plans (see Note 25).

- Rights and obligations under insurance contracts (see Note 15).
- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 34).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Non-current assets held for sale or they relate to Cash and balances with central banks, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), Hedging derivatives and Investments, which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

- Financial assets held for trading (at fair value through profit or loss): this category includes financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.

- Other financial assets at fair value through profit or loss: this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Financial assets may only be included in this category on the date they are acquired or originated.

- Available-for-sale financial assets: this category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or Financial assets at fair value through profit or loss, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as Financial assets held for trading or as Other financial assets at fair value through profit or loss.

- Loans and receivables: this category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers or the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and receivables from the purchasers of goods, or the users of services, constituting part of the Group's business.

  The consolidated entities generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortised cost (which includes any reductions required to reflect the estimated losses on their recovery).

- Held-to-maturity investments: this category includes debt instruments with fixed maturity and with fixed or determinable payments, for which the Group has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- Cash and balances with central banks: cash balances and balances receivable on demand relating to deposits with the Bank of Spain and other central banks.

- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items. They are classified, on the basis of the institutional sector to which the debtor belongs, into:

  - Loans and advances to credit institutions: credit of any nature, including deposits and money market operations, in the name of credit institutions.

  - Loans and advances to customers: includes the remaining credit, including money market operations through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, other than investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item.

- Trading derivatives: includes the fair value in favour of the Group of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value in favour of the Group of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Liabilities associated with non-current assets held for sale or they relate to Hedging derivatives or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

Financial liabilities are included for measurement purposes in one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes financial liabilities incurred for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements ("reverse repos") or borrowed (short positions).

- Other financial liabilities at fair value through profit or loss: financial liabilities are included in this category when more relevant information is obtained, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- Deposits: includes all repayable balances received in cash by the Group, other than those instrumented as marketable securities and those having the substance of subordinated liabilities. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

  - Deposits from central banks: deposits of any nature, including credit received and money market operations received from the Bank of Spain or other central banks.

  - Deposits from credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.

  - Customer deposits: includes the remaining deposits, including money market operations through central counterparties.

- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities. This item includes the component considered to be a financial liability of issued securities that are compound financial instruments.

- Trading derivatives: includes the fair value, with a negative balance for the Group, of derivatives, including embedded derivatives separated from the host contract, which do not form part of hedge accounting.

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

- Subordinated liabilities: amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt. This category also includes the financial instruments issued by the Group which, although capital for legal purposes, do not meet the requirements for classification as equity, such as certain preference shares issued.

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as non-performing.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value of the Group's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

d) *Measurement of financial assets and liabilities and recognition of fair value changes*

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2015, there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be active.

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in Gains/losses on financial assets and liabilities (net) in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (present value or theoretical close) using valuation techniques commonly used by the financial markets: net present value (NPV), option pricing models and other methods.

Loans and receivables and Held-to-maturity investments are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortisation (taken to the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost also includes any reduction for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognised represent, in all material respects, the Group's maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Other financial liabilities at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2015, 2014 and 2013, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Millions of euros								
	2015			2014			2013		
	Published price quotations in active markets	Internal models	Total	Published price quotations in active markets	Internal models	Total	Published price quotations in active markets	Internal models	Total
Financial assets held for trading	65,849	81,438	147,287	67,319	81,569	148,888	46,472	68,817	115,289
Other financial assets at fair value through profit or loss	3,244	41,799	45,043	3,670	39,003	42,673	3,687	27,694	31,381
Available-for-sale financial assets (1)	92,284	27,962	120,246	90,149	23,455	113,604	62,343	20,415	82,758
Hedging derivatives (assets)	271	7,456	7,727	26	7,320	7,346	221	8,080	8,301
Financial liabilities held for trading	17,058	88,160	105,218	17,409	92,383	109,792	14,643	80,030	94,673
Other financial liabilities at fair value through profit or loss	-	54,768	54,768	-	62,317	62,317	-	42,311	42,311
Hedging derivatives (liabilities)	400	8,537	8,937	226	7,029	7,255	187	5,096	5,283
Liabilities under insurance contracts	-	627	627	-	713	713	-	1,430	1,430

(1) In addition to the financial instruments measured at fair value shown in the foregoing table, at 31 December 2015, 2014 and 2013, the Group held equity instruments classified as available-for-sale financial assets and carried at cost amounting to EUR 1,790 million, EUR 1,646 million and EUR 1,041 million, respectively (see Note 51.c).

The financial instruments at fair value determined on the basis of published price quotations in active markets (Level 1) include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in very specific cases, they use significant inputs not observable in market data (Level 3). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

General measurement bases

The Group has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed income and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the estimated future cash flows discounted taking into account basis swap and cross currency spreads determined on the basis of the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black-Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves, depending on the payment frequency, and discounting curves are calculated for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

The most important products in these asset classes are forward and futures contracts; they also include vanilla, listed and OTC (over-the-counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance, or digital, barrier or callable features are priced using generally accepted industry models or bespoke models, as appropriate. For derivatives on illiquid stocks, hedging takes into account the liquidity constraints in models.

The inputs of equity models consider yield curves, spot prices, dividends, asset funding costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American-style vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility surfaces for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange rate, the implied volatilities and the correlation among assets of this class. Volatilities are obtained from European call and put options which are quoted in markets as at-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDSs) or the joint probability of default of more than one issuer for FTDs, NTDs and CDOs.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. For indices and important individual issuers, the CDS spread curve is obtained in the market. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDOs, the correlation of joint default of several issuers is implied from the market. For FTDs, NTDs and bespoke CDOs, the correlation is estimated from proxies or historical data when no other option is available.

Valuation adjustment for counterparty risk or default risk

The credit valuation adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all the periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.

- LGD: percentage of final loss assumed in a counterparty credit event/default.

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDSs, in the same industry and with the same external rating as the counterparty, are used.

- Discount factor curve.

The debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Group's own risk assumed by its counterparties in OTC derivatives.

The CVA and DVA recognised at 31 December 2015 amounted to EUR 851 million and EUR 531 million, respectively.

Valuation adjustments due to model risk

The valuation models described above do not involve a significant level of subjectivity, since they can be adjusted and recalibrated, where appropriate, through internal calculation of the fair value and subsequent comparison with the related actively traded price. However, valuation adjustments may be necessary when market quoted prices are not available for comparison purposes.

The sources of risk are associated with uncertain model parameters, illiquid underlying issuers, poor quality market data or missing risk factors (sometimes the best available option is to use limited models with controllable risk). In these situations, the Group calculates and applies valuation adjustments in accordance with common industry practice. The main sources of model risk are described below:

In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.

In the equity markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.

For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.

Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.

The currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.

The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2015, 2014 and 2013:

	Millions of euros			
	Fair values calculated using internal models at 31/12/15			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**156,174**	**2,481**		
Financial assets held for trading	**80,488**	**950**		
Loans and advances to credit institutions	2,293	-	Present Value Method	Yield curves, FX market prices
Loans and advances to customers (a)	6,081	-	Present Value Method	Yield curves, FX market prices
Debt and equity instruments	650	43	Present Value Method	Yield curves, HPI, FX market prices
Trading derivatives	71,464	907		
Swaps	*52,904*	*54*	Present Value Method, Gaussian Copula (b)	Yield curves, FX market prices, Basis, Liquidity
Exchange rate options	*1,005*	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*8,276*	*619*	Black's Model, Heath-Jarrow-Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity, Correlation
Interest rate futures	*84*	-	Present Value Method	Yield curves, FX market prices
Index and securities options	*1,585*	*120*	Black-Scholes Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*7,610*	*114*	Present Value Method, Monte Carlo simulation and other	Yield curves, Volatility surfaces, FX market prices, Other
Hedging derivatives	**7,438**	**18**		
Swaps	*6,437*	*18*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces
Interest rate options	*19*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*982*	-	N/A	N/A
Other financial assets at fair value through profit or loss	**41,285**	**514**		
Loans and advances to credit institutions	26,403	-	Present Value Method	FX market prices, Yield curves
Loans and advances to customers (c)	14,213	81	Present Value Method	FX market prices, Yield curves, HPI
Debt and equity instruments	669	433	Present Value Method	FX market prices, Yield curves
Available-for-sale financial assets	**26,963**	**999**		
Debt and equity instruments	26,963	999	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**151,768**	**324**		
Financial liabilities held for trading	**87,858**	**302**		
Deposits from central banks	2,178	-	Present Value Method	FX market prices, Yield curves
Deposits from credit institutions	76	-	Present Value Method	FX market prices, Yield curves
Customer deposits	9,187	-	Present Value Method	FX market prices, Yield curves
Debt and equity instruments	-	-	Present Value Method	Yield curves, HPI, FX market prices
Trading derivatives	74,893	302		
Swaps	*55,055*	1	Present Value Method, Gaussian Copula (b)	FX market prices, Yield curves, Basis, Liquidity, HPI
Exchange rate options	*901*	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces, Liquidity
Interest rate options	*9,240*	194	Black's Model, Heath-Jarrow-Morton Model	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Index and securities options	*2,000*	107	Black-Scholes Model	FX & EQ market prices, Yield curves, Volatility surfaces, Dividends, Correlation, Liquidity, HPI
Interest rate and equity futures	*101*	-	Present Value Method	FX & EQ market prices, Yield curves
Other	*7,596*	-	Present Value Method, Monte Carlo simulation and other	FX market prices, Yield curves, Volatility surfaces, Other
Short positions	*1,524*	-	Present Value Method	FX & EQ market prices, Yield curves
Hedging derivatives	**8,526**	**11**		
Swaps	*7,971*	11	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves
Interest rate options	*12*	-	Black's Model	FX market prices, Yield curves
Other	*543*	-	N/A	N/A
Other financial liabilities at fair value through profit or loss	**54,757**	**11**	Present Value Method	FX market prices, Yield curves
Liabilities under insurance contracts	**627**	**-**	See Note 15	

	Millions of euros				
	Fair values calculated using internal models				
	31/12/14		31/12/13		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
ASSETS:	**148,760**	**2,587**	**123,499**	**1,507**	
Financial assets held for trading	**80,378**	**1,191**	**68,535**	**282**	
Loans and advances to credit institutions	1,815	-	5,502	-	Present Value Method
Loans and advances to customers (a)	2,921	-	5,079	-	Present Value Method
Debt and equity instruments	1,768	85	1,585	50	Present Value Method
Trading derivatives	73,874	1,106	56,369	232	
Swaps	*55,794*	*116*	*40,380*	*56*	Present Value Method, Gaussian Copula (b)
Exchange rate options	*1,000*	-	*849*	*16*	Black-Scholes Model
Interest rate options	*8,385*	*768*	*7,375*	-	Black's Model, Heath-Jarrow-Morton Model
Interest rate futures	*132*	-	*16*	-	Present Value Method
Index and securities options	*2,420*	*111*	*2,953*	*56*	Black-Scholes Model
Other	*6,143*	*111*	*4,796*	*104*	Present Value Method, Monte Carlo simulation and other
Hedging derivatives	**7,320**	**-**	**8,080**	**-**	
Swaps	*7,058*	-	*6,920*	-	Present Value Method
Exchange rate options	*40*	-	*400*	-	Black-Scholes Model
Interest rate options	*28*	-	*24*	-	Black's Model
Other	*194*	-	*736*	-	N/A
Other financial assets at fair value through profit or loss	**38,323**	**680**	**27,184**	**510**	
Loans and advances to credit institutions	28,592	-	13,444	-	Present Value Method
Loans and advances to customers (c)	8,892	78	13,135	61	Present Value Method
Debt and equity instruments	839	602	605	449	Present Value Method
Available-for-sale financial assets	**22,739**	**716**	**19,700**	**715**	
Debt and equity instruments	22,739	716	19,700	715	Present Value Method
LIABILITIES:	**161,890**	**552**	**128,762**	**105**	
Financial liabilities held for trading	**91,847**	**536**	**79,970**	**60**	
Deposits from central banks	2,041	-	3,866	-	Present Value Method
Deposits from credit institutions	5,531	-	7,468	-	Present Value Method
Customer deposits	5,544	-	8,500	-	Present Value Method
Debt and equity instruments	-	-	1	-	Present Value Method
Trading derivatives	76,644	536	57,260	60	
Swaps	*56,586*	*49*	*41,156*	*2*	Present Value Method, Gaussian Copula (b)
Exchange rate options	*1,033*	-	*660*	-	Black-Scholes Model
Interest rate options	*9,816*	*294*	*8,457*	-	Black's Model, Heath-Jarrow-Morton Model
Index and securities options	*3,499*	*193*	*4,252*	-	Black-Scholes Model
Interest rate and equity futures	*165*	-	*88*	-	Present Value Method
Other	*5,545*	-	*2,647*	*58*	Present Value Method, Monte Carlo simulation and other
Short positions	2,087	-	2,875	-	
Hedging derivatives	**7,029**	**-**	**5,096**	**-**	Present Value Method
Swaps	*6,901*	-	*4,961*	-	Present Value Method
Exchange rate options	*2*	-	*1*	-	Black-Scholes Model
Interest rate options	*14*	-	*13*	-	Black's Model
Other	*112*	-	*121*	-	N/A
Other financial liabilities at fair value through profit or loss	**62,301**	**16**	**42,266**	**45**	Present Value Method
Liabilities under insurance contracts	**713**	-	**1,430**	-	See Note 15

(a) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

b) Includes credit risk derivatives with a net fair value of EUR 46 million at 31 December 2015 (31 December 2014 and 2013: positive net fair value of EUR 83 million and EUR 56 million, respectively). These assets and liabilities are measured using the Standard Gaussian Copula Model.

(c) Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data as significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.
    - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.
    - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.
    - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.
    - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.
- Illiquid CDOs and CLOs in the portfolio of the treasury unit in Madrid. These are measured by grouping together the securities by type of underlying (sector/country), payment hierarchy (prime, mezzanine, junior, etc.), and assuming forecast conditional prepayment rates (CPR) and default rates, adopting conservative criteria.
- Trading derivatives on baskets of shares. These are measured using advanced local and stochastic volatility models, through Monte Carlo simulations; the main unobservable input is the correlation between the prices of the shares in each basket in question.
- Callable interest rate trading derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

In 2014 the Group reclassified to Level 3 the interest-rate derivatives with periodic call options and the options on baskets of listed shares. The reason for the reclassification was the greater significance in the fair value of the aforementioned financial instruments of the illiquidity in the inputs used (the mean reversion of interest rates and the correlations between the underlyings, respectively). These products relate almost exclusively to derivatives transactions performed as a service for the Group's customers.

In 2015 the Group did not make any significant reclassifications of financial instruments to Level 3.

The measurements obtained using the internal models might have been different had other methods or assumptions been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank's directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The net loss recognised in profit or loss in 2015 arising from models whose significant inputs are unobservable market data amounted EUR 28 million (2014 and 2013: gains of EUR 302 million and EUR 46 million, respectively).

The table below shows the effect, at 31 December 2015, on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio / Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (in millions of euros) Unfavourable scenario	Favourable scenario
Financial assets held for trading						
Debt instruments	Partial differential equations	Long-term volatility	27% - 41%	35.25%	(0.1)	0.1
Trading derivatives	Present Value Method	Curves on TAB indices (*)	(a)	(a)	(2.1)	2.1
	Present Value Method	Prepayment curves	(a)	(a)	(0.7)	0.7
	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.65%	(39.4)	34.9
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	N/A	688.3 (**)	(11.4)	11.4
	Standard Gaussian Copula Model	Probability of default	0%-5%	2.09%	(3.2)	2.3
	Advanced local and stochastic volatility models	Correlation between share prices	59%-79%	69%	(5.7)	5.7
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	-	37.3
Hedging derivatives (assets)	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	3.0%	(0.03)	-
Other financial assets at fair value through profit or loss						
Loans and advances to customers	Probability-weighted set (per forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.8%	(8.0)	6.3
Debt and equity instruments	Probability-weighted set (per forecast mortality rates) of HPI forwards, using the present value model	HPI forward growth rate	0%-5%	2.7%	(51.6)	45.8
	Probability-weighted set (per forecast mortality rates) of HPI forwards, using the present value model	HPI spot rate	N/A	688.3 (**)	(26.0)	26.0
Available-for-sale financial assets						
Debt and equity instruments	Present Value Method and other	Default and prepayment rates, cost of capital, long-term earnings growth rate	(a)	(a)	(0.8)	0.8
Financial liabilities held for trading						
Trading derivatives	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.1%	(19.8)	14.2
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	N/A	659.2 (**)	(19.2)	21.0
	Present Value Method, Modified Black-Scholes Model	Curves on TAB indices (*)	(a)	(a)	-	-
	Advanced local and stochastic volatility models	Correlation between share prices	59%-79%	69%	(b)	(b)
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	(b)	(b)
Hedging derivatives (liabilities)	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	3.0%	(0.03)	-
Other financial liabilities at fair value through profit or loss	-	-			(b)	(b)

(*) TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average interest rates on 30-, 90-, 180- and 360-day deposits published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (in Chilean unit of account (Unidad de Fomento - UF))

(**) There are national and regional HPIs. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is in response to a 10% shift.

(***) Theoretical average value of the parameter. The change made for the favourable scenario is from 0.0001 to 0.03. An unfavourable scenario was not considered as there was no margin for downward movement from the parameter's current level. The Group is also exposed, to a lesser extent, to this type of derivative in currencies other than the euro and, therefore, both the average and the range of the unobservable inputs are different. The impact in an unfavourable scenario would be losses of EUR 6.5 million.

(a) The exercise was conducted for the unobservable inputs described in the Main unobservable inputs column under probable scenarios. The range and weighted average value used are not shown because the aforementioned exercise was conducted jointly for various inputs or variants thereof (e.g. the TAB input comprises vector-time curves, for which there are also nominal yield curves and inflation-indexed yield curves), and it was not possible to break down the results separately by type of input. In the case of the TAB curve the gain or loss is reported for changes of +/-100 b.p. for the total sensitivity to this index in Chilean pesos and UFs.

(b) The Group calculates the potential effect on the valuation of each of these instruments on a joint basis, irrespective of whether their individual value is positive (asset) or negative (liability), and discloses the joint effect associated with the corresponding instruments classified on the asset side of the consolidated balance sheet.

Lastly, the changes in the financial instruments classified as Level 3 in 2015, 2014 and 2013 were as follows:

	2014	Changes									2015
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**1,191**	-	**(272)**	**-**	**-**	**31**	**(7)**	**-**	**(2)**	**9**	**950**
Debt and equity instruments	85	-	(38)	-	-	(11)	8	-	(2)	1	43
Trading derivatives	1,106	-	(234)	-	-	42	(15)	-	-	8	907
Swaps	*116*	-	*(63)*	-	-	*17*	*(15)*	-	-	*(1)*	*54*
Interest rate options	*768*	-	*(119)*	-	-	*(28)*	-	-	-	*(2)*	*619*
Index and securities options	*111*	-	*(45)*	-	-	*51*	-	-	-	*3*	*120*
Other	*111*	-	*(7)*	-	-	*2*	-	-	-	*8*	*114*
Hedging derivatives	**-**	**-**	**-**	-	-	**1**	**-**	**-**	**17**	**-**	**18**
Swaps	-	-	-	-	-	*1*	-	-	*17*	-	*18*
Other financial assets at fair value through profit or loss	**680**	**7**	**(47)**	-	-	**(64)**	-	-	-	**(62)**	**514**
Loans and advances to customers	78	-	(5)	-	-	2	-	-	-	6	81
Debt and equity instruments	602	7	(42)	-	-	(66)	-	-	-	(68)	433
Available-for-sale financial assets	**716**	**18**	**(75)**	**-**	**(72)**	**-**	**-**	**271**	**139**	**2**	**999**
TOTAL ASSETS	**2,587**	**25**	**(394)**	**-**	**(72)**	**(32)**	**(7)**	**271**	**154**	**(51)**	**2.481**
Financial liabilities held for trading	**536**	**4**	**(230)**	**-**	**-**	**(15)**	**-**	**-**	-	**7**	**302**
Trading derivatives	536	4	(230)	-	-	(15)	-	-	-	7	302
Swaps	*49*	-	*(47)*	-	-	*(1)*	-	-	-	-	*1*
Interest rate options	*294*	-	*(71)*	-	-	*(30)*	-	-	-	*1*	*194*
Index and securities options	*193*	*4*	*(112)*	-	-	*16*	-	-	-	*6*	*107*
Hedging derivatives	**-**	**-**	**(16)**	**-**	**-**	**8**	**-**	**-**	**5**	**14**	**11**
Swaps	-	-	*(16)*	-	-	*8*	-	-	*5*	*14*	*11*
Other financial liabilities at fair value through profit or loss	**16**	**-**	**(9)**	**-**	**-**	**(4)**	**-**	**-**	**-**	**8**	**11**
TOTAL LIABILITIES	**552**	**4**	**(255)**	**-**	**-**	**(11)**	**-**	**-**	**5**	**29**	**324**

	2013		Changes								2014
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**282**	**182**	**(14)**	**-**	**-**	**174**	**(7)**	**-**	**575**	**(1)**	**1,191**
Debt and equity instruments	50	4	(1)	-	-	-	-	-	32	-	85
Trading derivatives	232	*178*	(13)	-	-	*174*	(7)	-	543	(1)	1,106
Swaps	*56*	-	*(2)*	-	-	*(7)*	*(7)*	-	*52*	*24*	*116*
Exchange rate options	*16*	-	-	-	-	-	-	-	-	*(16)*	-
Interest rate options	-	*162*	*(5)*	-	-	*257*	-	-	*359*	*(5)*	*768*
Index and securities options	*56*	*16*	-	-	-	*(100)*	-	-	*132*	*7*	*111*
Other	*104*	-	*(6)*	-	-	**24**	-	-	-	*(11)*	*111*
Other financial assets at fair value through profit or loss	**510**	**37**	**(5)**	**-**	**-**	**61**	**-**	**-**	**90**	**(13)**	**680**
Loans and advances to customers	61	-	(5)	-	-	18	-	-	-	4	78
Debt and equity instruments	449	37	-	-	-	43	-	-	90	(17)	602
Available-for-sale financial assets	**715**	**35**	**(55)**	**-**	**(36)**	**-**	**-**	**(35)**	**78**	**14**	**716**
TOTAL ASSETS	**1,507**	**254**	**(74)**	**-**	**(36)**	**235**	**(7)**	**(35)**	**743**	**-**	**2,587**
Financial liabilities held for trading	**60**	**48**	**(6)**	**-**	**-**	**(71)**	**(2)**	**-**	**503**	**4**	**536**
Trading derivatives	60	48	(6)	-	-	(71)	(2)	-	503	4	536
Swaps	*2*	-	-	-	-	*2*	*(2)*	-	*47*	-	*49*
Interest rate options	-	*41*	-	-	-	*56*	-	-	*197*	-	*294*
Index and securities options	-	*7*	*(6)*	-	-	*(128)*	-	-	*259*	*61*	*193*
Other	*58*	-	-	-	-	*(1)*	-	-	-	*(57)*	-
Other financial liabilities at fair value through profit or loss	**45**	**-**	**(26)**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(2)**	**16**
TOTAL LIABILITIES	**105**	**48**	**(32)**	**-**	**-**	**(72)**	**(2)**	**-**	**503**	**2**	**552**

Millions of euros	2012 Fair value calculated using internal models (Level 3)	Changes Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Other	2013 Fair value calculated using internal models (Level 3)
Financial assets held for trading	**395**	**131**	**(164)**	**-**	**(44)**	**(4)**	**2**	**-**	**(34)**	**282**
Debt and equity instruments	-	46	-	-	-	8	-	-	(4)	50
Trading derivatives	395	85	(164)	-	(44)	(12)	2	-	(30)	232
Swaps	*109*	-	*(62)*	-	-	*19*	-	-	*(10)*	*56*
Exchange rate options	*46*	-	*(1)*	-	-	*(8)*	*(3)*	-	*(18)*	*16*
Index and securities options	-	*85*	-	-	*(39)*	-	-	-	*10*	*56*
Other	*240*	-	*(101)*	-	*(5)*	*(23)*	*5*	-	*(12)*	*104*
Other financial assets at fair value through profit or loss	**469**	**111**	**(32)**	**-**	**(17)**	**18**	**9**	**-**	**(48)**	**510**
Loans and advances to customers	74	-	-	-	(11)	(8)	6	-	-	61
Debt and equity instruments	395	111	(32)	-	(6)	26	3	-	(48)	449
Available-for-sale financial assets	**424**	**277**	**(48)**	**-**	**-**	**(1)**	**(2)**	**73**	**(8)**	**715**
TOTAL ASSETS	**1,288**	**519**	**(244)**	**-**	**(61)**	**13**	**9**	**73**	**(89)**	**1,507**
Financial liabilities held for trading	**99**	**-**	**(18)**	**-**	**(14)**	**(11)**	**13**	**-**	**(9)**	**60**
Customer deposits	7	-	-	-	-	-	-	-	(7)	-
Trading derivatives	92	-	(18)	-	(14)	(11)	13	-	(2)	60
Swaps	*8*	-	*(6)*	-	-	*(1)*	-	-	*1*	*2*
Exchange rate options	*6*	-	*(6)*	-	-	-	-	-	-	-
Other	*78*	-	*(6)*	-	*(14)*	*(10)*	*13*	-	*(3)*	*58*
Other financial liabilities at fair value through profit or loss	**106**	**-**	**(42)**	**-**	**-**	**(14)**	**(12)**	**-**	**7**	**45**
TOTAL LIABILITIES	**205**	**-**	**(60)**	**-**	**(14)**	**(25)**	**1**	**-**	**(2)**	**105**

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under Interest and similar income or Interest expense and similar charges, as appropriate, and those arising for other reasons, which are recognised at their net amount under Gains/losses on financial assets and liabilities (net).

Adjustments due to changes in fair value arising from:

- Available-for-sale financial assets are recognised temporarily under Valuation adjustments - Available-for-sale financial assets, unless they relate to exchange differences, in which case they are recognised in equity under Valuation adjustments - Exchange differences (net), or to exchange differences arising on monetary financial assets, in which case they are recognised in Exchange differences (net) in the consolidated income statement.
- Items charged or credited to Valuation adjustments - Available-for-sale financial assets and Valuation adjustments - Exchange differences (net) in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the consolidated income statement.
- Unrealised gains on available-for-sale financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in equity under Valuation adjustments - Non-current assets held for sale.

v. Hedging transactions

The consolidated entities use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Group entities' own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (trading derivatives).

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

    a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject (fair value hedge);

    b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge);

    c. The net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

    a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (prospective effectiveness).

    b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (retrospective effectiveness). To this end, the Group checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

   The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

   a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

      In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the consolidated income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement with a balancing entry under Changes in the fair value of hedged items in portfolio hedges of interest rate risk on the asset or liability side of the balance sheet, as appropriate.

   b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in equity under Valuation adjustments - Cash flow hedges until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability.

   c. In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under Valuation adjustments - Hedges of net investments in foreign operations until the gains or losses on the hedged item are recognised in profit or loss.

   d. The ineffective portion of the gains or losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation is recognised directly under Gains/losses on financial assets and liabilities (net) in the consolidated income statement.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument recognised in equity under Valuation adjustments (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

vi. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as Other financial assets/liabilities at fair value through profit or loss or as Financial assets/liabilities held for trading.

e) ***Derecognition of financial assets and liabilities***

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Group transfers substantially all the risks and rewards to third parties -unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

   a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Other financial liabilities at fair value through profit or loss.

   b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

3. If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

   a. If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights or obligations retained or created in the transfer are recognised.

   b. If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the rights to the cash flows they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired with the intention either to cancel them or to resell them.

f) ***Offsetting of financial instruments***

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the Group entities currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Following is the detail of financial assets and liabilities that were offset in the consolidated balance sheets as at 31 December 2015, 2014 and 2013:

Assets	31 December 2015 Millions of euros Gross amount of financial assets	 Gross amount of financial liabilities offset in the balance sheet	 Net amount of financial assets presented in the balance sheet
Derivatives	127,017	(42,566)	84,451
Reverse repurchase agreements	59,158	(2,066)	57,092
Total	**186,175**	**(44,632)**	**141,543**

Assets	31 December 2014 Millions of euros Gross amount of financial assets	 Gross amount of financial liabilities offset in the balance sheet	 Net amount of financial assets presented in the balance sheet
Derivatives	128,076	(43,872)	84,204
Reverse repurchase agreements	57,882	(7,064)	50,818
Total	**185,958**	**(50,936)**	**135,022**

Assets	31 December 2013 Millions of euros Gross amount of financial assets	 Gross amount of financial liabilities offset in the balance sheet	 Net amount of financial assets presented in the balance sheet
Derivatives	86,813	(19,613)	67,200
Reverse repurchase agreements	59,990	(12,463)	47,527
Total	**146,803**	**(32,076)**	**114,727**

Liabilities	31 December 2015		
	Millions of euros		
	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	127,917	(42,566)	85,351
Repurchase agreements	97,169	(2,066)	95,103
Total	**225,086**	**(44,632)**	**180,454**

Liabilities	31 December 2014		
	Millions of euros		
	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	130,175	(43,872)	86,303
Repurchase agreements	113,075	(7,064)	106,011
Total	**243,250**	**(50,936)**	**192,314**

Liabilities	31 December 2013		
	Millions of euros		
	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	83,783	(19,613)	64,170
Repurchase agreements	103,621	(12,463)	91,158
Total	**187,404**	**(32,076)**	**155,328**

Also, the Group has offset other items amounting to EUR 2,036 million (31 December 2014 and 2013: EUR 2,084 million and EUR 2,267 million, respectively).

Most of the derivatives and repos not offset in the balance sheet are subject to netting and collateral arrangements.

g) Impairment of financial assets

i. Definition

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

When an asset is considered to be impaired, the interest accrual is suspended and any amounts received are used to recognise the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

Transactions classified as non-performing due to arrears are reclassified as standard if, as a result of the collection of a portion or the sum of the unpaid instalments, the reasons for classifying such transactions as non-performing cease to exist, i.e. they no longer have any amount more than 90 days past due, unless other subjective reasons remain for classifying them as non-performing. The refinancing of non-performing loans does not result in their reclassification to standard unless: there is certainty that the customer can make payment in accordance with the new schedule; the customer provides effective guarantees or collateral; the customer pays the current interest receivable; and the customer complies with the established cure period (see Note 54).

The following constitute effective guarantees or collateral: collateral in the form of cash deposits; quoted equity instruments and debt securities issued by creditworthy issuers; mortgages on completed housing, offices and multi-purpose premises and on rural property, net of any prior charges; and personal guarantees (bank guarantees, inclusion of new obligors, etc.) which entail the direct and joint liability of the new guarantors to the customer, these being persons or entities whose solvency is sufficiently demonstrated so as to ensure the full repayment of the transaction on the agreed terms.

The balances relating to impaired assets continue to be recognised on the balance sheet, for their full amounts, until the Group considers that the recovery of those amounts is remote.

The Group considers recovery to be remote when there has been a substantial and irreversible deterioration of the borrower's solvency, when commencement of the liquidation phase of insolvency proceedings has been ordered or when more than four years have elapsed since the borrower's transaction was classified as non-performing due to arrears (the maximum period established by the Bank of Spain).

When the recovery of a financial asset is considered remote, it is written off, together with the related allowance, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

ii. Debt instruments carried at amortised cost

For the purpose of determining impairment losses, the Group monitors its debtors as described below:

- Individually for significant debt instruments and for instruments which, although not material, are not susceptible to being classified in a group of financial assets with similar credit risk characteristics -customers classified by the Group as “individualised”. This category includes wholesale banking enterprises, financial institutions and certain retail banking enterprises.

- Collectively, in all other cases -customers classified by the Group as “standardised”-, by grouping together instruments having similar credit risk characteristics indicative of the debtors' ability to pay all principal and interest amounts in accordance with the contractual terms. The credit risk characteristics considered for the purpose of grouping the assets are, inter alia, instrument type, debtor's industry and geographical location, type of guarantee or collateral, age of past-due amounts and any other relevant factor for the estimation of future cash flows. This category includes exposures to individuals, individual traders and retail banking enterprises not classified as individualised customers.

As regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or

- When country risk materialises: country risk is considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

The Group has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties and from country risk. These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments and contingent liabilities and commitments, and in the identification of their impairment and the calculation of the amounts required to cover the related credit risk.

With respect to the coverage of loss arising from credit risk, the Group must meet the Bank of Spain requirements, which establish that, until the Spanish regulatory authority has verified and approved the internal models for the calculation of the allowance for losses arising from credit risk (to date it has only approved the internal models to be used to calculate regulatory capital), entities must calculate their credit risk coverage as follows:

a. Specific allowance for impaired assets:

   The allowance for debt instruments not measured at fair value through profit or loss that are classified as non-performing is generally recognised in accordance with the criteria set forth below:

   i. *Assets classified as non-performing due to counterparty arrears:*

      Debt instruments, whoever the obligor and whatever the guarantee or collateral, with amounts more than 90 days past due are provisioned individually, taking into account the age of the past-due amounts, the guarantees or collateral provided and the financial situation of the counterparty and the guarantors.

   ii. *Assets classified as non-performing for reasons other than counterparty arrears:*

      Debt instruments which are not classifiable as non-performing due to arrears but for which there are reasonable doubts as to their repayment under the contractual terms are provisioned individually, and their allowance is the difference between the amount recognised in assets and the present value of the cash flows expected to be received.

b. Allowance for inherent losses:

   Based on its experience and on the information available to it on the Spanish banking industry, the Bank of Spain has established various categories of debt instruments and contingent liabilities, classified as standard risk, which are recognised at Spanish entities or relate to transactions performed on behalf of residents in Spain which are recognised in the accounting records of foreign subsidiaries, and has applied a range of required allowances to each category.

c. Country risk allowance:

   Country risk is considered to be the risk associated with counterparties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk and risks arising from international financial activity). Based on the countries' economic performance, political situation, regulatory and institutional framework, and payment capacity and record, the Group classifies all the transactions performed with third parties into six different groups, from group 1 (transactions with ultimate obligors resident in European Economic Area countries, Switzerland, the United States, Canada, Japan, Australia and New Zealand) to group 6 (transactions the recovery of which is considered remote due to circumstances attributable to the country), assigning to each group the loan loss allowance percentages resulting from the aforementioned analyses. However, due to the size of the Group and to the proactive management of its country risk exposure, the allowances recognised for country risk are not material with respect to the allowances recognised for loan losses.

However, the coverage of the Group's losses arising from credit risk must also meet the regulatory requirements of IFRSs and, therefore, the Group checks the allowances calculated as described above against those obtained from internal models for the calculation of the coverage of losses arising from credit risk, in order to confirm that there are no material differences.

The Group's internal models determine the impairment losses on debt instruments not measured at fair value through profit or loss and on contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, impairment losses on loans are losses incurred at the reporting date, calculated using statistical methods.

The amount of an impairment loss incurred on these debt instruments is equal to the difference between their carrying amount and the present value of their estimated future cash flows. In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued past-due interest receivable;

- The various types of risk to which each instrument is subject; and

- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

The loss incurred is calculated by multiplying three factors: exposure at default, probability of default and loss given default. These parameters are also used to calculate economic capital and to calculate BIS II regulatory capital under internal models (see Note 1.e).

   - Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

  For the purpose of calculating the incurred loss, PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year due to an event that had already occurred at the assessment date. The definition of default used includes amounts past due by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective non-performing assets).

- Loss given default (LGD) is the loss arising in the event of default. It depends mainly on the discounting of the guarantees associated with the transaction and the future flows that are expected to be recovered.

In addition to all of the above, the calculation of the incurred loss takes into account the adjustment to the cycle of the aforementioned factors (PD and LGD) and historical experience and other specific information that reflects current conditions.

At 31 December 2015, the estimated incurred losses due to credit risk calculated by the Group's internal models did not differ materially from the allowances calculated on the basis of the Bank of Spain's requirements.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments is the positive difference between their acquisition cost (net of any principal repayment or amortisation in the case of debt instruments) and their fair value, less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognised in equity under Valuation adjustments - Available-for-sale financial assets and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurs (or in equity under Valuation adjustments - Available-for-sale financial assets in the case of equity instruments).

iv. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under Balances with central banks, Loans and advances to credit institutions or Loans and advances to customers (Deposits from central banks, Deposits from credit institutions or Customer deposits).

Differences between the purchase and sale prices are recognised as interest over the contract term.

i) Non-current assets held for sale and Liabilities associated with non-current assets held for sale

Non-current assets held for sale includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be non-current assets held for sale, unless the consolidated entities have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Group obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

The Group has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2015 are as follows: Eurovaloraciones, S.A., Ibertasa, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Tasaciones Hipotecarias Renta, S.A., Krata, S.A. and Compañía Hispania de Tasaciones y Valoraciones, S.A. Also, this policy establishes that the various subsidiaries abroad work with appraisal companies that have recent experience in the area and the type of asset under appraisal and meet the independence requirements established in the corporate policy. They should verify, inter alia, that the appraisal company is not a party related to the Group and that its billings to the Group in the last twelve months do not exceed 15% of the appraisal company's total billings.

Liabilities associated with non-current assets held for sale includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

Subsequent to initial recognition, the Group measures its non-current assets at the lower of their fair value less costs to sell and their carrying amount. The Group measures foreclosed property assets located in Spain by taking into consideration the appraisal value on the date of foreclosure and the length of time each asset has been recognised in the balance sheet. Property assets under construction are measured taking into account the current situation of the property, not the final value. In addition, in order to check at the end of each reporting period that the measurement made using the aforementioned criteria does not differ from fair value, the Group requests an independent expert to perform an appraisal.

At 31 December 2015, the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 990 million; however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

The valuation of the non-current assets held for sale portfolio performed by the independent expert conforms to the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) and the International Valuation Standards published by the International Valuation Standards Council (IVSC), as required by International Financial Reporting Standards in relation to the estimation of the fair value of tangible assets and the value in use of financial assets.

The internationally recognised RICS methodology is considered to be appropriate for valuations of this kind, since it reflects the current market situation and, implicitly, a potential investor's internal rate of return (IRR) requirements.

The value of the portfolio is calculated as the sum of the values of the individual items composing it, irrespective of any total or batch grouping performed for the purpose of correcting the individual values.

The non-current assets held for sale portfolio is valued by applying mainly the models indicated below using the latest available appraisals, corrected on the basis of a series of macroeconomic and property market variables, as follows:

- Market Value Model based on Average Market Value Evolution Series (M-Ser) - This methodology is used in the revaluation of housing units, parking lots, offices, commercial premises and multi-purpose industrial buildings. The current market value of the properties is estimated based on a projection of the latest available appraisal, using a revaluation rate calculated on the basis of the historical series of average market values (sales prices only), and drawing a distinction by asset location and type. The valuations performed using this approach are considered as Level 2 valuations.
- Market Value Model based on Average Market Value Evolution Series for Rural Properties (M-INE) - This methodology is used in the revaluation of rural properties. A method is used which, by applying statistical procedures to the agricultural land price database published by the Spanish National Statistics Institute (INE), estimates the possible current market value of rural properties. The agricultural land price database published by the INE is prepared from data furnished by the Spanish Ministry for Agriculture, Food and Environmental Affairs. The valuations performed using this approach are considered as Level 2 valuations.
- Market Value Model based on Statistical Evolution of Land Values (M-Ter) - This methodology is used in the revaluation of non-rural land. The current market value is estimated based on a projection of the latest available appraisal, using a revaluation rate calculated by means of statistical series of the evolution of the average value of land per built square metre at various stages of urban development, and drawing a distinction by asset location and type. The valuations performed using this approach are considered as Level 3 valuations, since they use unobservable inputs, such as the statistical series of the evolution of the average value of land per built square metre at various stages of urban development.

At 31 December 2015, 36.7% of the non-current assets held for sale related to non-rural land.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under Gains/(losses) on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

j) Reinsurance assets and Liabilities under insurance contracts

Insurance contracts involve the transfer of a certain quantifiable risk in exchange for a periodic or one-off premium. The effects on the Group's cash flows will arise from a deviation in the payments forecast and/or an insufficiency in the premium set.

The Group controls its insurance risk as follows:

- By applying a strict methodology in the launch of products and in the assignment of value thereto.
- By using deterministic and stochastic actuarial models for measuring commitments.

- By using reinsurance as a risk mitigation technique as part of the credit quality guidelines in line with the Group's general risk policy.
- By establishing an operating framework for credit risks.
- By actively managing asset and liability matching.
- By applying security measures in processes.

Reinsurance assets includes the amounts that the consolidated entities are entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded by the consolidated insurance entities.

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the consolidated income statement and the assets are written down.

Liabilities under insurance contracts includes the technical provisions recorded by the consolidated entities to cover claims arising from insurance contracts in force at year-end.

Insurers' results relating to their insurance business are recognised, according to their nature, under the related consolidated income statement items.

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit to the income statement the amounts of the premiums written and charge to income the cost of the claims incurred on final settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

At least at each reporting date the Group assesses whether the insurance contract liabilities recognised in the consolidated balance sheet are adequate. For this purpose, it calculates the difference between the following amounts:

- Current estimates of future cash flows under the insurance contracts of the consolidated entities. These estimates include all contractual cash flows and any related cash flows, such as claims handling costs; and
- The carrying amount recognised in the consolidated balance sheet of its insurance contract liabilities (see Note 15), less any related deferred acquisition costs or related intangible assets, such as the amount paid to acquire, in the event of purchase by the entity, the economic rights held by a broker deriving from policies in the entity's portfolio.

If the calculation results in a positive amount, this deficiency is charged to the consolidated income statement. When unrealised gains or losses on assets of the Group's insurance companies affect the measurement of liabilities under insurance contracts and/or the related deferred acquisition costs and/or the related intangible assets, these gains or losses are recognised directly in equity. The corresponding adjustment in the liabilities under insurance contracts (or in the deferred acquisition costs or in intangible assets) is also recognised in equity.

The most significant items forming part of the technical provisions (see Note 15) are detailed below:

- Non-life insurance provisions:
  i) Provision for unearned premiums: relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.

ii) Provisions for unexpired risks: this supplements the provision for unearned premiums to the extent that the amount of the latter is not sufficient to reflect all the assessed risks and expenses to be covered by the insurance companies in the policy period not elapsed at the reporting date.

- Life insurance provisions: represent the value of the net obligations acquired vis-à-vis life insurance policyholders. These provisions include:

  i) Provision for unearned premiums and unexpired risks: this relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.

  ii) Mathematical provisions: these relate to the value of the insurance companies' obligations, net of the policyholders' obligations. These provisions are calculated on a policy-by-policy basis using an individual capitalisation system, taking as a basis for the calculation the premium accrued in the year, and in accordance with the technical bases of each type of insurance updated, where appropriate, by the local mortality tables.

- Provision for claims outstanding: this reflects the total obligations outstanding arising from claims incurred prior to the reporting date. This provision is calculated as the difference between the total estimated or certain cost of the claims not yet reported, settled or paid and all the amounts already paid in relation to such claims.

- Provision for bonuses and rebates: this provision includes the amount of the bonuses accruing to policyholders, insureds or beneficiaries and that of any premiums to be returned to policyholders or insureds, to the extent that such amounts have not been assigned at the reporting date. These amounts are calculated on the basis of the conditions of the related individual policies.

- Technical provisions for life insurance policies where the investment risk is borne by the policyholders: these provisions are calculated on the basis of the indices established as a reference to determine the economic value of the policyholders' rights.

k) Tangible assets

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use –including tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases– are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Average annual rate
Buildings for own use	2.0%
Furniture	7.7%
Fixtures	7.0%
Office and IT equipment	25.0%
Leasehold improvements	7.0%

The consolidated entities assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

The Group determines periodically the fair value of its investment property so that, at the end of the reporting period, the fair value reflects the market conditions of the investment property at that date. This fair value is determined annually, taking as benchmarks the valuations performed by independent experts.

The methodology used to determine the fair value of investment property is selected based on the status of the asset in question; thus, for properties earmarked for lease, the valuations are performed using the sales comparison approach, whereas for leased properties the valuations are made primarily using the income capitalisation approach and, exceptionally, the sales comparison approach.

- In the sales comparison approach, the property market segment for comparable properties is analysed, inter alia, and, based on specific information on actual transactions and firm offers, current prices are obtained for cash sales of those properties. The valuations performed using this approach are considered as Level 2 valuations.
- In the income capitalisation approach, the cash flows estimated to be obtained over the useful life of the property are discounted taking into account factors that may influence the amount and actual obtainment thereof, such as: (i) the payments that are normally received on comparable properties; (ii)

current and probable future occupancy; (iii) the current or foreseeable default rate on payments. The valuations performed using this approach are considered as Level 3 valuations, since unobservable inputs are used, such as current and probable future occupancy and/or the current or foreseeable default rate on payments.

At 31 December 2015, 73.21% of the Group's investment properties were leased out.

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Group under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

l) Accounting for leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the consolidated balance sheet.

When the consolidated entities act as the lessees, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to Interest and similar income and Interest expense and similar charges in the consolidated income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under Tangible assets (see Note 16). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in their consolidated income statements.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

In accordance with IAS 17, in determining whether a sale and leaseback transaction results in an operating lease, the Group should analyse, inter alia, whether at the inception of the lease there are purchase options whose terms and conditions make it reasonably certain that they will be exercised, and to whom the gains or losses from the fluctuations in the fair value of the residual value of the related asset will accrue.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities. Only assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

i. Goodwill

Any excess of the cost of the investments in the consolidated entities and entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.

- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised.

At the end of each reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment losses on other assets (net) - Goodwill and other intangible assets in the consolidated income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

Other intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period or whenever there is any indication of impairment the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets.

The intangible asset amortisation charge is recognised under Depreciation and amortisation charge in the consolidated income statement.

In both cases the consolidated entities recognise any impairment loss on the carrying amount of these assets with a charge to Impairment losses on other assets (net) in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (see Note 2.k).

Internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Group's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised.

n) Other assets

Other assets in the consolidated balance sheet includes the amount of assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories includes land and other property held for sale in the property development business.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

  Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other impairment losses are recognised as expenses for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Other: this item includes the balance of all prepayments and accrued income (excluding accrued interest, fees and commissions), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favour, when this net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

ñ) Other liabilities

Other liabilities includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

o) Provisions and contingent assets and liabilities

When preparing the financial statements of the consolidated entities, the Bank's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include the present obligations of the consolidated entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them.

- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Group. Contingent assets are not recognised in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognised in the consolidated financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows (see Note 25):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations.

- Provisions for contingent liabilities and commitments: includes the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -defined as irrevocable commitments that may give rise to the recognition of financial assets.

- Provisions for taxes and other legal contingencies and Other provisions: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the consolidated entities. Other provisions includes, inter alia, any provisions for restructuring costs and environmental measures.

p) Court proceedings and/or claims in process

At the end of 2015 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations (see Note 25).

q) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are deducted directly from equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares, is directly added to or deducted from equity.

r) Equity-instrument-based employee remuneration

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Group recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) Recognition of income and expenses

The most significant criteria used by the Group to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the consolidated entities' right to receive them arises.

However, the recognition of accrued interest in the consolidated income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than 90 days past due. Any interest that may have been recognised in the consolidated income statement before the corresponding debt instruments were classified as impaired, and that had not been collected at the date of that classification, is considered when determining the allowance for loan losses; accordingly, if subsequently collected, this interest is recognised as a reversal of the related impairment losses. Interest whose recognition in the consolidated income statement has been suspended is accounted for as interest income, when collected, on a cash basis.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.
- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.
- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognised immediately in the consolidated income statement.

t) Financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Group initially recognises the financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Group recognises the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit on the asset side of the consolidated balance sheet for the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2.g above).

The provisions made for these transactions are recognised under Provisions - Provisions for contingent liabilities and commitments in the consolidated balance sheet (see Note 25). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions (net) in the consolidated income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under Financial liabilities at amortised cost - Other financial liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

u) Assets under management and investment and pension funds managed by the Group

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in Fee and commission income in the consolidated income statement.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Group entities to these funds (asset management and custody services) are recognised under Fee and commission income in the consolidated income statement.

Note 2.b.iv describes the internal criteria and procedures used to determine whether control exists over the structured entities, which include, inter alia, investment funds and pension funds.

v) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Spanish banks included in the Group and certain other Spanish and foreign consolidated entities have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment welfare benefits.

The Group's post-employment obligations to its employees are deemed to be defined contribution plans when the Group makes pre-determined contributions (recognised under Staff costs in the consolidated income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans (see Note 25).

Defined contribution plans

The contributions made in this connection in each year are recognised under Staff costs in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet.

Defined benefit plans

The Group recognises under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet (or under Other assets on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets.

Plan assets are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Group.

If the Group can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Group recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under Insurance contracts linked to pensions on the asset side of the consolidated balance sheet.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the consolidated income statement and includes the following items:

    - Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under Staff costs.

    - The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions (net).

    - Any gain or loss arising from plan settlements is recognised under Provisions (net).

- Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under Interest expense and similar charges (Interest and similar income if it constitutes income) in the consolidated income statement.

- The remeasurement of the net defined benefit liability (asset) is recognised in equity under Valuation adjustments and includes:

    - Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

    - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

    - Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

w) *Other long-term employee benefits*

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions (net) in the consolidated income statement (see Note 25).

x) *Termination benefits*

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

y) *Income tax*

The expense for Spanish income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the tax effect is also recognised in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the consolidated income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Tax assets includes the amount of all tax assets, which are broken down into current -amounts of tax to be recovered within the next twelve months- and deferred -amounts of tax to be recovered in future years, including those arising from tax loss or tax credit carryforwards.

Tax liabilities includes the amount of all tax liabilities (except provisions for taxes), which are broken down into current -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and deferred -the amount of income tax payable in future years.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilised.

Income and expenses recognised directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

z) *Residual maturity periods and average interest rates*

The analysis of the maturities of the balances of certain items in the consolidated balance sheet and the average interest rates at the end of the reporting periods is provided in Note 51.

aa) *Consolidated statements of cash flows*

The following terms are used in the consolidated statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified.

  The Group classifies as cash and cash equivalents the balances recognised under Cash and balances with central banks in the consolidated balance sheet.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

It should be noted that there are no material differences between the cash flows relating to interest received and interest paid and the interest received and interest paid recognised in the consolidated income statement. Accordingly, these items are not disclosed separately in the consolidated statements of cash flows.

ab) *Consolidated statements of recognised income and expense*

This statement presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised directly in consolidated equity.

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised in equity under Valuation adjustments that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in equity that may be reclassified subsequently to profit or loss.

d. The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e. Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to non-controlling interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under Entities accounted for using the equity method.

The statement presents the items separately by nature, grouping together items that, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit and loss since the requirements established by the corresponding accounting standards are met.

ac) Statements of changes in total equity

This statement presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c. Other changes in equity: includes the remaining items recognised in equity, including, inter alia, increases and decreases in capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in consolidated equity.

3. Santander Group

a) Banco Santander, S.A. and international Group structure

The growth of the Group in the last decade has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's traditionally high level of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At international level, the various banks and other subsidiaries, jointly controlled entities and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) Acquisitions and disposals

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Group in the last three years:

i. Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

On 28 February 2012, the Group announced that Banco Santander, S.A. and KBC Bank NV (KBC) had entered into an investment agreement to merge their two subsidiaries in Poland, Bank Zachodni WBK S.A. and Kredyt Bank S.A., respectively, following which the Group would control approximately 76.5% of the entity resulting from the merger and KBC 16.4%, with the remaining 7.1% being owned by non-controlling interests. Also, the Group undertook to place a portion of its ownership interest among investors and to acquire up to 5% of the entity resulting from the merger in order to help KBC to reduce its holding in the merged entity to below 10%. KBC's objective is to dispose of its entire investment in order to maximise its value.

It was agreed to carry out the transaction through a capital increase at Bank Zachodni WBK S.A., whose new shares would be offered to KBC and the other shareholders of Kredyt Bank S.A. in exchange for their shares in Kredyt Bank S.A. The related exchange ratio was established at 6.96 shares of Bank Zachodni WBK S.A. for every 100 shares of Kredyt Bank S.A.

In the first few days of 2013, following obtainment of the related authorisation from the Polish financial regulator (KNF), the aforementioned transaction was carried out. As a result, the Group controlled approximately 75.2% of the post-merger entity and KBC controlled approximately 16.2%, with the remaining 8.6% being owned by non-controlling interests. This transaction gave rise to an increase of EUR 1,037 million in Non-controlling interests – EUR 169 million as a result of the acquisition of control of Kredyt Bank S.A. and EUR 868 million as a result of the reduction in the percentage of ownership of Bank Zachodni WBK S.A.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date, the cost of the investment and the goodwill is as follows:

	Millions of euros
Cash and balances with central banks	351
Loans and receivables - Loans and advances to customers (*)	6,767
Available-for-sale assets	2,547
Other assets (**)	692
Total assets	10,357
Deposits from credit institutions	1,414
Customer deposits	7,620
Other liabilities	642
Total liabilities	9,676
Net asset value	681
Non-controlling interests	(169)
Cost of investment	838
Goodwill at January 2013 (***)	**326**

(*) EUR 122 million of additional impairment losses were considered in estimating the fair value of the loans and receivables.

(**) The estimate identified intangible assets amounting to EUR 51 million.

(***) Belongs to the Bank Zachodni WBK S.A. cash-generating unit (see Note 17).

On 22 March 2013, Banco Santander, S.A. and KBC completed the placement of all the shares owned by KBC and 5.2% of the share capital of Bank Zachodni WBK S.A. held by the Group in the market for EUR 285 million, which gave rise to an increase of EUR 292 million in Non-controlling interests.

Following these transactions, the Group held 70% of the share capital of Bank Zachodni WBK S.A. and the remaining 30% was held by non-controlling interests.

ii. Merger by absorption of Banesto and Banco Banif

On 17 December 2012, Banco Santander, S.A. announced that it had resolved to approve the plan for the merger by absorption of Banco Español de Crédito, S.A. (Banesto) and Banco Banif, S.A. (Sole-Shareholder Company) as part of the restructuring of the Spanish financial sector.

On 9 January 2013, the boards of directors of Banco Santander, S.A. and Banesto approved the common draft terms of merger. Also, on 28 January 2013, the boards of directors of Banco Santander, S.A. and Banco Banif, S.A. (Sole-Shareholder Company) approved the related common draft terms of merger. The draft terms of merger were approved by the shareholders of Banco Santander, S.A. and Banesto at the annual general meetings held on 22 and 21 March, respectively.

On 29 April 2013, pursuant to the common draft terms of merger and the resolutions of the annual general meetings of the two companies, Banco Santander, S.A. announced the regime and procedure for the exchange of shares of Banesto for shares of Banco Santander, S.A.

Banco Santander, S.A. exchanged the Banesto shares for treasury shares at a ratio of 0.633 shares of Banco Santander, S.A., of EUR 0.5 par value each, for each share of Banesto, of EUR 0.79 par value each, without any additional cash payment. As a result of this exchange, Non-controlling interests fell by EUR 455 million.

On 3 May 2013, the public deed of the merger by absorption of Banesto, which was extinguished, was registered at the Cantabria Mercantile Registry. Also, on 30 April the public deed of the merger by absorption of Banco Banif S.A. (Sole-Shareholder Company) was executed, and this entity was extinguished. The public deed was registered at the Cantabria Mercantile Registry on 7 May 2013.

iii. Insurance business in Spain

On 20 December 2012, the Group announced that it had reached an agreement with Aegon to strengthen the bancassurance business in Spain. The agreement does not affect savings, health and vehicle insurance, which continue to be managed by Santander.

In June 2013, having obtained the relevant authorisations from the Directorate-General of Insurance and Pension Funds and from the European competition authorities, Aegon acquired a 51% ownership interest in the two insurance companies created by the Group for these purposes, one for life insurance and the other for general insurance (currently Aegon Santander Vida Seguros y Reaseguros, S.A. and Aegon Santander Generales Seguros y Reaseguros, S.A.), for which it paid EUR 220 million, thereby gaining joint control together with the Group over the aforementioned companies. The agreement also includes payments to Aegon that are deferred over two years and amounts receivable by the Group that are deferred over five years, based on the business plan.

The aforementioned agreement included the execution of a 25-year distribution agreement for the sale of insurance products through the commercial networks in Spain, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of EUR 385 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2013 (EUR 270 million net of tax), of which EUR 186 million related to the fair value recognition of the 49% ownership interest retained by the Group.

iv. Agreement with Elavon Financial Services Limited

On 19 October 2012, Banco Santander, S.A. announced that it had entered into an agreement with Elavon Financial Services Limited to jointly develop the payment services business in Spain through point-of-sale credit and debit card terminals at merchants.

This transaction involved the creation of a joint venture, 51% owned by Elavon and 49% owned by Santander, to which Santander Group transferred its aforementioned payment services business in Spain (excluding the former Banesto).

The transaction was completed in the first half of 2013 and generated a gain of EUR 122 million (EUR 85 million net of tax).

v. Agreement with Warburg Pincus and General Atlantic

On 30 May 2013, the Group announced that it had entered into an agreement with subsidiaries of Warburg Pincus and General Atlantic to foster the global development of its asset management unit, Santander Asset Management (SAM). According to the terms and conditions of the agreement, Warburg Pincus and General Atlantic would together own 50% of the holding company which would comprise the Group's eleven management companies, mainly in Europe and Latin America, while the other 50% would be held by the Group.

The purpose of the alliance was to enable SAM to improve its ability to compete with the large independent international management companies, and the businesses to be strengthened included asset management in the global institutional market, with the additional advantage of having knowledge and experience in the markets in which the Group is present. The agreement also envisaged the distribution of products managed by SAM in the countries in which the Group has a commercial network for a period of ten years, renewable for five additional two-year periods, for which the Group would receive commissions at market rates, thus benefiting from broadening the range of products and services to offer its customers. SAM would also distribute its products and services internationally, outside the Group’s commercial network.

Since the aforementioned management companies belonged to different Group companies, prior to the completion of the transaction a corporate restructuring took place whereby each of the management companies was sold by its shareholders, for its fair value, to SAM Investment Holdings Limited (SAM), a holding company created by the Group. The aggregate value of the management companies was approximately EUR 1,700 million.

Subsequently, in December 2013, once the required authorisations had been obtained from the various regulators, the agreement was executed through the acquisition of a 50% ownership interest in SAM's share capital by Sherbrooke Acquisition Corp SPC (an investee of Warburg Pincus and General Atlantic) for EUR 449 million. At that date, SAM had financing from third parties amounting to EUR 845 million. The agreement included deferred contingent amounts payable and receivable for the Group based on the achievement of the business plan targets over the coming five years.

Also, the Group entered into a shareholders agreement with the aforementioned shareholders regulating, inter alia, the taking of strategic, financial, operational and other significant decisions regarding the ordinary management of SAM on a joint basis. Certain restrictions on the transferability of the shares were also agreed, and a commitment was made by the two parties to retain the shares for at least 18 months. Lastly, Sherbrooke Acquisition Corp SPC will be entitled to sell to the Group its ownership interest in the share capital of SAM at market value on the fifth and seventh anniversaries of the transaction, unless a public offering of SAM shares has taken place prior to those dates.

Following these transactions, at the end of 2013, 2014 and 2015 the Group held a 50% ownership interest in SAM and controlled this company jointly with the aforementioned shareholders (see Note 13).

As a result of the above-mentioned transaction, the Group recognised a gain of EUR 1,372 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2013 (see Note 49), of which EUR 671 million related to the fair value of the 50% ownership interest retained by the Group.

vi. Sale of Altamira Asset Management

On 21 November 2013, the Group announced that it had reached a preliminary agreement with Apollo European Principal Finance Fund II, a fund managed by subsidiaries of Apollo Global Management, LLC, for the sale of the platform for managing the loan recovery activities of Banco Santander, S.A. in Spain and for managing and marketing the properties relating to this activity (Altamira Asset Management, S.L.).

On 3 January 2014, the Group announced that it had sold 85% of the share capital of Altamira Asset Management, S.L. to Altamira Asset Management Holdings, S.L., an investee of Apollo European Principal Finance Fund II, for EUR 664 million, giving rise to a net gain of EUR 385 million, which was recognised at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014.

Following this transaction, the Group retained the aforementioned property assets and loan portfolio on its balance sheet, while management of these assets is carried out from the platform owned by Apollo.

vii. Santander Consumer USA

In January 2014 the public offering of shares of Santander Consumer USA Inc. (SCUSA) was completed and the company was admitted to trading on the New York Stock Exchange. The placement represented 21.6% of SCUSA's share capital, of which 4.23% related to the holding sold by the Group. Following this sale, the Group held 60.74% of the share capital of SCUSA. Both Sponsor Auto Finance Holdings Series LP (Sponsor Holdings) -an investee of funds controlled by Warburg Pincus LLC, Kohlberg Kravis Roberts & Co. L.P. and Centerbridge Partners L.P.- and DDFS LLC (DDFS) - a company controlled by Thomas G. Dundon, the Chief Executive Officer of SCUSA- also reduced their holdings.

Following the placement, since the ownership interests of the aforementioned shareholders were reduced to below certain percentages established in the shareholders agreement previously entered into with the Group by the shareholders, the agreement was terminated, pursuant to the terms and conditions established therein. This entailed the termination of the agreements which, inter alia, had granted Sponsor Holdings and DDFS representation on the board of directors of SCUSA and had established a voting system under which the strategic, financial and operating decisions, and other significant decisions associated with the ordinary management of SCUSA, were subject to joint approval by the Group and the aforementioned shareholders. Therefore, SCUSA ceased to be controlled jointly by all the above and is now controlled by the Group on the basis of the percentage held in its share capital ("change of control").

Prior to this change of control the Group accounted for its ownership interest in SCUSA using the equity method. Following the obtainment of control, the Group now recognises its investment in SCUSA using the full consolidation method and, at the date of obtainment of control, it included each of SCUSA's assets and liabilities in its consolidated balance sheet at their fair value.

The Group did not make any disbursement in relation to this change of control and, therefore, goodwill was determined by reference to the fair value of SCUSA implicit in the public offering. The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Cash and balances with central banks	1,185
Financial assets held for trading	22
Loans and receivables - Loans and advances to customers (*)	16,113
Tangible assets	1,636
Intangible assets (**)	503
Other assets	1,172
Total assets	20,631
Deposits from credit institutions	6,191
Marketable debt securities and other financial liabilities (***)	11,256
Provisions	11
Other liabilities	935
Total liabilities	18,393
Net asset value	2,238
Non-controlling interests	(879)
Fair value of employee share option plans	(94)
Fair value of previously held investment	3,747
Goodwill	**2,482**

(*) The estimate of fair value included gains of EUR 18 million.

(**) The valuation work identified the following intangible assets additional to those already existing:

- Relationships with dealer networks amounting to EUR 429 million with an average amortisation period of approximately 17 years.
- Trademarks amounting to EUR 37 million.

(***) In the estimate of fair value, the value of marketable debt securities increased by EUR 117 million.

In order to determine the fair value of loans and receivables, the loans and receivables were segregated into portfolios of loans with similar features and for each portfolio the present value of the cash flows expected to be received was calculated on the basis of the estimated future losses and prepayment rates.

The goodwill is attributable to the capability and experience of SCUSA's employees and management team.

As a result of the aforementioned transaction, the Group recognised a gain net of tax of EUR 730 million at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014 (see Notes 27 and 49), of which EUR 688 million related to the recognition at fair value of the ownership interest held by the Group.

Had the business combination taken place on 1 January 2014, the results contributed to the Group by SCUSA would not have varied significantly from those recognised in the consolidated income statement for 2014.

Also, on 3 July 2015, the Group announced that it had reached an agreement to purchase the 9.68% ownership interest held by DDFS LLC in SCUSA for USD 928 million. Following this transaction, which is subject to the obtainment of the relevant regulatory authorisations, the Group will have an ownership interest of approximately 68.62% in SCUSA.

viii. Agreement with El Corte Inglés

On 7 October 2013, the Group announced that it had entered into a strategic agreement through its subsidiary Santander Consumer Finance, S.A. with El Corte Inglés, S.A. in the area of consumer finance, which included the acquisition of 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A., with El Corte Inglés, S.A. retaining the remaining 49%. On 27 February 2014, following the obtainment of the relevant regulatory and competition authorisations, the acquisition was completed. Santander Consumer Finance, S.A. paid EUR 140 million for 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Loans and advances to credit institutions	29
Loans and receivables - Loans and advances to customers	1,291
Intangible assets	2
Other assets	22
Total assets	1,344
Deposits from credit institutions	173
Customer deposits	81
Marketable debt securities	585
Provisions	3
Other liabilities	290
Total liabilities	1,132
Net asset value	212
Non-controlling interests	(104)
Consideration paid	140
Goodwill	**32**

In 2014 Financiera El Corte Inglés E.F.C., S.A. contributed EUR 26 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed would not have varied significantly.

ix. Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H., S.A.

On 7 April 2014, Banco Santander (Brasil), S.A. announced that it had reached an agreement to purchase through an investee all the shares of Getnet Tecnologia Em Captura e Processamento de Transações

H.U.A.H., S.A. ("Getnet"). The transaction was completed on 31 July 2014 and the price was set at BRL 1,156 million (approximately EUR 383 million), giving rise to goodwill of EUR 229 million, which was included in the Banco Santander (Brasil) cash-generating unit (see Note 17).

Among the agreements reached, the Group granted a put option to the non-controlling shareholders of Getnet Adquirência e Serviços para Meios de Pagamento, S.A. on all the shares held by them (11.5% of the share capital of this company). The Group recognised the corresponding liability amounting to EUR 308 million with a charge to equity.

In 2014 Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H., S.A. contributed EUR 11 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed to the Group in 2014 would have been approximately EUR 21 million.

x. Banco Santander (Brasil), S.A.

In January and March 2012 the Group transferred shares representing 4.41% and 0.77% of Banco Santander (Brasil), S.A. to two leading international financial institutions that undertook to deliver these shares to the holders of the bonds convertible into shares of Banco Santander (Brasil), S.A. issued by Banco Santander, S.A. in October 2010 upon the maturity of the bonds. This transaction did not give rise to any change in the Group's equity.

The delivery of the aforementioned shares took place on 7 November 2013.

Acquisition of non-controlling interests in Banco Santander (Brasil), S.A.

On 28 April 2014, the Bank's board of directors approved a bid for the acquisition of all the shares of Banco Santander (Brasil), S.A. not then owned by the Group, which represented approximately 25% of the share capital of Banco Santander (Brasil), S.A., offering in consideration Bank shares in the form of Brazilian Depositary Receipts (BDRs) or American Depositary Receipts (ADRs). As part of the bid, the Bank requested that its shares be listed on the São Paulo Stock Exchange in the form of BDRs.

The offer was voluntary, in that the non-controlling shareholders of Banco Santander (Brasil), S.A. were not obliged to participate, and it was not conditional upon a minimum acceptance level. The consideration offered, following the adjustment made as a result of the application of the Santander Dividendo Elección scrip dividend scheme in October 2014, consisted of 0.7152 new Banco Santander shares for each unit or ADR of Banco Santander (Brasil), S.A. and 0.3576 new Banco Santander shares for each ordinary or preference share of Banco Santander (Brasil), S.A.

The bid was accepted by holders of 13.65% of the share capital of Banco Santander (Brasil), S.A. Accordingly, the Group's ownership interest in Banco Santander (Brasil), S.A. rose to 88.30% of its share capital. To cater for the exchange, the Bank, executing the agreement adopted by the extraordinary general meeting held on 15 September 2014, issued 370,937,066 shares, representing approximately 3.09% of the Bank's share capital at the issue date. The aforementioned transaction gave rise to an increase of EUR 185 million in Share capital, EUR 2,372 million in Share premium and EUR 15 million in Reserves, and a reduction of EUR 2,572 million in Non-controlling interests.

The shares of Banco Santander (Brasil), S.A. continue to be listed on the São Paulo and New York stock exchanges.

xi. Agreement with CNP

On 10 July 2014, the Bank announced that it had reached an agreement for the French insurance company CNP to acquire a 51% stake in the three insurance companies based in Ireland (Santander Insurance Life

Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited) that distribute life and non-life products through the Santander Consumer Finance network.

In December 2014, after the regulatory authorisations had been obtained, CNP paid EUR 297 million to acquire 51% of the share capital of the three aforementioned insurance companies and, therefore, control thereof. The agreement also included deferred payments to CNP in 2017 and 2020, and deferred amounts receivable by the Group in 2017, 2020 and 2023, based on the business plan.

The aforementioned agreement included the execution of a 20-year retail agreement, renewable for five-year periods, for the sale of life and non-life insurance products through the Santander Consumer Finance network, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of EUR 413 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale (see Note 49), of which EUR 207 million related to the fair value recognition of the 49% ownership interest retained by the Group.

xii. Agreement with GE Capital

On 23 June 2014, the Group announced that Santander Consumer Finance, S.A., the Group's consumer finance unit, had reached an agreement with GE Money Nordic Holding AB to acquire GE Capital's business in Sweden, Denmark and Norway for approximately EUR 693 million (SEK 6,408 million). On 6 November 2014, following the obtainment of the relevant authorisations, the acquisition was completed.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Cash and balances with central banks	28
Loans and advances to credit institutions	179
Loans and receivables - Loans and advances to customers (*)	2,099
Intangible assets	22
Other assets	62
Total assets	2,390
Deposits from credit institutions	1,159
Customer deposits	769
Subordinated liabilities	81
Other liabilities	79
Total liabilities	2,088
Net asset value	302
Consideration paid	693
Goodwill	**391**

(*) In estimating their fair value, the value of the loans was reduced by EUR 75 million.

In 2014 this business contributed EUR 8 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed to the Group in 2014 would have been approximately EUR 94 million.

xiii. Agreement with Banque PSA Finance

The Group, through its subsidiary Santander Consumer Finance, S.A., and Banque PSA Finance, the vehicle financing unit of the PSA Peugeot Citroën Group, entered into an agreement in 2014 for the operation of the vehicle financing business in twelve European countries. Pursuant to the terms of the agreement, the Group will finance this business, under certain circumstances and conditions, from the date on which the transaction is completed. In addition, in certain countries, the Group will purchase a portion of the current lending portfolio of Banque PSA Finance. A cooperation agreement for the insurance business in all these countries is also included.

In January 2015 the related regulatory authorisations to commence activities in France and the United Kingdom were obtained and, accordingly, on 2 February 2015 the Group acquired 50% of Société Financière de Banque - SOFIB and PSA Finance UK Limited for EUR 462 million and EUR 148 million, respectively.

In addition, under the framework agreement, PSA Insurance Europe Limited and PSA Life Insurance Europe Limited (both insurance companies with registered office in Malta) were incorporated on 1 May, in which the Group contributed 50% of the share capital, amounting to EUR 23 million. On 3 August the Group acquired a full ownership interest in PSA Gestão - Comércio E Aluguer de Veiculos, S.A. (a company with registered office in Portugal) and the loan portfolio of the Portuguese branch of Banque PSA Finance for EUR 10 million and EUR 25 million, respectively. On 1 October PSA Financial Services Spain, E.F.C., S.A. (a company with registered office in Spain) was incorporated, in which the Group contributed EUR 181 million (50% of the share capital).

In 2015 these businesses contributed EUR 121 million to the Group's profit. Had the business combination taken place on 1 January 2015, the profit contributed to the Group in 2015 would have been approximately EUR 159 million.

xiv. Carfinco Financial Group

On 16 September 2014, the Bank announced that it had reached an agreement to purchase the listed Canadian company Carfinco Financial Group Inc. (“Carfinco”), a company specialising in vehicle financing.

In order to acquire Carfinco, Santander Holding Canada Inc. was incorporated, a company 96.4% owned by Banco Santander, S.A. and 3.6% owned by certain members of the former management group. On 6 March 2015, all of Carfinco was acquired through the aforementioned holding company for EUR 209 million, giving rise to goodwill of EUR 162 million.

In 2015 this business contributed EUR 6 million to the Group’s profit. Had the business combination taken place on 1 January 2015, the profit contributed to the Group in 2015 would have been approximately EUR 7 million.

xv. Metrovacesa

On 19 December 2012, the creditor entities that had participated in a debt restructuring agreement for the Sanahuja Group, under which they received shares of Metrovacesa, S.A. as dation in payment for that group's debt, announced that they had reached an agreement to promote the delisting of the shares of Metrovacesa, S.A. and they voted in favour of this at the general meeting held for this purpose on 29 January 2013. Following the approval of the delisting and the public takeover offer at the Metrovacesa, S.A. general meeting, the entities made a delisting public takeover offer of EUR 2.28 per share to the Metrovacesa, S.A. shareholders that had not entered into the agreement. The Group participated in the delisting public takeover offer by acquiring an additional 1.953% of Metrovacesa, S.A. for EUR 44 million.

Following this transaction, at 31 December 2013, the Group held an ownership interest of 36.82% in the share capital of Metrovacesa, S.A.

On 23 December 2014, the Group acquired 19.07% of Metrovacesa, S.A. from Bankia, S.A. for EUR 98.9 million, as a result of which its stake increased to 55.89%, thus obtaining control over this company.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Loans and receivables	256
Tangible assets (*)	3,522
Deferred tax assets	364
Other assets (**)	1,181
Total assets	5,323
Deposits from credit institutions	3,359
Deferred tax liabilities	382
Other liabilities	226
Total liabilities	3,967
Net asset value	1,356
Non-controlling interests	(598)
Consideration paid plus fair value of the previously held investment	598
Gain on the acquisition	*160*
Effect of the fair value recognition of the previously held investment on profit or loss	*(143)*
Net effect recognised in profit or loss	17

(*) Relating mainly to leased assets recognised at fair value by the acquiree and recognised under Tangible assets - Investment property.

(**) Including mainly Inventories. The estimate of fair value includes gains of EUR 268 million.

The fair value of the investment held was calculated using the fair value of the net assets and liabilities at the acquisition-date fair value.

The measurement at fair value of the investment held prior to the acquisition of control had an adverse effect of EUR 143 million on profit or loss in 2014. Consequently, the aforementioned transaction gave rise to the recognition of a gain of EUR 17 million in the consolidated income statement for 2014.

The results contributed by Metrovacesa, S.A. until 23 December 2014, the date of the business combination, are broken down in Note 41.

Lastly, on 15 September 2015, the Group acquired 13.8% of Metrovacesa, S.A. from Banco Sabadell, S.A. for EUR 253 million, raising its ownership interest to 72.51%, this transaction gave rise to an increase of EUR 18 million in reserves.

xvi. Banco Internacional do Funchal (Banif)

On 21 December 2015, the Group announced that the Bank of Portugal, as the ruling authority, decided to award Banco Santander Totta, S.A., the Portuguese subsidiary of Banco Santander, S.A., the commercial business of BANIF- Banco Internacional do Funchal, S.A. and, accordingly, the businesses and branches of this entity became part of the Group.

The transaction was performed through the transfer of a substantial portion (commercial banking business) of the assets and liabilities of BANIF- Banco Internacional do Funchal, S.A. for which the Group paid EUR 150 million.

The detail of the provisional fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Cash and balances with central banks	2,510
Loans and advances to credit institutions	424
Debt instruments	1,824
Loans and advances to customers	5,320
Other assets	218
Total assets	10,296
Deposits from central banks	2,110
Deposits from credit institutions	1,052
Customer deposits	4,430
Marketable debt securities	1,697
Other liabilities	574
Total liabilities	9,863
Net asset value	433
Consideration paid	150
Gain on the acquisition	**283**

Since the acquisition took place by the end of December 2015, these businesses did not contribute materially to the Group's profit.

xvii. Custody business

On 19 June 2014, the Group announced that it had reached an agreement with FINESP Holdings II B.V., a subsidiary of Warburg Pincus, to sell a 50% stake in Santander's custody business in Spain, Mexico and Brazil. The remaining 50% will be retained by the Group. At 31 December 2015, the sale remained subject to the obtainment of the relevant regulatory authorisations.

xviii. Agreement with UniCredit, Warburg Pincus and General Atlantic

On 23 April 2015, the Group announced that, together with its partners Warburg Pincus and General Atlantic, it had entered into a heads of terms and exclusivity agreement with UniCredit, subject to the signing of the final agreement, to merge Santander Asset Management and Pioneer Investments.

The agreement provides for the creation of a new company comprising the local asset managers of Santander Asset Management and Pioneer Investments. The Group will have a 33.3% direct stake in the new company, UniCredit another 33.3%, and Warburg Pincus and General Atlantic will share a 33.3% stake. Pioneer Investments' operations in the United States will not be included in the new company but rather will be owned by UniCredit (50%) and Warburg Pincus and General Atlantic (50%).

On 11 November 2015, the final framework agreement was signed by UniCredit, Santander, Warburg Pincus and General Atlantic for the integration of these businesses in accordance with the aforementioned structure. At present the transactions is scheduled to be completed in 2016 once the preconditions established in the framework agreement have been met and the relevant regulatory authorisations have been obtained.

c) Off-shore entities

At the reporting date, under current Spanish legislation, the Group had ten subsidiaries resident in off-shore territories, although these territories are not considered to be tax havens as defined by the OECD and the

European Commission. Three of these subsidiaries are currently in liquidation and, over the next few years, four more subsidiaries are expected to be liquidated (one issuer and three companies which have reduced activity or are inactive).

Following these planned disposals, the Group would have three substantially inactive off-shore subsidiaries in Jersey and the Isle of Man:

- Abbey National International Limited (Jersey), which is substantially inactive following the transfer in 2015 of most of its business to the Jersey branch of Santander UK plc.
- Whitewick Limited (Jersey), an inactive company.
- ALIL Services Limited (Isle of Man), currently providing substantially reduced services.

The individual results of the three subsidiaries listed above, calculated in accordance with local accounting principles, are shown in the Appendices to these notes to the consolidated financial statements together with other data thereon.

These three subsidiaries contributed a profit of approximately EUR 11 million to the Group's consolidated profit in 2015.

Also, the Group has five branches: three in the Cayman Islands, one in the Isle of Man and one in Jersey. These branches report to, and consolidate their balance sheets and income statements with, their respective foreign parents.

The aforementioned jurisdictions had 118 employees in total at December 2015.

In 2015 Spain signed information exchange agreements with Jersey, Guernsey and the Isle of Man, which are expected to enter into force in 2016. An agreement is also expected to be signed in the future with the Cayman Islands. All these territories will cease to be tax havens under Spanish law when the aforementioned agreements come into force and, consequently, the Group would no longer have any entities in off-shore territories. In addition, these jurisdictions have successfully passed the evaluations conducted by the Global Forum on Transparency and Exchange of Information for Tax Purposes, and are not considered to be tax havens by the OECD. Furthermore, they are not considered to be off-shore centres by the European Commission.

Also, the Group manages from Brazil a segregated portfolio company called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and manages from the United Kingdom a protected cell company in Guernsey called Guaranteed Investment Products 1 PCC Limited. The Group also has, directly or indirectly, certain financial investments located in tax havens including Olivant Limited in Guernsey.

The Group also has five subsidiaries domiciled in off-shore territories that are not considered to be off-shore entities since they are resident for tax purposes in, and operate exclusively from, the UK (two of these subsidiaries are expected to be liquidated in 2016).

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational and legal risk arising at these entities. Also, the Group has continued to implement its policy to reduce the number of off-shore units. The financial statements of the Group’s off-shore units are audited by member firms of Deloitte.

4. Distribution of the Bank's profit, shareholder remuneration scheme and earnings per share

a) Distribution of the Bank’s profit and shareholder remuneration scheme

The distribution of the Bank's net profit for 2015 that the board of directors will propose for approval by the shareholders at the annual general meeting is as follows:

	Millions of euros
First and third interim dividends and final dividend	2,159
Acquisition, with a waiver of exercise, of bonus share rights from the shareholders which, under the Santander Dividendo Elección scrip dividend scheme, opted to receive in cash remuneration equivalent to the second interim dividend	109
	2,268
Of which:	
Approved at 31 December 2015 (*)	*1,546*
Final dividend	*722*
To voluntary reserves	9
Net profit for the year	**2,277**

(*) Recognised under Shareholders' equity - Dividends and remuneration.

In addition to the EUR 2,268 million indicated above, EUR 607 million in shares were allocated to the remuneration of shareholders under the shareholder remuneration scheme (Santander Dividendo Elección) approved by the shareholders at the annual general meeting held on 27 March 2015, whereby the Bank offered shareholders the possibility to opt to receive an amount equivalent to the second interim dividend out of 2015 profit in cash or new shares.

The board of directors will propose to the shareholders at the annual general meeting that remuneration of EUR 0.20 per share be paid for 2015.

b) *Earnings per share from continuing and discontinued operations*

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - see Note 23) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	31/12/15	31/12/14	31/12/13
Profit attributable to the Group (millions of euros)	5,966	5,816	4,175
Remuneration of contingently convertible preference shares (millions of euros)	(276)	(131)	-
	5,690	5,685	4,175
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	-	*(26)*	*(15)*
Profit from continuing operations (net of non-controlling interests) (millions of euros)	*5,690*	*5,711*	*4,190*
Weighted average number of shares outstanding	14,113,617,450	11,858,689,721	10,836,110,583
Adjusted number of shares	14,113,617,450	11,858,689,721	10,836,110,583
Basic earnings per share (euros)	**0.40**	**0.48**	**0.39**
Basic earnings per share from discontinued operations (euros)	**0.00**	**(0.00)**	**(0.00)**
Basic earnings per share from continuing operations (euros)	**0.40**	**0.48**	**0.39**

ii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - see Note 23) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	31/12/15	31/12/14	31/12/13
Profit attributable to the Group (millions of euros)	5,966	5,816	4,175
Remuneration of contingently convertible preference shares (millions of euros)	(276)	(131)	-
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-	-
	5,690	5,685	4,175
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	-	*(26)*	(15)
Profit from continuing operations (net of non-controlling interests) (millions of euros)	*5,690*	*5,711*	4,190
Weighted average number of shares outstanding	14,113,617,450	11,858,689,721	10,836,110,583
Dilutive effect of options/rights on shares	26,779,882	29,829,103	51,722,251
Adjusted number of shares	14,140,397,332	11,888,518,824	10,887,832,834
Diluted earnings per share (euros)	**0.40**	**0.48**	**0.38**
Diluted earnings per share from discontinued operations (euros)	**0.00**	**(0.00)**	**(0.00)**
Diluted earnings per share from continuing operations (euros)	**0.40**	**0.48**	**0.38**

5. Remuneration and other benefits paid to the Bank's directors and senior managers

The following sections of this Note contain qualitative and quantitative disclosures on the remuneration paid to the members of the board of directors -both executive and non-executive directors- and senior managers for 2015 and 2014. These disclosures include the information relating to all the members of the board of directors or senior managers who formed part of these governing bodies in 2015 even if retired at some time during the year.

Following is a summary of the remuneration paid to the Bank’s executive directors and senior managers who formed part of these governing bodies at the end of 2015 and 2014:

	Thousands of euros		
	2015	2014	
Current executive directors	24,692	22,364	
Current senior managers	56,076	81,785	
	80,768	**104,419**	**-22.7%**

a) Remuneration of directors

i. Bylaw-stipulated emoluments

The annual general meeting held on 22 March 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual general meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the board of directors may elect to reduce the amount in any years in which it deems such action justified. The remuneration established for 2015 by the annual general meeting, as for 2014, was EUR 6 million, with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the board of directors. For such purpose, it takes into consideration the positions held by each director on the board, their membership of the board and the board committees and their attendance of the meetings thereof, and any other objective circumstances considered by the board.

The total bylaw-stipulated emoluments earned by the directors in 2015 amounted to EUR 5.2 million.

Annual emolument

The amounts received individually by the directors in 2015 and 2014 based on the positions held by them on the board and their membership of the board committees were as follows:

	Euros	
	2015	2014
Members of the board of directors	84,954	84,954
Members of the executive committee	170,383	170,383
Members of the audit committee	39,551	39,551
Members of the appointments committee	23,730	23,730
Members of the remuneration committee	23,730	23,730
Members of the risk, regulation and compliance oversight committee	39,551	20,697
Chairman of the appointments committee	50,000	-
Chairman of the remuneration committee	50,000	-
Chairman of the risk, regulation and compliance oversight committee	50,000	26,164
Coordinating director	111,017	-
Non-executive deputy chairmen	28,477	28,477

Attendance fees

The directors receive fees for attending board and committee meetings, excluding executive committee meetings, since no attendance fees are received for this committee.

By resolution of the board of directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings -excluding executive committee meetings, for which no attendance fees have been established- have remained unchanged since 2008.

	Euros
Meeting attendance fees	2008-2015
Board of directors	
Resident directors	2,540
Non-resident directors	2,057
Executive risk committee, audit committee and risk, regulation and compliance oversight committee	
Resident directors	1,650
Non-resident directors	1,335
Other committees (except the executive committee)	
Resident directors	1,270
Non-resident directors	1,028

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the general meeting, salaries are composed of fixed annual remuneration and variable remuneration comprising, in turn, the so-called deferred conditional variable remuneration plan (bonus) and a Long-term incentive (Performance Share Plan or "ILP") (see Note 47).

The deferred conditional variable remuneration plan (bonus), the fifth cycle of which was approved in 2015, has a payment schedule similar to that of previous cycles (see Note 47). Accordingly, 40% of the bonus is determined at year-end on the basis of the achievement of the targets set, and is paid immediately, while the remaining 60% is deferred over five years (2014: three years), for it to be paid, as the case may be, in five portions (2014: three portions) on the achievement of the conditions stipulated for the payment of each portion. Both the immediate (short-term) and deferred (long-term, conditional) payments are settled 50% in cash and 50% in Santander shares.

The ILP for the executive directors was set in 2015 by the board, at the proposal of the remuneration committee, at a maximum benchmark value of 20% of the bonus (2014: 15%). Based on the maximum benchmark value, at the proposal of the remuneration committee and in view of the Group's earnings per share and return on tangible equity (ROTE) for 2015 with respect to the budgets, the board of directors determined for each executive director the "Agreed ILP Amount" in euros, which in turn determines, for each executive director, the maximum number of shares that the executive director may, as the case may be, receive; this number was calculated taking into account the market price of the Santander share in the 15 trading sessions prior to 26 January 2016, which was EUR 3.971 per share. The accrual and the amount of this variable remuneration are linked to the achievement of the multiannual targets described in Note 47, and it will be deferred over three years and paid, as the case may be, in early 2019.

iii. Detail by director

The detail, by Bank director, of the short-term (immediate payment) remuneration for 2015 and 2014 is provided below:

Directors	Thousands of euros														
	2015														2014
	Bylaw-stipulated emoluments								Short-term salaries of executive directors						
	Annual emolument						Attendance fees							Total	Total
										Variable - immediate payment					
	Board	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk, regulation and compliance oversight committee	Board	Other fees	Fixed	In cash	In shares	Total	Other remuneration (a)		
Ms. Ana Botín-Sanz de Sautuola y O'Shea															
Chief executive officer of Santander UK	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,010
Chair	85	170	-	-	-	-	53	-	2,500	840	840	4,180	396	4,884	1,453
Mr. José Antonio Álvarez Álvarez (1)	85	170	-	-	-	-	48	38	2,000	558	558	3,116	1,468	4,925	-
Mr. Rodrigo Echenique Gordillo (2)	85	170	-	-	-	-	51	88	1,500	414	414	2,328	26	2,748	526
Mr. Matías Rodríguez Inciarte	85	170	-	-	-	-	53	132	1,710	573	573	2,856	169	3,465	3,484
Mr. Guillermo de la Dehesa Romero	113	170	-	24	24	40	53	49	-	-	-	-	-	473	436
Mr. Bruce Carnegie-Brown (3)	374	170	-	24	24	40	35	33	-	-	-	-	-	700	-
Mr. Ignacio Benjumea Cabeza de Vaca (4)	24	47	-	7	7	10	10	32	-	-	-	-	242	379	-
Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea (5)	85	-	-	-	-	-	35	-	-	-	-	-	-	120	110
Ms. Sol Daurella Comadrán (6)	85	-	-	24	24	-	38	11	-	-	-	-	-	183	-
Mr. Carlos Fernández González (7)	85	-	40	24	-	40	31	34	-	-	-	-	-	254	-
Ms. Esther Giménez-Salinas i Colomer	85	-	-	-	-	-	48	-	-	-	-	-	-	133	121
Mr. Ángel Jado Becerro de Bengoa	85	-	40	24	24	40	53	161	-	-	-	-	-	427	152
Ms. Belén Romana García (8)	2	-	1	-	-	-	2		-	-	-	-	-	5	-
Ms. Isabel Tocino Biscarolasaga	85	170	40	-	24	40	53	178	-	-	-	-	-	590	485
Mr. Juan Miguel Villar Mir	85	-	40	-	-	40	48	33	-	-	-	-	-	246	105
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos (9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,129
Mr. Fernando de Asúa Álvarez (10)	43	20	5	3	3	5	10	27	-	-	-	-	-	116	645
Ms. Sheila Bair (11)	64	-	-	-	-	30	31	12	-	-	-	-	-	137	129
Mr. Vittorio Corbo Lioi (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56
Mr. Javier Marín Romano (13)	3	6	-	-	-	-	-	-	165	-	-	165	47	221	3,934
Mr. Abel Matutes Juan (14)	11	-	5	3	-	-	8	5	-	-	-	-	-	32	183
Mr. Juan Rodríguez Inciarte (15)	42	-	-	-	-	-	38	61	600	220	220	1,040	153	1,334	2,484
Total 2015	**1,612**	**1,266**	**169**	**131**	**128**	**282**	**701**	**894**	**8,475**	**2,605**	**2,605**	**13,685**	**2,501**	**21,372**	**-**
Of which: Current directors	*1,448*	*1,240*	*159*	*125*	*125*	*247*	*614*	*789*	*7,710*	*2,385*	*2,385*	*12,480*	*2,301*	*19,532*	-
Total 2014	**1,347**	**1,310**	**131**	**57**	**57**	**18**	**484**	**873**	**8,065**	**2,564**	**2,564**	**13,193**	**884**	**-**	**18,354**

(1) Appointed chief executive officer effective from 13 January 2015. Remuneration as executive vice president in 2014 is included in Note 5.g.
(2) Executive director since 16 January 2015.
(3) Appointed director effective from 12 February 2015.
(4) Appointed director effective from 21 September 2015. Remuneration as executive vice president received prior to this date is included in Note 5.g.
(5) All the amounts received were repaid to the Fundación Marcelino Botín.
(6) Appointed director effective from 18 February 2015.
(7) Appointed director effective from 12 February 2015.
(8) Appointed director effective from 22 December 2015.
(9) Ceased to be a member of the board due to his death on 9 September 2014.
(10) Ceased to be a director on 12 February 2015.
(11) Ceased to be a member of the board on 1 October 2015.
(12) Ceased to be a member of the board on 24 July 2014.
(13) Ceased to be a member of the board and chief executive officer 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 this date and removal from office as executive vice president (1 January 2016) is included in Note 5.g.
(a) Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors.

Following is the detail, by executive director, of the deferred (i.e. long-term) salaries, which will only be received if the conditions of continued service, non-applicability of “malus” clauses and, in the case of the ILP, full achievement of the objectives established (or, as the case may be, of the minimum thresholds thereof, with the consequent reduction of the agreed-upon amount of the ILP) in the terms described in Note 47.

	Thousands of euros				
	2015				2014
	Long-term salaries				
	Variable - Deferred payment (1)				
	In cash	In shares	ILP(2)	Total	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea					
Chief executive officer of Santander UK	-	-	-	-	1,468
Chair	1,260	1,260	512	3,032	930
Mr. José Antonio Álvarez Álvarez	838	838	346	2,022	-
Mr. Rodrigo Echenique Gordillo	620	620	256	1,496	-
Mr. Matías Rodríguez Inciarte	860	860	400	2,120	1,890
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-
Mr. Javier Marín Romano	-	-	-	-	2,527
Mr. Juan Rodríguez Inciarte (3)	330	330	141	801	1,454
Total 2015	**3,908**	**3,908**	**1,655**	**9,471**	**-**
Total 2014	**3,846**	**3,846**	**577**	**-**	**8,269**

(1) The maximum amount receivable in a total of five years: 2017, 2018, 2019, 2020 and 2021 subject to continued service, with the exceptions provided for, and the non-applicability of “malus” clauses.

(2) The estimated fair value at the plan grant date, taking into account various possible scenarios regarding the performance of the various plan variables in the measurement periods (see Note 47).

(3) Ceased to be a member of the board on 30 June 2015 and executive vice president on 1 January 2016. Long-term salary remuneration between this date and removal from office as executive vice president (1 January 2016) is included in Note 5.g.

Note 5.e) below includes disclosures on the shares delivered by virtue of the deferred remuneration schemes in place in previous years the conditions for delivery of which were met in the corresponding years, and on the maximum number of shares receivable in future years in connection with the aforementioned 2015 and 2014 variable remuneration plans.

b) Remuneration of the board members as representatives of the Bank

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the boards of directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after 18 March 2002, accrues to the Group. In 2015 and 2014 the Bank's directors did not receive any remuneration in respect of these representative duties.

Mr. Matías Rodríguez Inciarte received EUR 42 thousand as non-executive director of U.C.I., S.A. in 2015 and 2014.

c) *Post-employment and other long-term benefits*

In 2012, within the framework of the measures implemented by the Group in order to mitigate the risks arising from the defined-benefit pension obligations payable to certain employees, which led to an agreement with the workers' representatives to convert the defined-benefit obligations existing under the collective agreement into defined-contribution plans, the contracts of the executive directors and the other members of the Bank's senior management -the senior executives- which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. This system grants the executive directors the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank's employ at the time, based on the contributions made to the aforementioned system, and replaced the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executive directors other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made as described below[1]. In the event of pre-retirement, the executive directors who have not exercised the option to receive their pensions in the form of a lump sum are entitled to receive an annual emolument until the date of retirement.

The initial balance for each executive director in the new defined-contribution welfare system was that corresponding to the market value of the assets in which the provisions for the respective accrued obligations had been invested, at the date on which the former pension obligations were converted into the new welfare system[2].

Since 2013 the Bank has made annual contributions to the employee welfare system for the benefit of the executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group, or until their retirement from the Group, death or disability (including, as the case may be, during the pre-retirement period). No contributions are made for the executive directors and senior executives who, prior to the conversion of the defined-benefit pension obligations into the current defined-contribution employee welfare system, had exercised the option to receive their pension rights in a lump sum[3].

The terms of the employee welfare system regulate the impact of the deferral of the computable variable remuneration on the benefit payments covered by the system upon retirement and, as the case may be, the withholding tax on shares arising from such remuneration.

In 2015, as a result of his appointment as chief executive officer, changes were introduced to the contract of Mr. José Antonio Álvarez Álvarez with respect to the pension obligations stipulated in his senior management contract. The annual contribution to the employee welfare system was thereafter calculated as 55% of the sum of: (i) the fixed annual remuneration; and (ii) 30% of the arithmetic mean of the last three gross amounts of variable remuneration. The pensionable base in the event of death or disability is 100% of his fixed remuneration. Under his senior management contract the annual

[1] As provided for in the contracts of the executive directors and members of senior management prior to their modification, Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos and Mr. Matías Rodríguez Inciarte had exercised the option to receive the accrued pensions -or amounts similar thereto- in the form of a lump sum -i.e. in a single payment-, which meant that no further pension benefit would accrue to them from that time, and the lump sum to be received, which would be updated at the agreed-upon interest rate, was fixed.

[2] In the case of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos and Mr. Matías Rodríguez Inciarte, the initial balance corresponded to the amounts that were set when, as described above, they exercised the option to receive a lump sum, and includes the interest accrued on these amounts from that date.

[3] Mr. Rodrigo Echenique Gordillo, appointed executive director on 16 January 2015, does not participate in the welfare system and is not entitled to have any contributions made in his favour by the Bank in this connection, notwithstanding the pension rights to which he was entitled prior to his appointment as executive director.

contribution was 55.93% of his fixed remuneration, and the pensionable base in the event of death or disability was 100% of his fixed remuneration.

Following is a detail of the balances relating to each of the executive directors under the welfare system at 31 December 2015 and 2014:

	Thousands of euros	
	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea (1)	41,291	40,134
Mr. José Antonio Álvarez Álvarez (2)	14,167	-
Mr. Rodrigo Echenique Gordillo	14,623	14,946 (3)
Mr. Matías Rodríguez Inciarte	47,745	47,255
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	- (4)
Mr. Javier Marín Romano (5)	-	4,523
Mr. Juan Rodríguez Inciarte	- (6)	13,730
	117,826	**120,588**

(1) Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.

(2) Member of the board and chief executive officer of the Bank effective from 13 January 2015.

(3) Executive director since 16 January 2015. The amount at 31 December 2014, which reflects the amount to which he was entitled as a director of the Bank, is included for comparison purposes.

(4) Following his death on 9 September 2014, a death benefit of the amount of the accumulated rights (EUR 26,498 thousand) was payable to the beneficiaries designated in the policy arranged under the welfare system.

(5) Ceased to be a director on 12 January 2015 and took voluntary pre-retirement, as provided for in his contract; he opted to receive the annual pre-retirement emoluments to which he was entitled (EUR 800 thousand gross) in a single payment (EUR 10,861 thousand gross). As stipulated in his contract, the Bank will make annual contributions to the welfare system, amounting to 55% of this director's annual emolument during the pre-retirement period, and Mr. Marín will be entitled to receive, at the time of his retirement, the retirement benefit recognised in the welfare system, equal to the amount of the balance accumulated in the system corresponding to him at that time. The balance accrued at 31 December 2015 amounted to EUR 4,869 thousand and the Bank had recognised a provision of EUR 6,336 thousand in relation to future contributions. As regards the deferred variable remuneration corresponding to Mr. Marín in relation to years prior to his pre-retirement, the scheme described in the relevant sections of this report shall apply, and Mr. Marín will receive this remuneration, if appropriate, on the dates envisaged in the corresponding plans, subject to the stipulated conditions for its accrual being met.

(6) Ceased to be a director on 30 June 2015 and executive vice president on 1 January 2016, and retained his pension rights, amounting to EUR 14,188 thousand at 31 December 2015.

The Group also has pension obligations to other directors amounting to EUR 2.4 million (31 December 2014: EUR 3 million). The payments made in 2015 to the members of the board entitled to post-employment benefits amounted to EUR 1.2 million (2014: EUR 1.2 million).

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

The provisions recognised in 2015 and 2014 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

	Thousands of euros	
	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	2,302	2,140
Mr. José Antonio Álvarez Álvarez	2,677	-
Mr. Rodrigo Echenique Gordillo	-	-
Mr. Matías Rodríguez Inciarte	-	-
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr. Javier Marín Romano	484	2,126
Mr. Juan Rodríguez Inciarte	849	718
	6,312	**4,984**

d) Insurance

The Group has taken out life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

	Insured sum (Thousands of euros)	
	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	7,500	7,500
Mr. José Antonio Álvarez Álvarez	6,000	-
Mr. Rodrigo Echenique Gordillo	1,385	-
Mr. Matías Rodríguez Inciarte	5,131	5,131
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr. Javier Marín Romano	2,400	2,400
Mr. Juan Rodríguez Inciarte	3,600	2,961
	26,016	**17,992**

Additionally, at 31 December 2014, other directors had life insurance policies the cost of which was borne by the Group, the related insured sum being EUR 1.4 million; at 31 December 2015, there were no obligations in this connection.

e) Deferred variable remuneration systems

Following is information on the maximum number of shares to which the executive directors are entitled at the beginning and end of 2014 and 2015 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2015 and prior years, as well as on the deliveries, whether shares or cash, made to them in 2014 and 2015 where the conditions for the receipt thereof had been met (see Note 47):

i) Deferred conditional delivery share plan

The 2010 variable remuneration of the executive directors and certain Group executives or employees was approved at the time by the board of directors through the instrumentation of the first cycle of the deferred conditional delivery share plan, whereby a portion of the aforementioned variable remuneration or bonus was deferred over a period of three years for it to be paid, where appropriate, in Santander shares.

In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the accrual of the share-based deferred remuneration is conditional upon none of the following circumstances existing, in the opinion of the board of directors, during the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in economic capital and the qualitative assessment of risk.

The share-based bonus was deferred over three years and would be paid, where appropriate, in three instalments starting in the first year. The shares relating to the third third were delivered in February 2014, once the conditions for the receipt thereof were met, and the plan was therefore settled:

	Number of shares delivered in 2014 (3rd third)
Ms. Ana Botín-Sanz de Sautuola y O'Shea (1)	*19,240*
Mr. Matías Rodríguez Inciarte	*45,063*
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	*31,448*
Mr. Javier Marín Romano	*12,583*
Mr. Juan Rodríguez Inciarte	*20,462*

(1) Shares of Banesto, as authorised by the shareholders of that entity at the annual general meeting of 23 February 2011. Following the merger of Banesto with the Bank, 19,240 shares of the Bank were delivered in 2014, equal to the 30,395 shares of Banesto authorised by the annual general meeting.

ii) Deferred conditional variable remuneration plan

Since 2011, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the board of directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorised by the related annual general meetings.

The purpose of these plans is to defer a portion of the bonus of the plan beneficiaries (60% in the case of executive directors) over a period of five years (three years for the plans approved up to 2014) for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee- in relation to the corresponding year in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall in each case be governed by the rules of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average prices for the 15 trading sessions prior to the date on which the board of directors approves the bonus for the Bank's executive directors for each year.

The table below shows the number of Santander shares assigned to each executive director and not yet delivered at 1 January 2014, 31 December 2014 and 31 December 2015, and the gross shares delivered to them in 2014 and 2015, by way of either immediate payment or deferred payment, in the latter case once the board had determined, at the proposal of the remuneration committee, that the third relating to each plan had accrued. The shares resulted from each of the plans which instrumented the variable remuneration of 2011, 2012, 2013, 2014 and 2015, as shown in the following table:

Share-based variable remuneration	**Maximum number of shares to be delivered at 1 January 2014**	Shares delivered in 2014 (immediate payment 2013 variable remuneration)	Shares delivered in 2014 (deferred payment 2012 variable remuneration)	Shares delivered in 2014 (deferred payment 2011 variable remuneration)	Variable remuneration 2014 (maximum number of shares to be delivered)	**Maximum number of shares to be delivered at 31 December 2014**	Shares delivered in 2015 (immediate payment 2014 variable remuneration)	Shares delivered in 2015 (deferred payment 2013 variable remuneration)	Shares delivered in 2015 (deferred payment 2012 variable remuneration)	Shares delivered in 2015 (deferred payment 2011 variable remuneration)	Variable remuneration 2015 (maximum number of shares to be delivered) [1]	**Maximum number of shares to be delivered at 31 December 2015[4]**
2011 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	94,001	-	-	(47,001)	-	47,000	-	-	-	(47,000)	-	-
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	32,038[3]	-	-	-	(32,038)	-	-
Mr. Matías Rodríguez Inciarte	125,756	-	-	(62,878)	-	62,878	-	-	-	(62,878)	-	-
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	99,551	-	-	(49,776)	-	49,775[2]	-	-	-	(49,775)	-	-
Mr. Javier Marín Romano	51,921	-	-	(25,961)	-	25,960	-	-	-	(25,960)	-	-
Mr. Juan Rodríguez Inciarte	73,380	-	-	(36,690)	-	36,690	-	-	-	(36,690)	-	-
	444,609	**-**	**-**	(222,306)	**-**	**254,341**	**-**	**-**	**-**	(254,341)	**-**	**-**
2012 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	104,874	-	(34,958)	-	-	69,916	-	-	(34,958)	-	-	34,958
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	48,093[3]	-	-	(24,047)	-	-	24,046
Mr. Matías Rodríguez Inciarte	124,589	-	(41,530)	-	-	83,059	-	-	(41,530)	-	-	41,529
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	65,927	-	(21,976)	-	-	43,951[2]	-	-	(21,976)	-	-	21,975[2]
Mr. Javier Marín Romano	58,454	-	(19,485)	-	-	38,969	-	-	(19,485)	-	-	19,484
Mr. Juan Rodríguez Inciarte	72,699	-	(24,233)	-	-	48,466	-	-	(24,233)	-	-	24,233
	426,543	**-**	(142,182)	**-**	**-**	**332,454**	**-**	**-**	(166,229)	**-**	**-**	**166,225**
2013 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	165,603	(66,241)	-	-	-	99,362	-	(33,121)	-	-	-	66,241
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	58,681[3]	-	(19,560)	-	-	-	39,121
Mr. Matías Rodríguez Inciarte	172,731	(69,092)	-	-	-	103,639	-	(34,546)	-	-	-	69,093
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	105,718	(42,287)	-	-	-	63,431[2]	-	(21,144)	-	-	-	42,287[2]
Mr. Javier Marín Romano	187,125	(74,850)	-	-	-	112,275	-	(37,425)	-	-	-	74,850
Mr. Juan Rodríguez Inciarte	110,747	(44,299)	-	-	-	66,448	-	(22,149)	-	-	-	44,299
	741,924	(296,769)	-	-	-	**503,836**	-	(167,945)	-	-	-	**335,891**
2014 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	304,073	304,073	(121,629)	-	-	-	-	182,444
Mr.. José Antonio Álvarez Álvarez	-	-	-	-	-	157,452[3]	(78,726)	-	-	-	-	78,726
Mr. Matías Rodríguez Inciarte	-	-	-	-	231,814	231,814	(92,726)	-	-	-	-	139,088
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-	-	-	-	-	-	-	-
Mr. Javier Marín Romano	-	-	-	-	320,563	320,563	(128,225)	-	-	-	-	192,338
Mr. Juan Rodríguez Inciarte	-	-	-	-	179,680	179,680	(71,872)	-	-	-	-	107,808
	-	-	-	-	1,036,130	**1,193,582**	(493,178)	-	-	-	-	**700,404**
2015 variable remuneration												
Ms. Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	-	-	-	-	-	-	528,834	528,834
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	-	-	-	-	-	351,523	351,523
Mr. Rodrigo Echenique Gordillo	-	-	-	-	-	-	-	-	-	-	260,388	260,388
Mr. Matías Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	-	361,118	361,118
Mr. Juan Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	-	138,505	138.505[5]
											1,640,368	**1,640,368**

(1) 40% of the shares indicated, for each director, relates to short-term (immediate payment) variable remuneration. The remaining 60% is deferred and will be delivered, where appropriate, in fifths over the following five years.
(2) The amounts corresponding to his participation in these plans accrue to his heirs in accordance with the plan regulations.
(3) Maximum number of shares corresponding to his participation in the related plans when he was an executive vice president.
(4) Also, Mr. Ignacio Benjumea Cabeza de Vaca is entitled to a maximum of 582,237 shares corresponding to his participation in the related plans when he was an executive vice president.
(5) Ceased to be a member of the board on 30 June 2015. The shares relating to his variable remuneration between this date and removal from office as executive vice president (1 January 2016) are included in Note 5.g.

Also, the table below shows the cash delivered in 2015 and 2014, by way of either immediate payment or deferred payment, in the latter case once the board had determined, at the proposal of the remuneration committee that the third relating to each plan had accrued:

	Thousands of euros			
	2015		2014	
	Cash paid (immediate payment 2014 variable remuneration)	Cash paid (third of deferred payment 2013, 2012 and 2011 variable remuneration)	Cash paid (immediate payment 2013 variable remuneration)	Cash paid (third of deferred payment 2012 and 2011 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	801	829	466	513
Mr. José Antonio Álvarez Álvarez (1)	487	468	-	-
Mr. Rodrigo Echenique Gordillo	-	-	-	-
Mr. Matías Rodríguez Inciarte	574	855	462	624
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-(2)	282	423
Mr. Javier Marín Romano	793	522	500	272
Mr. Juan Rodríguez Inciarte	445	512	296	364
	3,100	**3,186**	**2,005**	**2,197**

(1) Appointed chief executive officer effective from 13 January 2015.

(2) The amounts corresponding to his participation in these plans were paid to his heirs in accordance with the plan regulations.

iii) Performance share plan (ILP)

The table below shows the maximum number of shares to which the executive directors are entitled, as part of their variable remuneration for 2015 and 2014, as a result of their participation in the ILP (see Note 47).

	Maximum number of shares	
	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	184,337	62,395
Mr. José Antonio Álvarez Álvarez	124,427	48,982(1)
Mr. Rodrigo Echenique Gordillo	92,168	-
Mr. Matías Rodríguez Inciarte	143,782	75,655
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr. Javier Marín Romano	-	65,470
Mr. Juan Rodríguez Inciarte	50,693(2)	53,346
Total	**595,407**	**305,848**

(1) Relates to the maximum number of shares assigned to him as executive vice president.

(2) Ceased to be a member of the board on 30 June 2015. The shares relating to his variable remuneration between this date and removal from office as executive vice president (1 January 2016) are included in Note 5.g.

The accrual of the ILP and its amount are conditional on the performance of certain metrics of Banco Santander over a multiannual period (2015 to 2017 for the 2015 ILP, and 2014 to 2017 for the 2014 ILP). Accordingly, the amount to be received, as the case may be, by each executive director in relation to the 2015 ILP (the Accrued ILP Amount) will be determinable after the end of 2017. In the case of the 2014 ILP, the annual amount which, as the case may be, accrues to each executive director will be determined after the end of 2015, 2016 and 2017 by applying to one third of the Agreed ILP Amount the percentage resulting from the corresponding metrics (see Note 47). If the metrics are not achieved, the amount to be received could be zero.

The shares to be delivered in 2019 (in respect of the 2015 ILP) or on each ILP payment date (for the 2014 ILP) based on compliance with the related multiannual target are conditional, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee-, during the period prior to the delivery, as a result of actions performed in the year to which the plan relates: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

iv) Information on former members of the board of directors

Following is information on the maximum number of shares to which former members of the board of directors who ceased in office prior to 1 January 2014 are entitled for their participation in the various deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to the years in which they were executive directors. Also set forth below is information on the deliveries, whether shares or cash, made in 2015 and 2014 to former board members, upon achievement of the conditions for the receipt thereof (see Note 47):

Maximum number of shares to be delivered	31/12/15	31/12/14
Deferred conditional variable remuneration plan (2011)	-	189,181
Deferred conditional variable remuneration plan (2012)	54,607	109,212

Number of shares delivered	2015	2014
Deferred conditional delivery plan (2010)	-	155,810
Deferred conditional variable remuneration plan (2011)	189,181	189,181
Deferred conditional variable remuneration plan (2012)	54,605	54,605

In addition, EUR 1,424 thousand relating to the deferred portion payable in cash on the aforementioned plans were paid each in 2015 and 2014.

f) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on terms equivalent to those that prevail in arm's-length transactions or the related compensation in kind was recognised:

	Thousands of euros					
	2015			2014		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	46	-	46	-	-	-
Mr. José Antonio Álvarez	11	-	11	-	-	-
Mr. Matías Rodríguez Inciarte	13	-	13	8	-	8
Mr. Rodrigo Echenique Gordillo	24	-	24	317	-	317
Mr. Javier Botín-Sanz de Sautuola y O'Shea	6	-	6	18	-	18
Mr. Ángel Jado Becerro de Bengoa	2	-	2	1	-	1
Ms. Isabel Tocino Biscarolasaga	-	-	-	7	-	7
Mr. Javier Marín Romano	-	-	-	723	-	723
Mr. Juan Rodríguez Inciarte	-	-	-	4,182	-	4,182
	102	**-**	**102**	**5,255**	**-**	**5,255**

(1) Ceased to be a member of the board and executive vice president on 12 January 2015.

(2) Ceased to be a member of the board on 30 June 2015 and executive vice president on 1 January 2016. Positions held at the Group are included in Note 53.

g) *Senior managers*

In 2015 the Bank's board of directors approved a series of appointments and organisational changes aimed at simplifying the Group's organisation and rendering it more competitive.

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December 2015 and 2014, excluding the remuneration of the executive directors, which is detailed above:

		Thousands of euros				
		Short-term salaries				
			Variable remuneration (bonus) - Immediate payment			
	Number of persons	Fixed	In cash	In shares (2)	Other remuneration (1)	Total
2015	21	17,838	6,865	6,865	5,016	36,584
2014	25	24,772	9,259	9,259	12,729(3)	56,019

(1) Includes other remuneration items such as life insurance premiums totalling EUR 1,309 thousand (2014: EUR 1,290 thousand).

(2) The amount of the immediate payment in shares for 2015 relates to 1,726,893 Santander shares (2014: 1,514,738 Santander shares and 148,631 Banco Santander (Brasil) S.A. shares).

(3) Includes USD 6.9 million were paid in relation to the extraordinary taxation in the United States due to the transformation of the pension plans of Banco Santander, S.A.

Also, the detail of the deferred (i.e. long-term) salaries of the members of senior management at 31 December 2015 and 2014 is provided below. These remuneration payments shall be received, as the case may be, in the corresponding deferral periods upon achievement of the conditions stipulated for each payment (see Note 47).

		Thousands of euros			
		Long-term salaries			
		Variable remuneration - Deferred payment (1)			
	Number of persons	In cash	In shares	ILP(2)	Total
2015	21	7,880	7,880	3,732	19,492
2014	25	11,751	11,751	2,264	25,766

(1) Relates to the fifth and fourth cycles of the deferred conditional variable remuneration plan, whereby payment of a portion of the variable remuneration for 2015 and 2014 will be deferred over five or three years and three years, respectively, for it to be paid, where appropriate, in five or three equal portions, 50% in cash and 50% in Santander shares, provided that the conditions for entitlement to the remuneration are met.

(2) Relates to the estimated fair value of the ILP. The accrual and amount of the ILP are subject, inter alia, to achievement of the multiannual targets envisaged in the plan. Any ILP payments will be received in full in shares and deferred in 2019 -in the case of the second cycle approved in 2015, or in thirds in the case of the first cycle approved in 2014-.

Also, executive vice presidents who retired in 2015 and, therefore, were not members of senior management at year-end, received in 2015 salaries and other remuneration relating to their retirement amounting to EUR 17,803 thousand (EUR 3,349 thousand for those who retired in 2014), and remained entitled to long-term salary remuneration of EUR 7,123 thousand (EUR 1,342 thousand for those who retired in 2014).

Following is a detail of the maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive at 31 December 2015 and 2014 relating to the deferred portion under the various plans then in force (see Note 47):

Maximum number of shares to be delivered	31/12/15	31/12/14
Deferred conditional variable remuneration plan (2011)	-	637,995
Deferred conditional variable remuneration plan (2012)	447,214	1,014,196
Deferred conditional variable remuneration plan (2013) (1)	852,898	1,412,164
Deferred conditional variable remuneration plan (2014) (2)	1,802,779	1,857,841
Deferred conditional variable remuneration plan (2015) (3)	2,480,849	-
ILP (2014)	1,025,853	1,008,398
ILP (2015)	1,798,395	-

(1) Also, they were entitled to a maximum of 111,962 Banco Santander (Brasil) S.A. shares at 31 December 2015.

(2) In addition, at 31 December 2015 and 2014 they were entitled to a maximum of 222,946 Banco Santander (Brasil) S.A. shares (the maximum number of shares corresponding to the deferred portion of the 2014 bonus).

(3) Also, they were entitled to a maximum of 252,503 Banco Santander (Brasil) S.A. shares at 31 December 2015.

In 2015 and 2014, since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, in addition to the payment of the related cash amounts, the following number of Santander shares was delivered to the executive vice presidents:

Number of shares delivered	2015	2014
Deferred conditional delivery plan (2010)	-	365,487
Deferred conditional variable remuneration plan (2011)	550,064	637,996
Deferred conditional variable remuneration plan (2012)	447,212	507,098
Deferred conditional variable remuneration plan (2013)	426,449	-

As indicated in Note 5.c above, in 2012 the contracts of the members of the Bank's senior management which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros Compañía Aseguradora, S.A. The new system grants the senior executives the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank’s employ on that date, based on the contributions made to the aforementioned system, and replaces the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executives other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made. In the event of pre-retirement, the senior executives who have not exercised the option described in Note 5.c are entitled to an annual emolument until the date of retirement.

The senior executives' beginning balance under the new employee welfare system amounted to EUR 287 million. This balance reflects the market value, at the date of conversion of the former pension obligations into the new employee welfare system, of the assets in which the provisions for the respective accrued obligations had been invested. The balance at 31 December 2015 amounted to EUR 250 million (31 December 2014: EUR 296 million).

The contracts of the senior executives who had not exercised the option referred to in Note 5.c) prior to the conversion of the defined-benefit pension obligations into the current welfare system include a supplementary welfare regime for the contingencies of death (surviving spouse and child benefits) and permanent disability of serving executives.

In 2015 the number of executive vice presidents was reduced: two of them requested payment of the pensions to which they were entitled in a lump sum amounting to EUR 53.2 million, and an additional three took voluntary pre-retirement and opted to receive the annual pre-retirement emoluments to which they were entitled in a single payment amounting to EUR 21.5 million.

Additionally, the total sum insured under life and accident insurance policies relating to this group of employees amounted to EUR 76.8 million at 31 December 2015 (31 December 2014: EUR 154 million).

Lastly, the net charge to profit or loss amounted to EUR 21 million in 2015 (2014: EUR 20 million).

h) Post-employment benefits to former directors and former executive vice presidents

The post-employment benefits and settlements paid in 2015 to former directors of the Bank, other than those detailed in Note 5.c and below[4], amounted to EUR 8.5 million (2014: EUR 8.9 million). Also, the post-employment benefits and settlements paid in 2015 to former executive vice presidents amounted to EUR 10.2 million (2014: EUR 37.2 million).

In 2015 a period provision of EUR 250 thousand was recognised in the consolidated income statement in connection with the Group's pension and similar obligations to former directors of the Bank (including insurance premiums for supplementary surviving spouse/child and permanent disability benefits), and a period provision of EUR 424 thousand was also recognised in relation to former executive vice presidents (2014: a period provision of EUR 250 thousand was recognised and EUR 3,272 thousand were released, respectively).

In addition, Provisions - Provision for pensions and similar obligations in the consolidated balance sheet as at 31 December 2015 included EUR 89 million in respect of the post-employment benefit obligations to former directors of the Bank (31 December 2014: EUR 91 million) and EUR 121 million corresponding to former executive vice presidents (2014: EUR 114 million).

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4 In January 2013, upon his retirement, Mr. Francisco Luzón López requested payment of the pensions to which he was entitled in a lump sum (EUR 65.4 million gross). For such purpose, his pension rights were settled, in accordance with the applicable contractual and legal terms, through: i) the payment in cash of EUR 21.1 million relating to the net amount of the pension calculated taking into account the fixed remuneration and the bylaw-stipulated emoluments, and EUR 7.1 million relating to the net amount of the pension calculated taking into account the accrued variable remuneration at the retirement date, ii) the investment by Mr. Luzón of those EUR 7.1 million in Santander shares (1,144,110 shares), which shall be deposited on a restricted basis until 23 January 2017, and iii) the investment by the Bank of the gross remaining amount of the pension (EUR 6.6 million), calculated taking into account the unaccrued variable remuneration, in Santander shares (1,061,602 shares), which remained pending delivery to Mr. Luzón (subject to the same restriction period mentioned above and net of tax) depending on whether or not the variable remuneration giving rise to them finally accrued to him. Of these 1,061,602 shares, on the accrual of the variable remuneration giving rise to them, 800,296 shares were delivered to Mr. Luzón in January 2014 (January 2015: 261,306 shares), and they have been deposited on a restricted basis until 23 January 2017.

i) *Pre-retirement and retirement*

The following executive directors will be entitled to take pre-retirement in the event of termination, if they have not yet reached the age of retirement, on the terms indicated below:

Ms. Ana Botín-Sanz de Sautuola y O'Shea will be entitled to take pre-retirement in the event of termination for reasons other than breach. In such case, she will be entitled to an annual emolument equivalent to her fixed remuneration plus 30% of the average of her latest amounts of variable remuneration, up to a maximum of three. This emolument would be reduced by up to 20% in the event of voluntary retirement before the age of 60.

If Ms. Ana Botín-Sanz de Sautuola y O'Shea takes pre-retirement, she has the right to opt to receive the annual emoluments in the form of an annuity or a lump sum -i.e. in a single payment- in full but not in part.

Mr. José Antonio Álvarez Álvarez will be entitled to take pre-retirement in the event of termination for reasons other than his own free will or breach. In such case, he will be entitled to an annual emolument equivalent to the fixed remuneration corresponding to him as executive vice president.

If Mr. José Antonio Álvarez Álvarez takes pre-retirement, he has the right to opt to receive the annual emoluments in the form of an annuity or a lump sum -i.e. in a single payment- in full but not in part.

For his part, Mr. Matías Rodríguez Inciarte may take retirement at any time and, therefore, claim from the insurer the benefits corresponding to him under the externalised employee welfare system described in Note 5.c above, with no obligation whatsoever being incumbent upon the Bank in such circumstance.

j) *Contract termination*

The executive directors and senior executives have indefinite-term employment contracts. Executive directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit.

However, should Mr. Rodrigo Echenique Gordillo's contract be terminated prior to 1 January 2018, unless it is terminated voluntarily or due to his death, permanent disability, or serious breach of his duties, he shall be entitled to receive compensation of twice his fixed salary.

If the Bank were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

Other non-director members of the Group's senior management, other than those whose contracts were amended in 2012 as indicated above, have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare system in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

k) *Information on investments held by the directors in other companies and conflicts of interest*

None of the members of the board of directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their equity interests in companies whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Director	Corporate name	Number of shares	Functions
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	6,050,000	-
	SAM Investment Holdings Limited	-	Director (1)
	Santander UK Group Holdings Limited	-	Director (1)
	Santander UK plc	-	Director (1)
Mr. José Antonio Álvarez Álvarez	Banco Santander (Brasil) S.A.	-	Director (1)
	SAM Investment Holdings Limited	-	Director (1)
Mr. Rodrigo Echenique Gordillo	Wells Fargo & Co.	2,250	-
	Bank of America Corporation	6,000	-
	Grupo Financiero Santander México, S.A.B. de C.V.	-	Director (1)
	Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	-	Director (1)
	Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	-	Director (1)
	Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	-	Director (1)
	Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	-	Director (1)
	Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	-	Director (1)
Mr. Matías Rodríguez Inciarte	Financiera de Ponferrada, S.A., SICAV	-	Director (1)
	Unión de Crédito Inmobiliario, S.A., EFC	-	Chairman (1)
	Financiera El Corte Inglés, E.F.C., S.A.	-	Director (1)
Mr. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.)	19,546	-
	Banco Popular Español, S.A.	2,789	-
Mr. Bruce Carnegie-Brown	Santander UK Group Holdings Limited	-	Director (1)
	Santander UK plc	-	Director (1)
	Moneysupermarket.com Group plc	-	Director (1)
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	7,929,853	-
Ms. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	-	Director (1)
Mr. Ángel Jado Becerro de Bengoa	Bankinter, S.A. (2)	1,774,000	-
Ms. Isabel Tocino Biscarolasaga	Banco Bilbao Vizcaya Argentaria, S.A.	9,585	-
Mr. Abel Matutes Juan (4)	Banco Bilbao Vizcaya Argentaria, S.A. (*)	716,136	-
	Citibank	109,062	-
Mr. Juan Rodríguez Inciarte (5)	Banco Bilbao Vizcaya Argentaria, S.A.(3)	1,184	-
	Wells Fargo & Co.	107	-
	Santander UK plc	-	Director (1)
	Santander Consumer Finance, S.A.	-	Director (1)

(*) Ownership interests held by related persons.

(1) Non-executive.

(2) Of the shares indicated, 274,000 are held by related persons.

(3) Held jointly with a related person.

(4) Ceased to be a director on 18 February 2015.

(5) Ceased to be a member of the board on 30 June 2015.

With regard to situations of conflict of interest, as stipulated in Article 30 of the Rules and Regulations of the Board, the directors must notify the board of any direct or indirect conflict with the interests of the Bank in which they or persons related thereto may be involved. The director involved shall refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a conflict of interest.

Also, under Article 33 of the Rules and Regulations of the Board, following a favourable report by the audit committee, the board must authorise the transactions which the Bank performs with directors (unless the power to approve them is vested by law in the general meeting), excluding the transactions indicated in Article 33.2.

Accordingly, the related party transactions performed in 2015 met the conditions established in the Rules and Regulations of the Board not to require authorisation of the governing bodies, or obtained such authorisation, following a favourable report by the audit committee, after confirming that the consideration and the other conditions agreed upon were within market parameters.

In addition, other directors abstained from participating in and voting on the deliberations of the meetings of the board of directors or the board committees on 175 occasions in 2015. The breakdown of these 175 cases is as follows: 56 related to proposals for the appointment, re-election or removal of directors, or the appointment of members of the board committees or committees in Group companies; 92 related to matters connected with remuneration or the extension of loans or credits; 20 related to the debate of proposed financing or other lending transactions involving companies related to directors; and on 7 occasions the abstention occurred in connection with the annual verification of the directors' status which, pursuant to Article 6.3 of the Rules and Regulations of the Board, was performed by the appointments committee.

6. Loans and advances to credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Classification:			
Financial assets held for trading	2,293	1,815	5,503
Other financial assets at fair value through profit or loss	26,403	28,592	13,444
Loans and receivables	50,256	51,306	56,017
	78,952	**81,713**	**74,964**
Type:			
Reciprocal accounts	2,947	1,571	1,858
Time deposits	7,142	8,177	16,284
Reverse repurchase agreements	37,744	39,807	29,702
Other accounts	31,119	32,158	27,120
	78,952	**81,713**	**74,964**
Currency:			
Euro	46,397	49,099	33,699
Pound sterling	5,192	4,348	4,964
US dollar	18,413	15,964	14,915
Other currencies	8,969	12,381	21,423
Impairment losses (Note 10)	(19)	(79)	(37)
Of which: due to country risk	*(12)*	*(13)*	*(11)*
	78,952	**81,713**	**74,964**

The loans and advances to credit institutions classified under Financial assets held for trading consist mainly of securities of foreign institutions acquired under reverse repurchase agreements, whereas those classified under

Other financial assets at fair value through profit or loss consist of assets of Spanish and foreign institutions acquired under reverse repurchase agreements.

The loans and advances to credit institutions classified under Loans and receivables are mainly time deposits and guarantees given in cash to credit institutions.

The impairment losses on financial assets recognised in Loans and receivables are disclosed in Note 10.

Note 51 contains a detail of the residual maturity periods of Loans and receivables and of the related average interest rates.

7. Debt instruments

a) Detail

The detail, by classification, type and currency, of Debt instruments in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Classification:			
Financial assets held for trading	43,964	54,374	40,841
Other financial assets at fair value through profit or loss	3,717	4,231	3,875
Available-for-sale financial assets	117,187	110,249	79,844
Loans and receivables	10,907	7,510	7,886
Held-to-maturity investments	4,355	-	-
	180,130	**176,364**	**132,446**
Type:			
Spanish government debt securities	45,787	39,182	32,880
Foreign government debt securities	88,346	93,037	59,660
Issued by financial institutions	18,843	18,041	17,206
Other fixed-income securities	27,445	26,248	22,907
Impairment losses	(291)	(144)	(207)
	180,130	**176,364**	**132,446**
Currency:			
Euro	81,196	74,833	63,263
Pound sterling	10,551	9,983	7,709
US dollar	27,011	20,452	14,195
Other currencies	61,663	71,240	47,486
Impairment losses	(291)	(144)	(207)
	180,130	**176,364**	**132,446**

In 2015 the Group reclassified certain financial instruments from the available-for-sale portfolio into the held-to-maturity investment portfolio. Pursuant to the applicable legislation, the fair value of these instruments at the date of reclassification was considered their initial cost and the valuation adjustments in the Group's consolidated equity remained in the consolidated balance sheet, together with the adjustments relating to the other available-for-sale financial assets. The reclassified instruments were subsequently measured at their amortised cost, and both the difference between their amortised cost and their maturity amount and the valuation adjustments previously recognised in equity will be recognised in the consolidated income statement over the remaining life of the financial assets using the effective interest method.

b) Breakdown

The breakdown, by origin of the issuer, of Debt instruments at 31 December 2015, 2014 and 2013, net of impairment losses, is afollows:

	Millions of euros											
	2015				2014				2013			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
Spain	7,387	45,787	53,174	29.52%	8,542	39,182	47,724	27.06%	11,752	32,880	44,632	33.70%
Portugal	3,889	9,975	13,864	7.70%	3,543	8,698	12,241	6.94%	2,634	3,465	6,099	4.60%
United Kingdom	3,746	6,456	10,202	5.66%	3,502	7,577	11,079	6.28%	3,268	5,112	8,380	6.33%
Poland	802	5,470	6,272	3.48%	745	6,373	7,118	4.04%	723	5,184	5,907	4.46%
Italy	1,312	4,423	5,735	3.18%	1,670	4,170	5,840	3.31%	733	2,857	3,590	2.71%
Ireland	342	-	342	0.19%	405	-	405	0.23%	848	-	848	0.64%
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Other European countries	7,912	3,133	11,045	6.13%	7,327	4,267	11,594	6.57%	5,357	3,607	8,964	6.77%
United States	11,919	9,753	21,672	12.03%	8,793	5,847	14,640	8.30%	5,945	3,997	9,942	7.51%
Brazil	5,405	25,588	30,993	17.21%	5,673	37,792	43,465	24.65%	4,954	19,852	24,806	18.73%
Mexico	723	15,296	16,019	8.89%	847	9,071	9,918	5.62%	566	8,156	8,722	6.59%
Chile	1,027	2,032	3,059	1.70%	909	2,389	3,298	1.87%	1,467	1,272	2,739	2.07%
Other American countries	762	1,611	2,373	1.32%	1,558	1,514	3,072	1.74%	1,384	995	2,379	1.80%
Rest of the world	771	4,609	5,380	2.99%	631	5,339	5,970	3.38%	275	5,163	5,438	4.11%
	45,997	**134,133**	**180,130**	**100%**	**44,145**	**132,219**	**176,364**	**100%**	**39,906**	**92,540**	**132,446**	**100%**

The detail, by issuer rating, of Debt instruments at 31 December 2015, 2014 and 2013 is as follows:

	Millions of euros											
	2015				2014				2013			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
AAA	16,975	9,164	26,139	14.51%	17,737	10,647	28,384	16.09%	10,357	7,847	18,204	13.74%
AA	3,452	13,168	16,620	9.23%	2,763	14,770	17,533	9.94%	2,884	11,304	14,188	10.71%
A	7,379	9,120	16,499	9.16%	5,711	6,373	12,084	6.85%	5,036	5,184	10,220	7.72%
BBB	8,011	65,707	73,718	40,92%	5,215	90,505	95,720	54.27%	7,158	64,341	71,499	53.98%
Below BBB	2,575	35,573	38,148	21.18%	3,092	8,698	11,790	6.69%	6,386	3,864	10,250	7.74%
Unrated	7,605	1,401	9,006	5.00%	9,627	1,226	10,853	6.15%	8,085	-	8,085	6.10%
	45,997	**134,133**	**180,130**	**100%**	**44,145**	**132,219**	**176,364**	**100%**	**39,906**	**92,540**	**132,446**	**100%**

The distribution of exposure by rating shown in the foregoing table has been affected by the various reviews of sovereign issuer ratings conducted in recent years. The main review in 2015 was that of Brazil (from BBB to Below BBB), whereas the main review in 2014 was that of Argentina (from Below BBB in 2013 to Unrated in 2014). Also, at 31 December 2015 the exposures with BBB ratings included mainly the sovereign exposures in Spain and Mexico, while those with ratings Below BBB included the sovereign exposures in Portugal and Brazil.

The detail, by type of financial instrument, of Private fixed-income securities at 31 December 2015, 2014 and 2013, net of impairment losses, is as follows:

	Millions of euros		
	2015	2014	2013
Securitised mortgage bonds	2,110	3,388	2,936
Other asset-backed bonds	3,073	2,315	2,781
Floating rate debt	16,633	13,172	10,857
Fixed rate debt	24,181	25,270	23,332
Total	**45,997**	**44,145**	**39,906**

c) *Impairment losses*

The changes in the impairment losses on Available-for-sale financial assets - Debt instruments are summarised below:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	119	188	129
Net impairment losses for the year	119	42	72
Of which:			
Impairment losses charged to income (Note 29)	*127*	*42*	*89*
Impairment losses reversed with a credit to income	*(8)*	-	*(18)*
Assets written off	-	(110)	-
Exchange differences and other items	(42)	(1)	(13)
Balance at end of year	**196**	**119**	**188**
Of which:			
By geographical location of risk:			
European Union	*9*	*9*	*105*
Latin America	*187*	*110*	*83*

Also, the impairment losses on Loans and receivables (EUR 95 million, EUR 25 million and EUR 19 million at 31 December 2015, 2014 and 2013, respectively) are disclosed in Note 10.

d) *Other information*

At 31 December 2015, the nominal amount of debt instruments assigned to certain own or third-party commitments, mainly to secure financing facilities received by the Group, amounted to EUR 80,746 million. Of these debt instruments, EUR 30,913 million related to Spanish government debt.

The detail, by term to maturity, of the debt instruments pledged as security for certain commitments, is as follows:

	Millions of euros							
	1 day	1 week	1 month	3 months	6 months	1 year	More than 12 months	Total
Government debt securities	4,994	35,611	5,349	5,906	6,875	528	3,559	62,822
Other debt instruments	2,380	2,968	2,494	1,642	811	512	1,492	11,749
Total	**7,374**	**38,579**	**7,843**	**7,548**	**7,686**	**1,040**	**4,501**	**74,571**

There are no particular conditions relating to the pledge of these assets that need to be disclosed.

Note 29 contains a detail of the valuation adjustments recognised in equity on available-for-sale financial assets.

Note 51 contains a detail of the residual maturity periods of Available-for-sale financial assets and of Loans and receivables and of the related average interest rates.

8. Equity instruments

a) *Breakdown*

The detail, by classification and type, of Equity instruments in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Classification:			
Financial assets held for trading	18,225	12,920	4,967
Other financial assets at fair value through profit or loss	630	879	866
Available-for-sale financial assets	4,849	5,001	3,955
	23,704	**18,800**	**9,788**
Type:			
Shares of Spanish companies	2,479	3,102	2,629
Shares of foreign companies	19,077	12,773	4,711
Investment fund units and shares	2,148	2,925	2,448
	23,704	**18,800**	**9,788**

Note 29 contains a detail of the valuation adjustments recognised in equity on available-for-sale financial assets, and also the related impairment losses.

b) *Changes*

The changes in Available-for-sale financial assets-Equity instruments were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	5,001	3,955	4,542
Changes in the scope of consolidation	-	-	-
Net additions (disposals)	(392)	743	(722)
Of which:			
Bank of Shanghai Co., Ltd.	*109*	*396*	-
SAREB	-	-	*44*
Valuation adjustments and other items	240	303	135
Balance at end of year	**4,849**	**5,001**	**3,955**

The main acquisitions and disposals made in 2015, 2014 and 2013 were as follows:

i. Bank of Shanghai Co., Ltd.

In May 2014 the Group acquired 8% of Bank of Shanghai Co., Ltd. for EUR 396 million.

In June 2015 the Group subscribed to a capital increase at this company for EUR 109 million, thereby retaining its ownership interest percentage.

ii. Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB)

In December 2012 the Group, together with other Spanish financial institutions, entered into an agreement to invest in the Spanish Bank Restructuring Asset Management Company (SAREB). The Group undertook to make an investment of up to EUR 840 million (25% in capital and 75% in subordinated debt), and at 31 December 2012, it had paid EUR 164 million of capital and EUR 490 million of subordinated debt.

In February 2013, following the review of the own funds that SAREB required, the aforementioned undertaking was reduced to EUR 806 million, and the Group disbursed the remaining EUR 44 million of capital and EUR 108 million of subordinated debt.

c) *Notifications of acquisitions of investments*

The notifications made by the Bank in 2015, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Trading derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group is as follows (see Note 36):

	Millions of euros					
	2015		2014		2013	
	Debit balance	Credit balance	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate risk	51,576	49,095	56,878	56,710	43,185	43,154
Currency risk	21,924	23,444	16,201	17,418	11,315	10,181
Price risk	2,598	3,343	2,800	4,118	3,247	4,609
Other risks	626	532	979	802	1,152	943
	76,724	**76,414**	**76,858**	**79,048**	**58,899**	**58,887**

b) Short positions

Following is a breakdown of the short positions:

	Millions of euros		
	2015	2014	2013
Borrowed securities:			
Debt instruments	3,098	3,303	3,921
Of which: Santander UK plc	*1,857*	*2,537*	*3,260*
Equity instruments	990	1,557	189
Of which: Santander UK plc	*905*	*1,435*	*7*
Short sales:			
Debt instruments	13,274	12,768	11,840
Of which:			
Banco Santander, S.A.	*6,953*	*7,093*	*6,509*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*1,290*	*1,561*	*2,882*
Banco Santander (Brasil) S.A.	*4,619*	*3,476*	*2,388*
Equity instruments	-	-	1
	17,362	**17,628**	**15,951**

10. Loans and advances to customers

a) Detail

The detail, by classification, of Loans and advances to customers in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Financial assets held for trading	6,081	2,921	5,079
Other financial assets at fair value through profit or loss	14,293	8,971	13,196
Loans and receivables	770,474	722,819	650,581
Of which:			
Disregarding impairment losses	*796,991*	*750,036*	*675,484*
Impairment losses	*(26,517)*	*(27,217)*	*(24,903)*
Of which, due to country risk	*(12)*	*(7)*	*(31)*
	790,848	734,711	668,856
Loans and advances to customers disregarding impairment losses (*)	**817,365**	**761,928**	**693,759**

(*) Includes Valuation adjustments for accrued interest receivable and other items amounting to EUR 3,628 million at 31 December 2015 (2014: EUR 3,402 million; 2013: EUR 2,593 million).

Note 51 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

Note 54 shows the Group's total exposure, by origin of the issuer.
There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

Following is a breakdown, by loan type and status, geographical area of residence and interest rate formula, of the loans and advances to customers of the Group, which reflect the Group's exposure to credit risk in its core business, disregarding impairment losses:

	Millions of euros		
	2015	2014	2013
Loan type and status:			
Commercial credit	18,404	18,900	11,898
Secured loans	478,925	440,827	396,432
Reverse repurchase agreements	11,969	3,993	13,223
Other term loans	216,862	206,261	185,951
Finance leases	22,798	15,353	15,871
Receivable on demand	8,466	10,329	10,155
Credit cards receivables	20,180	22,491	17,316
Impaired assets	36,133	40,372	40,320
Valuation adjustments for Accrued interest receivable and other items	3,628	3,402	2,593
	817,365	**761,928**	**693,759**
Geographical area:			
Spain	167,856	172,371	173,852
European Union (excluding Spain)	401,315	353,674	328,118
United States and Puerto Rico	88,737	71,764	43,566
Other OECD countries	69,519	60,450	54,713
Latin America (non-OECD)	77,519	93,145	84,000
Rest of the world	12,419	10,524	9,510
	817,365	**761,928**	**693,759**
Interest rate formula:			
Fixed rate	407,026	363,679	280,188
Floating rate	410,339	398,249	413,571
	817,365	**761,928**	**693,759**

At 31 December 2015, the Group had granted loans amounting to EUR 13,993 million (31 December 2014: EUR 17,465 million; 31 December 2013: EUR 13,374 million) to Spanish public sector agencies (which had ratings of BBB at 31 December 2015, 2014 and 2013), and EUR 7,722 million to the public sector in other countries (31 December 2014: EUR 7,053 million; 31 December 2013: EUR 4,402 million). At 31 December 2015, the breakdown of this amount by issuer rating was as follows: 21.2% AAA, 9.4% AA, 0.5% A, 46% BBB and 22.9% below BBB.

At 31 December 2015, the Group had EUR 759,627 million of loans and advances to customers classified as other than non-performing (excluding loans granted to the public sector). The percentage breakdown of these loans and advances by counterparty credit quality is as follows: 11.6% AAA, 14.85% AA, 18.9% A, 24.8% BBB and 29.9% below BBB.

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by the Group (see Note 54) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2015, net of impairment losses:

	Millions of euros								
			Secured loans						
			Net exposure		*Loan-to-value ratio (a)*				
	Total	Without collateral	Of which: Property collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	21,732	19,859	297	1,576	458	509	86	622	198
Other financial institutions	41,681	23,738	505	17,438	394	388	199	16,767	195
Non-financial companies and individual traders	265,645	135,992	62,122	67,531	20,808	17,532	18,589	47,505	25,219
Of which:									
Construction and property development	*28,508*	*3,841*	*21,321*	*3,346*	*7,551*	*5,315*	*5,354*	*4,129*	*2,318*
Civil engineering construction	*2,701*	*1,618*	*181*	*902*	*51*	*190*	*163*	*280*	*399*
Large companies	*139,075*	*90,805*	*10,682*	*37,588*	*4,498*	*4,307*	*3,736*	*21,327*	*14,402*
SMEs and individual traders	*95,361*	*39,728*	*29,938*	*25,695*	*8,708*	*7,720*	*9,336*	*21,769*	*8,100*
Other households and non-profit institutions serving households	470,886	102,902	328,301	39,683	68,910	105,397	103,201	49,508	40,968
Of which:									
Residential	*325,167*	*1,827*	*322,472*	*868*	*63,600*	*101,107*	*99,512*	*44,883*	*14,238*
Consumer loans	*133,633*	*97,688*	*1,973*	*33,972*	*3,647*	*3,011*	*2,045*	*1,897*	*25,345*
Other purposes	*12,086*	*3,387*	*3,856*	*4,843*	*1,663*	*1,279*	*1,644*	*2,728*	*1,385*
Subtotal	**799,944**	**282,491**	**391,225**	**126,228**	**90,570**	**123,826**	**122,075**	**114,402**	**66,580**
Less: valuation adjustments on unimpaired assets	9,096								
Total	**790,848**								
Memorandum item									
Refinanced and restructured transactions (*)	*45,240*	*9,673*	*17,398*	*18,169*	*4,116*	*4,312*	*5,386*	*5,228*	*16,525*

(*) Includes the net balance of the valuation adjustments associated with impaired assets. Also, this portfolio has an allowance of EUR 788 million in relation to valuation adjustments associated with unimpaired assets.

(a) The ratio of the carrying amount of the transactions at 31 December 2015 to the latest available appraisal value of the collateral.

Note 54 contains information relating to the restructured/refinanced loan book.

c) *Impairment losses*

The changes in the impairment losses on the assets making up the balances of Loans and receivables - Loans and advances to customers, Loans and receivables - Loans and advances to credit institutions (see Note 6) and Loans and receivables - Debt instruments (see Note 7) were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	27,321	24,959	25,467
Net impairment losses charged to income for the year	11,569	11,857	12,054
Of which:			
Impairment losses charged to income	*16,557*	*16,518*	*17,551*
Impairment losses reversed with a credit to income	*(4,988)*	*(4,661)*	*(5,497)*
Write-off of impaired balances against recorded impairment allowance	(12,361)	(11,827)	(10,626)
Exchange differences and other changes	102	2,332	(1,936)
Balance at end of year	**26,631**	**27,321**	**24,959**
Of which:			
By status of the asset:			
Impaired assets	*17,531*	*19,451*	*18,788*
Of which: due to country risk (Note 2.g)	*24*	*20*	*42*
Other assets	*9,100*	*7,870*	*6,171*
By classification of assets:			
Loans and advances to credit institutions (Note 6)	*19*	*79*	*37*
Debt instruments (Note 7)	*95*	*25*	*19*
Loans and advances to customers	*26,517*	*27,217*	*24,903*

Previously written-off assets recovered in 2015, 2014 and 2013 amounted to EUR 1,375 million, EUR 1,336 million and EUR 1,068 million, respectively. Taking into account these amounts and those recognised in Impairment losses charged to income for the year in the foregoing table, impairment losses on Loans and receivables amounted to EUR 10,194 million in 2015, EUR 10,521 million in 2014 and EUR 10,986 million in 2013.

d) *Impaired assets and assets with unpaid past-due amounts*

The detail of the changes in the balance of the financial assets classified as Loans and receivables - Loans and advances to customers and considered to be impaired due to credit risk is as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	40,372	40,320	35,301
Net additions	7,862	9,841	16,438
Written-off assets	(12,361)	(11,827)	(10,626)
Changes in the scope of consolidation	106	497	699
Exchange differences and other	154	1,541	(1,492)
Balance at end of year	**36,133**	**40,372**	**40,320**

This amount, after deducting the related allowances, represents the Group's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

At 31 December 2015, the Group's written-off assets totalled EUR 36,848 million (31 December 2014: EUR 35,654 million; 31 December 2013: EUR 30,006 million).

Following is a detail of the financial assets classified as Loans and receivables and considered to be impaired due to credit risk at 31 December 2015, classified by geographical location of risk and by age of the oldest past-due amount:

	Millions of euros					
	With no past-due balances or less than 90 days past due	With balances past due by				
		90 to 180 days	180 to 270 days	270 days to 1 year	More than 1 year	Total
Spain	6,623	894	622	551	8,329	17,019
European Union (excluding Spain)	1,854	1,720	916	791	4,394	9,675
United States and Puerto Rico	1,305	135	58	29	257	1,784
Other OECD countries	721	894	232	194	1,237	3,278
Latin America (non-OECD)	1,418	995	666	477	766	4,322
Rest of the world	8	2	-	-	45	55
	11,929	**4,640**	**2,494**	**2,042**	**15,028**	**36,133**

The detail at 31 December 2014 is as follows:

	Millions of euros					
	With no past-due balances or less than 90 days past due	With balances past due by				
		90 to 180 days	180 to 270 days	270 days to 1 year	More than 1 year	Total
Spain	6,664	2,764	909	866	9,404	20,607
European Union (excluding Spain)	2,027	2,520	908	767	3,532	9,754
United States and Puerto Rico	661	626	58	29	329	1,703
Other OECD countries	272	1,364	259	239	1,726	3,860
Latin America (non-OECD)	1,324	338	933	841	1,012	4,448
Rest of the world	-	-	-	-	-	-
	10,948	**7,612**	**3,067**	**2,742**	**16,003**	**40,372**

The detail at 31 December 2013 is as follows:

	Millions of euros					
	With no past-due balances or less than 90 days past due	With balances past due by				
		90 to 180 days	180 to 270 days	270 days to 1 year	More than 1 year	Total
Spain	6,876	3,327	1,707	1,700	8,255	21,865
European Union (excluding Spain)	1,791	3,141	994	763	3,461	10,150
United States and Puerto Rico	322	178	78	43	417	1,038
Other OECD countries	231	1,377	346	273	626	2,853
Latin America (non-OECD)	600	1,332	877	787	816	4,412
Rest of the world	-	-	-	-	2	2
	9,820	**9,355**	**4,002**	**3,566**	**13,577**	**40,320**

Set forth below for each class of impaired asset are the gross amount, associated allowances and information relating to the collateral and/or other credit enhancements obtained at 31 December 2015:

	Millions of euros		
	Gross amount	Allowance recognised	Estimated collateral value (*)
Without associated collateral	13,423	9,566	-
With property collateral	20,236	7,229	11,577
With other collateral	2,474	1,252	628
Balance at end of year	**36,133**	**17,421**	**12,205**

(*) Including the estimated value of the collateral associated with each loan. Accordingly, any other cash flows that may be obtained, such as those arising from borrowers' personal guarantees, are not included.

When classifying assets in the foregoing table, the main factors considered by the Group to determine whether an asset has become impaired are the existence of amounts past due -assets impaired due to arrears- or other circumstances that lead it to believe that not all the contractual cash flows will be recovered -assets impaired for reasons other than arrears-, such as a deterioration of the borrower's financial situation, the worsening of its capacity to generate funds or difficulties experienced by it in accessing credit.

Loans classified as standard: past-due amounts receivable

In addition, at 31 December 2015, there were assets with amounts receivable that were past due by 90 days or less, the detail of which, by age of the oldest past-due amount, is as follows:

	Millions of euros		
	Less than1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	1,654	553	407
Public sector	*4*	-	-
Private sector	*1,650*	*553*	*407*
Total	**1,654**	**553**	**407**

e) Securitisation

Loans and advances to customers includes, inter alia, the securitised loans transferred to third parties on which the Group has retained the risks and rewards, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of original financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (see Note 2.e) is shown below. Note 22 details the liabilities associated with these securitisation transactions.

	Millions of euros		
	2015	2014	2013
Derecognised	685	2,391	3,618
Of which			
Securitised mortgage assets	*685*	*2,391*	*3,618*
Retained on the balance sheet	107,643	100,503	78,229
Of which			
Securitised mortgage assets	*54,003*	*57,808*	*56,277*
Of which: UK assets	*30,833*	*36,475*	*45,296*
Other securitised assets(*)	*53,640*	*42,695*	*21,952*
Total	**108,328**	**102,894**	**81,847**

(*) The increase in Other securitised assets in 2014 with respect to 31 December 2013 relates mainly to the acquisition of control of SCUSA by the Group in January 2014 (see Note 3).

Securitisation is used as a tool for the management of regulatory capital and as a means of diversifying the Group's liquidity sources. In 2015, 2014 and 2013 the Group did not derecognise any of the securitisations performed, and the balance shown as derecognised for those years relates to securitisations performed in prior years.

The loans derecognised include assets of Santander Holdings USA, Inc. amounting to approximately EUR 506 million at 31 December 2015 (31 December 2014: EUR 1,942 million; 31 December 2013: EUR 3,082 million) that were sold, prior to this company's inclusion in the Group, on the secondary market for multifamily loans, and over which control was transferred and substantially all the associated risks and rewards were not retained. At 31 December 2015, the Group recognised under Other liabilities an obligation amounting to EUR 6 million (31 December 2014: EUR 34 million; 31 December 2013: EUR 49 million), which represents the fair value of the retained credit risk.

The loans retained on the face of the balance sheet include the loans associated with securitisations in which the Group retains a subordinated debt and/or grants any manner of credit enhancements to the new holders.

The loans transferred through securitisation are mainly mortgage loans, loans to companies and consumer loans.

11. Hedging derivatives

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting is as follows (see Note 36):

	Millions of euros					
	2015		2014		2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges	4,620	5,786	5,072	5,321	5,403	4,146
Of which: Portfolio hedges	*426*	*2,168*	*413*	*2,319*	*610*	*1,703*
Cash flow hedges	2,449	3,021	2,094	1,650	1,766	1,023
Hedges of net investments in foreign operations	658	130	180	284	1,132	114
	7,727	**8,937**	**7,346**	**7,255**	**8,301**	**5,283**

Note 36 contains a description of the Group's main hedges.

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Tangible assets	5,623	5,256	4,845
Of which:			
Foreclosed assets	*5,533*	*5,139*	*4,742*
Of which: Property assets in Spain (Note 54)	*4,983*	*4,597*	*4,146*
Other tangible assets held for sale	*90*	*117*	*103*
Other assets	23	120	47
	5,646	**5,376**	**4,892**

At 31 December 2015, the allowances recognised represented 51.4% (2014: 51.3%; 2013: 51.1%). The net charges recorded in those years amounted to EUR 222 million, EUR 339 million and EUR 335 million, respectively (see Note 50).

In 2015 the Group sold, for EUR 898 million, foreclosed properties with a gross carrying amount of EUR 1,375 million, for which provisions totalling EUR 517 million had been recognised. These sales gave rise to gains of EUR 40 million; in addition, other tangible assets were sold for EUR 42 million, giving rise to a gain of EUR 11 million (see Note 50).

13. Investments

a) Breakdown

The detail, by company, of Investments (see Note 2.b) is as follows:

	Millions of euros		
	2015	2014	2013
Associates			
Zurich Santander Insurance América, S.L.	873	997	826
Santander Insurance (Ireland)	301	288	-
Metrovacesa, S.A.	-	-	647
Other companies	485	490	356
	1,659	**1,775**	**1,829**
Jointly controlled entities			
SAM Investment Holdings Limited	514	456	449
Aegon Santander Seguros	240	227	213
Unión de Créditos Inmobiliarios, S.A., EFC	184	178	189
Santander Consumer USA Inc.	-	-	2,159
Other companies	654	835	697
	1,592	**1,696**	**3,707**

b) Changes

The changes in Investments were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	3.471	5,536	4,454
Acquisitions (disposals) and capital increases (reductions)	(72)	80	422
Changes in the scope of consolidation (Note 3)	21	(2,383)	769
Of which:			
Santander Consumer USA Inc.	-	*(2,159)*	-
Metrovacesa Group	-	*(642)*	-
Santander Insurance (Ireland)	-	*285*	-
SAM Investment Holdings Limited	-	-	*449*
Aegon Santander Seguros	-	-	*211*
Effect of equity accounting (Note 41)	375	243	500
Dividends paid and reimbursements of share premium	(227)	(178)	(303)
Exchange differences and other changes	(317)	173	(306)
Balance at end of year	**3,251**	**3,471**	**5,536**

c) Impairment losses

In 2015, 2014 and 2013 there was no evidence of material impairment on the Group's investments.

d) Other information

Following is a summary of the financial information on the companies accounted for using the equity method (obtained from the information available at the date of preparation of the financial statements):

	Millions of euros		
	2015	2014	2013
Total assets	42,510	40,749	63,443
Total liabilities	(38,118)	(36,120)	(55,483)
Net assets	**4,392**	**4,629**	**7,960**
Group's share of net assets	1,904	2,272	3,755
Goodwill	1,347	1,199	1,781
Of which:			
Zurich Santander Insurance América, S.L.	*526*	*526*	*526*
Santander Insurance (Ireland)	*205*	*205*	-
Santander Consumer USA Inc.	-	-	*937*
Total Group share	**3,251**	**3,471**	**5,536**
Total income	11,430	9,780	11,756
Total profit	935	750	1,029
Group's share of profit	**375**	**243**	**500**

Following is a summary of the financial information for 2015 on the main associates and jointly controlled entities (obtained from the information available at the date of preparation of the financial statements):

	Millions of euros			
	Total assets	Total liabilities	Total income	Total profit
Associates	**17,921**	**(15,826)**	**6,594**	**616**
Of which:				
Zurich Santander Insurance América, S.L.	*9,724*	*(9,014)*	*4,048*	*407*
Santander Insurance (Ireland)	*1,606*	*(1,413)*	*826*	*23*
Jointly controlled entities	**24,589**	**(22,292)**	**4,836**	**319**
Of which:				
SAM Investment Holdings Limited	*3,157*	*(2,482)*	*2,232*	*129*
Unión de Créditos Inmobiliarios, S.A., EFC	*12,236*	*(11,868)*	*422*	*3*
Aegon Santander Seguros	*610*	*(270)*	*293*	*27*
Total	**42,510**	**(38,118)**	**11,430**	**935**

At 31 December 2015, 2014 and 2013, the Group did not hold any ownership interests in jointly controlled entities or associates whose shares are listed.

14. Insurance contracts linked to pensions

The detail of Insurance contracts linked to pensions in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Assets relating to insurance contracts covering post-employment benefit plan obligations:			
Banco Santander, S.A.	299	345	342
	299	**345**	**342**

15. Liabilities under insurance contracts and Reinsurance assets

The detail of Liabilities under insurance contracts and Reinsurance assets in the consolidated balance sheets (see Note 2.j) is as follows:

	Millions of euros								
	2015			2014			2013		
Technical provisions for:	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)
Unearned premiums and unexpired risks	62	(39)	23	107	(34)	73	245	(36)	209
Life insurance	149	(136)	13	157	(146)	11	546	(183)	363
Claims outstanding	335	(112)	223	378	(107)	271	315	(55)	261
Bonuses and rebates	18	(9)	9	15	(8)	7	25	(6)	19
Other technical provisions	63	(35)	28	56	(45)	11	299	(76)	222
	627	**(331)**	**296**	**713**	**(340)**	**373**	**1,430**	**(356)**	**1,074**

The reduction in the amount of Direct insurance and reinsurance assumed at 31 December 2014 is due to the sale of the insurance companies in Ireland -Santander Insurance Life Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited- (see Note 3).

16. Tangible assets

a) Changes

The changes in Tangible assets in the consolidated balance sheets were as follows:

	Millions of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Cost:				
Balances at 1 January 2013	15,780	3,117	4,265	23,162
Additions / disposals (net) due to change in the scope of consolidation	(17)	-	541	524
Additions / disposals (net)	1,021	(124)	(23)	874
Transfers, exchange differences and other items	(989)	212	(139)	(916)
Balances at 31 December 2013	15,795	3,205	4,644	23,644
Additions / disposals (net) due to change in the scope of consolidation	229	2,472	3,296	5,997
Additions / disposals (net)	952	4,868	(774)	5,046
Transfers, exchange differences and other items	375	(79)	258	554
Balances at 31 December 2014	17,351	10,466	7,424	35,241
Additions / disposals (net) due to change in the scope of consolidation	(22)	1	(27)	(48)
Additions / disposals (net)	878	3,857	(88)	4,647
Transfers, exchange differences and other items	(765)	597	36	(132)
Balances at 31 December 2015	**17,442**	**14,921**	**7,345**	**39,708**
Accumulated depreciation:				
Balances at 1 January 2013	(7,626)	(869)	(164)	(8,659)
Disposals due to change in the scope of consolidation	16	-	-	16
Disposals	280	179	14	473
Charge for the year	(1,020)	(1)	(17)	(1,038)
Transfers, exchange differences and other items	416	(235)	(36)	145
Balances at 31 December 2013	(7,934)	(926)	(203)	(9,063)
Disposals due to change in the scope of consolidation	4	-	-	4
Disposals	403	157	43	603
Charge for the year	(1,048)	-	(12)	(1,060)
Transfers, exchange differences and other items	(404)	(1,009)	(22)	(1,435)
Balances at 31 December 2014	(8,979)	(1,778)	(194)	(10,951)
Disposals due to change in the scope of consolidation	(27)	-	5	(22)
Disposals	423	196	11	630
Charge for the year	(1,161)	-	(11)	(1,172)
Transfers, exchange differences and other items	296	(1,794)	(95)	(1,593)
Balances at 31 December 2015	**(9,448)**	**(3,376)**	**(284)**	**(13,108)**

	Millions of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Impairment losses:				
Balances at 1 January 2013	(18)	(68)	(556)	(642)
Impairment charge for the year	(53)	(24)	(260)	(337)
Disposals due to change in the scope of consolidation	-	-	39	39
Exchange differences and other	(3)	-	16	13
Balances at 31 December 2013	(74)	(92)	(761)	(927)
Impairment charge for the year	(5)	(31)	(112)	(148)
Disposals due to change in the scope of consolidation	-	-	28	28
Exchange differences and other	31	-	(18)	13
Balances at 31 December 2014	(48)	(123)	(863)	(1,034)
Impairment charge for the year	(2)	(37)	(89)	(128)
Disposals due to change in the scope of consolidation	5	-	(4)	1
Exchange differences and other	-	1	(120)	(119)
Balances at 31 December 2015	**(45)**	**(159)**	**(1,076)**	**(1,280)**
Tangible assets, net:				
Balances at 31 December 2013	7,787	2,187	3,680	13,654
Balances at 31 December 2014	8,324	8,565 (*)	6,367 (*)	23,256
Balances at 31 December 2015	7,949	11,386	5,985	25,320

(*) The increases in 2014 in Tangible assets - Leased out under an operating lease and Tangible assets - Investment property were due to the business combinations of SCUSA and Metrovacesa, S.A, respectively (see Note 3.b.vii and 3.b.xv).

b) Property, plant and equipment for own use

The detail, by class of asset, of Property, plant and equipment - For own use in the consolidated balance sheets is as follows:

	Millions of euros			
	Cost	Accumulated depreciation	Impairment losses	Carrying amount
Land and buildings	5,781	(1,624)	(74)	4,083
IT equipment and fixtures	4,168	(3,271)	-	897
Furniture and vehicles	5,616	(2,983)	-	2,633
Construction in progress and other items	230	(56)	-	174
Balances at 31 December 2013	**15,795**	**(7,934)**	**(74)**	**7,787**
Land and buildings	5,829	(1,790)	(48)	3,991
IT equipment and fixtures	4,716	(3,722)	-	994
Furniture and vehicles	6,494	(3,409)	-	3,085
Construction in progress and other items	312	(58)	-	254
Balances at 31 December 2014	**17,351**	**(8,979)**	**(48)**	**8,324**
Land and buildings	5,754	(1,892)	(45)	3,817
IT equipment and fixtures	4,984	(3,927)	-	1,057
Furniture and vehicles	6,374	(3,561)	-	2,813
Construction in progress and other items	330	(68)	-	262
Balances at 31 December 2015	**17,442**	**(9,448)**	**(45)**	**7,949**

The carrying amount at 31 December 2015 in the foregoing table includes the following approximate amounts:

- EUR 5,870 million (31 December 2014: EUR 6,161 million; 31 December 2013: EUR 5,615 million) relating to property, plant and equipment owned by Group entities and branches located abroad.

- EUR 195 million (31 December 2014: EUR 187 million; 31 December 2013: EUR 138 million) relating to property, plant and equipment being acquired under finance leases by the consolidated entities.

c) *Investment property*

The fair value of investment property at 31 December 2015 amounted to EUR 6,012 million (2014: EUR 6,366 million; 2013: EUR 3,689 million). A comparison of the fair value of investment property at 31 December 2015 with the carrying amount gives rise to unrealised gross gains of EUR 27 million (gross losses of EUR 1 million and gross gains of EUR 9 million at 31 December 2014 and 2013, respectively).

The rental income earned from investment property and the direct costs related both to investment properties that generated rental income in 2015, 2014 and 2013 and to investment properties that did not generate rental income in those years are not material in the context of the consolidated financial statements.

d) *Sale of properties*

In 2007 and 2008 the Group sold ten hallmark properties, 1,152 Bank branch offices in Spain and its head office complex (Ciudad Financiera or Santander Business Campus) to various buyers. Also, the Group entered into operating leases (with maintenance, insurance and taxes payable by the Group) on those properties with the buyers for various compulsory terms (12 to 15 years for the hallmark properties, 24 to 26 years for the branch offices and 40 years for the Santander Business Campus), with various rent review agreements applicable during those periods and the possible extensions thereof. The agreements between the parties also provided for purchase options that in general are exercisable by the Group on final expiry of the leases at the market value of the properties on the expiry dates; the market value will be determined, where appropriate, by independent experts.

The rental expense recognised by the Group in 2015 in connection with these operating lease agreements amounted to EUR 297 million (2014: EUR 292 million; 2013: EUR 286 million). At 31 December 2015, the present value of the minimum future payments that the Group will incur in the compulsory term amounted to EUR 243 million payable within one year, EUR 774 million payable at between one and five years and EUR 1,544 million payable at more than five years.

17. Intangible assets - Goodwill

The detail of Goodwill, based on the cash-generating units giving rise thereto, is as follows:

	Millions of euros		
	2015	2014	2013
Santander UK	10,125	9,540	8,913
Banco Santander (Brazil)	4,590	6,129	5,840
Santander Consumer USA	3,081	2,762	-
Bank Zachodni WBK	2,423	2,418	2,487
Santander Bank, National Association	1,886	1,691	1,489
Santander Consumer Germany	1,217	1,315	1,315
Banco Santander Totta	1,040	1,040	1,040
Banco Santander - Chile	644	675	687
Santander Consumer Bank (Nordics)	546	564	171
Grupo Financiero Santander (Mexico)	517	561	541
Other companies	891	853	798
Total goodwill	**26,960**	**27,548**	**23,281**

The changes in Goodwill were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	27,548	23,281	24,626
Additions (Note 3)	235	3,176	398
Of which:			
Carfinco Financial Group Inc.	*162*	-	-
Santander Consumer USA Holdings, Inc.	-	*2,482*	-
Santander Consumer Bank (Nordics) (*)	-	*408*	-
Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H. S.A., - Banco Santander (Brasil), S.A.	-	*229*	-
Financiera El Corte Inglés, E.F.C., S.A.	-	*32*	-
Bank Zachodni WBK, S.A.	-	-	*326*
Impairment losses	(115)	(2)	(40)
Disposals or changes in scope of consolidation	(172)	-	(39)
Exchange differences and other items	(536)	1,093	(1,664)
Balance at end of year	**26,960**	**27,548**	**23,281**

(*) In 2015 the Group completed the purchase price allocation, the goodwill on which finally amounted to EUR 391 million (see Note 3.b.xii).

The Group has goodwill generated by cash-generating units located in non-euro currency countries (mainly the UK, Brazil, the United States, Poland, Chile, Norway, Sweden and Mexico) and, therefore, this gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. Accordingly, in 2015 goodwill decreased by EUR 514 million due to exchange differences (see Note 29.c) which, pursuant to current legislation, were recognised with a credit to Valuation adjustments - Exchange differences in equity in the consolidated statement of recognised income and expense.

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable value to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The amount to be recovered of each cash-generating unit is determined taking into consideration the carrying amount (including any fair value adjustment arising on the business combination) of all the assets and liabilities of all the independent legal entities composing the cash-generating unit, together with the related goodwill.

The amount to be recovered of the cash-generating unit is compared with its recoverable amount in order to determine whether there is any impairment.

The Group's directors assess the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing information including the following: (i) certain macroeconomic variables that might affect its investments (population data, political situation, economic situation -including bankarisation-, among others) and (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the cash-generating unit carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital adequacy ratio, return on equity, among others).

Regardless of whether there is any indication of impairment, every year the Group calculates the recoverable amount of each cash-generating unit to which goodwill has been allocated and, to this end, it uses price quotations, if available, market references (multiples), internal estimates and appraisals performed by independent experts.

Firstly, the Group determines the recoverable amount by calculating the fair value of each cash-generating unit on the basis of the quoted price of the cash-generating units, if available, and of the price earnings ratios of comparable local entities.

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flow projections. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the Group's directors which normally cover a five-year period (unless a longer time horizon can be justified), (ii) discount rates determined as the cost of capital taking into account the risk-free rate of return plus a risk premium in line with the market and the business in which the units operate and (iii) constant growth rates used in order to extrapolate earnings in perpetuity which do not exceed the long-term average growth rate for the market in which the cash-generating unit in question operates.

The cash flow projections used by Group management to obtain the values in use are based on the financial budgets approved by both local management of the related local units and the Group's directors. The Group's budgetary estimation process is common for all the cash-generating units. The local management teams prepare their budgets using the following key assumptions:

a) Microeconomic variables of the cash-generating unit: management takes into consideration the current balance sheet structure, the product mix on offer and the business decisions taken by local management in this regard.
b) Macroeconomic variables: growth is estimated on the basis of the changing environment, taking into consideration expected GDP growth in the unit's geographical location and forecast trends in interest and exchange rates. These data, which are based on external information sources, are provided by the Group's economic research service.
c) Past performance variables: in addition, management takes into consideration in the projection the difference (both positive and negative) between the cash-generating unit's past performance and that of the market.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2015 year-end, of the most significant cash-generating units which were valued using the discounted cash flow method:

	Projected period	Discount rate (*)	Nominal perpetual growth rate
Santander UK	5 years	9.3%	2.5%
Banco Santander (Brazil)	5 years	15.2%	6.9%
Santander Bank, National Association (**)	7 years	9.0%	2.5%
Santander Consumer Germany	5 years	8.7%	2.5%
Santander Consumer USA	3 years	9.9%	3.0%
Banco Santander Totta	5 years	10.2%	2.5%
Santander Consumer Bank (Nordics)	5 years	9.0%	2.5%

(*) Post-tax discount rate for the purpose of consistency with the earnings projections used.

(**) A seven-year period was used for Santander Bank, National Association in order to provide normalised earnings projections which reflect the strategic plan of the cash-generating unit's new management team.

Given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis thereof using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +/- 50 basis points and the perpetuity growth rate by +/-50 basis points. Following the sensitivity analysis performed, the value in use of all the cash-generating units still exceeds their recoverable amount.

The recoverable amount of Bank Zachodni WBK, Banco Santander - Chile and Grupo Financiero Santander (México) was calculated as the fair values of the aforementioned cash-generating units obtained from the market prices of their shares at year-end. This value exceeded the recoverable amount.

Based on the foregoing, and in accordance with the estimates, projections and sensitivity analyses available to the Bank's directors, in 2015 the Group recognised impairment losses on goodwill totalling EUR 115 million (2014: EUR 2 million; 2013: EUR 40 million), under Impairment losses on other assets (net) - Goodwill and other intangible assets. This related mainly to the Group's businesses in Puerto Rico and was due to the deterioration of the projected business expectations.

At 31 December 2015, none of the cash-generating units with significant goodwill had a recoverable amount approximating their carrying amount. The recoverable amount is considered to be close to the carrying amount when reasonable changes in the main assumptions used in the valuation cause the recoverable amount to be below the carrying amount.

18. Intangible assets - Other intangible assets

The detail of Intangible assets - Other intangible assets in the consolidated balance sheets and of the changes therein in 2015, 2014 and 2013 is as follows:

	Estimated useful life	Millions of euros						
		31 December 2014	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2015
With indefinite useful life:								
Brand names		61	-	(2)	-	(17)	7	49
With finite useful life:								
IT developments	3 to 7 years	5,350	1,481	(25)	-	(951)	(444)	5,411
Other		1,294	87	-	-	(81)	6	1,306
Accumulated amortisation		(3,623)	-	20	(1,246)	663	313	(3,873)
Impairment losses		(229)	-	-	(586)	386	6	(423)
		2,853	**1,568**	**(7)**	**(1,832)**	**-**	**(112)**	**2,470**

In 2015, impairment losses of EUR 586 million were recognised under Impairment losses on other assets (net) in the consolidated income statement. These impairment losses related mainly to the decline in or loss of the recoverable value of certain computer systems and applications as a result of the processes initiated by the Group to adapt to the various regulatory changes and to transform or integrate businesses.

	Estimated useful life	Millions of euros						
		31 December 2013	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2014
With indefinite useful life:								
Brand names		15	-	43	-	-	3	61
With finite useful life:								
IT developments	3 to 7 years	5,546	1,345	63	-	(1,731)	127	5,350
Other		1,132	(127)	525	-	(250)	14	1,294
Accumulated amortisation		(3,603)	-	-	(1,227)	1,269	(62)	(3,623)
Impairment losses		(130)	-	-	(699)	712	(112)	(229)
		2,960	**1,218**	**631**	**(1,926)**	**-**	**(30)**	**2,853**

		Millions of euros						
	Estimated useful life	31 December 2012	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2013
With indefinite useful life:								
Brand names		14	2	-	-	-	(1)	15
With finite useful life:								
IT developments	3 to 7 years	5,285	1,229	4	-	(679)	(293)	5,546
Other		1,373	(46)	37	-	(37)	(195)	1,132
Accumulated amortisation		(3,106)	-	(3)	(1,353)	715	144	(3,603)
Impairment losses		(130)	-	-	(1)	1	-	(130)
		3,436	**1,185**	**38**	**(1,354)**	**-**	**(345)**	**2,960**

19. Other assets

The detail of Other assets is as follows:

	Millions of euros		
	2015	2014	2013
Inventories	1,013	1,099	80
Transactions in transit	323	727	127
Net pension plan assets (Note 25)	787	413	149
Prepayments and accrued income	1,976	2,001	2,114
Other	3,277	3,909	3,344
	7,376	**8,149**	**5,814**

The increase in Inventories in 2014 related mainly to the consolidation of the assets of Metrovacesa, S.A. (see Note 3).

20. Deposits from central banks and Deposits from credit institutions

The detail, by classification, counterparty, type and currency, of Deposits from central banks and Deposits from credit institutions in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Classification:			
Financial liabilities held for trading	2,255	7,572	11,334
Of which:			
Deposits from central banks	*2,178*	*2,041*	*3,866*
Deposits from credit institutions	*77*	*5,531*	*7,468*
Other financial liabilities at fair value through profit or loss	25,037	25,360	11,741
Of which:			
Deposits from central banks	*16,486*	*6,321*	*2,097*
Deposits from credit institutions	*8,551*	*19,039*	*9,644*
Financial liabilities at amortised cost	148,079	122,437	86,322
Of which:			
Deposits from central banks	*38,872*	*17,290*	*9,788*
Deposits from credit institutions	*109,207*	*105,147*	*76,534*
	175,371	**155,369**	**109,397**
Type:			
Reciprocal accounts	1,332	704	755
Time deposits	113,117	85,178	55,839
Other demand accounts	3,199	4,893	3,425
Repurchase agreements	57,723	64,594	49,378
	175,371	**155,369**	**109,397**
Currency:			
Euro	92,060	86,539	63,947
Pound sterling	5,961	8,107	6,993
US dollar	48,586	34,646	27,509
Other currencies	28,764	26,077	10,948
	175,371	**155,369**	**109,397**

The increase in Deposits from central banks measured at amortised cost in the last two years relates mainly to the Group's participation in the European Central Bank's targeted longer-term refinancing operations (TLTROs) for approximately EUR 21.8 thousand million and EUR 8.2 thousand million in 2015 and 2014, respectively.

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

21. Customer deposits

The detail, by classification, geographical area and type, of Customer deposits is as follows:

	Millions of euros		
	2015	2014	2013
Classification:			
Financial liabilities held for trading	9,187	5,544	8,500
Other financial liabilities at fair value through profit or loss	26,357	33,127	26,484
Financial liabilities at amortised cost	647,578	608,956	572,853
	683,122	**647,627**	**607,837**
Geographical area:			
Spain	183,778	186,051	185,460
European Union (excluding Spain)	311,314	275,291	259,903
United States and Puerto Rico	59,814	51,291	43,773
Other OECD countries	57,817	55,003	47,541
Latin America (non-OECD)	69,792	79,848	71,004
Rest of the world	607	143	156
	683,122	**647,627**	**607,837**
Type:			
Demand deposits-			
Current accounts	257,192	200,752	167,787
Savings accounts	180,415	173,105	164,214
Other demand deposits	5,489	5,046	3,512
Time deposits-			
Fixed-term deposits and other term deposits	196,965	223,262	225,955
Home-purchase savings accounts	59	71	102
Discount deposits	448	448	1,156
Hybrid financial liabilities	5,174	3,525	3,324
Repurchase agreements	37,380	41,418	41,787
	683,122	**647,627**	**607,837**

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

22. Marketable debt securities

a) Breakdown

The detail, by classification and type, of Marketable debt securities is as follows:

	Millions of euros		
	2015	2014	2013
Classification:			
Financial liabilities held for trading	-	-	1
Other financial liabilities at fair value through profit or loss	3.373	3.830	4.086
Financial liabilities at amortised cost	201.656	193.059	171.390
	205.029	**196.889**	**175.477**
Type:			
Bonds and debentures outstanding	182.073	178.710	161.274
Notes and other securities	22.956	18.179	14.203
	205.029	**196.889**	**175.477**

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates in those years.

b) Bonds and debentures outstanding

The detail, by currency of issue, of Bonds and debentures outstanding is as follows:

	Millions of euros			31 December 2015	
Currency of issue	2015	2014	2013	Outstanding issue amount in foreign currency (millions)	Annual interest rate (%)
Euro	88,922	89,803	85,120	88,922	2.25%
US dollar	46,463	39,992	25,641	50,585	2.46%
Pound sterling	16,757	19,613	20,237	12,299	2.58%
Brazilian real	19,125	18,707	15,017	82,459	13.57%
Hong Kong dollar	74	41	5,026	626	3.20%
Chilean peso	3,634	3,596	3,360	2,811,775	3.79%
Other currencies	7,098	6,958	6,873		
Balance at end of year	**182,073**	**178,710**	**161,274**		

The changes in Bonds and debentures outstanding were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	178,710	161,274	183,686
Net inclusion of entities in the Group	5,229	7,024	-
Of which:			
Banco Santander Totta, S.A. (Note 3)	*1,729*	-	-
Auto ABS UK Loans PLC	*1,358*	-	-
Auto ABS DFP Master Compartment France 2013	*550*	-	-
Auto ABS2 FCT Compartiment 2013-A	*514*	-	-
PSA Financial Services, Spain, E.F.C., S.A.	*401*	-	-
Auto ABS FCT Compartiment 2012-1	*274*	-	-
Auto ABS FCT Compartiment 2013-2	*205*	-	-
PSA Finance Suisse, S.A.	*200*	-	-
Santander Consumer USA Holdings Inc.(Note 3)	-	*7,024*	-
Issues	66,223	66,360	61,754
Of which:			
Santander UK Group			
Bonds in other currencies	*11,727*	*18,608*	*23,491*
Bond in pounds sterling	*4,552*	*2,769*	*5,877*
Banco Santander (Brasil) S.A.			
Real estate letters of credit	*6,966*	*9,551*	*4,989*
Bonds	*8,870*	*4,511*	*5,777*
Agricultural letters of credit	*1,074*	*1,756*	*478*
Santander Consumer USA Holdings Inc. - Asset-backed securities	*11,330*	*7,600*	-
Santander Consumer Finance, S.A. - Bonds	*5,070*	*3,602*	*2,325*
Santander International Debt, S.A. Sole-Shareholder Company - Bonds - floating/fixed rate	*4,270*	*4,853*	*4,654*
Santander Holdings USA, Inc. - Bonds	*1,921*	-	*362*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander – México Bonds	*1,874*	*1,099*	*392*
Santander Consumer Bank AS - Bonds	*1,328*	*470*	*443*
Banco Santander - Chile - Bonds	*1,198*	*1,979*	*1,469*
Banco Santander, S.A.			
Mortgage-backed bonds - fixed rate	*995*	*2,944*	*1,990*
Territorial bonds - fixed rate	-	*218*	*4,000*
Bonds	-	-	*323*
Santander Bank, National Association - Bonds	*910*	-	-
Banco Santander Totta S.A.- Mortgage debentures	*749*	*1,746*	-
Emisora Santander España - Bonds	*745*	-	-
Fondo de Titulización RMBS Santander 4 - Asset-backed securities	*613*	-	-
Bilkreditt 7 Designated Activity Company - Bonds	*500*	-	-
Santander International Products, Plc. - Bonds	*402*	*341*	*65*
SCF Rahoituspalvelut I DAC - Bonds	*316*	-	-
Santander Consumer Bank S.p.A. - Bonds - floating rate	*300*	*35*	*100*
SC Poland Consumer 15-1 Sp. z.o.o. - Bonds	*247*	-	-
Bank Zachodni WBK S.A. - Bonds	*114*	-	-
Santander Consumer Bank SA - Bonds	*61*	*188*	*256*
Motor 2014-1 plc - Asset-backed securities	-	*736*	-
Bilkreditt 6 Limited - Asset-backed securities	-	*638*	-
Fondo de Titulización de Activos Pymes Santander 10 - Asset-backed securities	-	*590*	-
Svensk Autofinans WH 1 Ltd - Asset-backed securities	-	*474*	-
SC Germany Auto 2014-1 UG (haftungsbeschränkt) - Asset-backed securities	-	*389*	-
Motor 2013-1 plc - Asset-backed securities	-	-	*598*
Bilkreditt 5 Limited - Asset-backed securities	-	-	*494*
Bilkreditt 3 Limited - Asset-backed securities	-	-	*468*
SC Germany Auto 2013-2 UG - Asset-backed securities	-	-	*466*
Dansk Auto Finansiering 1 Ltd - Asset-backed securities	-	-	*416*
SC Germany Auto 2013-2 UG (Haftungsbeschränkt) - Asset-backed securities	-	-	*407*
SCF Rahoituspalvelut 2013 Limited - Asset-backed securities	-	-	*384*
Bilkreditt 4 Limited - Asset-backed securities	-	-	*357*
Trade Maps 3 Ireland Limited - Debentures - floating rate	-	-	*313*
Fondo de Titulización de Activos PYMES Santander 6 - Asset-backed securities	-	-	*235*
Redemptions	(69,295)	(60,883)	(73,619)
Of which:			
Santander UK Group	*(18,702)*	*(19,213)*	*(37,388)*
Banco Santander (Brasil) S.A.	*(14,718)*	*(14,359)*	*(8,246)*
Banco Santander, S.A.	*(12.058)*	*(12,391)*	*(11,434)*
Santander Consumer USA Holdings Inc.	*(7,556)*	-	-
Santander International Debt, S.A. Sole-Shareholder Company	*(5,938)*	*(6,967)*	*(10,437)*
Santander Consumer Finance, S.A.	*(2,838)*	*(1,422)*	*(1,012)*
Banco Santander - Chile	*(2,136)*	*(2,186)*	*(1,263)*
Santander US Debt, S.A. Sole-Shareholder Company	*(1,064)*	-	*(947)*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*(789)*	*(726)*	*(62)*
Santander Holdings USA, Inc.	*(494)*	-	-
SCFI Ajoneuvohallinto Limited	*(452)*	-	-
Fondo de Titulización de Activos PYMES Santander 10	*(404)*	-	-
Bilkreditt 6 Limited	*(268)*	-	-
SC Germany Auto 2014-1 UG (haftungsbeschränkt)	*(178)*	-	-
Dansk Auto Finansiering 1 Ltd	*(169)*	-	-
Bilkreditt 3 Limited	*(169)*	-	-
Santander Consumer Bank A.S.	*(163)*	-	-
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	*(147)*	-	-
Bilkreditt 5 Limited	*(143)*	-	-
SC Austria Finance 2013-1 S.A.	*(143)*	-	-
Santander Consumer Bank S.A.	*(141)*	*(200)*	*(48)*
Santander Consumer Bank S.p.A.	*(135)*	-	-
Banco Santander Totta, S.A.	*(130)*	*(1,095)*	*(962)*
Santander International Products plc.	*(64)*	*(610)*	*(1,605)*
Brazil Foreign Diversified Payment Rights Finance Company	-	*(655)*	-
Santander Consumer Bank AG	-	-	*(6)*
Exchange differences	3,850	6,706	(5,590)
Other changes	(2,644)	(1,771)	(4,957)
Balance at end of year	**182,073**	**178,710**	**161,274**

c) Notes and other securities

These notes were issued basically by Abbey National Treasury Services plc, Santander Consumer Finance, S.A., Santander Commercial Paper, S.A. (Sole-Shareholder Company), Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Abbey National North America LLC, Bank Zachodni WBK S.A., Banco Santander Totta, S.A. and Banco Santander, S.A.

d) Guarantees

Set forth below is information on the liabilities secured by financial assets:

	Millions of euros		
	2015	2014	2013
Asset-backed securities	42,201	39,594	30,020
Of which, mortgage-backed securities	*14,152*	*18,059*	*22,843*
Other mortgage securities	48,227	60,569	59,984
Of which: mortgage-backed bonds	*19,747*	*29,227*	*32,717*
	90,428	**100,163**	**90,004**

The main characteristics of the assets securing the aforementioned financial liabilities are as follows:

1. Asset-backed securities:

   a. Mortgage-backed securities- these securities are secured by securitised mortgage assets (see Note 10.e) with average maturities of more than ten years that must: be a first mortgage for acquisition of principal or second residence, be current in payments, have a loan-to-value ratio below 80% and have a liability insurance policy in force covering at least the appraisal value. The value of the financial liabilities broken down in the foregoing table is lower than the balance of the assets securing them - securitised assets retained on the balance sheet - mainly because the Group repurchases a portion of the bonds issued, and in such cases they are not recognised on the liability side of the consolidated balance sheet.

   b. Other asset-backed securities- including asset-backed securities and notes issued by special-purpose vehicles secured mainly by mortgage loans that do not meet the foregoing requirements and other loans (mainly personal loans with average maturities of five years and loans to SMEs with average maturities of seven years).

2. Other mortgage securities include mainly: (i) mortgage-backed bonds with average maturities of more than ten years that are secured by a portfolio of mortgage loans and credits (included in secured loans - see Note 10.b) which must: not be classified as at procedural stage; have available appraisals performed by specialised entities; have a loan-to-value ratio below 80% in the case of home loans and below 60% for loans for other assets and have sufficient liability insurance, (ii) other debt securities issued as part of the Group's liquidity strategy in the UK, mainly covered bonds in the UK secured by mortgage loans and other assets.

The fair value of the guarantees received by the Group (financial and non-financial assets) which the Group is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Group's financial statements as a whole.

e) *Spanish mortgage-market issues*

The members of the board of directors hereby state that the Group entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April, implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency (see Note 54).

The Group entities' procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation.

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

The information required by Bank of Spain Circulars 7/2010 and 5/2011, by application of Royal Decree 716/2009, of 24 April, is as follows:

	Millions of euros
Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised bonds)	60,043
Of which:	
Loans eligible to cover issues of mortgage-backed securities	*39,414*
Transfers of assets retained on balance sheet: mortgage-backed certificates and other securitised mortgage assets	*21,417*

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Group entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register and without prejudice to the issuer's unlimited liability.

The mortgage-backed bonds include the holder’s financial claim on the issuer, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

The outstanding mortgage-backed bonds issued by the Group totalled EUR 19,747 million at 31 December 2015 (all of which were denominated in euros), of which EUR 18,603 million were issued by Banco Santander, S.A. and EUR 1,144 million were issued by Santander Consumer Finance, S.A. The issues outstanding at 31 December 2015 and 2014 are detailed in the separate financial statements of each of these companies.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

23. Subordinated liabilities

a) Breakdown

The detail, by currency of issue, of Subordinated liabilities in the consolidated balance sheets is as follows:

	Millions of euros			31 December 2015	
Currency of issue	2015	2014	2013	Outstanding issue amount in foreign currency (millions)	Annual interest rate (%)
Euro	8,001	5,901	4,600	8,001	3.59%
US dollar	9,174	5,525	4,413	9,987	4.02%
Pound sterling	851	1,776	2,750	625	8.36%
Brazilian real	1,878	2,267	2,734	8,097	14.64%
Other currencies	1,249	1,663	1,642		
Balance at end of year	**21,153**	**17,132**	**16,139**		
Of which, preference shares (acciones preferentes)	*449*	*739*	*401*		
Of which, preference shares (participaciones preferentes)	*6,749*	*6,239*	*3,652*		

Note 51 contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

b) Changes

The changes in Subordinated liabilities in the last three years were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	17,132	16,139	18,238
Net inclusion of entities in the Group (Note 3)	-	-	237
Placements	4,787	4,351	1,027
Of which:			
Santander Issuances, S.A., Sole-Shareholder Company	*2,878*	-	-
Santander UK Group Holdings plc	*1,377*	-	-
Santander UK plc	*521*	-	*599*
Banco Santander, S.A.	-	*4,235*	-
Banco Santander (Brasil) S.A.	-	*115*	-
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	-	-	*235*
Banco Santander - Chile	-	-	*191*
Redemptions and repurchases	(1,029)	(3,743)	(1,915)
Of which:			
Santander UK plc	*(466)*	-	-
Bank Zachodni WBK S.A.	*(237)*	-	-
Banco Santander, S.A.	*(114)*	*(61)*	*(28)*
Santander Central Hispano Issuances Limited	*(79)*	-	-
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*(64)*	-	-
Banco Santander (Brasil) S.A.	*(60)*	*(379)*	*(663)*
Banco Santander - Chile	*(4)*	*(174)*	*(7)*
Santander Issuances, S.A., Sole-Shareholder Company	-	*(1,425)*	*(608)*
Santander Finance Capital, S.A., Sole-Shareholder	-	*(21)*	*(4)*
Santander Finance Preferred, S.A., Sole-Shareholder	-	*(1,678)*	*(7)*
Santander Securities Services, S.A.	-	*(3)*	*(6)*
Abbey National Capital Trust I	-	-	*(278)*
Santander Holdings USA, Inc.	-	-	*(193)*
Santander PR Capital Trust I	-	-	*(91)*
Santander Perpetual, S.A., Sole-Shareholder Company	-	-	*(28)*
Exchange differences	389	737	(923)
Other changes	(126)	(352)	(525)
Balance at end of year	**21,153**	**17,132**	**16,139**

c) Other disclosures

This item includes the preference shares (participaciones preferentes) and other financial instruments issued by the consolidated companies which, although equity for legal purposes, do not meet the requirements for classification as equity (preference shares).

The preference shares do not carry any voting rights and are non-cumulative. They were subscribed to by non-Group third parties and, except for the shares of Santander UK plc referred to below, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

At 31 December 2015, Santander UK plc had a GBP 200 million subordinated issue which is convertible, at Santander UK plc's option, into preference shares of Santander UK plc, at a price of GBP 1 per share.

For the purposes of payment priority, preference shares (participaciones preferentes) are junior to all general creditors and to subordinated deposits. The remuneration of these securities, which have no voting rights, is conditional upon the obtainment of sufficient distributable profit and upon the limits imposed by Spanish banking regulations on equity.

The other issues are subordinated and, therefore, for the purposes of payment priority, they are junior to all general creditors of the issuers. The issues launched by Santander Issuances, S.A. (Sole-Shareholder Company), Santander Perpetual, S.A. (Sole-Shareholder Company), Santander Finance Capital, S.A. (Sole-Shareholder Company), Santander International Preferred, S.A. (Sole-Shareholder Company) and Santander Finance Preferred, S.A. (Sole-Shareholder Company) are guaranteed by the Bank or by restricted deposits arranged at the Bank for this purpose and totalled EUR 8,118 million at 31 December 2015.

At 31 December 2015, the following issues were convertible into Bank shares:

On 5 March, 8 May and 2 September 2014, Banco Santander, S.A. announced that its executive committee had resolved to launch issues of preference shares contingently convertible into newly issued ordinary shares of the Bank ("CCPSs") for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million, respectively. The interest on the CCPSs, payment of which is subject to certain conditions and is discretionary, was set at 6.25% per annum for the first five years (to be repriced thereafter by applying a 541 basis-point spread to the 5-year Mid-Swap Rate) for the March issue, at 6.375% per annum for the first five years (to be repriced thereafter by applying a 478.8 basis-point spread to the 5-year Mid-Swap Rate) for the May issue and at 6.25% per annum for the first seven years (to be repriced every five years thereafter by applying a 564 basis-point spread to the 5-year Mid-Swap Rate) for the September issue.

On 25 March, 28 May and 30 September 2014, the Bank of Spain confirmed that the CCPSs were eligible as Additional Tier 1 capital under the new European capital requirements of Regulation (EU) No 575/2013. The CCPSs are perpetual, although they may be redeemed early in certain circumstances and would convert into newly issued ordinary shares of Banco Santander if the Common Equity Tier 1 ratio of the Bank or its consolidated group fell below 5.125%, calculated in accordance with Regulation (EU) No 575/2013. The CCPSs are traded on the Global Exchange Market of the Irish Stock Exchange.

Furthermore, on 29 January 2014, Banco Santander (Brasil), S.A. launched an issue of Tier 1 perpetual subordinated notes for a nominal amount of USD 1,248 million, of which the Group has acquired 89.6%. The notes are perpetual and would convert into ordinary shares of Banco Santander (Brasil), S.A. if the common equity Tier 1 ratio, calculated as established by the Central Bank of Brazil, were to fall below 5.125%.

The interest accrued on subordinated liabilities amounted to EUR 934 million in 2015 (2014: EUR 1,084 million; 2013: EUR 1,260 million) (see Note 39).

The interest accrued on the CCPSs in 2015 amounted to EUR 276 million (2014: EUR 131 million).

24. Other financial liabilities

The detail of Other financial liabilities in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Trade payables	1,264	1,276	1,031
Clearing houses	708	562	841
Tax collection accounts:			
Tax payables	2,489	2,304	2,197
Factoring accounts payable	194	193	194
Unsettled financial transactions	5,584	4,445	3,063
Other financial liabilities	10,639	10,688	9,084
	20,878	**19,468**	**16,410**

Note 51 contains a detail of the residual maturity periods of other financial liabilities at each year-end.

25. Provisions

a) Breakdown

The detail of Provisions in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Provision for pensions and similar obligations	8,272	9,412	9,126
Provisions for taxes and other legal contingencies	2,577	2,916	2,727
Provisions for contingent liabilities and commitments (Note 2):	618	654	693
Of which: due to country risk	*2*	*2*	*4*
Other provisions	3,027	2,394	2,043
Provisions	**14,494**	**15,376**	**14,589**

b) Changes

The changes in Provisions in the last three years were as follows:

	Millions of euros											
	2015				2014				2013			
	Pensions	Contingent liabilities and commitments	Other provisions	Total	Pensions	Contingent liabilities and commitments	Other provisions	Total	Pensions	Contingent liabilities and commitments	Other provisions	Total
Balances at beginning of year	9,412	654	5,310	15,376	9,126	693	4,770	14,589	10,353	617	5,032	16,002
Net inclusion of entities in the Group	17	8	162	187	11	3	74	88	(1)	15	-	14
Additions charged to income:												
Interest expense and similar charges (Note 39)	270	-	-	270	344	-	-	344	363	-	-	363
Staff costs (Note 47)	96	-	-	96	75	-	-	75	88	-	-	88
Period provisions (net)	149	(1)	2,958	3,106	361	54	2,594	3,009	397	126	1,922	2,445
Other additions arising from insurance contracts linked to pensions	(18)	-	-	(18)	31	-	-	31	(27)	-	-	(27)
Changes in value recognised in equity	(575)	-	-	(575)	770	-	-	770	(90)	-	-	(90)
Payments to pensioners and pre-retirees with a charge to internal provisions	(1,014)	-	-	(1,014)	(1,038)	-	-	(1,038)	(1,086)	-	-	(1,086)
Benefits paid due to settlements	-	-	-	-	-	-	-	-	(2)	-	-	(2)
Insurance premiums paid	(1)	-	-	(1)	(11)	-	-	(11)	(6)	-	-	(6)
Payments to external funds	(146)	-	-	(146)	(607)	-	-	(607)	(217)	-	-	(217)
Amounts used	-	-	(1,684)	(1,684)	-	-	(2,293)	(2,293)	-	-	(1,661)	(1,661)
Transfers, exchange differences and other changes	82	(43)	(1,142)	(1,103)	350	(96)	165	419	(646)	(65)	(523)	(1,234)
Balances at end of year	**8,272**	**618**	**5,604**	**14,494**	**9,412**	**654**	**5,310**	**15,376**	**9,126**	**693**	**4,770**	**14,589**

c) *Provision for pensions and similar obligations*

The detail of Provisions for pensions and similar obligations is as follows:

	Millions of euros		
	2015	2014	2013
Provisions for post-employment plans - Spanish entities	4,826	4,915	4,643
Of which: defined benefit	*4,822*	*4,910*	*4,633*
Provisions for other similar obligations - Spanish entities	1,813	2,237	2,161
Of which: Pre-retirements	*1,801*	*2,220*	*2,149*
Provisions for post-employment plans - Santander UK plc	150	256	806
Provisions for post-employment plans and other similar obligations - Other foreign subsidiaries	1,483	2,004	1,516
Of which: defined benefit	*1,478*	*1,999*	*1,512*
Provisions for pensions and similar obligations	**8,272**	**9,412**	**9,126**

i. *Spanish entities - Post-employment plans and other similar obligations*

At 31 December 2015, 2014 and 2013, the Spanish entities had post-employment benefit obligations under defined contribution and defined benefit plans In addition, in various years some of the consolidated entities offered certain of their employees the possibility of taking pre-retirement and, therefore, provisions are recognised each year for the obligations to employees taking pre-retirement -in terms of salaries and other employee benefit costs- from the date of their pre-retirement to the date of effective retirement. In 2015, 589 employees accepted the pre-retirement and voluntary redundancy offers, and the provision recognised to cover these obligations totalled EUR 217 million (2014: EUR 642 million; 2013: EUR 334 million).

The expenses incurred by the Group in respect of contributions to defined contribution plans amounted to EUR 99 million in 2015 (2014: EUR 105 million; 2013: EUR 108 million).

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	Post-employment plans			Other similar obligations		
	2015	2014	2013	2015	2014	2013
Annual discount rate	1.75%	2.00%	3.00%	1.75%	2.00%	3.00%
Mortality tables	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000
Cumulative annual CPI growth	1.0%	1.5%	1.5%	1.0%	1.5%	1.5%
Annual salary increase rate	2.0% (*)	2.50% (*)	2.50% (*)	N/A	N/A	N/A
Annual social security pension increase rate	1.0%	1.5%	1.5%	N/A	N/A	N/A
Annual benefit increase rate	N/A	N/A	N/A	0% to 1.5%	0% to 1.5%	0% to 1.5%

(*) Corresponds to the Group's defined-benefit obligations.

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in euros) with terms consistent with those of the obligations. The portfolio of bonds taken into consideration excludes callable, puttable and sinkable bonds which could distort the indices.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2015, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of +5.70% and -5.10%, respectively, and an increase or decrease in the present value of the long-term obligations of +1.10% and -1.08%. These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	Post-employment plans			Other similar obligations		
	2015	2014	2013	2015	2014	2013
Expected rate of return on plan assets	1.75%	2.0%	3.0%	N/A	N/A	N/A
Expected rate of return on reimbursement rights	1.75%	2.0%	3.0%	N/A	N/A	N/A

The funding status of the defined benefit obligations in 2015 and the four preceding years is as follows:

	Millions of euros									
	Post-employment plans					Other similar obligations				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Present value of the obligations:										
To current employees	48	62	50	58	1,533	-	-	-	-	-
Vested obligations to retired employees	4,551	4,708	4,483	4,765	4,367	-	-	-	-	-
To pre-retirees	-	-	-	-	-	1,801	2,220	2,149	2,389	2,769
Long-service bonuses and other benefits	-	-	-	-	-	12	13	11	7	7
Other	380	307	257	221	185	-	4	1	8	5
	4,979	5,077	4,790	5,044	6,085	1,813	2,237	2,161	2,404	2,781
Less - Fair value of plan assets	157	167	157	144	177	-	-	-	-	-
Provisions - Provisions for pensions	**4,822**	**4,910**	**4,633**	**4,900**	**5,908**	**1,813**	**2,237**	**2,161**	**2,404**	**2,781**
Of which:										
Internal provisions for pensions	*4,524*	*4,565*	*4,293*	*4,495*	*3,762*	*1,813*	*2,237*	*2,161*	*2,404*	*2,781*
Insurance contracts linked to pensions (Note 14)	*299*	*345*	*342*	*405*	*2,146*	-	-	-	-	-
Unrecognised net assets for pensions	*(1)*	-	*(2)*	-	-	-	-	-	-	-

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros					
	Post-employment plans			Other similar obligations		
	2015	2014	2013	2015	2014	2013
Current service cost	12	10	10	2	1	-
Interest cost (net)	100	139	139	37	59	61
Expected return on insurance contracts linked to pensions	(6)	(9)	(11)	-	-	-
Extraordinary charges:						
Actuarial (gains)/losses recognised in the year	-	-	-	(8)	48	3
Past service cost	4	-	30	-	-	34
Pre-retirement cost	4	12	8	213	630	326
Effect of curtailment/settlement	(28)	(14)	(6)	(33)	-	-
	86	**138**	**170**	**211**	**738**	**424**

In addition, in 2015 Valuation adjustments – Other valuation adjustments increased by EUR 145 million with respect to defined benefit obligations (2014: an increase of EUR 427 million; 2013: an increase of EUR 52 million).

The changes in the present value of the accrued defined benefit obligations were as follows:

	Millions of euros					
	Post-employment plans			Other similar obligations		
	2015	2014	2013	2015	2014	2013
Present value of the obligations at beginning of year	5,077	4,790	5,044	2,237	2,161	2,404
Net inclusion of entities in the Group	-	-	(5)	-	-	-
Current service cost	12	10	10	2	1	-
Interest cost	105	144	145	37	59	61
Pre-retirement cost	4	12	8	213	630	326
Effect of curtailment/settlement	(28)	(14)	(6)	(33)	-	-
Benefits paid due to settlements	-	-	-	(1)	-	-
Other benefits paid	(327)	(355)	(394)	(657)	(665)	(661)
Past service cost	4	-	30	-	-	34
Actuarial (gains)/losses (*)	124	485	(79)	(8)	48	3
Exchange differences and other items	8	5	37	23	3	(6)
Present value of the obligations at end of year	**4,979**	**5,077**	**4,790**	**1,813**	**2,237**	**2,161**

(*) Including in 2015 demographic actuarial losses of EUR 24 million and financial actuarial losses of EUR 100 million in the post-employment plans, as well as demographic actuarial gains of EUR 12 million and financial actuarial losses of EUR 4 million in other similar obligations.

The changes in the fair value of plan assets and of insurance contracts linked to pensions were as follows:

Plan assets

	Millions of euros		
	Post-employment plans		
	2015	2014	2013
Fair value of plan assets at beginning of year	167	157	144
Expected return on plan assets	5	5	6
Actuarial gains/(losses)	(3)	27	-
Contributions/(surrenders)	1	11	5
Benefits paid	(17)	(38)	(12)
Exchange differences and other items	4	5	14
Fair value of plan assets at end of year	**157**	**167**	**157**

Insurance contracts linked to pensions

	Millions of euros		
	Post-employment plans		
	2015	2014	2013
Fair value of insurance contracts linked to pensions at beginning of year	345	342	405
Expected return on insurance contracts (Note 38)	6	9	11
Benefits paid	(34)	(37)	(47)
Actuarial gains/(losses)	(18)	31	(27)
Fair value of insurance contracts linked to pensions at end of year	**299**	**345**	**342**

In view of the conversion of the defined-benefit obligations to defined-contribution obligations, the Group will not make material current contributions in Spain in 2015 to fund its defined-benefit pension obligations.

The plan assets and the insurance contracts linked to pensions are instrumented mainly through insurance policies.

The following table shows the estimated benefits payable at 31 December 2015 for the next ten years:

	Millions of euros
2016	873
2017	754
2018	647
2019	545
2020	459
2021 to 2025	1,510

ii. United Kingdom

At the end of each of the last three years, the businesses in the United Kingdom had post-employment benefit obligations under defined contribution and defined benefit plans. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 90 million in 2015 (2014: EUR 84 million; 2013: EUR 62 million).

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2015	2014	2013
Annual discount rate	3.74%	3.65%	4.45%
Mortality tables	116/98 S1 Light TMC	116/98 S1 Light TMC	103 S1 Light TMC
Cumulative annual CPI growth	2.98%	3.05%	3.40%
Annual salary increase rate	1.00%	1.00%	3.40%
Annual pension increase rate	2.83%	2.85%	3.15%

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in pounds sterling) that coincide with the terms of the obligations. The portfolio of bonds taken into consideration excludes callable, puttable and sinkable bonds which could distort the indices.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2015, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 10.1%. If the inflation assumption had been increased or decreased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 6.6%. These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the defined benefit obligations in 2015 and the four preceding years is as follows:

	Millions of euros				
	2015	2014	2013	2012	2011
Present value of the obligations	12,271	11,959	10,120	9,260	8,467
Less- Fair value of plan assets	12,880	12,108	9,455	9,194	8,496
Provisions - Provisions for pensions	**(609)**	**(149)**	**665**	**66**	**(29)**
Of which:					
Internal provisions for pensions	*150*	*256*	*806*	*409*	*255*
Net assets for pensions	*(759)*	*(405)*	*(141)*	*(343)*	*(284)*

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros		
	2015	2014	2013
Current service cost	39	29	32
Interest cost (net)	(5)	16	1
Past service cost	-	(286)	-
	34	**(241)**	**33**

In addition, in 2015 Valuation adjustments – Other valuation adjustments decreased by EUR 435 million with respect to defined benefit obligations (2014: a decrease of EUR 173 million; 2013: a decrease of EUR 697 million).

The changes in the present value of the accrued defined benefit obligations were as follows:

	Millions of euros		
	2015	2014	2013
Present value of the obligations at beginning of year	11,959	10,120	9,260
Current service cost	39	29	32
Interest cost	466	455	396
Benefits paid	(342)	(263)	(239)
Past service cost	-	(286)	-
Actuarial (gains)/losses (*)	(656)	1,174	852
Exchange differences and other items	805	730	(181)
Present value of the obligations at end of year	**12,271**	**11,959**	**10,120**

(*) Including in 2015 demographic actuarial gains of EUR 364 million and financial actuarial gains of EUR 292 million.

In 2014 Santander UK reached an agreement with the workers' representatives to convert a portion of the defined-benefit obligations into defined-contribution plans. The effect of the reduction of the aforementioned obligations is shown in the preceding table under Past service cost.

The changes in the fair value of the plan assets were as follows:

	Millions of euros		
	2015	2014	2013
Fair value of plan assets at beginning of year	12,108	9,455	9,194
Expected return on plan assets	471	439	395
Actuarial gains/(losses)	(222)	1,346	155
Contributions	59	450	133
Benefits paid	(342)	(263)	(239)
Exchange differences and other changes	806	681	(183)
Fair value of plan assets at end of year	**12,880**	**12,108**	**9,455**

In 2016 the Group expects to make current contributions to fund these obligations for amounts similar to those made in 2015.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2015	2014	2013
Equity instruments	23%	22%	24%
Debt instruments	53%	56%	59%
Properties	15%	12%	11%
Other	9%	10%	6%

The following table shows the estimated benefits payable at 31 December 2015 for the next ten years:

	Millions of euros
2016	359
2017	383
2018	409
2019	436
2020	466
2021 to 2025	2,860

iii. Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits.

At 31 December 2015, 2014 and 2013, these entities had defined-contribution and defined-benefit post-employment benefit obligations. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 90 million in 2015 (2014: EUR 58 million; 2013: EUR 53 million).

The actuarial assumptions used by these entities (discount rates, mortality tables and cumulative annual CPI growth) are consistent with the economic and social conditions prevailing in the countries in which they are located.

Specifically, the discount rate used for the flows was determined by reference to high-quality corporate bonds, except in the case of Brazil where there is no extensive corporate bond market and, accordingly the discount rate was determined by reference to the series B bonds issued by the Brazilian National Treasury Secretariat for a term coinciding with that of the obligations.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2015, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 5%. These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the obligations similar to post-employment benefits and other long-term benefits in 2015 and the four preceding years is as follows:

	Millions of euros				
	2015	2014	2013	2012	2011
Present value of the obligations	8,337	10,324	9,289	12,814	11,245
Less-					
Of which: with a charge to the participants	*133*	*151*	*133*	*125*	-
Fair value of plan assets	7,008	8,458	7,938	10,410	9,745
Provisions - Provisions for pensions	**1,196**	**1,715**	**1,218**	**2,279**	**1,500**
Of which:					
Internal provisions for pensions	*1,478*	*1,999*	*1,512*	*2,626*	*1,827*
Net assets for pensions	*(28)*	*(8)*	*(8)*	*(5)*	*(15)*
Unrecognised net assets for pensions	*(254)*	*(276)*	*(286)*	*(342)*	*(312)*

In December 2011 the Portuguese financial institutions, including Banco Santander Totta, S.A., transferred in part their pension obligations to the social security authorities. As a result, Banco Santander Totta, S.A. transferred the related assets and liabilities and Provisions - Provision for pensions and similar obligations at 31 December 2011 included the present value of the obligations, net of the fair value of the related plan assets.

The amounts recognised in the consolidated income statements in relation to these obligations are as follows:

	Millions of euros		
	2015	2014	2013
Current service cost	43	35	46
Interest cost (net)	138	131	162
Extraordinary charges (credits):			
Actuarial (gains)/losses recognised in the year	(1)	4	(1)
Past service cost	1	1	7
Pre-retirement cost	-	-	-
Other	(1)	(34)	(2)
	180	**137**	**212**

In addition, in 2015 Valuation adjustments – Other valuation adjustments decreased by EUR 285 million with respect to defined benefit obligations (2014: an increase of EUR 515 million; 2013: an increase of EUR 735 million).

The changes in the present value of the accrued obligations were as follows:

	Millions of euros		
	2015	2014	2013
Present value of the obligations at beginning of year	10,324	9,289	12,814
Net inclusion of entities in the Group	26	25	4
Current service cost	43	35	46
Interest cost	778	865	951
Pre-retirement cost	-	20	-
Effect of curtailment/settlement	(1)	(6)	(1)
Benefits paid	(639)	(669)	(686)
Benefits paid due to settlements	-	(6)	(2)
Contributions made by employees	8	7	21
Past service cost	1	1	7
Actuarial (gains)/losses (*)	(271)	646	(2,039)
Exchange differences and other items	(1,932)	117	(1,826)
Present value of the obligations at end of year	**8,337**	**10,324**	**9,289**

(*) Including in 2015 demographic actuarial gains of EUR 393 million and financial actuarial gains of EUR 664 million.

The changes in the fair value of the plan assets were as follows:

	Millions of euros		
	2015	2014	2013
Fair value of plan assets at beginning of year	8,458	7,938	10,410
Net inclusion of entities in the Group	9	13	-
Expected return on plan assets	667	759	789
Actuarial gains/(losses)	43	124	(1,314)
Gains/(losses) due to settlements	1	(24)	-
Contributions	109	205	239
Benefits paid	(594)	(643)	(641)
Exchange differences and other items	(1,685)	86	(1,545)
Fair value of plan assets at end of year	**7,008**	**8,458**	**7,938**

In 2016 the Group expects to make contributions to fund these obligations for amounts similar to those made in 2015.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2015	2014	2013
Equity instruments	12%	8%	10%
Debt instruments	84%	83%	85%
Properties	1%	5%	2%
Other	3%	4%	3%

The following table shows the estimated benefits payable at 31 December 2015 for the next ten years:

	Millions of euros
2016	626
2017	644
2018	670
2019	695
2020	720
2021 to 2025	3,982

d) Provisions for taxes and other legal contingencies and Other provisions

Provisions - Provisions for taxes and other legal contingencies and Provisions - Other provisions, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

The detail, by geographical area, of Provisions for taxes and other legal contingencies and Other provisions is as follows:

	Millions of euros		
	2015	2014	2013
Recognised by Spanish companies	1,332	1,217	1,228
Recognised by other EU companies	1,766	1,206	1,027
Recognised by other companies	2,506	2,887	2,515
Of which:			
Brazil	*2,016*	*2,453*	*2,263*
	5,604	**5,310**	**4,770**

Set forth below is the detail, by type of provision, of the balance at 31 December 2015, 2014 and 2013 of Provisions for taxes and other legal contingencies and Other provisions. The types of provision were determined by grouping together items of a similar nature:

	Millions of euros		
	2015	2014	2013
Provisions for taxes	997	1,289	1,177
Provisions for employment-related proceedings (Brazil)	581	616	638
Provisions for other legal proceedings	999	1,011	912
Provision for customer remediation	916	632	465
Regulatory framework-related provisions	308	298	315
Provision for restructuring	404	273	378
Other	1,399	1,191	885
	5,604	**5,310**	**4,770**

Relevant information is set forth below in relation to each type of provision shown in the preceding table:

The provisions for taxes include provisions for tax-related proceedings.

The provisions for employment-related proceedings (Brazil) relate to claims filed by trade unions, associations, the prosecutor's office and ex-employees claiming employment rights to which, in their view, they are entitled, particularly the payment of overtime and other employment rights, including litigation concerning retirement benefits. The number and nature of these proceedings, which are common for banks in Brazil, justify the classification of these provisions in a separate category or as a separate type from the rest. The Group calculates the provisions associated with these claims in accordance with past experience of payments made in relation to claims for similar items. When claims do not fall within these categories, a case-by-case assessment is performed and the amount of the provision is calculated in accordance with the status of each proceeding and the risk assessment carried out by the legal advisers. The average duration of the employment-related proceedings is approximately eight years.

The provisions for other legal proceedings include provisions for court, arbitration or administrative proceedings (other than those included in other categories or types of provisions disclosed separately) brought against Santander Group companies.

The provisions for customer remediation include mainly the estimated cost of payments to remedy errors relating to the sale of certain products in the UK and Germany. To calculate the provision for customer remediation, the best estimate of the provision made by management is used, which is based on the estimated number of claims to be received and, of these, the number that will be accepted, as well as the estimated average payment per case.

The regulatory framework-related provisions include mainly the provisions for the extraordinary contribution to the Deposit Guarantee Fund in Spain and those relating to the FSCS and the Bank Levy in the UK.

The provisions for restructuring include only the costs arising from restructuring processes carried out by the various Group companies.

Qualitative information on the main litigation is provided in Note 25.e to the consolidated financial statements.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

The changes in Provisions for taxes and other legal contingencies and Other provisions are set forth in Note 25.b. With respect to Brazil, the main charges to the income statement in 2015 were EUR 289 million for civil contingencies (2014: EUR 316 million; 2013: EUR 247 million) and EUR 370 million for employment-related claims (2014: EUR 358 million; 2013: EUR 336 million). In addition, a charge of EUR 346 million was recognised in relation to restructuring provisions in 2013. This charge was offset in part by the use of the available provisions, of which EUR 241 million corresponded to employment-related payments (2014: EUR 343 million; 2013: EUR 500 million), EUR 273 million to civil payments (2014: EUR 278 million; 2013: EUR 215 million) and EUR 234 million to the use of restructuring provisions in 2014. In the UK, period provisions of EUR 689 million were recognised in connection with customer remediation (2014: EUR 174 million), of EUR 243 million in connection with the regulatory framework (the bank levy and the Financial Services Compensation Scheme (FSCS)) (2014: EUR 205 million; 2013: EUR 347 million), and of EUR 56 million for restructuring in 2014. These increases were offset by the use of EUR 227 million of provisions for customer remediation (2014: EUR 321 million; 2013: EUR 319 million), EUR 233 million in payments relating to the bank levy and the FSCS (2014: EUR 197 million; 2013: EUR 317 million) and EUR 41 million for restructuring in 2015 (2014: EUR 54 million). In Spain, EUR 95 million were paid in 2015 (2014: EUR 32 million) in relation to the extraordinary contribution to the Deposit Guarantee Fund, recognised in 2013, amounting to EUR 228 million. With regard to Germany, in 2014 period provisions of EUR 455 million were recognised for customer remediation payments and payments of EUR 184 million were made in 2015 (2014: EUR 197 million). In addition, period provisions of EUR 125 million were recognised at the companies acquired in the consumer lending business.

e) *Litigation and other matters*

i. Tax-related litigation

At 31 December 2015, the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11,727/2008, a provision having been recognised for the amount of the estimated loss.

- Legal actions filed by certain Group companies in Brazil claiming their right to pay the Brazilian social contribution tax on net income at a rate of 8% and 10% from 1994 to 1998. No provision was recognised in connection with the amount considered to be a contingent liability.

- Legal actions filed by Banco Santander, S.A. (currently Banco Santander (Brasil) S.A.) and other Group entities claiming their right to pay the Brazilian PIS and COFINS social contributions only on the income from the provision of services. In the case of Banco Santander, S.A., the legal action was declared unwarranted and an appeal was filed at the Federal Regional Court. In September 2007 the Federal Regional Court found in favour of Banco Santander, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. On 23 April 2015, the Federal Supreme Court issued a decision granting leave for the extraordinary appeal filed by the Brazilian authorities with regard to the PIS contribution to proceed, and dismissing the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office in relation to the COFINS contribution. The Federal Supreme Court has not yet handed down its decision on the PIS contribution and, with regard to the COFINS contribution, on 28 May 2015, the Federal Supreme Court in plenary session unanimously rejected the extraordinary appeal filed by the Brazilian Public Prosecutor's Office, and the petition for clarification ("embargos de declaraçao") subsequently filed by the Brazilian Public Prosecutor's Office, which on 3 September admitted that no further appeals may be filed. In the case of Banco ABN AMRO Real, S.A. (currently Banco Santander (Brasil) S.A.), in March 2007 the court found in its favour, but the Brazilian authorities appealed against the judgment at the Federal Regional Court, which handed down a decision partly upholding the appeal in September 2009. Banco Santander (Brasil) S.A. filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a programme of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the programme and withdrew the legal actions brought by them were exempted from paying late-payment interest. In November 2013 Banco Santander (Brasil) S.A. partially availed itself of this programme but only with respect to the legal actions brought by the former Banco ABN AMRO Real, S.A. in relation to the period from September 2006 to April 2009, and with respect to other minor actions brought by other entities in its Group. However, the legal actions brought by Banco Santander, S.A. and those of Banco ABN AMRO Real, S.A. relating to the periods prior to September 2006, for which a provision for the estimated loss was recognised, still subsist.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) on the ground that the relevant requirements under the applicable legislation were not met. No provision was recognised in connection with the amount considered to be a contingent liability.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. No provision was recognised in connection with the amount considered to be a contingent liability.

- In addition, Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. No provision was recognised in connection with the amount considered to be a contingent liability.

- In December 2008 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2002 to 2004. The tax authorities took the view that Banco Santander (Brasil) S.A. did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Banco Santander (Brasil) S.A.). Banco Santander (Brasil) S.A. filed an appeal against the infringement notice at Conselho Administrativo de Recursos Fiscais (the Brazilian Tax Appeal Administrative Council, CARF), which on 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities appealed against this decision at a higher administrative level. In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Banco Santander (Brasil) S.A. filed an appeal against these procedures at CARF, which was partially upheld on 8 October 2013. This decision has been appealed at the higher instance of CARF (Tax Appeal High Chamber). In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for amortisation of the goodwill. Banco Santander (Brasil) S.A. appealed against this infringement notice and the court found in its favour. The Brazilian tax authorities appealed against this decision at CARF. Based on the advice of its external legal counsel and in view of the first decision by CARF, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, no provisions were recognised in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Produban Serviços de Informática S.A.) and Banco Santander (Brasil), S.A. (currently Banco Santander (Brasil) S.A.) in relation to the Provisional Tax on Financial Movements (CPMF) with respect to certain transactions carried out by DTVM in the management of its customers' funds and for the clearing services provided by Banco Santander (Brasil) S.A. to DTVM in 2000, 2001 and the first two months of 2002. The two entities appealed against the infringement notices at CARF, with DTVM obtaining a favourable decision and Banco Santander (Brasil) S.A. an unfavourable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavourable decisions were obtained by Banco Santander (Brasil) S.A. and DTVM on 12 and 19 June 2015, respectively. Both cases were appealed at court in a single proceeding and a provision was recognised for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros, S.A. (Brasil), as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005. The tax authorities questioned the tax treatment applied to a sale of shares of Real Seguros, S.A. made in that year. The aforementioned entity filed an appeal for reconsideration against this infringement notice. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- In June 2013, the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. as the party liable for tax on the capital gain allegedly obtained in Brazil by the entity not resident in Brazil, Sterrebeeck B.V., as a result of the “incorporação de ações” (merger of shares) transaction carried out in August 2008. As a result of the aforementioned transaction, Banco Santander (Brasil) S.A. acquired all of the shares of Banco ABN AMRO Real, S.A. and ABN AMRO Brasil Dois Participações, S.A. through the delivery to these entities' shareholders of newly issued shares of Banco Santander (Brasil) S.A., issued in a capital increase carried out for that purpose. The Brazilian tax authorities take the view that in the aforementioned transaction Sterrebeeck B.V. obtained income subject to tax in Brazil consisting of the difference between the issue value of the shares of Banco Santander (Brasil) S.A. that were received and the acquisition cost of the shares delivered in the exchange. In December 2014 the Group appealed against the infringement notice at CARF after the appeal for reconsideration lodged at the Federal Tax Office was dismissed. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognised any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortisation performed after the merger. On the advice of its external legal counsel, Banco Santander (Brasil), S.A. lodged an appeal against this decision at the Federal Tax Office and obtained a favourable decision in July 2015, which will foreseeably be appealed at CARF by the Brazilian tax authorities. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability. Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. No provision was recognised in connection with this matter as it was considered to be a contingent liability.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit in connection with taxes paid outside the United States in fiscal years 2003 to 2005 in relation to financing transactions carried out with an international bank. Santander Holdings USA, Inc. considers that, in accordance with applicable tax legislation, it is entitled to recognise the aforementioned tax credits as well as the related issuance and financing costs. In addition, if the final outcome of this legal action is favourable to the interests of Santander Holdings USA, Inc., the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. In 2013 and in 2015 at second instance the US courts found against two taxpayers in cases with a similar structure. In the case of Santander Holdings USA, Inc., on 13 November 2015, the district judge found for Santander Holdings USA, Inc. in the final decision. On 13 January 2016, the judge ordered the amounts paid over with respect to 2003 to 2005 to be refunded to Santander Holdings USA, Inc. The US government has until the deadline of 14 March 2016 to appeal the decision at the Court of Appeals. The estimated loss relating to this proceeding was provided for.

- Santander UK has proactively engaged with HM Revenue & Customs to resolve a number of outstanding legacy tax matters, all of which relate to periods prior to Santander UK plc's adoption of the Code of Practice on Taxation for Banks. However, litigation proceedings were commenced in relation to a small number of these issues, with respect to which the court of first instance found in favour of HM Revenue & Customs. Santander UK has decided not to appeal these rulings. The provision recognised for the amounts relating to these matters has been used in full.

At the date of preparation of these consolidated financial statements certain other less significant tax-related proceedings were also in progress.

ii. Other litigation

At 31 December 2015, the main non-tax-related proceedings concerning the Group were as follows:

- Customer remediation: claims associated with the sale by Santander UK of certain financial products (principally payment protection insurance or PPI) to its customers.

  Payment protection insurance is a UK insurance product offering payment protection on unsecured personal loans (and credit cards). The product was sold by all UK banks. The mis-selling issues are predominantly related to business written before 2009. The nature and profitability of the product has changed materially since 2008.

  On 1 July 2008, the UK Financial Ombudsman Service (FOS) referred concerns regarding the handling of PPI complaints to the UK Financial Services Authority (FSA). On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling as an issue of wider implication. The FSA published its Policy Statement on 10 August 2010, setting out the evidence and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

  On 8 October 2010, the British Bankers' Association (BBA), the principal trade association for the UK banking and financial services sector, filed on behalf of certain financial institutions (which did not include Santander UK plc) an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008. The judicial review was heard in the courts in January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the proceeding brought by the BBA.

  Santander UK did not participate in the legal action undertaken by other UK banks and had been consistently making provisions and settling claims with regard to PPI complaints liabilities.

  There was a fall in compensation payments in the first half of 2015 and an increase from the third quarter, in line with industry trends, with compensation remaining stable in the last quarter.

The FSA consultation papers of November 2015 were taken into account in order to calculate the provision in 2015. As a result of considering the contents of the consultation papers, an additional provision of GBP 450 million was recognised. This amount is based on a probable scenario of two years in which customers could make their claims and on the anticipated increase in the volume of claims due to the established two-year period.

At 31 December 2015, the provision recognised in this connection totalled GBP 465 million.

The following table shows information on the total claims received up to 31 December 2015 and the resolution thereof:

(Number of claims, in thousands)

	2015	2014	2013
Claims outstanding at the beginning of the period	20	14	31
Claims received [(1)]	251	246	363
Claims rejected as being invalid[(2)]	(195)	(194)	(298)
Resolved claims	(57)	(46)	(82)
Claims outstanding at the end of the period	**19**	**20**	**14**

(1) Includes rejected claims relating to customers that had never purchased payment protection insurance from Santander UK.

(2) Customers are entitled to appeal to the Financial Ombudsman Service (FOS) if their claims are rejected. The FOS may uphold or reject an appeal and if an appeal is upheld, Santander UK is required to compensate the customer. The table shows the result of appeals relating to paid or rejected claims.

The provision recognised at the end of 2015 represents the best estimate by Group management, taking into account the opinion of its advisers and of the costs to be incurred in relation to any compensation that may result from the redress measures associated with the sales of payment protection insurance (PPI) in the UK. The provision was calculated on the basis of the following key assumptions that required the use of judgement by management:

- Volume of claims- estimated number of claims;
- Percentage of claims lost- estimated percentage of claims that are or will be in the customers' favour; and
- Average cost- estimated payment to be made to customers, including compensation for direct loss plus interest.

These assumptions were based on the following information:

- A complete analysis of the causes of the claim, the probability of success, as well as the possibility that this probability could change in the future;
- Activity recorded with respect to the number of claims received;
- Level of compensation paid to customers, together with a projection of the probability that this level could change in the future;

- Impact on the level of claims in the event of proactive initiatives carried out by the Group through direct contact with customers; and
- Impact of the media coverage.

These assumptions are reviewed, updated and validated on a regular basis using the latest available information, such as, the number of claims received, the percentage of claims lost, the potential impact of any change in that percentage, etc. and any new evaluation of the estimated population.

The most relevant factor for calculating the balance of the provision is the number of claims received as well as the expected level of future claims. The percentage of claims lost is calculated on the basis of the analysis of the sale process. The average cost of compensation is calculated in a reasonable manner as the Group manages a high volume of claims and the related population is homogenous. Group management reviews the provision required at each relevant date, taking into account the latest available information on the aforementioned assumptions as well as past experience.

- After the Madrid Provincial Appellate Court had rendered null and void the award handed down in the previous arbitration proceeding, on 8 September 2011, Banco Santander, S.A. filed a new request for arbitration with the Spanish Arbitration Court against Delforca 2008, S.A. (formerly Gaesco Bolsa Sociedad de Valores, S.A.), claiming EUR 66 million that the latter owes it as a result of the notice of acceleration of all the financial transactions agreed upon between the parties, issued by the Bank on 4 January 2008.

  On 3 August 2012, Delforca 2008, S.A. was declared to be in a position of voluntary insolvency by Barcelona Commercial Court no. 10, which had agreed as part of the insolvency proceeding to stay the arbitration proceeding and the effects of the arbitration agreement entered into by Banco Santander, S.A. and Delforca 2008, S.A. The Arbitration Court, in compliance with the decision of the Commercial Court, agreed on 20 January 2013 to stay the arbitration proceedings at the stage reached at that date until a decision could be issued in this respect in the insolvency proceeding.

  In addition, as part of the insolvency proceeding of Delforca 2008, S.A., Banco Santander, S.A. notified its claim against the insolvent party with a view to having the claim recognised as a contingent ordinary claim without specified amount. However, the insolvency manager opted to exclude Banco Santander, S.A.'s claim from the provisional list of creditors and, accordingly, Banco Santander, S.A. filed an ancillary claim which was dismissed by a court decision on 17 February 2015. This decision also declared that Banco Santander, S.A. had breached its contractual obligations under the framework financial transaction agreement it had entered into with Delforca 2008, S.A.

  As part of the same insolvency proceeding, Delforca 2008, S.A. filed another ancillary claim requesting the termination of the arbitration agreement included in the framework financial transaction agreement entered into by that party and Banco Santander, S.A. in 1998, as well as the termination of the obligation that allegedly binds the insolvent party to the High Council of Chambers of Commerce (Spanish Arbitration Court). This claim was upheld in full by the Court.

  On 30 December 2013, Banco Santander filed a complaint requesting the termination of the insolvency proceeding of Delforca 2008, S.A. due to supervening disappearance of the alleged insolvency of the company. The complaint was dismissed by a decision handed down on 30 June 2014.

  A court order dated 25 May 2015 declared the end of the common phase of the insolvency proceeding and the opening of the arrangement phase. Banco Santander, S.A. lodged an appeal against the court's decisions 1) to stay the arbitration proceeding and the effects of the arbitral award, 2) to terminate the arbitration agreement 3) not to recognise the contingent claim, and to declare a breach by Banco Santander, S.A. and 4) not to conclude the proceeding due to the non-existence of insolvency.

On 23 June 2015, Delforca 2008, S.A. submitted an arrangement proposal entailing the payment in full of the ordinary and subordinate claims.

In its appeal documents Banco Santander, S.A. requested the stay of any proceedings that might be affected by the decision on the appeals filed, including the stay of the insolvency proceeding and the processing of the arrangement phase until a decision has been handed down on the appeals. By means of an interlocutory order made on 16 September 2015 the Court resolved to postpone the holding of the creditors' meeting until the Provincial Appellate Court has handed down a decision on the requested stay of the proceedings.

In addition, in April 2009 Mobilaria Monesa, S.A. (parent of Delforca 2008, S.A.) filed a claim against Banco Santander, S.A. at Santander Court of First Instance no. 5, claiming damages which it says it incurred as a result of the (in its opinion) unwarranted claim filed by the Bank against its subsidiary, reproducing the same objections as Delforca 2008, S.A. This proceeding has currently been stayed on preliminary civil ruling grounds, against which Mobilaria Monesa, S.A. filed an appeal which was dismissed by the Cantabria Provincial Appellate Court in a judgment dated 16 January 2014.

Lastly, on 11 April 2012, Banco Santander, S.A. was notified of the claim filed by Delforca 2008, S.A., heard by Madrid Court of First Instance no. 21, in which it sought indemnification for the damage and losses it alleges it incurred due to the (in its opinion) unwarranted claim by the Bank. Delforca 2008, S.A. had already made this request in a counterclaim filed in the arbitration proceeding that concluded with the annulled award, putting the figure at up to EUR 218 million. The aforementioned Court upheld the motion for declinatory exception proposed by Banco Santander, S.A. as the matter has been referred for arbitration. This decision was confirmed in an appeal at the Madrid Provincial Appellate Court in a judgment dated 27 May 2014. The Group considers that the risk of loss arising as a result of these matters is remote and, accordingly, it has not recognised any provisions in connection with these proceedings.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) on behalf of its members, requesting the payment of a half-yearly bonus initially envisaged in the entity's Bylaws in the event that the entity obtained a profit and that the distribution of this profit were approved by the board of directors. The bonus was not paid in 1994 and 1995 since the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the board of directors, and the relevant clause was eliminated in 2001. The Regional Employment Court ordered the bank to pay this half-yearly bonus in September 2005 and the bank filed an appeal against the decision at the High Employment Court (TST) and, subsequently, at the Federal Supreme Court (STF). The TST confirmed the judgment against the bank, whereas the STF rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the STF in plenary session.

- "Planos economicos": Like the rest of the banking system, Santander Brazil has been the subject of claims from customers, mostly depositors, and of civil class actions brought for a common reason, arising from a series of legislative changes relating to the calculation of inflation ("planos economicos"). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice (STJ) set the limitation period for these class actions at five years, as claimed by the banks, rather than 20 years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the STJ and the Federal Supreme Court (STF) with which the matter is expected to be definitively settled. In August 2010, the STJ handed down a decision finding for the plaintiffs in terms of substance, but excluding one of the "planos" from the claim, thereby reducing the amount thereof, and once again confirming the five-year statute-of-limitations period. Shortly thereafter, the STF issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter.

- Proceeding under Criminal Procedure Law (case no. 1043/2009) conducted at Madrid Court of First Instance no. 26, following a claim brought by Banco Occidental de Descuento, Banco Universal, C.A. against the Bank for USD 150 million in principal plus USD 4.7 million in interest, upon alleged termination of an escrow contract.

  The court upheld the claim but did not make a specific pronouncement on costs. A judgment handed down by the Madrid Provincial Appellate Court on 9 October 2012 upheld the appeal lodged by the Bank and dismissed the appeal lodged by Banco Occidental de Descuento, Banco Universal, C.A., dismissing the claim. The dismissal of the claim was confirmed in an ancillary order to the judgment dated 28 December 2012. An appeal was filed at the Supreme Court by Banco Occidental de Descuento against the Madrid Provincial Appellate Court decision. The appeal was dismissed in a Supreme Court judgment dated 24 October 2014. Banco Occidental de Descuento filed a motion for annulment against the aforementioned judgment which was dismissed in an order dated 2 December 2015. The complainant has stated that it will appeal. The Bank has not recognised any provisions in this connection.

- On 26 January 2011, notice was served on the Bank of an ancillary insolvency claim to annul acts detrimental to the assets available to creditors as part of the voluntary insolvency proceedings of Mediterráneo Hispa Group, S.A. at Murcia Commercial Court no. 2. The aim of the principal action is to request annulment of the application of the proceeds obtained by the company undergoing insolvency from an asset sale and purchase transaction involving EUR 32 million in principal and EUR 2.7 million in interest. On 24 November 2011, the hearing was held with the examination of the proposed evidence. Upon completion of the hearing, it was resolved to conduct a final proceeding. The Court dismissed the claim in full in a judgment dated 13 November 2013. The judgment was confirmed at appeal by the Murcia Provincial Appellate Court in a judgment dated 10 July 2014. The insolvency managers have filed a cassation and extraordinary appeal against procedural infringements against the aforementioned judgment.

- The bankruptcy of various Lehman Group companies was made public on 15 September 2008. Various customers of Santander Group were affected by this situation since they had invested in securities issued by Lehman or in other products which had such assets as their underlying.

  At the date of these consolidated financial statements, certain claims had been filed in relation to this matter. The Bank’s directors and its legal advisers consider that the various Lehman products were sold in accordance with the applicable legal regulations in force at the time of each sale or subscription and that the fact that the Group acted as intermediary would not give rise to any liability for it in relation to the insolvency of Lehman. Accordingly, the risk of loss is considered to be remote and, as a result, no provisions needed to be recognised in this connection.

- The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC (Madoff Securities) by the US Securities and Exchange Commission (SEC) took place in December 2008. The exposure of customers of the Group through the Optimal Strategic US Equity (Optimal Strategic) subfund was EUR 2,330 million, of which EUR 2,010 million related to institutional investors and international private banking customers, and the remaining EUR 320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors.

  At the date of these consolidated financial statements, certain claims had been filed against Group companies in relation to this matter. The Group considers that it has at all times exercised due diligence and that these products have always been sold in a transparent way pursuant to applicable legislation and established procedures. The risk of loss is therefore considered to be remote or immaterial.

- At the end of the first quarter of 2013, news stories were published stating that the public sector was debating the validity of the interest rate swaps arranged between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

  The swaps under debate included swaps arranged by Banco Santander Totta, S.A. with the public companies Metropolitano de Lisboa, E.P.E. (MdL), Metro de Porto, S.A. (MdP), Sociedade de Transportes Colectivos do Porto, S.A. (STCP) and Companhia Carris de Ferro de Lisboa, S.A. (Carris). These swaps were arranged prior to 2008, i.e. before the start of the financial crisis, and had been executed without incident.

  In view of this situation Banco Santander Totta, S.A. took the initiative to request a court judgment on the validity of the swaps in the jurisdiction of the United Kingdom to which the swaps are subject. The corresponding claims were filed in May 2013.

  After the Bank had filed the claims, the four companies (MdL, MdP, STCP and Carris) notified Banco Santander Totta, S.A. that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013.

  Consequently, Banco Santander Totta, S.A. extended each of the claims to include the unpaid amounts.

  On 29 November 2013, the companies presented their defence in which they claimed that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid.

  On 14 February 2014, Banco Santander Totta, S.A. answered the counterclaim, maintaining its arguments and rejecting the opposing arguments in its documents dated 29 November 2013.

  On 4 April 2014, the companies issued their replies to the bank's documents. The preliminary hearing took place on 16 May 2014.

  The case was heard from 12 October to 10 December 2015. A judgment has yet to be handed down in the proceeding.

  Banco Santander Totta, S.A. and its legal advisers consider that the entity acted at all times in accordance with applicable legislation and under the terms of the swaps, and take the view that the UK courts will confirm the full validity and effectiveness of the swaps. As a result, the Group has not recognised any provisions in this connection.

- Most of the German banking industry was affected by two German Supreme Court decisions in 2014 in relation to handling fees in consumer loan agreements.

  In May 2014 the German Supreme Court held handling fees in loan agreements to be null and void. The Court subsequently handed down a ruling at the end of October 2014 whereby claims relating to the period from three to ten years prior to 2014 would become statute-barred. As a result, claims relating to handling fees paid between 2004 and 2011 became statute-barred in 2014. This situation gave rise to numerous claims at the end of 2014 which affected the income statements of banks in Germany.

Santander Consumer Bank AG stopped including these handling fees in agreements from 1 January 2013 and ceased charging these fees definitively at that date, i.e. before the Supreme Court handed down its judgment on the issue.

Provisions of approximately EUR 455 million were recognised in 2014 to cover the estimated cost of the claims. In order to calculate the provision, the claims already received, as well as an estimate of those that could be received in 2015 (the year in which the period for making claims ends as they become statute-barred) were taken into account. The provisions recognised to cover the claims received were used progressively throughout 2014 and 2015.

The Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business (including those in connection with lending activities, relationships with employees and other commercial or tax matters).

In this context, it must be considered that the outcome of court proceedings is uncertain, particularly in the case of claims for indeterminate amounts, those based on legal issues for which there are no precedents, those that affect a large number of parties or those at a very preliminary stage.

With the information available to it, the Group considers that at 31 December 2015, 2014 and 2013, it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal situations. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations.

26. Other liabilities

The detail of Other liabilities in the consolidated balance sheets is as follows:

	Millions of euros		
	2015	2014	2013
Transactions in transit	744	621	505
Accrued expenses and deferred income	6,562	6,415	5,275
Other	2,915	3,610	2,774
	10,221	**10,646**	**8,554**

27. Tax matters

a) *Consolidated Tax Group*

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the Parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

The other Group companies file income tax returns in accordance with the tax regulations applicable to them.

b) *Years open for review by the tax authorities*

In 2015 notification was received of the final agreed payments relating to the assessments arising from the outcome of the tax audit of the Consolidated Tax Group of the years 2005 to 2007, which were signed partly on an uncontested basis and partly on a contested basis. As the Parent of the Consolidated Tax Group, in accordance with the advice of its external lawyers, Banco Santander, S.A. considers that the aforementioned final agreed payments should not have a material impact on the consolidated financial statements as there are sound defence arguments in relation to the appeals filed against them. As a result, no provision has been recognised in this connection. As regards the tax inspections relating to prior years, in 2015 notification was received of the Supreme Court judgment on the years 2001 and 2002, and it is considered that the effect thereof on the consolidated financial statements is not material.

Also, in 2014 an audit by the tax authorities was initiated at the Consolidated Tax Group in relation to the years up to 2011, and the Consolidated Tax Group has the years subject to that audit and the subsequent years up to and including 2015 open for review in relation to the main taxes applicable to it.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

c) *Reconciliation*

The reconciliation of the income tax expense calculated at the tax rate applicable in Spain (30%) to the income tax expense recognised and the detail of the effective tax rate are as follows:

	Millions of euros		
	2015	2014	2013
Consolidated profit (loss) before tax:			
From continuing operations	9,547	10,679	7,378
From discontinued operations	-	(26)	(18)
	9,547	10,653	7,360
Income tax at tax rate applicable in Spain (30%)	2,864	3,196	2,208
Effect of application of the various tax rates applicable in each country (*)	158	187	100
Of which:			
Brazil	*300*	*185*	*304*
United Kingdom	*(146)*	*(138)*	*(87)*
United States	*156*	*302*	*37*
Chile	*(60)*	*(79)*	*(105)*
Effect of profit or loss of associates and jointly controlled entities	(111)	(73)	(153)
Effect of deduction of goodwill in Brazil	(133)	(304)	(274)
Effect of reassessment of deferred taxes	30	279	(21)
Permanent differences	476	433	171
Reversal of tax liabilities (**)	(1,071)	-	-
Current income tax	**2,213**	**3,718**	**2,031**
Effective tax rate	*23.18%*	*34.90%*	*27.60%*
Of which:			
Continuing operations	*2,213*	*3,718*	*2,034*
Discontinued operations (Note 37)	-	-	*(3)*
Of which:			
Current taxes	*4,070*	*2,464*	*3,511*
Deferred taxes	*(1,857)*	*1,254*	*(1,480)*
Taxes paid in the year	*2,205*	*1,352*	*3,577*

(*) Calculated by applying the difference between the tax rate applicable in Spain and the tax rate applicable in each jurisdiction to the profit or loss contributed to the Group by the entities which operate in each jurisdiction.

(**) Effect of the reversal of the tax liabilities of Banco Santander (Brasil) S.A. associated with the tax-related proceedings concerning Brazilian PIS and COFINS social contributions (see Note 25.e).

d) *Tax recognised in equity*

In addition to the income tax recognised in the consolidated income statement, the Group recognised the following amounts in consolidated equity in 2015, 2014 and 2013:

	Millions of euros		
	2015	2014	2013
Net tax credited (charged) to equity:			
Measurement of available-for-sale fixed-income securities	418	(633)	162
Measurement of available-for-sale equity securities	(34)	(50)	(51)
Measurement of cash flow hedges	51	(150)	(38)
Actuarial (gains) losses	(231)	319	(331)
Measurement of entities accounted for using the equity method	13	(33)	39
	217	**(547)**	**(219)**

e) *Deferred taxes*

Tax assets in the consolidated balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets. Tax liabilities includes the liability for the Group's various deferred tax liabilities.

On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every Member State as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetisable tax assets").

Italy had a very similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011.

In addition, in 2013 in Brazil, by means of Provisional Measure no. 608, of 28 February 2013 and, in Spain, through Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, tax regimes were established whereby certain deferred tax assets (arising from provisions to allowances for loan losses in Brazil and provisions to allowances for loan losses, provisions to allowances for foreclosed assets and provisions for pension and pre-retirement obligations in Spain) may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

In 2015 Spain completed its regulations on monetisable tax assets with the introduction of a financial contribution which will involve the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetisable assets generated prior to 2016.

The detail of deferred tax assets, by classification as monetisable or non-monetisable assets, and of deferred tax liabilities at 31 December 2015, 2014 and 2013 is as follows:

	Millions of euros					
	2015		2014		2013	
	Monetisable (*)	Other	Monetisable (*)	Other	Monetisable (*)	Other
Tax assets:	**8,887**	**13,158**	**8,444**	**13,720**	**7,902**	**13,291**
Tax losses and tax credits	-	4,808	-	5,650	-	5,671
Temporary differences	8,887	8,350	8,444	8,070	7,902	7,620
Of which:						
Non-deductible provisions	-	*1,631*	-	*2,709*	-	*2,365*
Valuation of financial instruments	-	*2,231*	-	*775*	-	*1,213*
Loan losses	*4,667*	*827*	*4,429*	*1,013*	*3,989*	*920*
Pensions	*3,557*	*475*	*3,408*	*759*	*3,286*	*553*
Valuation of tangible and intangible assets	*663*	*686*	*607*	*474*	*627*	*522*
Tax liabilities:	**-**	**5,565**	-	**4,527**	-	**1,825**
Temporary differences	-	5,565	-	4,527	-	1,825
Of which:						
Valuation of financial instruments	-	*896*	-	*1,093*	-	*729*
Valuation of tangible and intangible assets	-	*1,727*	-	*1,323*	-	*461*
Investments in Group companies (Note 3)	-	*1,249*	-	*1,096*	-	-

(*) Not deducted from regulatory capital.

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carryforwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

These analyses take into account, inter alia: (i) the results generated by the various entities in prior years, (ii) each entity or tax group's projected earnings, (iii) the estimated reversal of the various temporary differences, based on their nature, and (iv) the period and limits established by the legislation of each country for the recovery of the various deferred tax assets, thereby concluding on each entity or tax group's ability to recover its recognised deferred tax assets.

The projected earnings used in these analyses are based on the financial budgets approved by the Group's directors for the various entities, which generally cover a period of three years (see further details in Note 17), applying constant growth rates not exceeding the average long-term growth rate for the market in which the consolidated entities operate, in order to estimate the earnings for subsequent years considered in the analyses.

Relevant information is set forth below for the main countries which have recognised deferred tax assets:

Spain

The deferred tax assets recognised at the Consolidated Tax Group total EUR 11,031 million, of which EUR 5,928 million were for monetisable temporary differences, EUR 1,876 million for other temporary differences and EUR 3,227 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered in 15 years. This period would also apply to the recovery of the recognised tax loss and tax credit carryforwards.

Brazil

The deferred tax assets recognised in Brazil total EUR 6,350 million, of which EUR 2,747 million were for monetisable temporary differences, EUR 3,371 million for other temporary differences and EUR 232 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences, tax losses and credits will be recovered in approximately eight years.

United States

The deferred tax assets recognised in the United States total EUR 1,596 million, of which EUR 518 million were for temporary differences and EUR 1,078 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered before 2024. The recognised tax loss and tax credit carryforwards will be recovered before 2029.

Mexico

The deferred tax assets recognised in Mexico total EUR 760 million, substantially all of which were for temporary differences.

The Group estimates that substantially all the recognised deferred tax assets for temporary differences will be recovered in three years.

The changes in Tax assets - Deferred and Tax liabilities - Deferred in the last three years were as follows:

	Millions of euros					
	Balances at 31 December 2014	(Charge)/ Credit to income	Foreign currency balance translation differences and other items	(Charge)/ Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2015
Deferred tax assets	**22,164**	**2,330**	**(2,831)**	**356**	**26**	**22,045**
Tax losses and tax credits	5,650	(449)	(399)	-	6	4,808
Temporary differences	16,514	2,779	(2,432)	356	20	17,237
Of which: monetisable	*8,444*	*1,199*	*(794)*	*38*	-	*8,887*
Deferred tax liabilities	**(4,527)**	**(473)**	**(200)**	**(73)**	**(292)**	**(5,565)**
Temporary differences	(4,527)	(473)	(200)	(73)	(292)	(5,565)
	17,637	**1,857**	**(3,031)**	**283**	**(266)**	**16,480**

	Millions of euros					
	Balances at 31 December 2013	(Charge)/ Credit to income	Foreign currency balance translation differences and other items	(Charge)/ Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2014
Deferred tax assets	**21,193**	**36**	**194**	**21**	**720**	**22,164**
Tax losses and tax credits	5,671	(392)	115	-	256	5,650
Temporary differences	15,522	428	79	21	464	16,514
Of which: monetisable	*7,902*	*406*	*14*	*122*	-	*8,444*
Deferred tax liabilities	**(1,825)**	**(1,290)**	**(328)**	**(527)**	**(557)**	**(4,527)**
Temporary differences	(1,825)	(1,290)	(328)	(527)	(557)	(4,527)
	19,368	**(1,254)**	**(134)**	**(506)**	**163**	**17,637**

	Millions of euros					
	Balances at 31 December 2012	(Charge)/ Credit to income	Foreign currency balance translation differences and other items	(Charge)/ Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2013
Deferred tax assets	**20,987**	**1,315**	**(493)**	**(616)**	**-**	**21,193**
Tax losses and tax credits	7,719	(488)	(1,560) (*)	-	-	5,671
Temporary differences	13,268	1,803	1,067 (*)	(616)	-	15,522
Deferred tax liabilities	**(2,603)**	**165**	**259**	**361**	**(7)**	**(1,825)**
Temporary differences	(2,603)	165	259	361	(7)	(1,825)
	18,384	**1,480**	**(234)**	**(255)**	**(7)**	**19,368**

(*) Includes reclassification of tax loss carryforwards to monetisable temporary differences by application of Royal Decree-Law 14/2013, of 27 November, and Income Tax Law 27/14.

Also, the Group did not recognise deferred tax assets relating to tax losses, tax credits for investments and other incentives amounting to approximately EUR 2,300 million, the use of which is subject, among other requirements, to time limits. It also did not recognise certain deductible temporary differences, tax losses and tax credits for which there is currently no time limit for offset, amounting to approximately EUR 5,800 million.

f) Tax reforms

The following significant tax reforms were approved in 2015:

In the UK a surcharge of 8% on the standard income tax rate for bank profits was approved. This surcharge will be applied from 1 January 2016. In addition, from 2015 customer remediation payments are no longer considered to be tax-deductible.

In Brazil there was also an increase in the rate of the Brazilian social contribution tax on net income (CSL) from 15% to 20% (applicable from 1 September 2015), as a result of which the income tax rate (25%) plus the CSL rate total 45%.

In Poland, the introduction of a tax on certain bank assets at a monthly rate of 0.0366%, which comes into force in 2016, was approved.

g) Other information

In compliance with the disclosure requirement established in the Listing Rules Instrument 2005 published by the UK Financial Conduct Authority, it is hereby stated that shareholders of the Bank resident in the United Kingdom will be entitled to a tax credit in respect of the withholdings the Bank is required to make from the dividends to be paid to them. The shareholders of the Bank resident in the United Kingdom who hold their ownership interest in the Bank through Santander Nominee Service will be informed directly of the amount thus withheld and of any other data they may require to complete their tax returns in the United Kingdom. The other shareholders of the Bank resident in the United Kingdom should contact their bank or securities broker.

28. Non-controlling interests

Non-controlling interests include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by Group company, of Equity - Non-controlling interests is as follows:

	Millions of euros		
	2015	2014	2013
Bank Zachodni WBK S.A.	1,685	1,545	1,372
Santander Consumer USA Holdings Inc.	1,506	1,013	-
Grupo Financiero Santander México, S.A.B. de C.V.	1,201	1,192	978
Banco Santander (Brasil) S.A.	1,190	1,662	4,292
Banco Santander - Chile	1,037	1,049	950
Metrovacesa, S.A.	560	598	-
Société Financière de Banque - SOFIB	462	-	-
PSA Financial Services Spain, E.F.C., S.A.	181	-	-
PSA Finance UK Limited	148	-	-
Other companies (*)	1,375	731	568
	9,345	7,790	8,160
Profit/(Loss) for the year attributable to non-controlling interests	1,368	1,119	1,154
Of which:			
Santander Consumer USA Holdings Inc.	*329*	*219*	-
Banco Santander (Brasil) S.A.	*296*	*315*	*494*
Grupo Financiero Santander México, S.A.B. de C.V.	*201*	*193*	*251*
Banco Santander - Chile	*191*	*210*	*221*
Bank Zachodni WBK S.A.	*154*	*121*	*123*
Société Financière de Banque - SOFIB	*78*	-	-
PSA Finance UK Limited	*37*	-	-
Other companies	*82*	*61*	*65*
	10,713	**8,909**	**9,314**

(*) Includes an issue of perpetual equity instruments by Santander UK acquired by non-Group third parties.

b) Changes

The changes in Non-controlling interests are summarised as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	8,909	9,314	9,415
Banesto Group merger (Note 3)	-	-	(455)
Changes in the scope of consolidation (Note 3)	761	1,465	199
Change in proportion of ownership interest	(168)	(2,971)	925
Dividends paid to non-controlling interests	(461)	(380)	(747)
Changes in capital and other items	876	(524)	57
Profit for the year attributable to non-controlling interests	1,368	1,119	1,154
Valuation adjustments (including exchange differences)	(572)	886	(1,234)
Balance at end of year	**10,713**	**8,909**	**9,314**

In 2013 the Group reduced its ownership interest in Bank Zachodni WBK S.A. to 70%, thereby generating an increase in the balance of Non-controlling interests of EUR 1,329 million (see Note 3).

Also, in 2014 the Group increased its ownership interest in Banco Santander (Brasil), S.A., thereby generating a decrease in the balance of Non-controlling interests of EUR 2,572 million (see Note 3).

Lastly, in 2015 the Group acquired 50% of Société Financière de Banque - SOFIB, PSA Finance UK Limited and PSA Financial Services Spain, E.F.C., S.A. (see Note 3), thereby generating an increase in the balance of Non-controlling interests of EUR 462 million, EUR 148 million and EUR 181 million. Also, the acquisition of a 13.8% interest in Metrovacesa, S.A. from Banco Sabadell, S.A. (see Note 3) generated a decrease in the balance of Non-controlling interests of EUR 271 million.

The foregoing changes are shown in the consolidated statement of changes in total equity.

c) Other information

The financial information on the subsidiaries with significant non-controlling interests at 31 December 2015 is summarised below:

	Millions of euros (*)				
	Banco Santander (Brazil)	Banco Santander - Chile	Grupo Financiero Santander (Mexico)	Bank Zachodni WBK	Santander Consumer USA Holdings.
Total assets	138,534	45,960	64,728	29,112	34,229
Total liabilities	126,988	41,723	58,251	24,751	29,667
Net assets	**11,546**	**4,237**	**6,477**	**4,361**	**4,562**
Total gross income	11,140	2,336	3,317	1,276	4,935
Total profit	**1,824**	**655**	**831**	**410**	**812**

(*) Information prepared in accordance with the segment reporting criteria described in Note 52 and, therefore, it may not coincide with the information published separately by each entity.

29. Valuation adjustments

The balances of Valuation adjustments include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the consolidated statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

It should be noted that the consolidated statement of recognised income and expense presents items separately according to their nature, grouping together those which, pursuant to the applicable accounting standards, will not be subsequently reclassified to profit or loss when the requirements established by the related accounting standards are met. Also, with respect to items that may be reclassified to profit or loss, the consolidated statement of recognised income and expense includes changes in Valuation adjustments as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognised gross, including the amount of the valuation adjustments relating to non-controlling interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) *Available-for-sale financial assets*

Valuation adjustments - Available-for-sale financial assets includes the net amount of unrealised changes in the fair value of assets classified as available-for-sale financial assets (see Notes 7 and 8).

The breakdown, by type of instrument and geographical origin of the issuer, of Valuation adjustments - Available-for-sale financial assets at 31 December 2015, 2014 and 2013 is as follows:

	Millions of euros											
	31 December 2015				31 December 2014				31 December 2013			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments												
Government debt securities and debt instruments issued by central banks												
Spain	*641*	*(62)*	*579*	*35,283*	*835*	*(176)*	*659*	*31,190*	*356*	*(496)*	*(140)*	*25,664*
Rest of Europe	*283*	*(47)*	*236*	*20,310*	*325*	*(56)*	*269*	*20,597*	*28*	*(143)*	*(115)*	*12,080*
Latin America and rest of the world	*42*	*(671)*	*(629)*	*32,185*	*89*	*(97)*	*(8)*	*30,230*	*38*	*(217)*	*(179)*	*17,134*
Private-sector debt securities	165	(253)	(88)	29,409	243	(193)	50	28,232	258	(280)	(22)	24,966
	1,131	**(1,033)**	**98**	**117,187**	**1,492**	**(522)**	**970**	**110,249**	**680**	**(1,136)**	**(456)**	**79,844**
Equity instruments												
Domestic												
Spain	*66*	*(5)*	*61*	*1,140*	*35*	*(8)*	*27*	*1,447*	*132*	*(10)*	*122*	*1,432*
International												
Rest of Europe	*438*	*(14)*	*424*	*1,338*	*282*	*(23)*	*259*	*1,245*	*158*	*(25)*	*133*	*974*
United States	*14*	*(2)*	*12*	*980*	*25*	-	*25*	*762*	*20*	*(1)*	*19*	*661*
Latin America and rest of the world	*251*	*(2)*	*249*	*1,391*	*298*	*(19)*	*279*	*1,547*	*235*	*(18)*	*217*	*888*
	769	**(23)**	**746**	**4,849**	**640**	**(50)**	**590**	**5,001**	**545**	**(54)**	**491**	**3,955**
Of which:												
Listed	*436*	*(15)*	*421*	*1,986*	*311*	*(26)*	*285*	*1,787*	*313*	*(26)*	*287*	*1,330*
Unlisted	*333*	*(8)*	*325*	*2,863*	*329*	*(24)*	*305*	*3,214*	*232*	*(28)*	*204*	*2,625*
	1,900	**(1,056)**	**844**	**122,036**	**2,132**	**(572)**	**1,560**	**115,250**	**1,225**	**(1,190)**	**35**	**83,799**

At each reporting date the Group assesses whether there is any objective evidence that the instruments classified as available-for-sale (debt securities and equity instruments) are impaired.

This assessment includes but is not limited to an analysis of the following information: i) the issuer's economic and financial position, the existence of default or late payment, analysis of the issuer's solvency, the evolution of its business, short-term projections, trends observed with respect to its earnings and, if applicable, its dividend distribution policy; ii) market-related information such as changes in the general economic situation, changes in the issuer's sector which might affect its ability to pay; iii) changes in the fair value of the security analysed, analysis of the origins of such changes - whether they are intrinsic or the result of the general uncertainty concerning the economy or the country - and iv) independent analysts' reports and forecasts and other independent market information.

In the case of quoted equity instruments, when the changes in the fair value of the instrument under analysis are assessed, the duration and significance of the fall in its market price below cost for the Group is taken into account. As a general rule, for these purposes the Group considers a significant fall to be a 40% drop in the value of the asset or a continued fall over a period of 18 months. Nevertheless, it should be noted that the Group assesses, on a case-by-case basis, each of the securities that have suffered losses, and monitors the performance of their prices, recognising an impairment loss as soon as it is considered that the recoverable amount could be affected, even though the price may not have fallen by the percentage or for the duration mentioned above.

If, after the above assessment has been carried out, the Group considers that the presence of one or more of these factors could affect recovery of the cost of the asset, an impairment loss is recognised in the income statement for the amount of the loss in equity under Valuation adjustments. Also, where the Group does not intend and/or is not able to hold the investment for a sufficient amount of time to recover the cost, the instrument is written down to its fair value.

At the end of 2015 the Group performed the assessment described above and recognised in the consolidated income statement impairment losses of EUR 127 million in respect of debt instruments (2014: EUR 42 million; 2013: EUR 89 million) and of EUR 112 million in respect of equity instruments which had suffered a significant and prolonged fall in price at 31 December 2015 (2014: EUR 147 million; 2013: EUR 169 million).

At the end of 2015, 54.66% of the losses recognised under Valuation adjustments - Available-for-sale financial assets arising from debt securities had been incurred in more than twelve months.

Also, at the end of 2015, 12.64% of the losses recognised under Valuation adjustments - Available-for-sale financial assets arising from equity instruments had been incurred in more than twelve months. After carrying out the aforementioned assessment, the Group concluded that, given its ability and intention to hold the securities in the long term, it did not expect the factors giving rise to the decline in value described above to have an impact on future cash flows and, therefore, no impairment loss was required to be recognised at year-end.

b) Cash flow hedges

Valuation adjustments - Cash flow hedges includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognised in the consolidated income statement in the periods in which the hedged items affect it (see Note 11).

Accordingly, amounts representing valuation losses will be offset in the future by gains generated by the hedged instruments.

c) *Hedges of net investments in foreign operations and Exchange differences*

Valuation adjustments - Hedges of net investments in foreign operations includes the net amount of changes in the value of hedging instruments in hedges of net investments in foreign operations, for the portion of these changes considered as effective hedges (see Note 11).

Valuation adjustments - Exchange differences includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and the differences arising on the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2.a).

The changes in 2015 reflect the negative effect of the sharp depreciation of the Brazilian real and the positive effect of the appreciation of the US dollar and the pound sterling, whereas the changes in 2014 reflected the appreciation of the US dollar and the pound sterling.

Of the change in the balance in these years, a loss of EUR 514 million in 2015, a gain of EUR 1,093 million in 2014 and a loss of EUR 1,665 million in 2013 related to the measurement of goodwill.

The detail, by country, of Valuation adjustments - Hedges of net investments in foreign operations and Valuation adjustments - Exchange differences is as follows:

	Millions of euros		
	2015	2014	2013
Net balance at end of year	(11,980)	(8,955)	(10,642)
Of which:			
Brazilian real	*(10,679)*	*(5,936)*	*(5,480)*
Mexican peso	*(1,497)*	*(1,243)*	*(1,171)*
Pound sterling	*232*	*(1,042)*	*(2,364)*
Argentine peso	*(1,135)*	*(729)*	*(618)*
Chilean peso	*(711)*	*(528)*	*(453)*
US dollar	*2,342*	*535*	*(352)*
Other	*(532)*	*(12)*	*(204)*

d) *Entities accounted for using the equity method*

Valuation adjustments - Entities accounted for using the equity method includes the amounts of valuation adjustments recognised in equity arising from associates and jointly controlled entities.

The changes in Valuation adjustments - Entities accounted for using the equity method were as follows:

	Millions of euros		
	2015	2014	2013
Balance at beginning of year	(85)	(446)	(152)
Revaluation gains/(losses)	(156)	266	(283)
Net amounts transferred to profit or loss	9	95	23
Transfers	-	-	(34)
Balance at end of year	**(232)**	**(85)**	**(446)**
Of which:			
Metrovacesa, S.A.	-	-	*(63)*
Zurich Santander Insurance América, S.L.	*(136)*	*(37)*	*(135)*
Santander Consumer USA Inc.	-	-	*(145)*

e) Other valuation adjustments

Valuation adjustments - Other valuation adjustments include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

The changes in this balance are shown in the consolidated statement of recognised income and expense, and the most significant changes in 2015 related to:

- Increase of EUR 145 million in the cumulative actuarial losses relating to the Group's entities in Spain, due basically to the change in the main actuarial assumptions - a decrease in the discount rate from 2% to 1.75%-.

- Decrease of EUR 282 million in the cumulative actuarial losses relating to the Group's businesses in Brazil, due basically to an increase in the discount rate from 10.94% to 12.25% on pension benefits and from 11.04% to 12.03% on medical benefits and to changes in other assumptions.

- Decrease of EUR 435 million in the cumulative actuarial losses relating to the Group's businesses in the UK, due basically to the change in the main actuarial assumptions – a decrease in the long-term inflation rate from 3.05% to 2.98% and an increase in the discount rate from 3.65% to 3.74%-.

- Also, changes arose as a result of fluctuations in exchange rates, mainly in Brazil (depreciation of the Brazilian real) and the UK (appreciation of the pound sterling).

30. Shareholders’ equity

Shareholders' equity includes the amounts of equity contributions from shareholders, accumulated profit or loss recognised through the consolidated income statement, and components of compound financial instruments having the substance of permanent equity. Amounts arising from subsidiaries are presented in the appropriate items based on their nature.

The changes in Shareholders' equity are presented in the consolidated statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2015 is set forth below.

31. Issued capital

a) *Changes*

At 31 December 2012, the Bank's share capital consisted of 10,321,179,750 shares with a total par value of EUR 5,161 million.

On 30 January 2013, 30 April 2013, 31 July 2013 and 31 October 2013, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 217,503,395, 270,917,436, 282,509,392 and 241,310,515 shares (2.06%, 2.51%, 2.55% and 2.13% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 108.8 million, EUR 135.5 million, EUR 141.3 million and EUR 120.7 million, respectively.

At 31 December 2013, the Bank's share capital consisted of 11,333,420,488 shares with a total par value of EUR 5,667 million.

On 30 January 2014, 29 April 2014, 30 July 2014 and 5 November 2014, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 227,646,659, 217,013,477, 210,010,506 and 225,386,463 shares (2.01%, 1.88%, 1.78% and 1.82% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 113.8 million, EUR 108.5 million, EUR 105 million and EUR 112.7 million, respectively.

Also, on 4 November 2014, a capital increase was carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares (see Note 3), whereby 370,937,066 shares (3.09% of the share capital) were issued, corresponding to a capital increase of EUR 185.5 million (see Note 3).

At 31 December 2014, the Bank's share capital consisted of 12,584,414,659 shares with a total par value of EUR 6,292 million.

On 8 January 2015, the Group announced that its board of directors had resolved to increase capital through an accelerated bookbuilt offering with disapplication of pre-emption rights. The capital increase amounted to EUR 7,500 million, of which EUR 607 million related to the par value of the 1,213,592,234 new shares issued and EUR 6,893 million to the share premium.

On 29 January and 4 November 2015, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 262,578,993, 256,046,919 and 117,859,774 shares (1.90%, 1.82% and 0.82% of the share capital) were issued for an amount of EUR 131 million, EUR 128 million and EUR 59 million, respectively.

At 31 December 2015, the Bank's share capital consisted of 14,434,492,579 shares with a total par value of EUR 7,217 million.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges, and all of them have the same features and rights. At 31 December 2015, the only shareholders listed in the Bank's shareholders register with ownership interests of more than 3% were State Street Bank & Trust Company (12.62%), The Bank of New York Mellon (6.05%), Chase Nominees Ltd. (4.84%), EC Nominees Limited (3.99%), Société Générale (3.81%), Clearstream Banking S.A. (3.50%) and Guaranty Nominees Limited (3.23%).

However, the Bank considers that these ownership interests are held in custody on behalf of third parties and that none of them, as far as the Bank is aware, has an ownership interest of more than 3% of the Bank's share capital or voting power.

b) *Other considerations*

The shareholders at the annual general meeting held on 27 March 2015 authorised additional share capital of EUR 3,515 million. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The resolution empowers the board to fully or partially disapply the pre-emption right in accordance with the terms of Article 506 of the Spanish Limited Liability Companies Law, although this power is limited to EUR 1,406 million.

The shareholders at the annual general meeting of 27 March 2015 also resolved to increase the Bank's capital by a par value of EUR 500 million and granted the board the broadest powers to set the date and establish the terms and conditions of this capital increase within one year from the date of the aforementioned annual general meeting. If the board does not exercise the powers delegated to it within the period established by the annual general meeting, these powers will be rendered null and void.

In addition, the aforementioned annual general meeting authorised the board to issue fixed-income securities, convertible into or exchangeable for shares of the Bank, for up to a total amount of the issue or issues of EUR 10,000 million or the equivalent amount in another currency. The Bank's directors are authorised to execute this resolution until 27 March 2020.

At 31 December 2015, the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Grupo Financiero Santander México, S.A.B. de C.V.; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Bank Zachodni WBK S.A. and Santander Consumer USA Holdings Inc.

At 31 December 2015, the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) or jointly managed was 53 million, which represented 0.37% of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was 220 million (equal to 1.52% of the Bank's share capital).

At 31 December 2015, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective general meetings were not material at Group level (see Appendix V).

32. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The increase in the balance of Share premium in 2013 relates to the capital increases detailed in Note 31.a. The increase in 2014 is the result of the capital increase of EUR 2,372 million carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares (see Note 3) and the reduction of EUR 440 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme. The increase in 2015 is the result of the capital increase of EUR 6,893 million carried out on 8 January 2015 (see Note 31.a) and the reduction of EUR 318 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme.

Also, in 2015 an amount of EUR 185 million was transferred from the Share premium account to the Legal reserve (2014: EUR 125 million; 2013: EUR 102 million) (see Note 33.b.i).

33. Reserves

a) Definitions

Shareholders' equity - Reserves - Accumulated reserves (losses) includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to equity, and the own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof.

Shareholders' equity - Reserves - Reserves (losses) of entities accounted for using the equity method includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

b) Breakdown

The detail of Accumulated reserves and Reserves of entities accounted for using the equity method is as follows:

	Millions of euros		
	2015	2014	2013
Accumulated reserves:			
Restricted reserves-			
Legal reserve	1,444	1,259	1,134
Reserve for treasury shares	1,210	1,487	1,509
Revaluation reserve Royal Decree-Law 7/1996	43	43	43
Reserve for retired capital	11	11	11
Voluntary reserves	3,230	2,997	3,048
Consolidation reserves attributable to the Bank	8,256	7,908	7,968
Reserves of subsidiaries	31,275	27,268	24,080
	45,469	40,973	37,793
Reserves of entities accounted for using the equity method:			
Associates	291	187	263
	45,760	**41,160**	**38,056**

i. Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

In 2015 the Bank transferred EUR 185 million from the Share premium account to the Legal reserve (2014: EUR 125 million; 2013: EUR 102 million).

Consequently, once again, after the capital increases described in Note 31 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and at 31 December 2015 the Legal reserve was at the stipulated level.

ii. Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve has been recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares.

iii. Revaluation reserve Royal Decree Law 7/1996, of 7 June

The balance of Revaluation reserve Royal Decree-Law 7/1996 can be used, free of tax, to increase share capital. From 1 January 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised.

If the balance of this reserve were used in a manner other than that provided for in Royal Decree-Law 7/1996, of 7 June, it would be subject to taxation.

iv. Reserves of subsidiaries

The detail, by company, of Reserves of subsidiaries, based on the companies' contribution to the Group (considering the effect of consolidation adjustments) is as follows:

	Millions of euros		
	2015	2014	2013
Banco Santander (Brasil) S.A. (Consolidated Group)	8,408	7,361	6,478
Santander UK Group	6,457	5,842	5,540
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	2,977	2,566	2,573
Santander Holdings USA Group	2,968	1,712	1,084
Banco Santander - Chile	2,534	2,446	2,736
Banco Santander Totta, S.A. (Consolidated Group)	2,165	2,021	1,890
Santander Consumer Finance Group	1,549	1,815	1,189
Banco Santander Río, S.A.	965	703	395
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	754	725	515
Bank Zachodni WBK S.A.	578	315	175
Banco Santander International	472	408	348
Santander Investment, S.A.	367	282	222
Cartera Mobiliaria, S.A., SICAV	363	370	339
Banco Santander (Suisse) SA	346	282	242
Exchange differences, consolidation adjustments and other companies (*)	372	420	354
	31,275	**27,268**	**24,080**
Of which, restricted	*2,445*	*2,233*	*2,062*

(*) Includes the charge relating to cumulative exchange differences in the transition to International Financial Reporting Standards.

34. Other equity instruments and Treasury shares

a) Other equity instruments

“Other equity instruments” includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration, and other items not recognised in other “Shareholders' equity” items.

b) Treasury shares

Shareholders' equity - Treasury shares includes the amount of own equity instruments held by all the Group entities.

Transactions involving own equity instruments, including their issuance and cancellation, are recognised directly in equity, and no profit or loss may be recognised on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

On 21 October 2013 and 23 October 2014, the Bank's board of directors amended the regulation of its treasury share policy in order to take into account the criteria recommended by the CNMV, establishing limits on average daily purchase trading and time limits. Also, a maximum price per share was set for purchase orders and a minimum price per share for sale orders.

The Bank's shares owned by the consolidated companies accounted for 0.279% of issued share capital at 31 December 2015 (31 December 2014: 0.012%; 31 December 2013: 0.013%).

The average purchase price of the Bank's shares in 2015 was EUR 6.00 per share and the average selling price was EUR 6.12 per share.

The effect on equity, net of tax, arising from the purchase and sale of Bank shares was a EUR 16 million increase in 2015 (2014: EUR 40 million increase; 2013: EUR 28 million reduction).

35. Memorandum items

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the consolidated entities although they may not impinge on their net assets.

a) Contingent liabilities

Contingent liabilities includes all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The detail is as follows:

	Millions of euros		
	2015	2014	2013
Financial guarantees	**14,648**	**13,383**	**13,479**
Financial bank guarantees	*13,704*	*12,121*	*12,186*
Non-performing guarantees	*944*	*1,262*	*1,293*
Irrevocable documentary credits	**2,139**	**2,381**	**2,430**
Other bank guarantees and indemnities provided	**23,047**	**28,006**	**24,690**
Other guarantees	*22,526*	*27,630*	*24,496*
Undertakings to provide bank guarantees	*521*	*376*	*194*
Other contingent liabilities	**281**	**308**	**450**
Assets earmarked for third-party obligations	*17*	*25*	*128*
Other contingent liabilities	*264*	*283*	*322*
	40,115	**44,078**	**41,049**

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

At 31 December 2015, the Group had recognised provisions of EUR 618 million to cover contingent liabilities (31 December 2014: EUR 654 million; 31 December 2013: EUR 693 million) (see Note 25).

i. Financial guarantees

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

ii. Other bank guarantees and indemnities provided

This item includes guarantees other than those classified as financial, such as technical guarantees, guarantees covering the import and export of goods and services, irrevocable formal undertakings to provide bank guarantees, legally enforceable letters of guarantee and other guarantees of any kind.

iii. Other contingent liabilities

Other contingent liabilities includes the amount of any contingent liability not included in other items.

b) Contingent commitments

Contingent commitments includes those irrevocable commitments that could give rise to the recognition of financial assets.

The detail is as follows:

	Millions of euros		
	2015	2014	2013
Drawable by third parties	195,628	182,955	154,314
Financial asset forward purchase commitments	485	530	82
Regular way financial asset purchase contracts	12,755	11,725	8,222
Documents delivered to clearing houses	12,251	12,444	9,901
Other contingent commitments	338	386	278
	221,457	**208,040**	**172,797**

c) Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Group and by jointly controlled companies is as follows:

	Millions of euros		
	2015	2014	2013
Investment funds	109,028	109,519	93,304
Pension funds	11,376	11,481	10,879
Assets under management	20,337	20,369	20,987
	140,741	**141,369**	**125,170**

d) Third-party securities held in custody

At 31 December 2015, the Group held in custody debt securities and equity instruments totalling EUR 877,682 million (31 December 2014: EUR 1,023,819 million; 31 December 2013: EUR 853,509 million) entrusted to it by third parties.

36. Derivatives - Notional amounts and market values of trading and hedging derivatives

The detail of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Group is as follows:

	Millions of euros					
	2015		2014		2013	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
Trading derivatives:						
Interest rate risk-						
Forward rate agreements	175,661	(59)	192,659	(50)	120,773	(2)
Interest rate swaps	2,839,940	3,095	2,738,960	1,253	2,454,752	1,190
Options, futures and other derivatives	505,655	(555)	665,658	(1,035)	605,532	(1,157)
Credit risk-						
Credit default swaps	54,056	46	66,596	81	79,822	49
Foreign currency risk-						
Foreign currency purchases and sales	250,596	80	230,961	515	186,207	1,935
Foreign currency options	35,772	104	46,311	(38)	45,196	200
Currency swaps	342,401	(1,704)	278,380	(1,694)	255,731	(1,001)
Securities and commodities derivatives and other	90,662	(697)	105,901	(1,222)	95,634	(1,202)
	4,294,743	**310**	**4,325,426**	**(2,190)**	**3,843,647**	**12**
Hedging derivatives:						
Interest rate risk-						
Interest rate swaps	175,199	(1,153)	190,872	(185)	219,103	1,456
Options, futures and other derivatives	22,169	(54)	9,569	13	2,144	12
Credit risk-						
Credit default swaps	469	(5)	607	(9)	760	(14)
Foreign currency risk-						
Foreign currency purchases and sales	38,685	500	25,530	86	24,161	630
Foreign currency options	-	-	621	39	3,883	409
Currency swaps	59,472	(496)	46,727	147	38,760	525
Securities and commodities derivatives and other	299	(2)	168	-	258	-
	296,293	**(1,210)**	**274,094**	**91**	**289,069**	**3,018**

The notional and/or contractual amounts of the contracts entered into (shown above) do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognised under Gains/losses on financial assets and liabilities (net) in the consolidated income statements and increase or offset, as appropriate, the gains or losses on the investments hedged (see Note 11).

Additionally, in order to interpret correctly the results on the Securities and commodities derivatives shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Group's held-for-trading portfolio.

The Group manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions (see Note 2.f).

The notional amounts and fair values of the hedging derivatives, by type of hedge, are as follows:

	Millions of euros					
	2015		2014		2013	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Fair value hedges	214,591	(1,166)	234,939	(249)	229,439	1,257
Cash flow hedges	63,912	(572)	22,388	444	55,417	743
Hedges of net investments in foreign operations	17,790	528	16,767	(104)	4,213	1,018
	296,293	**(1,210)**	**274,094**	**91**	**289,069**	**3,018**

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

Hedge accounting

The Group, as part of its financial risk management strategy and for the purpose of reducing mismatches in the accounting treatment of its transactions, enters into interest rate, foreign currency or equity hedging derivatives, depending on the nature of the hedged risk.

In line with its objective, the Group classifies its hedges into the following categories:

- Cash flow hedges: hedge the exposure to variability in cash flows associated with an asset, liability or highly probable forecast transaction. Thus, floating rate issues in foreign currencies, fixed rate issues in non-local currency, floating rate interbank financing and floating rate assets (bonds, commercial credit, mortgages, etc.) are hedged.

- Fair value hedges: hedge the exposure to changes in the fair value of assets or liabilities attributable to an identified, hedged risk. Thus, the interest rate risk of assets and liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, investments in entities, issues in foreign currencies and deposits and other fixed rate liabilities are hedged.

- Hedges of net investments in foreign operations: hedge the foreign currency risk of investments in subsidiaries domiciled in countries outside the euro zone.

i. Cash flow hedges

The fair value of the cash flow hedges, net of the related tax effect, is recognised under Valuation adjustments - Cash flow hedges in the Group's equity. The detail of the terms, from 31 December 2015, within which the amounts recognised under Valuation adjustments - Cash flow hedges in equity will be recognised in the consolidated income statements in the coming years is as follows:

	Millions of euros			
2015	Within 1 year	1 to s 5 year	More than 5 years	Total
Debit balances (losses)	1	145	25	171

The net amount recognised as an equity valuation adjustment in 2015, as a result of the cash flow hedges, was a reduction of EUR 33 million.

The market value of the derivatives in portfolio cash flow hedges gave rise to a loss of EUR 393 million at 31 December 2015.

The net amount transferred from equity to 2015 profit was EUR -14 million, relating to the accrual to the net interest margin of the cash flow hedges.

The impact on 2015 profit and loss of the ineffectiveness of the Group's cash flow hedges was a net loss of EUR 10 million (see Note 44).

ii. Fair value hedges

In 2015 a net loss of EUR 38 million was recognised (gains of EUR 258 million on hedged items and losses of EUR 296 million on hedging derivatives) on fair value hedging transactions (see Note 44). In this connection, at 31 December the Bank accounted for most of the Group’s fair value hedges.

Hence, the financial management area of the Bank, as Parent of the Group, uses derivatives to hedge the interest rate risk and foreign currency risk of the issues of instrumental companies of the Group guaranteed by the Bank. Following are details of the main hedges taken out by the Bank which remained outstanding at the Group at 31 December 2015.

At 31 December 2015, the Group held hedging derivatives for a notional amount equivalent to EUR 22,769 million, the market value of which represented a gain of EUR 1,021 million which is offset in profit and loss on measurement of the hedged issues. The net result of these hedges is a net loss of EUR 23 million.

The main currencies of these fair value hedges are: the euro, with a notional amount of EUR 21,369 million and gains on derivatives of EUR 1,020 million, and the US dollar, with a notional amount of EUR 623 million and gains on derivatives of EUR 10 million.

The Bank also uses derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. At 31 December 2015, the notional amount of these derivatives was EUR 10,213 million and their market value gave rise to a loss of EUR 583 million, which was offset by the result of measuring the gain on the bonds attributable to their hedged risk, giving rise to a net overall gain on these hedges of EUR 1.7 million. Fair value hedges (hedging both interest rate and credit risk) have also been arranged on government bonds not hedged against interest rate risk, using forward bonds with a notional amount at 31 December 2015 of EUR 6,365 million and a market value representing a loss of EUR 43 million which was offset by the gain on the value of the bonds attributable to the hedged risk.

Lastly, the Bank has two fair value macro-hedges from its merger with Banesto. At year-end, the notional amount of the related derivatives was EUR 2,860 million and their market value gave rise to a loss of EUR 73 million. Including the measurement of the hedged items, the net result of the macro-hedges was a gain of EUR 7.7 million. At 31 December 2015, the market value of the fair value derivative macro-hedges at the Group was a loss of EUR 1,742 million. Including the measurement of the hedged items, the net result of the macro-hedges was a loss of EUR 537 million.

iii. Foreign currency hedges (net investments in foreign operations)

As part of its financial strategy, the Group hedges the foreign currency risk arising from its investments in non-euro-zone countries. To this end, it arranges foreign currency derivatives in order to take a long position in euros vis-à-vis the local currency of the investment.

At 31 December 2015, the total notional amount of the instruments hedging these investments was the equivalent of EUR 20,349 million, of which EUR 16,504 million related to foreign currency swaps and forwards and EUR 3,845 million to spot foreign currency purchases/sales.

By currency,

- Hedges of the Brazilian real included hedging foreign currency non-deliverable forwards amounting to EUR 3,289 million (BRL 14,182 million), with a gain of EUR 733 million, of which EUR 27 million related to the gain on the settlement of options used as hedges which expired in January 2015 and were not renewed.

- The position in Mexican pesos is hedged through foreign currency forwards and swaps with a notional amount of EUR 2,582 million (MXN 48,836 million) and a gain of EUR 25 million.

- The Polish zloty is hedged through foreign currency forwards and swaps with a notional amount of EUR 1,981 million (PLN 8,445 million) and a loss of EUR 25 million.

- The hedging of the Chilean peso is instrumented through non-deliverable foreign currency forwards amounting to EUR 2,975 million (CLP 2,302,000 million), with a gain of EUR 146 million.

- The investment in Norwegian kroner is hedged through foreign currency forwards and swaps amounting to EUR 630 million (NOK 6,048 million), with a gain of EUR 34 million.

- The hedging of the Colombian peso is instrumented through non-deliverable foreign currency forwards with a notional amount of EUR 21 million (COP 73,400 million), with a gain of EUR 4 million.

- The position in Chinese yuan is hedged through non-deliverable foreign currency forwards of EUR 95 million (CNY 674 million). These instruments generated a gain of EUR 5 million in the year.

The positions in US dollars and pounds sterling are hedged through foreign currency forwards and swaps and, in addition, spot purchases and sales are made to offset the structural foreign currency risk. In the case of the US dollar, an amount of EUR 1,653 million (USD 1,800 million) was hedged with foreign currency forwards and EUR 954 million (USD 1,039 million) with spot foreign currency purchases and sales against euros, which gave rise to a loss of EUR 242 million in the year. In the case of pounds sterling, an amount of EUR 3,278 million (GBP 2,406 million) was hedged with foreign currency swaps and EUR 2,858 million (GBP 2,098 million) with spot foreign currency purchases and sales against euros, which gave rise to a loss of EUR 270 million in the year.

Lastly, positions in Canadian dollars and Swiss francs are hedged solely with spot foreign currency purchases and sales against euros. The hedged position in Canadian dollars amounted to EUR 25 million (CAD 38 million), with a gain of EUR 2 million in the year. The hedged position in Swiss francs amounted to EUR 8 million (CHF 9 million), giving rise to a loss of EUR 11 million in the year.

At 2014 year-end, the Group held foreign currency options in this connection with an equivalent euro notional amount of EUR 310 million, which were denominated in Brazilian reais. In 2014 gains amounting to EUR 124 million, which arose from the settlement of options that were exercised, were taken to equity. At 2014 year-end, the market value of the options not yet exercised represented a net gain of EUR 40 million. In addition to foreign currency options, the Group had also arranged other hedging derivatives to round off its hedging of the structural foreign currency risk of its foreign currency investments: derivatives in Chilean pesos for a notional amount of EUR 1,194 million, which gave rise to a loss of EUR 44 million; in Brazilian reais for a notional amount of EUR 4,549 million, with a loss of EUR 417 million; in Mexican pesos for a total notional amount of EUR 2,728 million, with a loss of EUR 123 million; in Polish zloty for a notional amount of EUR 1,376 million, with a gain of EUR 5 million; and in Norwegian kroner for a notional amount of EUR 326 million, with a gain of EUR 36 million.

In addition to these hedges with derivatives, spot foreign currency sales were made to offset the structural foreign currency risk: spot sales were made of US dollars against euros, which amounted to EUR 1,593 million and gave rise to a loss of EUR 233 million, of pounds sterling against euros, which totalled EUR 3,523 million and gave rise to a loss of EUR 264 million and, lastly, of Swiss francs against euros, with a notional amount of EUR 115 million, which gave rise to a loss of EUR 2 million.

At 2013 year-end, the Group held foreign currency options in this connection with an equivalent euro notional amount of EUR 8,846 million, which were denominated in Brazilian reais. In 2013 losses amounting to EUR 214 million, which arose from the settlement of options that were exercised, were taken to equity. At 2013 year-end, the market value of the options not yet exercised represented a net gain of EUR 399 million. In addition to foreign currency options, the Group had also arranged other hedging derivatives to round off its hedging of the structural foreign currency risk of its foreign currency investments: derivatives in Chilean pesos for a notional amount of EUR 1,187 million, which gave rise to a gain of EUR 139 million; in Brazilian reais for a notional amount of EUR 6,905 million, with a gain of EUR 720 million; in Mexican pesos for a total notional amount of EUR 3,185 million, with a loss of EUR 2 million; and in Polish zlotys for a notional amount of EUR 1,651 million, with a loss of EUR 40 million; as well as a gain of EUR 6 million on options that had already expired.

Lastly, in addition to these hedges involving derivatives, spot foreign currency sales were made to offset structural foreign currency risk. By currency, spot sales were made of US dollars against euros, which amounted to EUR 1,293 million and gave rise to a gain of EUR 68 million, and of pounds sterling against euros, which totalled EUR 3,345 million and gave rise to a gain of EUR 214 million.

In line with the purpose of hedging the underlying carrying amount of net assets in foreign currencies, the overall valuation adjustments (gains/losses) obtained from the aforementioned hedges offset from an equity position the exchange differences arising from the conversion to euros of the Group's investments in its investees' net assets.

The hedges of net investments in foreign operations did not generate gains or losses due to ineffectiveness in 2015.

37. Discontinued operations

No significant operations were discontinued in 2015, 2014 or 2013.

a) *Profit or loss and net cash flows from discontinued operations*

The detail of the profit or loss from discontinued operations is set forth below.

The comparative figures were restated in order to include the operations classified as discontinued:

	Millions of euros		
	2015	2014	2013
Net interest income	**-**	**4**	**84**
Net fee and commission income	-	-	22
Gains/losses on financial assets and liabilities	-	-	-
Other operating income (expenses)	-	-	-
Gross income	**-**	**4**	**106**
Staff costs	-	(1)	(7)
Other general administrative expenses	-	(3)	(23)
Depreciation and amortisation charge	-	-	(2)
Provisions (net)	-	(22)	(6)
Impairment losses on financial assets	-	(4)	(6)
Profit (loss) from operations	**-**	**(26)**	**62**
Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	-	(80)
Profit (loss) before tax	**-**	**(26)**	**(18)**
Income tax (Note 27)	-	-	3
Profit (loss) from discontinued operations	**-**	**(26)**	**(15)**

Additionally, following is a detail of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

	Millions of euros		
	2015	2014	2013
Cash and cash equivalents as at beginning of year	-	-	-
Cash flows from operating activities	-	(10)	2
Cash flows from investing activities	-	10	(2)
Cash flows from financing activities	-	-	-
Cash and cash equivalents as at end of year	-	-	-

b) Earnings per share relating to discontinued operations

The earnings per share relating to discontinued operations were as follows:

	2015	2014	2013
Basic earnings per share (euros)	0.00	(0.00)	(0.00)
Diluted earnings per share (euros)	0.00	(0.00)	(0.00)

38. Interest and similar income

Interest and similar income in the consolidated income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main interest and similar income items earned in 2015, 2014 and 2013 is as follows:

	Millions of euros		
	2015	2014	2013
Balances with the Bank of Spain and other central banks	1,392	2,038	2,701
Loans and advances to credit institutions	1,845	1,782	766
Debt instruments	7,361	7,247	6,435
Loans and advances to customers	45,445	42,175	40,206
Insurance contracts linked to pensions (Note 25)	6	9	11
Other interest	1,149	1,405	1,328
	57,198	**54,656**	**51,447**

Most of the interest and similar income was generated by the Group's financial assets that are measured either at amortised cost or at fair value through equity.

39. Interest expense and similar charges

Interest expense and similar charges in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2015, 2014 and 2013 is as follows:

	Millions of euros		
	2015	2014	2013
Balances with the Bank of Spain and other central banks	79	55	118
Deposits from credit institutions	2,277	2,144	1,852
Customer deposits	12,826	13,415	14,805
Marketable debt securities	6,965	6,844	6,880
Subordinated liabilities (Note 23)	934	1,084	1,260
Provisions for pensions (Note 25)	270	344	363
Other interest	1,035	1,223	234
	24,386	**25,109**	**25,512**

Most of the interest expense and similar charges was generated by the Group's financial liabilities that are measured at amortised cost.

40. Income from equity instruments

Income from equity instruments includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of Income from equity instruments is as follows:

	Millions of euros		
	2015	2014	2013
Equity instruments classified as:			
Financial assets held for trading	266	287	264
Available-for-sale financial assets	189	148	114
	455	**435**	**378**

41. Share of results of entities accounted for using the equity method

Share of results of entities accounted for using the equity method comprises the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of Share of results of entities accounted for using the equity method is as follows:

	Millions of euros		
	2015	2014	2013
Santander Consumer USA Inc.	-	-	322
Zurich Santander Insurance América, S.L.	183	167	138
Metrovacesa, S.A.	-	(68)	(40)
SAM Investment Holdings Limited	64	51	-
Allfunds Bank, S.A.	-	23	17
Companhia de Crédito, Financiamento e Investimento RCI Brasil	28	20	21
Other companies	100	50	42
	375	**243**	**500**

42. Fee and commission income

Fee and commission income comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission income is as follows:

	Millions of euros		
	2015	2014	2013
Collection and payment services:			
Bills	271	284	333
Demand accounts	1,074	1,006	1,163
Cards	2,768	2,769	2,890
Orders	412	422	347
Cheques and other	134	144	165
	4,659	4,625	4,898
Marketing of non-banking financial products:			
Investment funds	805	831	1,040
Pension funds	92	111	163
Insurance	2,350	2,304	2,399
	3,247	3,246	3,602
Securities services:			
Securities underwriting and placement	252	306	208
Securities trading	303	303	316
Administration and custody	265	248	212
Asset management	222	78	107
	1,042	935	843
Other:			
Foreign exchange	303	264	243
Financial guarantees	494	498	476
Commitment fees	314	343	329
Other fees and commissions	2,983	2,604	2,082
	4,094	3,709	3,130
	13,042	**12,515**	**12,473**

43. Fee and commission expense

Fee and commission expense shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission expense is as follows:

	Millions of euros		
	2015	2014	2013
Fees and commissions assigned to third parties	1,593	1,618	1,718
Of which: Cards	*1,201*	*1,149*	*1,279*
Brokerage fees on lending and deposit transactions	43	42	37
Other fees and commissions	1,373	1,159	957
	3,009	**2,819**	**2,712**

44. Gains/losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by origin, of Gains/losses on financial assets and liabilities is as follows:

	Millions of euros		
	2015	2014	2013
Financial assets and liabilities held for trading (*)	(2,312)	2,377	1,733
Other financial instruments at fair value through profit or loss (*)	325	239	(6)
Financial instruments not measured at fair value through profit or loss	1,265	1,427	1,622
Of which: Available-for-sale financial assets	*891*	*1,416*	*1,490*
Of which:			
Debt instruments	*760*	*1,173*	*1,345*
Equity instruments	*131*	*243*	*145*
Other (Note 36)	(48)	(69)	(115)
	(770)	**3,974**	**3,234**

(*) Includes the net gain or loss arising from transactions involving debt securities, equity instruments, derivatives and short positions included in this portfolio, since the Group manages its risk in these instruments on a global basis.

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Millions of euros		
	2015	2014	2013
Loans and advances to credit institutions	28,696	30,407	18,947
Loans and advances to customers	20,374	11,892	18,275
Debt instruments	47,681	58,605	44,716
Equity instruments	18,855	13,799	5,833
Derivatives	76,724	76,858	58,899
	192,330	**191,561**	**146,670**

The Group mitigates and reduces this exposure as follows:

- With respect to derivatives, the Group has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment.

  At 31 December 2015, the actual credit risk exposure of the derivatives was EUR 43,468 million.

- Loans and advances to credit institutions and Loans and advances to customers included reverse repos amounting to EUR 37,563 million at 31 December 2015.

  Also, mortgage-backed assets totalled EUR 2,855 million.

- Debt instruments include EUR 40,148 million of Spanish and foreign government securities.

At 31 December 2015, the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

	Millions of euros		
	2015	2014	2013
Deposits from central banks	(18,664)	(8,362)	(5,963)
Deposits from credit institutions	(8,628)	(24,570)	(17,112)
Customer deposits	(35,544)	(38,671)	(34,984)
Marketable debt securities	(3,373)	(3,830)	(4,087)
Short positions	(17,362)	(17,628)	(15,951)
Derivatives	(76,414)	(79,048)	(58,887)
Other financial liabilities	(1)	-	-
	(159,986)	**(172,109)**	**(136,984)**

45. Exchange differences

Exchange differences shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

The Group manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains/losses on financial assets and liabilities (see Note 44).

46. Other operating income and Other operating expenses

Other operating income and Other operating expenses in the consolidated income statements include:

	Millions of euros		
	2015	2014	2013
Insurance activity	**98**	**137**	**117**
Income from insurance and reinsurance contracts issued	1,096	3,532	4,724
Of which:			
Insurance and reinsurance premium income	*961*	*3,284*	*4,513*
Reinsurance income (Note 15)	*135*	*248*	*211*
Expenses of insurance and reinsurance contracts	(998)	(3,395)	(4,607)
Of which:			
Claims paid and other insurance-related expenses	*(3,101)*	*(3,800)*	*(4,497)*
Net provisions for insurance contract liabilities	*2,361*	*910*	*382*
Reinsurance premiums paid	*(258)*	*(505)*	*(492)*
Non-financial services	**121**	**88**	**93**
Sales and income from the provision of non-financial services	711	343	322
Cost of sales	(590)	(255)	(229)
Other operating income and expenses	**(385)**	**(384)**	**(512)**
Other operating income	1,260	1,339	857
Of which, fees and commissions offsetting direct costs	*115*	*106*	*115*
Other operating expenses	(1,645)	(1,723)	(1,369)
Of which, Deposit Guarantee Fund	*(769)*	*(577)*	*(570)*
	(166)	**(159)**	**(302)**

Most of the Bank's insurance activity is carried on in life insurance.

47. Staff costs

a) Breakdown

The detail of Staff costs is as follows:

	Millions of euros		
	2015	2014	2013
Wages and salaries	8,034	7,412	7,215
Social security costs	1,330	1,293	1,296
Additions to provisions for defined benefit pension plans (Note 25)	96	75	88
Contributions to defined contribution pension funds (Note 25)	279	247	223
Share-based remuneration costs	47	66	103
Other staff costs	1,321	1,149	1,144
	11,107	**10,242**	**10,069**

b) Headcount

The average number of employees in the Group, by professional category, was as follows:

	Average number of employees (**)		
	2015	2014	2013
The Bank:			
Senior management (*)	93	101	133
Other line personnel	20,909	21,376	23,403
Clerical staff	2,138	2,563	3,421
General services personnel	22	25	28
	23,162	24,065	26,985
Rest of Spain	6,922	6,781	6,931
Santander UK plc	20,069	19,866	19,773
Banco Santander (Brasil) S.A.	47,720	47,296	51,462
Other companies (**)	91,591	85,930	81,222
	189,464	**183,938**	**186,373**

(*) Categories of deputy assistant executive vice president and above, including senior management.

(**) Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, at 31 December 2015 is as follows:

	Functional breakdown by gender					
	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	995	237	6,162	3,135	21,711	29,068
United Kingdom	132	35	1,219	565	9,539	13,430
Latin America	671	106	6,167	3,674	40,653	56,364
	1,798	**378**	**13,548**	**7,374**	**71,903**	**98,862**

The same information, expressed in percentage terms at 31 December 2015, is as follows:

	Functional breakdown by gender					
	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	81%	19%	66%	34%	43%	57%
United Kingdom	79%	21%	68%	32%	42%	58%
Latin America	86%	14%	63%	37%	42%	58%
	83%	**17%**	**65%**	**35%**	**42%**	**58%**

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

c) *Share-based payments*

The main share-based payments granted by the Group in force at 31 December 2015, 2014 and 2013 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject. These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans that include share-based payments are as follows: (i) performance share plan; (ii) obligatory investment share plan; (iii) deferred conditional delivery share plan; (iv) deferred conditional variable remuneration plan and (v) performance share plan. The characteristics of the plans are set forth below:

(i) Performance share plan

This deferred share-based variable remuneration was instrumented through a multiannual incentive plan payable in shares of the Bank. The beneficiaries of the plan were the executive directors and other members of senior management, together with any other Group executives determined by the board of directors or, when delegated by it, the executive committee, except for Plan PI14 (approved in 2011), of which the executive directors and senior executives who participated in the deferred conditional variable remuneration plan were not beneficiaries.

This plan involved successive three-year cycles of share deliveries to the beneficiaries. In June 2010 and 2011 the fifth and sixth and final cycles (PI13 and PI14, respectively) were approved. On 31 July 2013 and 2014 the fifth and sixth cycles (PI13 and PI14, respectively) were cancelled.

For each cycle a maximum number of shares was established for each beneficiary who remained in the Group's employ for the duration of the plan. The target, which, if met, would determine the number of shares to be delivered, was defined by comparing the Total Shareholder Return (TSR) performance of the shares of Banco Santander, S.A. with the TSR of a benchmark group of financial institutions.

The ultimate number of shares to be delivered in the aforementioned cycles was determined by the degree of achievement of the targets on the third anniversary of commencement of each cycle, and the shares would be delivered within a maximum period of seven months from the beginning of the year in which the corresponding cycle ended.

Plans I14 and I13 expired in 2014 and 2013, without any shares having been delivered to the plan beneficiaries, since the minimum target for shares to be delivered had not been achieved.

Following is a summary of the changes in the cycles of this plan in the period from 2013 to 2014:

	Number of shares (in thousands)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/13	**34,089**					
Options cancelled, net (Plan I13)	(19,613)	2010	Executives	(6,782)	11/06/10	31/07/13
Plans outstanding at 31/12/13	**14,476**					
Options cancelled, net (Plan I14)	(14,476)	2011	Executives	(6,699)	17/06/11	31/07/14
Plans outstanding at 31/12/14	-					

(ii) Obligatory investment share plan

This deferred share-based variable remuneration was instrumented through a multiannual incentive plan payable in shares of the Bank and conditional upon compliance with certain investment and continued Group service requirements. The beneficiaries of this plan were the executive directors, members of the Bank's senior management and other Group executives determined by the board of directors.

This plan, which was discontinued in 2010, was structured in three-year cycles. The beneficiaries of the plan had to use 10% of their gross annual variable cash-based remuneration (or bonus) to acquire shares of the Bank in the market (the "Obligatory Investment"). In accordance with the terms and conditions of the corresponding cycles, the Obligatory Investments were made before 29 February 2008, 28 February 2009 and 28 February 2010, respectively.

Participants who held the shares acquired through the Obligatory Investment and remained in the Group's employ for three years from the date on which the Obligatory Investment was made (until 2011, 2102 and 2013, respectively) were entitled to receive the same number of Bank shares as that composing their initial obligatory investment.

The shares would be delivered within a maximum period of one month from the third anniversary of the date on which the obligatory investment was made.

In 2009 a requirement was introduced for the third cycle additional to that of remaining in the Group's employ, which was that in the three-year period from the investment in the shares, none of the following circumstances should occur: (i) poor financial performance of the Group; (ii) breach by the beneficiary of the codes of conduct or other internal regulations, including, in particular, those relating to risks, where applicable to the executive in question; or (iii) material restatement of the Group's financial statements, except when it was required pursuant to a change in accounting standards.

This plan was cancelled with the delivery of the shares of the third cycle in March 2013.

(iii) Deferred conditional delivery share plan

In 2013 the Bank's board of directors, at the proposal of the appointments and remuneration committee, approved the fourth cycle of the deferred conditional delivery share plan to instrument payment of the share-based bonus of the Group executives or employees whose variable remuneration or annual bonus for 2013 exceeded, in general, EUR 0.3 million (gross), with a view to deferring a portion of the aforementioned variable remuneration or bonus over a period of three years in which it will be paid in Santander shares. Since this cycle entailed the delivery of Bank shares, the shareholders at the annual general meetings of 22 March

2013 approved the application of the fourth cycle of the deferred conditional delivery share plan. This cycle is not applicable to the executive directors or other members of senior management or other executives who are beneficiaries of the deferred conditional variable remuneration plan described below.

The share-based bonus is being deferred over three years and will be paid, where appropriate, in three instalments starting after the first year. The amount in shares is calculated based on the tranches of the following scale established by the board of directors on the basis of the gross variable cash-based remuneration or annual bonus for the year:

Benchmark bonus (thousands of euros)	Percentage (deferred)
300 or less	0%
300 to 600 (inclusive)	20%
More than 600	30%

The condition for accrual of the share-based deferred remuneration was, in addition to that of the beneficiary remaining in the Group's employ, with the exceptions envisaged in the plan regulations, that none of the following circumstances should occur in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

(iv) Deferred conditional variable remuneration plan

In 2013, 2014 and 2015 the Bank's board of directors, at the proposal of the appointments and remuneration committee in 2013 and 2014 and of the remuneration committee in 2015, approved the third, fourth and fifth cycles of the deferred conditional variable remuneration plan to instrument payment of the bonus for 2013, 2014 and 2015, respectively, of the executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (all of whom are referred to 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 for 2013; in 2014, pursuant to Article 92(2) of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, and the related implementing legislation; and in 2015, pursuant to Article 32.1 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, and the related implementing legislation).

Since the aforementioned cycles entail the delivery of Bank shares, the shareholders at the annual general meetings of 22 March 2013, 28 March 2014 and 27 March 2015 approved, respectively, the application of the third, fourth and fifth cycles of the deferred conditional variable remuneration plan.

The purpose of these cycles is to defer a portion of the bonus of the beneficiaries thereof over a period of three years for the third and fourth cycles, and over three or five years for the fifth cycle, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

The bonus will be paid in accordance with the following percentages, based on the timing of the payment and the group to which the beneficiary belongs (the "immediate payment percentage" identifies the portion of the bonus for which payment is not deferred, and the "deferred percentage" identifies the portion of the bonus for which payment is deferred):

	2015		
	Immediate payment percentage (*)	Deferred percentage (*)	Deferral period
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%	5 years
Division managers, country heads of countries that represent at least 1% of the Group's economic capital, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.7 million (< EUR 2.6 million)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

	2014	
	Immediate payment percentage (*)	Deferred percentage (*)
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%
Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.8 million (< EUR 2.6 million)	50%	50%
Other beneficiaries	60%	40%

	2013	
	Immediate payment percentage (*)	Deferred percentage (*)
Executive directors	40%	60%
Division managers and other executives of the Group with a similar profile	50%	50%
Other executives subject to supervision	60%	40%

(*) Generally applicable percentages. In some countries deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

For the third and fourth cycle, the payment of the deferred percentage of the bonus applicable in each case will be deferred over a period of three years and will be paid in three instalments, within 30 days following the anniversaries of the initial date (the date on which the immediate payment percentage is paid) in 2015, 2016 and 2017 for the third cycle, and in 2016, 2017 and 2018 for the fourth cycle, 50% being paid in cash and 50% in shares, provided that the conditions described below are met.

For the fifth cycle, the payment of the deferred percentage of the bonus applicable in each case based on the group to which the beneficiary belongs will be deferred over a period of three or five years and will be paid in three or five instalments, as appropriate, within 30 days following the anniversaries of the initial date in 2017, 2018 and 2019 and, where appropriate, in 2020 and 2021, provided that the conditions described below are met.

In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid on the deferred amount in shares and the interest on the amount accrued in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the amount resulting from applying the applicable taxes and the volume-weighted average share prices for the 15 trading sessions prior to the date on which the board of directors approves the bonus for the Bank's executive directors for 2013, 2014 and 2015 for the third, fourth and fifth cycle, respectively.

(v) Performance share plan

In 2014 and 2015 the Bank's board of directors approved the first and second cycles, respectively, of the performance share plan by which to instrument a portion of the variable remuneration of the executive directors and other members of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on the Bank's performance over a multiannual period. In addition, the second cycle also applies to other Bank employees not included in the Identified Staff, in respect of whom it is deemed appropriate that the potential delivery of Bank shares be included in their remuneration package in order to better align the employee's interests with those of the Bank.

Since the aforementioned plans entail the delivery of Bank shares, the annual general meetings of 28 March 2014 and 27 March 2015 approved the application of the first and second cycles of the plan, respectively.

The maximum amounts of the plan and, consequently, the maximum number of shares to which a beneficiary may be entitled under this plan was set at 15% and 20% of the beneficiaries' benchmark bonus for 2014 and 2015, respectively.

The board of directors, following a proposal of the remuneration committee, set the amount of the ILP for each beneficiary for 2014 and 2015.

For the second cycle, based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the board of directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (ROTE) for 2015 with respect to those budgeted for the year.

Both items had the same weighting when setting the ILP and each of them were measured based on the following scales of target compliance:

- Scale applicable to EPS of Santander Group in 2015 with respect to the budgeted EPS for the year:

EPS in 2015 (% of budgeted 2015 EPS)	2015 EPS coefficient
≥ 90%	1
> 75% but < 90%	0.75 - 1 (*)
≤ 75%	0

(*) Straight-line increase of the 2015 EPS coefficient based on the specific percentage that the 2015 EPS represents of the budgeted EPS within this line of the scale.

- Scale applicable to Santander Group's 2015 ROTE with respect to the ROTE budgeted for the year:

ROTE in 2015 (% of budgeted 2015 ROTE)	2015 ROTE coefficient
≥ 90%	1
> 75% but < 90%	0.75 - 1 (*)
≤ 75%	0

(*) Straight-line increase of the 2015 ROTE coefficient based on the specific percentage that the 2015 ROTE represents of the budgeted ROTE within this line of the scale.

Based on the Group's performance, the coefficient to be applied was 91.50%.

For the first cycle, the following percentages were applied to 15% of the benchmark bonus in accordance with the relative performance of the Bank's Total Shareholder Return (TSR) in 2014 compared to a benchmark group:

Santander's place in the TSR ranking	Percentage of maximum shares to be delivered
1st to 8th	100%
9th to 12th	50%
13th and below	0%

Since the Bank’s TSR was in fourth place, the applicable percentage was 100%.

Also, for the second cycle, the agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, at the beginning of 2019 (foreseeably, in the first quarter) based on compliance with the multiannual targets and other plan terms and conditions. Thus, prior to the payment date, the board of directors, following a proposal of the remuneration committee, will calculate the amount, where appropriate, to be received by each beneficiary based on the agreed-upon amount of the ILP. The multiannual targets, the related metrics and scales of compliance are as follows:

- Relative performance of the Group's EPS growth for 2015-2017 with respect to a benchmark group of 17 credit institutions

Position of Santander's EPS growth 2015-2017	EPS coefficient
1st to 5th	1
6th	0.875
7th	0.75
8th	0.625
9th	0.50
10th and below	0

- Santander Group's 2017 ROTE:

ROTE in 2017 (%)	ROTE coefficient
≥ 12%	1
> 11% but < 12%	0.75 - 1 (*)
≤ 11%	0

(*) Straight-line increase of the ROTE coefficient based on the specific percentage, within this line of the scale, of Santander Group's ROTE in 2017.

- Employee satisfaction, measured by the inclusion or exclusion of the related Group company in 2017 among the “Top 3” best banks to work for.

- Scale of compliance at country level:

Position among the best banks to work for in 2017	Employee coefficient
1st to 3rd 4th or below	1 0

- Scale of compliance at Santander Group level:

No. of main markets in which Santander is ranked in the top three of the best banks to work for in 2017	Employee coefficient
6 or more 5 or less	1 0

- Customer satisfaction, measured by the inclusion or exclusion of the related Group company in 2017 among the top three best banks in the customer satisfaction index.

  - Scale of compliance at country level:

Position among the best banks as per the customer satisfaction index in 2017	Customer coefficient
1st to 3rd 4th or below	1 0

- Scale of compliance at Santander Group level:

No. of main markets in which Santander is ranked in the top three of the best banks in the customer satisfaction index in 2017	Customer coefficient
10 Between 6 and 9 5 or less	1 0.2 - 0.8 (*) 0

(*) Straight-line increase of customer coefficient, whereby, within this line of the scale, the coefficient is increased by 0.2 for each additional main market in which the customer satisfaction index ranks it in the top three.

- Customer loyalty, taking into account that the targets at Santander Group level are 17 million individual customers and 1.1 million SME and business customers at 31 December 2017.

  - Scales of compliance at country level:

Individual customers (% of the budget for the related market)	Individual coefficient
≥ 100% > 90% but < 100% ≤ 90%	1 0.5 - 1 (*) 0

SME and business customers (% of the budget for the related market)	Business coefficient
≥ 100% > 90% but < 100% ≤ 90%	1 0.5 - 1 (*) 0

(*) Straight-line increase of the individual coefficient and business coefficient based on the specific percentage, within these lines of each scale, that the number of customers of each type represents of the budgeted number at 31 December 2017.

  - Scales of compliance at Santander Group level:

Individual customers (millions)	Individual coefficient
≥ 17 > 15 but < 17 ≤ 15	1 0.5 - 1 (*) 0

SME and business customers (millions)	Business coefficient
≥ 1.1 > 1 but < 1.1 ≤ 1	1 0.5 - 1 (*) 0

(*) Straight-line increase of the individual coefficient and business coefficient based on the number of customers of each type at 31 December 2017.

Based on the foregoing metrics and compliance scales and the data relating to the end of 2017, the amount accrued of the ILP for each beneficiary (the "Accrued Amount of the ILP") will be calculated by weighting the above coefficients by 0.25, 0.25, 0.2, 0.15, 0.075 and 0.075, respectively.

For the first cycle, the agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, in thirds in June 2016, 2017 and 2018 based on compliance with the multiannual TSR targets. Thus, for each payment date, the board of directors, following a proposal of the remuneration committee, will calculate the amount, where appropriate, to be received by each beneficiary applying to the third of the agreed-upon amount of the ILP for that year the percentage resulting from the following table:

Santander's place in the TSR ranking	Percentage of maximum shares to be delivered
1st to 4th	100.0%
5th	87.5%
6th	75.0%
7th	62.5%
8th	50.0%
9th and below	0%

For the accrual for 2016, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2015, for the accrual for 2017, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2016 and for the accrual for 2018, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2017.

In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be paid on the ILP payment date based on compliance with the related multiannual target is conditional upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries as a result of the actions taken in 2014 and 2015, respectively: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

ii. Santander UK plc

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousands)	Exercise price in pounds sterling (*)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/13	**14,814**						
Options granted (Sharesave)	4,340	3.69	2013	Employees	13,110 (**)	01/11/13 01/11/13	01/11/16 01/11/18
Options exercised	(78)	4.02					
Options cancelled (net) or not exercised	(3,169)	4.72					
Plans outstanding at 31/12/13	**15,907**						
Options granted (Sharesave)	6,745	4.91	2014	Employees	6,639 (**)	01/11/14 01/11/14	01/11/17 01/11/19
Options exercised	(1,375)	4.36					
Options cancelled (net) or not exercised	(2,155)	4.85					
Plans outstanding at 31/12/14	**19,122**						
Options granted (Sharesave)	14,074	3.13	2015	Employees	7,759 (**)	01/11/15 01/11/15	01/11/18 01/11/20
Options exercised	(1,839)	3.75					
Options cancelled (net) or not exercised	(6,595)	4.50					
Plans outstanding at 31/12/15	**24,762**						

(*) At 31 December 2015, 2014 and 2013, the euro/pound sterling exchange rate was EUR 1.36249/GBP 1; EUR 1.28386/GBP 1 and EUR 1.19947/GBP 1, respectively.

(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme will have between GBP 5 and GBP 250 (between GBP 5 and GBP 500 in 2014 and 2015) deducted from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the board of directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorised by the annual general meeting held on 21 June 2008. Also, the scheme was authorised by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the annual general meetings held on 19 June 2009, 11 June 2010, 17 June 2011, 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

a) 2015 Performance share plan:

The fair value of this plan was calculated at the grant date based on a valuation report by an independent expert. On the basis of the design of the plan for 2015 and the levels of achievement of similar plans at comparable entities, the expert concluded that the reasonable range for estimating the initial achievement coefficient was approximately 60% to 80% and, accordingly, the fair value was considered to be 70% of the maximum. Therefore, as the maximum level was determined as being 91.50%, the fair value is 64.05% of the maximum amount.

b) 2014 Performance share plan:

The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform thousands of simulations to determine the TSR of the Bank and of each of the companies in the benchmark group. Taking into account the foregoing, the fair value of the plan at the grant date was 36.3% of the maximum amount.

c) Performance share plans:

- It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.

- The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform 10,000 simulations to determine the TSR of each of the companies in the benchmark group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI13	PI14
Expected volatility (*)	49.65%	51.35%
Annual dividend yield based on last few years	6.34%	6.06%
Risk-free interest rate (Treasury Bond yield (zero coupon) over the period of the plan)	3.33%	4.073%

(*)Calculated on the basis of historical volatility over the corresponding period (three years).

The application of the simulation model resulted in a percentage value of 62.62% for Plan I-13 and 55.39% for Plan I-14. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

d) Santander UK Sharesave plans:

The fair value of each option granted by Santander UK was estimated at the grant date using a European/American Partial Differential Equation model with the following assumptions:

	2015	2014	2013
Risk-free interest rate	1.06%-1.37%	1.56%-1.97%	1.2%-1.7%
Dividend increase	6.91%-7.36%	10.16%-10.82%	16%-19%
Volatility of underlying shares based on historical volatility over five years	28.54%-29.11%	24.16%-24.51%	32.15%-32.32%
Expected life of options granted	3 and 5 years	3 and 5 years	3 and 5 years

48. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses is as follows:

	Millions of euros		
	2015	2014	2013
Property, fixtures and supplies	1,943	1,930	1,980
Technology and systems	1,188	979	992
Technical reports	810	606	493
Advertising	705	655	630
Communications	587	489	519
Taxes other than income tax	529	462	445
Surveillance and cash courier services	413	397	425
Per diems and travel expenses	278	287	284
Insurance premiums	74	64	59
Other administrative expenses	1,668	1,788	1,556
	8,195	**7,657**	**7,383**

b) Technical reports and other

Technical reports includes the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows:

	Millions of euros		
	2015	2014	2013
Audit fees	49.6	44.2	35.9
Audit-related fees	46.9	31.1	20.8
Tax fees	9.1	6.6	4.6
All other fees	12.6	8.0	6.5
Total	**118.2**	**89.9**	**67.8**

The detail of the main items included in Audit fees is as follows:

	Millions of euros		
	2015	2014	2013
Audit of the financial statements of the companies audited by Deloitte	32.1	28.3	21.7
Of which:			
Santander UK plc	*6.6*	*5.8*	*5.0*
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	*6.7*	*5.7*	*2.4*
Banco Santander (Brasil) S.A.	*1.4*	*1.8*	*1.7*
Audit of the Bank's separate and consolidated financial statements	*2.4*	*2.1*	*2.1*
Other audit engagements	17.5	15.9	14.2
Of which:			
Internal control audit (SOX) and capital audit (Basel)	*7.9*	*6.9*	*5.9*
Audit of the Group's half-yearly financial statements	*6.5*	*6.0*	*6.0*
Issue of comfort letters	*3.1*	*3.0*	*2.3*
Audit fees	**49.6**	**44.2**	**35.9**

The detail of the main items included in Audit-related fees is as follows:

	Millions of euros		
	2015	2014	2013
Other recurring engagements and reports required by the various national supervisory bodies of the countries in which the Group operates	10.9	8.8	7.6
Limited reviews and other reports required by the Group due to its listing in Brazil	3.8	5.3	-
Non-recurring reviews required by regulators	0.4	0.6	1.1
Due diligence audits and other reviews	2.2	1.7	3.1
Issuance of other attest reports	5.2	4.0	3.7
Reviews of procedures, data and controls and other checks	24.4	10.7	5.3
Total audit-related fees	**46.9**	**31.1**	**20.8**

Other information

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US Securities and Exchange Commission (SEC) rules and the Public Accounting Oversight Board (PCAOB), and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than Deloitte amounting to EUR 117.4 million in 2015 (2014: EUR 97.3 million; 2013: EUR 48.6 million).

49. Gains/(losses) on disposal of assets not classified as non-current assets held for sale

The detail of Gains/(losses) on disposal of assets not classified as non-current assets held for sale is as follows:

	Millions of euros		
	2015	2014	2013
Gains:			
On disposal of tangible and intangible assets (*)	104	216	74
On disposal of investments	104	3,026	2,167
Of which:			
Santander Consumer USA (Note 3)	-	*1,739*	-
Altamira Asset Management (Note 3)	-	*550*	-
Insurance companies in Ireland (Note 3)	-	*413*	-
Management companies (Note 3)	-	-	*1,372*
Insurance companies in Spain (Note 3)	-	-	*385*
Payment services company (Note 3)	-	-	*122*
	208	3,242	2,241
Losses:			
On disposal of tangible and intangible assets	(83)	(103)	(78)
On disposal of investments	(13)	(3)	(11)
	(96)	(106)	(89)
	112	**3,136**	**2,152**

(*) Includes in 2014 mainly the gains recognised on the sale of corporate buildings in Mexico and Argentina (EUR 85 million) and the gains arising from the sales of branches (EUR 76 million) in various countries in which the Group operates.

50. Gains/(losses) on non-current assets held for sale not classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations is as follows:

	Millions of euros		
Net balance	2015	2014	2013
Tangible assets	(171)	(291)	(422)
Impairment (Note 12)	*(222)*	*(339)*	*(335)*
Gain (loss) on sale (Note 12)	*51*	*48*	*(87)*
Other gains and other losses	(2)	48	-
	(173)	**(243)**	**(422)**

51. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheet is as follows:

	31 December 2015								
	Millions of euros								Average
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	interest rate
Assets:									
Cash and balances with central banks	68,469	4,677	3,714	1,573	35	2,845	16	81,329	2.26%
Available-for-sale financial assets-									
Debt instruments	172	4,268	2,389	11,899	18,718	18,537	61,204	117,187	3.87%
Loans and receivables-									
Loans and advances to credit institutions	19,697	11,974	4,115	5,294	3,897	1,240	4,039	50,256	1.58%
Loans and advances to customers	20,976	38,004	39,647	73,928	105,614	96,146	396,159	770,474	5.99%
Debt instruments	15	1,383	1,083	1,143	1,764	1,241	4,278	10,907	5.40%
Held-to-maturity investments	-	-	-	-	2,013	140	2,202	4,355	2.39%
	109,329	**60,306**	**50,948**	**93,837**	**132,041**	**120,149**	**467,898**	**1,034,508**	**5.22%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	1,580	3,874	2,348	-	31,070	-	-	38,872	0.17%
Deposits from credit institutions	7,043	30,187	11,801	31,843	15,926	6,294	6,113	109,207	2.64%
Customer deposits	394,956	88,173	33,128	56,418	41,810	8,163	24,930	647,578	2.48%
Marketable debt securities (*)	133	13,134	14,547	32,563	55,689	30,877	54,713	201,656	2.91%
Subordinated liabilities	-	7	354	1,742	2,193	4,126	12,731	21,153	5.85%
Other financial liabilities	4,212	4,955	6,814	648	661	515	3,072	20,877	N/A
	407,924	**140,330**	**68,992**	**123,214**	**147,349**	**49,975**	**101,559**	**1,039,343**	**2.56%**
Difference (assets less liabilities)	**(298,595)**	**(80,024)**	**(18,044)**	**(29,377)**	**(15,308)**	**70,174**	**366,339**	**(4,835)**	

(*) Includes promissory notes, certificates of deposit and other short-term debt issues.

The Group's net borrowing position with the ECB was EUR 33.6 thousand million at 31 December 2015, mainly because in 2015 and 2014 the Group borrowed funds under the ECB's targeted longer-term refinancing operations (TLTRO) programme.

	31 December 2014								
	Millions of euros								Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	
Assets:									
Cash and balances with central banks	46,521	17,667	4,060	518	-	645	17	69,428	3.21%
Available-for-sale financial assets-									
Debt instruments	154	3,878	1,098	4,528	19,811	24,363	56,417	110,249	4.62%
Loans and receivables-									
Loans and advances to credit institutions	18,270	16,481	3,285	4,951	3,738	317	4,264	51,306	2.11%
Loans and advances to customers	17,095	41,520	31,093	67,627	97,744	80,123	387,617	722,819	6,37%
Debt instruments	14	1,422	1,180	947	858	554	2,535	7,510	3.66%
	82,054	**80,968**	**40,716**	**78,571**	**122,151**	**106,002**	**450,850**	**961,312**	**5.69%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	4,614	2,703	1,179	500	-	8,294	-	17,290	0.24%
Deposits from credit institutions	7,390	24,596	23,238	19,154	18,546	5,995	6,228	105,147	3.16%
Customer deposits	347,108	79,128	28,570	66,632	56,359	8,629	22,530	608,956	2.50%
Marketable debt securities (*)	54	10,802	22,847	35,913	49,978	22,457	51,008	193,059	3.50%
Subordinated liabilities	114	24	15	109	3,699	5,458	7,713	17,132	6.46%
Other financial liabilities	4,131	4,145	8,265	942	465	447	1,073	19,468	N/A
	363,411	**121,398**	**84,114**	**123,250**	**129,047**	**51,280**	**88,552**	**961,052**	**2.81%**
Difference (assets less liabilities)	**(281,357)**	**(40,430)**	**(43,398)**	**(44,679)**	**(6,896)**	**54,722**	**362,298**	**260**	

(*) Includes promissory notes, certificates of deposit and other short-term debt issues.

	31 December 2013								
	Millions of euros								Average
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	interest rate
Assets:									
Cash and balances with central banks	70,303	4,565	1,410	706	-	-	119	77,103	2.53%
Available-for-sale financial assets-									
Debt instruments	200	3,034	2,194	5,100	13,243	16,965	39,108	79,844	4.60%
Loans and receivables-									
Loans and advances to credit institutions	13,794	25,619	3,710	2,120	3,360	2,415	4,999	56,017	2.36%
Loans and advances to customers	13,475	45,117	28,939	70,130	88,822	67,727	336,371	650,581	5.69%
Debt instruments	3	1,024	646	1,470	1,042	283	3,418	7,886	3.01%
	97,775	**79,359**	**36,899**	**79,526**	**106,467**	**87,390**	**384,015**	**871,431**	**5.07%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	485	3,207	156	312	5,628	-	-	9,788	0.27%
Deposits from credit institutions	2,756	27,665	5,578	14,436	13,106	7,837	5,156	76,534	2.18%
Customer deposits	328,508	53,108	26,039	80,639	63,278	9,576	11,705	572,853	2.55%
Marketable debt securities (*)	146	8,551	17,198	27,092	53,966	20,667	43,770	171,390	3.72%
Subordinated liabilities	24	159	2	821	2,468	2,723	9,942	16,139	6.02%
Other financial liabilities	5,524	7,476	1,613	312	486	115	884	16,410	N/A
	337,443	**100,166**	**50,586**	**123,612**	**138,932**	**40,918**	**71,457**	**863,114**	**2.80%**
Difference (assets less liabilities)	**(239,668)**	**(20,807)**	**(13,687)**	**(44,086)**	**(32,465)**	**46,472**	**312,558**	**8,317**	

(*) Includes promissory notes, certificates of deposit and other short-term debt issues.

The detail of the undiscounted contractual maturities of the existing financial liabilities at amortised cost at 31 December 2015 is as follows:

	31 December 2015							
	Millions of euros							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial liabilities at amortised cost (*):								
Deposits from central banks	1,579	3,872	2,347	-	31,053	-	-	38,851
Deposits from credit institutions	7,021	30,094	11,765	31,745	15,877	6,275	6,094	108,871
Customer deposits	393,213	87,784	32,982	56,169	41,626	8,127	24,820	644,721
Marketable debt securities	130	12,801	14,178	31,737	54,277	30,094	53,325	196,542
Subordinated liabilities	-	5	333	1,640	2,065	3,885	11,987	19,915
Other financial liabilities	4,212	4,955	6,814	648	661	515	3,072	20,877
	406,155	**139,511**	**68,419**	**121,939**	**145,559**	**48,896**	**99,298**	**1,029,777**

(*) The analysis of the expiry dates of the derivatives is not broken down because this is not essential to the comprehension of the cash flow schedule, since substantially all of them are subject to netting arrangements with other derivatives held with the same counterparty.

In the Group's experience, no outflows of cash or other financial assets take place prior to the contractual maturity date that might affect the information broken down above.

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

	Equivalent value in millions of euros					
	2015		2014		2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash and balances with central banks	72,153	-	64,839	-	71,328	-
Financial assets/liabilities held for trading	94,640	66,576	94,375	66,011	72,888	61,473
Other financial assets at fair value through profit or loss	7,367	21,546	7,107	15,494	9,177	9,953
Available-for-sale financial assets	68,012	-	65,031	-	43,558	-
Loans and receivables	561,805	-	521,497	-	454,791	-
Held-to-maturity investments	2,342	-	-	-	-	-
Investments	1,191	-	1,231	-	3,941	-
Tangible assets	15,005	-	12,479	-	5,611	-
Intangible assets	26,377	-	26,710	-	22,422	-
Financial liabilities at amortised cost	-	668,014	-	618,936	-	526,588
Liabilities under insurance contracts	-	1	-	-	-	-
Other	23,622	22,626	23,915	23,997	20,700	23,817
	872,514	**778,763**	**817,184**	**724,438**	**704,416**	**621,831**

c) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Group are measured at fair value in the accompanying consolidated balance sheet, except for cash and balances with central banks, loans and receivables, held-to-maturity investments, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof.

Similarly, the Group's financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives other than those having as their underlying equity instruments whose market value cannot be estimated reliably- are measured at amortised cost in the accompanying consolidated balance sheet.

Following is a comparison of the carrying amounts of the Group's financial instruments measured at other than fair value and their respective fair values at year-end:

i) Financial assets measured at other than fair value

Assets	Millions of euros														
	2015					2014					2013				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and advances to credit institutions	50,256	50,440	-	22,663	27,777	51,306	51,202	-	25,660	25,542	56,017	56,213	-	-	56,213
Loans and advances to customers	770,474	775,713	-	114,463	661,250	722,819	727,383	-	197,187	530,196	650,581	651,338	-	-	651,338
Debt instruments	15,262	15,071	4,310	9,333	1,428	7,510	7,441	-	6,065	1,376	7,886	7,858	-	3,017	4,841
	835,992	**841,224**	**4,310**	**146,459**	**690,455**	**781,635**	**786,026**	**-**	**228,912**	**557,114**	**714,484**	**715,409**	**-**	**3,017**	**712,392**

ii) Financial liabilities measured at other than fair value

Liabilities	Millions of euros														
	2015					2014					2013				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Deposits from central banks	38,872	38,894	-	-	38,894	17,290	17,290	-	-	17,290	9,788	9,788	-	-	9,788
Deposits from credit institutions	109,207	109,478	-	109,478	-	105,557	105,557	-	105,557	-	76,534	76,636	-	76,636	-
Customer deposits	647,578	646,916	-	-	646,916	608,956	608,339	-	-	608,339	572,853	570,312	-	-	570,312
Marketable debt securities	201,656	204,290	52,148	152,142	-	193,059	197,093	53,925	143,168	-	171,390	170,787	41,355	129,432	-
Subordinated liabilities	21,153	21,085	10,391	10,694	-	17,132	17,428	7,971	9,457	-	16,139	16,342	-	16,342	-
Other financial liabilities	20,877	21,178	-	-	21.178	19,468	19,428	-	-	19,428	16,410	16,407	-	-	16,407
	1,041,841	**1,042,898**	**62,539**	**272,314**	**706,998**	**961,052**	**965,135**	**61,896**	**258,182**	**645,057**	**863,114**	**860,272**	**41,355**	**222,410**	**596,507**

The main valuation methods and inputs used in the estimates at 31 December 2015 of the fair values of the financial assets and liabilities in the foregoing table were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates, spreads on newly approved transactions or market spreads -when available-.

- Held-to-maturity investments: the fair value was calculated based on market prices for these instruments.

- Financial liabilities at amortised cost:

  i) The fair value of Deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

  ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

  iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group's current cost of funding in similar transactions.

  iv) Marketable debt securities and Subordinated liabilities: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads.

In addition, the fair value of Cash and balances with central banks was taken to be their carrying amount since they are mainly short-term balances.

Lastly, at 31 December 2015, 2014 and 2013, equity instruments amounting to EUR 1,790 million, EUR 1,646 million and EUR 1,041 million, respectively, and recognised as available-for-sale financial assets were measured at cost in the consolidated balance sheet because it was not possible to estimate their fair value reliably, since they related to investments in entities not listed on organised markets and, consequently, the non-observable inputs were significant.

d) Exposure of the Group to Europe's peripheral countries

The detail at 31 December 2015, 2014 and 2013, by type of financial instrument, of the Group's sovereign risk exposure to Europe's peripheral countries and of the short positions held with them, taking into consideration the criteria established by the European Banking Authority (EBA) –explained in Note 54– is as follows:

Sovereign risk by country of issuer/borrower at 31 December 2015 (*)									
	Millions of euros								
	Debt instruments							Derivatives (***)	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	7,647	(2,446)	26,443	1,032	2,025	13,993	48,694	(217)	-
Portugal	278	(174)	7,916	916	-	1,071	10,007	-	1
Italy	3,980	(1,263)	-	-	-	-	2,717	(4)	4
Greece	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	6	-

(*) Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 11,273 million (of which EUR 9,892 million, EUR 605 million and EUR 776 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 3,134 million (EUR 3,045 million and EUR 89 million to Spain and Portugal, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 31 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2014 (*)								
	Millions of euros							
	Debt instruments						Derivatives (***)	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	4,374	(2,558)	23,893	1,595	17,465	44,769	(60)	-
Portugal	163	(60)	7,811	-	590	8,504	-	-
Italy	3,448	(1,723)	-	-	-	1,725	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	61	-

(*) Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 8,420 million (of which EUR 7,414 million, EUR 691 million and EUR 315 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 3,081 million (EUR 2,929 million, EUR 97 million and EUR 55 million to Spain, Portugal and Italy, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 45 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2013 (*)								
	Millions of euros							
	Debt instruments						Derivatives (***)	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	4,783	(2,079)	21,144	1,145	13,374	38,367	(153)	-
Portugal	148	-	2,076	-	583	2,807	-	-
Italy	2,571	(1,262)	77	-	-	1,386	-	2
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	199	-

(*) Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 5,645 million (of which EUR 4,783 million, EUR 654 million and EUR 208 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 1,884 million (EUR 1,627 million, EUR 118 million, EUR 137 million and EUR 2 million to Spain, Portugal, Italy and Ireland, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 20 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

The detail of the Group's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 31 December 2015, 2014 and 2013 is as follows:

Exposure to other counterparties by country of issuer/borrower at 31 December 2015 (*)									
	Millions of euros								
			Debt instruments					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	2,349	15,739	1,545	4,166	1,143	153,863	178,805	3,367	(42)
Portugal	2,938	-	159	992	2,999	29,928	37,016	1,729	-
Italy	5	-	167	813	-	6,713	7,698	35	5
Greece	-	-	-	-	-	44	44	32	-
Ireland	-	-	63	239	40	734	1,076	300	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 64,159 million, EUR 6,374 million, EUR 3,746 million, EUR 17 million and EUR 387 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 11,641 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2014 (*)									
	Millions of euros								
			Debt instruments					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	1,513	17,701	3,467	5,803	1,176	154,906	184,567	3,521	(15)
Portugal	675	-	229	1,126	2,221	24,258	28,509	1,889	-
Italy	5	-	1,037	1,040	-	6,342	8,424	20	6
Greece	-	-	-	-	-	50	50	37	-
Ireland	-	-	161	133	111	538	943	299	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 60,318 million, EUR 6,051 million, EUR 3,049 million, EUR 17 million and EUR 237 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 12,238 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2013 (*)									
	Millions of euros								
			Debt instruments					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	816	7,451	3,148	7,826	1,804	160,478	181,523	1,981	(44)
Portugal	1,716	-	209	1,168	1,845	25,578	30,516	1,454	(1)
Italy	11	-	368	273	93	6,490	7,235	(115)	(2)
Greece	-	-	-	-	-	80	80	-	-
Ireland	-	-	229	360	259	507	1,355	1,031	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 48,659 million, EUR 5,982 million, EUR 2,717 million, EUR 4 million and EUR 93 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 13,209 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Following is certain information on the notional amount of the CDSs at 31 December 2015, 2014 and 2013 detailed in the foregoing tables:

31/12/15							
Millions of euros							
		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	724	991	(267)	(3)	(39)	(42)
Portugal	Sovereign	28	187	(159)	-	1	1
	Other	71	77	(6)	-	-	-
Italy	Sovereign	183	448	(265)	(1)	5	4
	Other	553	618	(65)	4	2	6
Greece	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Ireland	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-

31/12/14							
Millions of euros							
		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	1,260	1,576	(316)	(11)	(4)	(15)
Portugal	Sovereign	210	239	(29)	1	(1)	-
	Other	149	162	(13)	-	-	-
Italy	Sovereign	401	318	83	(1)	1	-
	Other	668	735	(67)	2	4	6
Greece	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Ireland	Sovereign	4	4	-	-	-	-
	Other	-	-	-	-	-	-

31/12/13							
Millions of euros							
		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	1,735	2,277	(542)	(18)	(26)	(44)
Portugal	Sovereign	192	174	18	5	(5)	-
	Other	223	278	(55)	1	(2)	(1)
Italy	Sovereign	603	570	33	(1)	3	2
	Other	834	913	(79)	(2)	-	(2)
Greece	Sovereign	-	-	-	-	-	-
	Other	5	5	-	-	-	-
Ireland	Sovereign	4	4	-	-	-	-
	Other	6	6	-	-	-	-

52. Geographical and business segment reporting

Business segment reporting is a basic tool used for monitoring and managing the Group's various activities.

In 2015 the Group made the following changes to its criteria for the management and presentation of its financial information by segment:

- Changes in criteria: they affect mainly the net interest income, net gains/losses on financial assets and liabilities and operating expenses items, through a decrease in the corporate centre and the allocation thereof to the business units.

Previous criteria	New criteria
The Spain business unit was treated as a retail network. Therefore, individualised internal transfer rates (ITR) by operation were applied to calculate the financial margin and, accordingly, the balance sheet was matched in terms of interest rate risk. The counterparty of these results was the corporate centre.	The Spain business unit is treated like the other countries and units of the Group. All results from financial management of the balance sheet are therefore recorded in Spain, including the aforementioned results from interest rate risk management.
The cost of issuances eligible as Additional Tier 1 (AT1) capital made by Brazil and Mexico to replace Core Equity Tier 1 (CET1) capital was recorded in the corporate centre, as the issuances were made for capital optimisation in these units.	Each country recognises the cost related to its AT1 issuances.
The corporate centre costs were charged to the countries/units based on the previous structure, which had not changed in recent years.	The scope of costs allocated to the units from the corporate centre is expanded in accordance with the new structure.

- The "Real estate operations in Spain" unit was created, which includes the former "Real estate operations discontinued in Spain" unit, together with other real estate assets, such as assets pertaining to the investment in Metrovacesa and to the former real estate fund (Santander Banif Inmobiliario), which were previously included in the corporate centre.

- The United States geographical segment was changed to include Santander Bank, Santander Holdings USA, SCUSA and Puerto Rico (already included in previous scope) plus Banco Santander International Miami and the New York branch.

- The private banking, asset management and insurance business, which was previously classified as an independent global business, became part of the commercial banking business.

Other changes: Annual change in the scope of the customer global relationship model between commercial banking and global banking and markets. This change does not have any effect on the geographical segments.

Consequently, the segment information for 2014 and 2013 shown below has been recalculated using these criteria in order to make it comparable.

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises five segments: four operating areas plus the corporate centre. The operating areas, which include all the business activities carried on therein by the Group, are: Continental Europe, the United Kingdom, Latin America and the United States, based on the location of the Group's assets.

The Continental Europe area encompasses all the business activities carried on in the region. The United Kingdom area includes the business activities carried on by the various Group units and branches with a presence in the UK. The Latin America area includes all the financial activities carried on by the Group through its banks and subsidiaries in the region. The United States area includes the holding company (SHUSA) and the businesses of Santander Bank, Santander Consumer USA, Banco Santander Puerto Rico, Banco Santander International's specialised unit and the New York branch.

The corporate centre segment includes the centralised management business relating to financial investments, financial management of the structural currency position, within the remit of the Group's corporate asset and liability management committee, and management of liquidity and equity through issues.

The financial information of each operating segment is prepared by aggregating the figures for the Group’s various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available in the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group.

Consequently, the sum of the various segment income statements is equal to the consolidated income statement. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the Intra-Group eliminations column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of gross income.

The condensed balance sheets and income statements of the various geographical segments are as follows:

	Millions of euros						
	2015						
(Condensed) balance sheet	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Intra-Group eliminations	Total
Total Assets	**538,645**	**383,155**	**267,885**	**130,584**	**148,134**	**(128,143)**	**1,340,260**
Loans and advances to customers	287,252	282,673	133,139	84,190	3,594	-	790,848
Financial assets held for trading (excluding loans and advances)	60,151	40,138	33,669	2,299	2,656	-	138,913
Available-for-sale financial assets	60,913	12,279	25,926	19,145	3,773		122,036
Credit institutions	81,867	15,459	21,923	3,902	6,781	(50,980)	78,952
Non-current assets (*)	11,798	3,025	3,522	9,156	289		27,790
Other asset accounts	36,664	29,581	49,706	11,892	131,041	(77,163)	181,721
Total Liabilities and Equity	**538,645**	**383,155**	**267,885**	**130,584**	**148,134**	**(128,143)**	**1,340,260**
Customer deposits	263,462	231,947	122,413	60,115	5,185	-	683,122
Marketable debt securities	50,934	70,133	33,172	23,000	27,790	-	205,029
Subordinated liabilities	169	4,127	6,356	905	9,596	-	21,153
Liabilities under insurance contracts	626	-	1	-	-	-	627
Deposits from central banks and credit institutions	132,688	23,610	42,393	26,170	1,490	(50,980)	175,371
Other accounts (**)	58,253	36,162	43,872	9,073	18,012		165,372
Share capital, reserves, profit for the year and valuation adjustments	32,513	17,176	19,678	11,321	86,061	(77,163)	89,586
Other Customer funds under management	**64,433**	**9,703**	**59,065**	**7,540**	**-**	**-**	**140,741**
Investment funds	44,393	9,564	54,426	645	-	-	109,028
Pension funds	11,376	-	-	-	-	-	11,376
Assets under management	8,664	139	4,639	6,895	-	-	20,337
Customer funds under management (***)	**378,998**	**315,910**	**221,006**	**91,560**	**42,571**	**-**	**1,050,045**

(*) Including Tangible assets and Other intangible assets.

(**) Including, in addition to liability items not broken down, the balances of Non-controlling interests.

(***) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

The corporate centre segment acts as the Group's holding company. Therefore, it manages all equity (share capital and reserves of all the units) and determines the allocation thereof to each unit. The Group's share capital and reserves are initially assigned to this segment, and is then allocated in accordance with corporate policies to the business units. This allocation is shown as an asset of the corporate centre segment (included in Other asset accounts) and as a liability of each business unit (included in Share capital, reserves, profit for the year and valuation adjustments). Therefore, the allocation is reflected in the balance sheet net of adjustments for intra-Group eliminations in order not to duplicate the balances and obtain the total consolidated balance sheet for the Group.

(Condensed) balance sheet	Millions of euros						
	2014						
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Intra-Group eliminations	Total
Total assets	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Loans and advances to customers	268,735	251,191	139,955	70,420	4,410	-	734,711
Financial assets held for trading (excluding loans and advances)	65,863	39,360	31,766	5,043	2,120	-	144,152
Available-for-sale financial assets	56,845	11,196	31,174	12,737	3,298	-	115,250
Loans and advances to credit institutions	66,602	14,093	22,104	3,460	2,858	(27,404)	81,713
Non-current assets (*)	11,796	2,700	3,912	6,905	796	-	26,109
Other asset accounts	26,757	35,695	39,577	9,469	127,893	(75,030)	164,361
Total liabilities and equity	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Customer deposits	256,909	202,328	131,826	51,304	5,260	-	647,627
Marketable debt securities	54,431	69,581	31,920	16,000	24,957	-	196,889
Subordinated liabilities	409	5,376	6,443	796	4,108	-	17,132
Liabilities under insurance contracts	713	-	-	-	-	-	713
Deposits from central banks and credit institutions	90,305	26,720	35,978	17,760	12,010	(27,404)	155,369
Other accounts (**)	64,305	34,888	39,945	10,542	17,610	-	167,290
Share capital, reserves, profit for the year and valuation adjustments	29,526	15,342	22,376	11,632	77,430	(75,030)	81,276
Other customer funds under management	**60,679**	**9,667**	**62,488**	**8,535**	**-**	**-**	**141,369**
Investment funds	40,829	9,524	57,548	1,618	-	-	109,519
Pension funds	11,481	-	-	-	-	-	11,481
Assets under management	8,369	143	4,940	6,917	-	-	20,369
Customer funds under management (***)	**372,428**	**286,952**	**232,677**	**76,635**	**34,325**	**-**	**1,003,017**

(*) Including Tangible assets and Other intangible assets.

(**) Including, in addition to liability items not broken down, the balances of Non-controlling interests.

(***) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

(Condensed) balance sheet	Millions of euros						
	2013						
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Intra-Group eliminations	Total
Total assets	**430,021**	**323,743**	**233,918**	**68,933**	**158,230**	**(99,082)**	**1,115,763**
Loans and advances to customers	267,532	231,046	125,349	43,698	1,231	-	668,856
Financial assets held for trading (excluding loans and advances)	50,320	28,831	20,584	2,638	2,334	-	104,707
Available-for-sale financial assets	37,319	6,003	20,792	9,008	10,677	-	83,799
Loans and advances to credit institutions	37,660	17,136	26,157	2,362	24,564	(32,915)	74,964
Non-current assets (*)	8,635	2,498	3,858	650	973	-	16,614
Other asset accounts	28,555	38,229	37,178	10,577	118,451	(66,167)	166,823
Total liabilities and equity	**430,021**	**323,743**	**233,918**	**68,933**	**158,230**	**(99,082)**	**1,115,763**
Customer deposits	257,050	187,467	116,652	43,817	2,851	-	607,837
Marketable debt securities	53,409	64,092	28,987	1,146	27,843	-	175,477
Subordinated liabilities	406	5,805	4,812	1,245	3,871	-	16,139
Liabilities under insurance contracts	1,430	-	-	-	-	-	1,430
Deposits from central banks and credit institutions	41,636	26,902	25,039	9,051	39,684	(32,915)	109,397
Other accounts (**)	47,737	27,774	37,995	4,404	16,839	-	134,749
Share capital, reserves, profit for the year and valuation adjustments	28,353	11,703	20,433	9,270	67,142	(66,167)	70,734
Other customer funds under management	**51,768**	**9,645**	**52,610**	**11,147**	**-**	**-**	**125,170**
Investment funds	33,485	9,645	48,243	1,931	-	-	93,304
Pension funds	10,879	-	-	-	-	-	10,879
Assets under management	7,404	-	4,367	9,216	-	-	20,987
Customer funds under management (***)	**362,633**	**267,009**	**203,061**	**57,355**	**34,565**	**-**	**924,623**

(*) Including Tangible assets and Other intangible assets.

(**) Including, in addition to liability items not broken down, the balances of Non-controlling interests.

(***) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

(Condensed) income statement	Millions of euros					
	2015					
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Total
NET INTEREST INCOME	**8,006**	**4,942**	**13,752**	**6,116**	**(4)**	**32,812**
Income from equity instruments	277	1	57	48	72	455
Share of results of entities accounted for using the equity method	120	10	285	3	(43)	375
Net fee and commission income (expense)	3,417	1,091	4,452	1,086	(13)	10,033
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,186	302	517	231	150	2,386
Other operating income (expenses)	(178)	37	(308)	316	(33)	(166)
GROSS INCOME	**12,828**	**6,383**	**18,755**	**7,800**	**129**	**45,895**
Administrative expenses	(6,274)	(3,009)	(7,230)	(2,761)	(28)	(19,302)
Depreciation and amortisation charge	(461)	(348)	(676)	(264)	(669)	(2,418)
Provisions (net)	(352)	(351)	(831)	(164)	(1,408)	(3,106)
Impairment losses on financial assets	(2,083)	(107)	(5,108)	(3,103)	(251)	(10,652)
PROFIT FROM OPERATIONS	**3,658**	**2,568**	**4,910**	**1,508**	**(2,227)**	**10,417**
Impairment losses on other assets	(172)	(9)	20	-	(931)	(1,092)
Other income and charges	(120)	5	78	16	243	222
PROFIT BEFORE TAX	**3,366**	**2,564**	**5,008**	**1,524**	**(2,915)**	**9,547**
Income tax	(887)	(556)	(1,219)	(517)	966	(2,213)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**2,479**	**2,008**	**3,789**	**1,007**	**(1,949)**	**7,334**
Profit (Loss) from discontinued operations	-	-	-	-	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**2,479**	**2,008**	**3,789**	**1,007**	**(1,949)**	**7,334**
Attributable to non-controlling interests	261	37	596	329	145	1,368
PROFIT ATTRIBUTABLE TO THE PARENT	**2,218**	**1,971**	**3,193**	**678**	**(2,094)**	**5,966**

(Condensed) income statement	Millions of euros											
	2014						2013					
	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Total	Continental Europe	United Kingdom	Latin America	United States	Corporate centre	Total
NET INTEREST INCOME	**7,517**	**4,234**	**13,620**	**4,789**	**(613)**	**29,547**	**7,189**	**3,451**	**14,808**	**1,807**	**(1,320)**	**25,935**
Income from equity instruments	286	1	88	29	31	435	265	1	54	24	34	378
Share of results of entities accounted for using the equity method	(25)	9	283	4	(28)	243	14	4	264	331	(113)	500
Net fee and commission income (expense)	3,500	1,028	4,372	830	(34)	9,696	3,467	992	4,477	578	247	9,761
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,221	241	484	205	699	2,850	1,905	402	982	106	(1)	3,394
Other operating income (expenses)	5	28	(290)	122	(24)	(159)	(48)	31	(267)	(63)	45	(302)
GROSS INCOME	**12,504**	**5,541**	**18,557**	**5,979**	**31**	**42,612**	**12,792**	**4,881**	**20,318**	**2,783**	**(1,108)**	**39,666**
Administrative expenses	(5,972)	(2,702)	(7,130)	(2,039)	(56)	(17,899)	(5,991)	(2,318)	(7,497)	(1,481)	(165)	(17,452)
Depreciation and amortisation charge	(472)	(353)	(720)	(200)	(542)	(2,287)	(522)	(316)	(827)	(149)	(577)	(2,391)
Provisions (net)	(205)	(184)	(946)	(21)	(1,653)	(3,009)	(163)	(231)	(770)	(59)	(1,222)	(2,445)
Impairment losses on financial assets	(2,975)	(332)	(5,145)	(2,233)	(25)	(10,710)	(3,833)	(580)	(6,487)	(43)	(284)	(11,227)
PROFIT FROM OPERATIONS	**2,880**	**1,970**	**4,616**	**1,486**	**(2,245)**	**8,707**	**2,283**	**1,436**	**4,737**	**1,051**	**(3,356)**	**6,151**
Impairment losses on other assets	(156)	-	16	(12)	(786)	(938)	(149)	(4)	(24)	(17)	(309)	(503)
Other income and charges	(238)	3	113	46	2,986	2,910	(372)	-	312	(2)	1,792	1,730
PROFIT BEFORE TAX	**2,486**	**1,973**	**4,745**	**1,520**	**(45)**	**10,679**	**1,762**	**1,432**	**5,025**	**1,032**	**(1,873)**	**7,378**
Income tax	(639)	(416)	(1,053)	(439)	(1,171)	(3,718)	(385)	(293)	(1,113)	(164)	(79)	(2,034)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**1,847**	**1,557**	**3,692**	**1,081**	**(1,216)**	**6,961**	**1,377**	**1,139**	**3,912**	**868**	**(1,952)**	**5,344**
Profit (Loss) from discontinued operations	(26)	-	-	-	-	(26)	(6)	(9)	-	-	-	(15)
CONSOLIDATED PROFIT FOR THE YEAR	**1,821**	**1,557**	**3,692**	**1,081**	**(1,216)**	**6,935**	**1,371**	**1,130**	**3,912**	**868**	**(1,952)**	**5,329**
Attributable to non-controlling interests	174	1	790	219	(65)	1,119	135	1	861	(1)	158	1,154
PROFIT ATTRIBUTABLE TO THE PARENT	**1,647**	**1,556**	**2,902**	**862**	**(1,151)**	**5,816**	**1,236**	**1,129**	**3,051**	**869**	**(2,110)**	**4,175**

Following is the detail of revenue by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be that recognised under Interest and similar income, Income from equity instruments, Fee and commission income, Gains/Losses on financial assets and liabilities (net) and Other operating income in the consolidated income statements for 2015, 2014 and 2013.

	Revenue (Millions of euros)								
	Revenue from external customers			Inter-segment revenue			Total revenue		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Continental Europe	22,877	21,218	23,106	422	56	1,141	23,299	21,274	24,247
United Kingdom	11,150	9,091	9,612	416	1,204	1,180	11,566	10,295	10,792
Latin America	32,936	35,038	31,930	(776)	(441)	341	32,160	34,597	32,271
United States	9,364	7,791	6,147	157	30	126	9,521	7,821	6,273
Corporate centre	(3,335)	3,656	2,641	6,643	7,323	9,416	3,308	10,979	12,057
Inter-segment revenue adjustments and eliminations	-	-	-	(6,862)	(8,172)	(12,204)	(6,862)	(8,172)	(12,204)
	72,992	**76,794**	**73,436**	-	-	-	**72,992**	**76,794**	**73,436**

b) Business segments

At this secondary level of segment reporting, the Group is structured into commercial banking, Santander Global Corporate Banking and the segment relating to real estate operations in Spain; the sum of these segments is equal to that of the primary geographical operating segments. Total figures for the Group are obtained by adding to the business segments the data for the corporate centre.

The commercial banking segment encompasses the entire customer banking business (including the consumer finance business), except for the corporate banking business, which is managed through *Santander Global Corporate Banking*. Also, this segment includes the gains or losses on the hedging positions taken in each country, within the remit of each of their asset-liability management committees. The *Santander Global Corporate Banking* segment reflects the returns on the global corporate banking business and the markets and investment banking business worldwide, including all the globally managed treasury departments (excluding the portion allocated to commercial banking customers) and the equities business. The real estate operations in Spain include loans to customers engaging mainly in property development, for which a specialised management model is in place, Metrovacesa's real estate assets and the assets of the former real estate fund (Santander Banif Inmobiliario), together with the Group's ownership interest in SAREB and foreclosed assets.

The condensed income statements are as follows:

(Condensed) income statement	Millions of euros				
	2015				
	Commercial banking	*Santander Global Corporate Banking*	Real estate operations in Spain	Corporate centre	Total
NET INTEREST INCOME	**30,027**	**2,830**	**(41)**	**(4)**	**32,812**
Income from equity instruments	124	259	-	72	455
Share of results of entities accounted for using the equity method	434	(6)	(10)	(43)	375
Net fee and commission income (expense)	8,621	1,425	-	(13)	10,033
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,346	739	151	150	2,386
Other operating income (expenses)	(194)	24	37	(33)	(166)
GROSS INCOME	**40,358**	**5,271**	**137**	**129**	**45,895**
Administrative expenses	(17,153)	(1,897)	(224)	(28)	(19,302)
Depreciation and amortisation charge	(1,577)	(161)	(11)	(669)	(2,418)
Provisions (net)	(1,656)	(51)	9	(1,408)	(3,106)
Impairment losses on financial assets	(9,462)	(688)	(251)	(251)	(10,652)
PROFIT FROM OPERATIONS	**10,510**	**2,474**	**(340)**	**(2,227)**	**10,417**
Net impairment losses on other assets	2	(37)	(126)	(931)	(1,092)
Other non-financial gains/(losses)	117	4	(142)	243	222
PROFIT BEFORE TAX	**10,629**	**2,441**	**(608)**	**(2,915)**	**9,547**
Income tax	(2,663)	(695)	179	966	(2,213)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**7,966**	**1,746**	**(429)**	**(1,949)**	**7,334**
Profit (Loss) from discontinued operations	-	-	-	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**7,966**	**1,746**	**(429)**	**(1,949)**	**7,334**
Attributable to non-controlling interests	1,112	121	(9)	145	1,368
PROFIT ATTRIBUTABLE TO THE PARENT	**6,854**	**1,626**	**(420)**	**(2,094)**	**5,966**

(Condensed) income statement	Millions of euros									
	2014					2013				
	Commercial banking	*Santander Global Corporate Banking*	Real estate operations in Spain	Corporate centre	Total	Commercial banking	*Santander Global Corporate Banking*	Real estate operations in Spain	Corporate centre	Total
NET INTEREST INCOME	**27,699**	**2,481**	**(20)**	**(613)**	**29,547**	**24,856**	**2,361**	**38**	**(1,320)**	**25,935**
Income from equity instruments	132	272	-	31	435	79	265	-	34	378
Share of results of entities accounted for using the equity method	341	(2)	(68)	(28)	243	656	(1)	(42)	(113)	500
Net fee and commission income (expense)	8,338	1,392	-	(34)	9,696	8,206	1,293	15	247	9,761
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,394	749	8	699	2,850	2,239	1,155	1	(1)	3,394
Other operating income (expenses)	(215)	31	49	(24)	(159)	(378)	15	16	45	(302)
GROSS INCOME	**37,689**	**4,923**	**(31)**	**31**	**42,612**	**35,658**	**5,088**	**28**	**(1,108)**	**39,666**
Administrative expenses	(15,946)	(1,682)	(215)	(56)	(17,899)	(15,478)	(1,634)	(175)	(165)	(17,452)
Depreciation and amortisation charge	(1,573)	(158)	(14)	(542)	(2,287)	(1,652)	(148)	(14)	(577)	(2,391)
Provisions (net)	(1,309)	(38)	(9)	(1,653)	(3,009)	(1,179)	(44)	-	(1,222)	(2,445)
Impairment losses on financial assets	(9,812)	(552)	(321)	(25)	(10,710)	(9,578)	(953)	(412)	(284)	(11,227)
PROFIT FROM OPERATIONS	**9,049**	**2,493**	**(590)**	**(2,245)**	**8,707**	**7,771**	**2,309**	**(573)**	**(3,356)**	**6,151**
Net impairment losses on other assets	(26)	(43)	(83)	(786)	(938)	(74)	(37)	(83)	(309)	(503)
Other non-financial gains/(losses)	158	(13)	(221)	2,986	2,910	255	11	(328)	1,792	1,730
PROFIT BEFORE TAX	**9,181**	**2,437**	**(894)**	**(45)**	**10,679**	**7,952**	**2,283**	**(984)**	**(1,873)**	**7,378**
Income tax	(2,128)	(667)	248	(1,171)	(3,718)	(1,617)	(633)	295	(79)	(2,034)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**7,053**	**1,770**	**(646)**	**(1,216)**	**6,961**	**6,335**	**1,650**	**(689)**	**(1,952)**	**5,344**
Profit (Loss) from discontinued operations	(26)	-	-	-	(26)	(15)	-	-	-	(15)
CONSOLIDATED PROFIT FOR THE YEAR	**7,027**	**1,770**	**(646)**	**(1,216)**	**6,935**	**6,320**	**1,650**	**(689)**	**(1,952)**	**5,329**
Attributable to non-controlling interests	1,033	145	6	(65)	1,119	799	197	-	158	1,154
PROFIT ATTRIBUTABLE TO THE PARENT	**5,994**	**1,625**	**(652)**	**(1,151)**	**5,816**	**5,521**	**1,453**	**(689)**	**(2,110)**	**4,175**

53. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the ordinary business transactions performed by the Group with its related parties, distinguishing between associates and jointly controlled entities, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties. Related-party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognise.

	Millions of euros											
	2015				2014				2013			
	Associates and jointly controlled entities	Members of the board of directors	Executive vicepreside nts	Other related parties	Associates and jointly controlled entities	Members of the board of directors	Executive vicepreside nts	Other related parties	Associates and jointly controlled entities	Members of the board of directors	Executive vicepreside nts	Other related parties
Assets:	**6.542**	-	**28**	**573**	**6.885**	**5**	**25**	**1.276**	**9.425**	**6**	**36**	**1.599**
Loans and advances to												
credit institutions	8	-	-	-	5	-	-	-	7.392	-	-	-
Loans and advances to												
customers	5.997	-	28	293	6.202	5	25	284	1.331	6	36	424
Debt instruments												
	537	-	-	280	678	-	-	992	702	-	-	1.175
Liabilities:												
Deposits from credit	**(1.122)**	**(25)**	**(16)**	**(103)**	**(1.034)**	**(9)**	**(20)**	**(315)**	**(946)**	**(9)**	**(10)**	**(197)**
Institutions												
Customer deposits	(501)	-	-	-	(337)	-	-	-	(440)	-	-	-
Marketable debt securities	(620)	(25)	(16)	(103)	(696)	(9)	(20)	(315)	(498)	(9)	(10)	(197)
	(1)	-	-	-	(1)	-	-	-	(8)	-	-	-
Income statement:												
Interest and similar income	**802**	-	-	**24**	**656**	-	-	**11**	**143**	-	-	**29**
Interest expense and similar												
charges												
Gains/losses on financial	98	-	-	17	89	-	-	6	109	-	-	6
assets and liabilities	(15)	-	-	-	(18)	-	-	(2)	(12)	-	-	(7)
Fee and commission income												
Fee and commission												
expense	73	-	-	-	35	-	-	2	12	-	-	25
	664	-	-	8	572	-	-	5	56	-	-	5
Other:	(18)	-	-	(1)	(22)	-	-	-	(22)	-	-	-
Contingent liabilities												
Contingent commitments	**4.123**	**2**	**4**	**2.682**	**4.270**	**2**	**3**	**3.720**	**14.029**	-	**4**	**4.137**
Derivative financial												
instruments	46	-	-	191	43	-	-	265	74	-	-	145
Assets:	95	2	4	132	59	2	3	77	1.063	-	4	95
Loans and advances to												
credit institutions	3.982	-	-	2.359	4.168	-	-	3.378	12.892	-	-	3.897

In addition to the detail provided above, there were insurance contracts linked to pensions amounting to EUR 299 million at 31 December 2015 (31 December 2014: EUR 345 million; 31 December 2013: EUR 342 million).

54. Risk management

a) Cornerstones of the risk function

The Group has calculated that the risk function should be based on the following cornerstones, which are in line with the Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

- The business strategy is defined by the risk appetite. The Group's board calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and its deployment in objective verifiable limits that are consistent with the risk appetite for each significant activity.

- All risks must be managed by the units that generate them using advanced models and tools and integrated in the various businesses. The Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

- A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

- The independence of the risk function encompasses all risks and appropriately separates the risk generating units from those responsible for risk control.

- The best processes and infrastructure must be used for risk management.

- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks.

b) Risk management and control model - Advanced Risk Management (ARM)

The risk management and control model ensures that the risk profile remains within the levels set for the risk appetite and other limits. Similarly, it includes the adoption of the corrective and mitigating measures required to keep risk levels in line with the defined objectives.

In 2014, the Group launched the ARM programme, the main aim of which is to contribute to progress towards advanced risk management by laying the foundations to make available the best integrated risk management model in the industry.

The roll-out of the ARM in 2015 at the various Group units enabled progress to be made in strategic projects that were already under way, such as the Risk Data Aggregation/Risk Reporting Framework (RDA/RRF), the risk appetite to be developed, the control environment through the governance of the risk function to be strengthened and new initiatives such as the risk management model or the Advanced Operational Risk Management (AORM) model, inter alia, to be developed.

The instruments that help ensure that all the risks arising from the Group's business activity are properly managed and controlled are described below.

1. Risk map

The risk map covers the main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof.

The risk map includes the following:

- Financial risks
  - Credit risk: risk that might arise from the failure to meet agreed-upon contractual obligations in financial transactions.
  - Market risk: that which is incurred as a result of the possibility of changes in market factors affecting the value of positions in the trading portfolios.
  - Liquidity risk: risk of non-compliance with payment obligations on time or of complying with them at an excessive cost.
  - Structural and capital risks: risk caused by the management of the various balance sheet items, including those relating to the adequacy of capital and those arising from the insurance and pensions businesses.

- Non-financial risks
  - Operational risk: the risk of incurring losses due to the inadequacy or failure of processes, staff and internal systems or due to external events.
  - Conduct risk: the risk caused by inappropriate practices in the Group's dealings with its customers, and the treatment and products offered to each particular customer and the adequacy thereof.
  - Compliance and legal risk: risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.

- Transversal risks
  - Model risk: includes losses arising from decisions based mainly on the results of models, due to errors in the design, application or use of the aforementioned models.
  - Reputational risk: risk of damage in the perception of the Group by public opinion, its customers, investors or any other interested party.
  - Strategic risk: the risk that results diverge significantly from the Group's strategy or business plan due to changes in general business conditions and risks associated with strategic decisions. This includes the risk of poor implementation of decisions or lack of capacity to respond to changes in the business environment.

2. Risk governance

In line with the objective of strengthening the Group's corporate governance, the governance of the risk function was updated and reinforced in 2015. In this connection, the responsibilities of the various committees were defined more clearly, and the decision-making and risk management units, with the participation of the business functions, were separated from those engaged in risk control.

Governance of the risk function should seek to ensure that risk decisions are taken appropriately and efficiently and that risks are effectively controlled, and also guarantee that risks are managed in accordance with the risk appetite level defined by senior management of the Group and the units.

For this purpose, the following principles were established:

- Separation of decision-making from risk control.

- Strengthening of the responsibility of the risk generating functions in decision-making.
- Ensuring that all risk decisions have a formal approval process.
- Ensuring an aggregate view of all risks.
- Strengthening of the risk control committees.
- Maintenance of a simple committee structure.

2.1. Lines of defence

The Group follows a risk management and control model based on three lines of defence.

The business functions or activities that take or generate risk exposure comprise the first line of defence against it. The assumption or generation of risks in the first line of defence must comply with the defined risk appetite and limits. In order to perform its function, the first line of defence must have available the means to identify, measure, handle and report the risks assumed.

The second line of defence comprises the risk control and oversight function and the compliance function. This second line seeks to ensure effective control of risks and guarantees that risks are managed in accordance with the defined risk appetite level.

Internal audit, as the third line of defence and in its role as the last control layer, performs regular assessments to ensure that the policies, methods and procedures are appropriate and checks their effective implementation.

The risk control function, the compliance function and the internal audit function are sufficiently separate and independent of each other and of the other functions that they control or supervise for the performance of their duties, and they have access to the board of directors and/or its committees, through their presiding officers.

2.2. Risk committee structure

Responsibility for the control and management of risk and, in particular, for the setting of the Group's risk appetite, rests ultimately with the board of directors, which has the powers delegated to the various committees. The board is supported by the risk, regulation and compliance oversight committee and the independent risk control and supervision committee. In addition, the Group's executive committee pays particular attention to the management of the Group's risks.

The following bodies constitute the top level risk governance bodies.

Independent control bodies

Risk, regulation and compliance oversight committee:

This committee's mission is to assist the board in the oversight and control of risk, the definition of the Group's risk policies, relationships with supervisory bodies and matters of regulation and compliance, sustainability and corporate governance.

It is composed of external or non-executive directors, with a majority of independent directors, and is chaired by an independent director.

Risk control committee (CCR):

This collective body is responsible for the effective control of risks, ensuring that risks are managed in accordance with the risk appetite level approved by the board, while taking into account at all times an overall view of all the risks included in the general risk framework. This means the identification and monitoring of current and emerging risks and their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) and is composed of executives of the entity. At least, the risk function, which holds the chairmanship, and the compliance, financial, controller's unit and risk control functions, inter alia, are represented The CROs of local entities participate periodically in order to report, inter alia, on the various entities' risk profiles.

The risk control committee reports to the risk, regulation and compliance oversight committee and assists it in its function of supporting the board.

Decision-making bodies

Executive risk committee (CER):

This collective body is responsible for risk management pursuant to the powers delegated by the board of directors and, in its sphere of action and decision-making, oversees all risks.

It participates in decision-making on the assumption of risks at the highest level, guarantees that these are within the limits set in the Group's risk appetite and reports on its activities to the board or its committees when so required.

This committee is chaired by an executive deputy chairman of the board, comprises the CEO, executive directors and other executives of the entity, and the risk, financial, and compliance functions, inter alia, are represented. The Group CRO has the right of veto over this committee's decisions.

2.3. Organisational risk function structure

The GCRO is the head of the Group's risk function and reports to an executive deputy chairman of the Bank who is a member of the board of directors and chairman of the executive risk committee.

The GCRO, whose duties include advising and challenging the executive line, also reports separately to the risk, regulation and compliance oversight committee and to the board.

Advanced risk management has a holistic forward-looking vision of risks, based on the intensive use of models, aimed at constructing a sound control environment while complying with the requirements of the regulator and supervisor.

In this connection, the risk management and control model has the following key features:

- Coordination of the relationship between the countries and the corporate headquarters, assessing the effective implementation of the risk management and control framework at each unit and ensuring the alignment with the achievement of strategic risk objectives.

- Enterprise Wide Risk Management (EWRM) involves providing a consolidated view of all risks to senior management and the Group's governing bodies together with the development of the risk appetite and identifying and assessing all risks (Risk identification & assessment). It also handles the relationship with supervisors and regulators in relation to risks.

- Control of financial, non-financial and transversal risks, checking, for each type of risk, that management and exposure are in keeping with the guidelines established by senior management.

- Development, in the sphere of risk, of reporting regulations, methodologies, scenario analysis, stress tests and infrastructure, together with robust risk governance.

2.4. The Group's relationship with subsidiaries regarding risk management

Alignment of units with the corporate centre

The risk management and control model, at all Group units, has a common set of basic principles, achieved by means of corporate frameworks. These emanate from the Group itself and the subsidiaries adhere to them through their respective governing bodies, thus configuring the relationships between the subsidiaries and the Group, including its participation in the making of important decisions by validating them.

Beyond these principles and fundamentals, each unit adapts its risk management to its local reality, pursuant to the corporate frameworks and reference documents furnished by corporate headquarters, which makes it possible to identify a risk management model at the Group.

Committee structure

The subsidiaries' governing bodies are structured taking into account local regulatory and legal requirements and each subsidiary's size and complexity and are consistent with those of the Parent, as established in the internal governance framework, thus facilitating communication, reporting and effective control.

The subsidiaries' managing bodies, in accordance with the internal governance framework in place at the Group, have their own model of (quantitative and qualitative) risk management powers and must adhere to the principles of conduct contained in the benchmark models and frameworks developed at corporate level. Given its ability to take an aggregate, comprehensive view of all risks, corporate headquarters reserves for itself the powers to validate and question the operations and management policies at the various units, to the extent that they affect the Group’s risk profile.

3. Management processes and tools

3.1. Risk appetite and limits structure

Risk appetite is defined at the Group as the amount and type of risk that it considers reasonable to assume in implementing its business strategy, in order to ensure that it can continue to operate normally if unexpected events occur. To this end, severe scenarios are taken into account, which might have an adverse impact on its levels of capital or liquidity, its profits and/or its share price.

The board of directors is the body responsible for establishing and annually updating the Group's risk appetite, for monitoring its actual risk profile and for ensuring consistency between the two. The risk appetite is determined both for the Group as a whole and for each of the main business units using a corporate methodology adapted to the circumstances of each unit/market. At local level, the boards of directors of the related subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

Banking business model and fundamentals of the risk appetite

The definition and establishment of the Group's risk appetite is consistent with its risk culture and its banking business model from the risk perspective. The main features defining the business model, which form the basis of the risk appetite at the Group, are as follows:

- A predictable general medium-low risk profile based on a diversified business model focusing on retail banking with a diversified international presence and significant market shares, and a wholesale banking model which prioritises the relationship with the customer base in the Group's principal markets.

- A stable, recurring earnings generation and shareholder remuneration policy based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities.

- A corporate structure based on autonomous subsidiaries that are self-sufficient in capital and liquidity terms, minimising the use of non-operating or purely instrumental companies, and ensuring that no subsidiary has a risk profile that might jeopardise the Group's solvency.

- An independent risk function with highly active involvement of senior management to guarantee a strong risk culture focused on protecting and ensuring an adequate return on capital.

- To maintain a management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, and all geographical areas.

- A business model that focuses on the products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).

- The conduct of the Group's business activity on the basis of a behaviour model that safeguards the interests of its customers and shareholders.

- The availability of sufficient and adequate human resources, systems and tools to enable the Group to maintain a risk profile compatible with the established risk appetite, at both global and local level.

- The application of a remuneration policy containing the incentives required to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework and that the incentives are consistent with the Group's long-term earnings performance.

Corporate risk appetite principles

The Group's risk appetite is governed by the following principles at all the entities:

- Responsibility of the board and of senior executives. The board of directors is the body ultimately responsible for establishing the risk appetite and its supporting regulations, as well as for overseeing compliance therewith.

- Integral view of risk, involving the checking and questioning of the risk profile. The risk appetite should take into consideration all the significant risks to which the Group may be exposed, providing an aggregate view of the Group's risk profile through the use of quantitative metrics and qualitative indicators.

- Future risk estimate. The risk appetite should take into consideration the desirable risk profile at the present time and in the medium term considering both the most likely circumstances and stress scenarios.

- Links with strategic and business plans and integration in management. The risk appetite is a benchmark in strategic and business planning.

- Risk appetites that are consistent across the various units and risk language that is common to the entire organisation.

- Periodic review, ongoing checking and adaptation to best practices and regulatory requirements.

Limits, monitoring and control structure

The risk appetite exercise is performed annually and includes a series of metrics and limits on the aforementioned metrics that express in quantitative and qualitative terms the maximum risk exposure that each Group entity and the Group as a whole are willing to assume.

Compliance with risk appetite limits is subject to ongoing monitoring. The specialised control functions report at least quarterly to the board and its specialised risk committee on the compliance of the risk profile with the authorised risk appetite.

The linking of the risk appetite limits with the limits used in the management of the business units and of the portfolios is a key element for ensuring that the use of the risk appetite as a risk management tool is effective.

Pillars of the risk appetite

The risk appetite is expressed through limits on quantitative metrics and qualitative indicators that measure the Group's exposure or risk profile by type of risk, portfolio, segment and business line, in both current and stressed conditions. The aforementioned risk appetite metrics and limits are structured around five main pillars that define the position that the Group's senior management wishes to adopt or maintain in developing its business model.

- The volatility in the income statement that the Group is willing to assume.
- The solvency position the Group wishes to maintain.
- The minimum liquidity position the Group wishes to have.
- The maximum concentration levels that the Group considers it reasonable to assume.
- Qualitative aspects and complementary metrics.

3.2. Risk identification and assessment (RIA)

As part of its routine management, the Group identifies and assesses the risks inherent to its business activity to which it is exposed in the various geographical areas in which it operates.

In order to make the measurement of the Group's risk profile more robust and systematic, at the end of 2014 a corporate Risk identification and assessment exercise was started that continued throughout 2015.

Risk identification and assessment is one of the initiatives that form part of the ARM (Advanced Risk Management) programme the purpose of which is the advanced management of risks to enable Santander to continue to be a sound sustainable bank over the long term.

Also, it complies with regulatory expectations on the need to deepen the understanding of the Group's risk profile and the importance of identifying, measuring and assessing the entity's main risks, the associated control environment and the possible factors that might pose a threat to the achievement of the Group's strategic plan.

Per the methodology used in the RIA exercise, the Group's risk profile is determined by a combination of three aspects:

- Risk performance which enables the profile by type of risk and business activity to be ascertained.
- Control environment to objectively establish a self-assessment of the effectiveness of the management and control of the risk in accordance with pre-established targets and a defined control model.
- Top Risks identify the material risks threatening the strategic and business objectives and establish action plans and monitor them.

One of the most important aspects of the RIA exercise is the development of a methodology to identify the current material risks on which senior management will focus its attention. These risks are considered to be those which, either on their own or collectively, could have a significant impact on the Group's results, financial position or ability to maintain appropriate capital levels.

It also enables the identification of so-called emerging risks, i.e. those risks that could potentially have an adverse impact on the Group's future performance, even though their outcome and time horizon are uncertain and difficult to predict.

3.3. Scenario analysis

The Group conducts advanced risk management through the analysis of the impact that various scenarios in the environment in which the Group operates might cause. These scenarios are expressed in terms of both macroeconomic variables and other variables that affect management.

Scenario analysis is a very useful tool for senior management since it allows them to test the Bank's resistance to stressed environments or scenarios and to implement packages of measures to reduce the Bank's risk profile vis-à-vis such scenarios.

The robustness and consistency of the scenario analysis exercises are based on the following three pillars:

- The development of mathematical models that estimate the future performance of metrics (e.g. loan losses) based on historical information (internal Group information or external market information) and simulation models.
- The inclusion of expert judgement and the knowledge of the portfolios, and questioning and checking the results of the models.
- Backtesting or periodic checking of the results of the models against the data observed, which ensures that the aforementioned results are appropriate.

The main uses of scenario analysis are as follows:

- Regulatory uses: in which stress tests of scenarios are performed under guidelines set by the European regulator or by each of the various national regulators that supervise the Group.
- Internal capital (ICAAP) or liquidity adequacy assessment processes (ILAAP) in which, although the regulator can impose certain requirements, the Group develops its own methodology to assess its capital and liquidity levels vis-à-vis various stress scenarios. These tools enable capital and liquidity management to be planned.
- Risk appetite: this contains stressed metrics on which maximum loss levels (or minimum liquidity levels) are established that the Bank does not wish to exceed.
- Daily risk management: scenario analysis is used in budgetary and strategic planning processes, in the generation of commercial risk approval policies, in senior management's overall analysis of risk or in specific analyses of the profiles of activities or portfolios.

3.4. Living wills (recovery and resolution plans)

The sixth version of the living will (the most important portion of which envisages the measures that the entity would have available to exit a highly severe crisis situation by itself) was prepared in 2015. The living will was prepared, for the first time, at the request of the European Central Bank, which has become the Group's main supervisor (pursuant to the mandate assigned under the Single Supervisory Mechanism, which came into force on 4 November 2014). The will also follows the non-binding recommendations made in this regard by international bodies such as the Financial Stability Board.

As with the other versions prepared between 2010 and 2014, the will was submitted to the competent authorities for assessment in the first half of 2016.

The living will comprises the corporate living will (corresponding to Banco Santander, S.A.) and the individual living wills for the most important local units (the UK, Brazil, Mexico, the US, Germany, Argentina, Chile, Poland and Portugal).

The Group's senior management keeps itself fully involved in the preparation and periodic monitoring of the content of the living wills by holding specific committee meetings of a technical nature, as well as for monitoring at institutional level, and this ensures that the content and structure of the documents are adapted to local and international crisis management legislation, which has been in continuous development in recent years.

The board of directors is responsible for approving the corporate living will, without prejudice to the content and important data therein being previously presented and discussed by the Bank's main management and control committees. In turn, the individual living wills are approved by local bodies, always in coordination with the Group since they must form part of the corporate living will.

As regards resolution plans, the competent authorities forming part of the Crisis Management Group (CMG) have decided on a common approach to the Group’s resolution strategy which, given Santander’s legal and business structure, is the multiple point of entry (MPE) strategy; also, they have signed the corresponding cooperation agreement (COAG) and developed the initial resolution plans.

3.5. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years the Group has developed and implemented structural and operational improvements in order to reinforce and consolidate its integral view of risk based on complete, accurate and recurring information, thus enabling senior management of the Group to assess risk and take decisions accordingly.

2015 saw the completion of the project launched at the beginning of 2014 whose main objective was to ensure that risk reporting to senior management incorporates the basic principles of Risk Data Aggregation (RDA).

Risk reports maintain a balance between data, analysis and qualitative commentaries, and include forward-looking measures and information on risk appetite, risk limits and emerging risks.

With regard to governance, the data quality and risk reporting committee was created, which is responsible for executing the measures decided upon by the board in this area; in addition, a common data management methodology was implemented though the relevant models, procedures and guidelines.

The Group has a common risk reporting taxonomy covering the significant areas of risk within the organisation, in keeping with the Group’s size, risk profile and activity.

3.6. Control environment

The risk management model has a control environment that ensures appropriate control of all risks and provides an integrated view thereof. This control is performed at all the Group's units and for each type of risk in order to ensure that the Group's exposures and overall risk profile are within the framework of the mandates established by both the board of directors and the regulators.

The main elements ensuring effective control are:

- The allocation of responsibilities in risk-generating functions through decision-making and the due control of their activity.

- Specialised control of each risk factor.
- The supervision and aggregate consolidation of all risks.
- The assessment of control mechanisms.
- Independent assessment by internal audit.

c) Credit risk

1. Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

In credit risk management terms, segmentation is based on the distinction between three types of customers:

- The individuals segment includes all individuals, except for those engaging in a business activity. This segment is in turn divided into various sub-segments based on income levels, which makes it possible to tailor risk management to each type of customer.
- The SMEs, companies and institutions segment includes legal entities and individuals engaging in a business activity. It also includes public-sector entities in general and not-for-profit private-sector entities.
- The Santander Global Corporate Banking - SGCB - segment comprises corporate customers, financial institutions and sovereigns, which make up a closed list of entities that is reviewed on an annual basis. Inclusion of an entity on this list is determined on the basis of a comprehensive analysis of the enterprise (business, countries in which it operates, types of products used, level of income it represents for the Bank, length of relationship with the customer, etc.).

The Group has a mainly retail profile, with 84% of its total risk exposure being generated by its commercial banking business.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk arising on customer business:

Main credit risk aggregates arising on customer business

Data at 31 December 2015

	Credit risk exposure to customers (1) (Millions of euros)		Non-performing loans ratio (%)		Coverage ratio (%)	
	2015	2014	2015	2014	2015	2014
Continental Europe	**321,395**	**308,205**	**7.27**	**8.93**	**64.2**	**57.2**
Spain	173,032	182,974	6.53	7.38	48.1	45.5
Santander Consumer Finance (1)	76,688	63,654	3.42	4.82	109.1	100.1
Portugal	31,922	25,588	7.46	8.89	99.0	51.8
Poland	20,951	18,920	6.30	7.42	64.0	60.3
United Kingdom	**282,182**	**256,337**	**1.52**	**1.79**	**38.2**	**41.9**
Latin America	**151,302**	**167,065**	**4.96**	**4.65**	**79.0**	**84.7**
Brazil	72,173	90,572	5.98	5.05	83.7	95.4
Mexico	32,463	27,893	3.38	3.84	90.6	86.1
Chile	35,213	33,514	5.62	5.97	53.9	52.4
Argentina	6,328	5,703	1.15	1.61	194.2	143.3
United States	**90,727**	**72,477**	**2.13**	**2.54**	**225.0**	**192.8**
Puerto Rico	3,924	3,871	6.96	7.45	48.5	55.6
Santander Bank	54,089	45,825	1.16	1.41	114.5	109.4
SC USA	28,280	22,782	3.66	3.97	337.1	296.2
Total Group	**850,909**	**804,084**	**4.36**	**5.19**	**73.1**	**67.2**

(1) Including gross loans and advances to customers, guarantees and documentary credits

In 2015 credit risk exposure to customers increased by 6%. The growth was across the board in local currency terms, except in Spain. The fall in lending in Brazil in euros was due the devaluation of the Brazilian real in the year.

These lending levels, together with the fall in non-performing loans, resulted in a reduction in the Group's non-performing loans ratio to 4.36%.

The Group's coverage ratio stood at 73%. It is important to take into account that this ratio is reduced by the relatively high proportion of mortgage portfolios (especially in the UK and Spain), which require lower on-balance-sheet provisions since they are secured by collateral.

3. Detail of the main geographical areas

3.1. United Kingdom

Credit risk exposure to UK customers amounted to EUR 282,182 million at the end of December 2015, and represented 33% of the Group total.

Due to its importance, not only to Santander UK, but also to the Group's lending activity as a whole, the mortgage loan portfolio (which totalled EUR 207,319 million at the end of December 2015) must be highlighted.

This portfolio is composed entirely of first-mortgage home purchase or refurbishment loans to new and existing customers, since transactions involving second or successive liens on mortgaged properties are no longer originated.

The property on which the mortgage guarantee is constituted must always be located in the UK, irrespective of where the funding is to be employed, except for certain one-off transactions performed in the Isle of Man. Loans may be granted for the purchase of residences abroad, but the mortgage guarantee must in all cases be constituted on a property located in the UK.

Geographically speaking, the credit risk exposure is concentrated mainly in the South East of the country, particularly in the metropolitan area of London, where house prices rose last year. Properties are appraised independently prior to the approval of each new transaction, in accordance with the Group's risk management principles.

For mortgage loans that have already been granted, the appraised value of the mortgaged property is updated quarterly by an independent agency using an automatic appraisal system in accordance with standard procedure in the market and in compliance with current legislation.

The non-performing loans ratio fell from 1.64% in 2014 to 1.44% at 2015 year-end. This decrease in the non-performing loans ratio was based on the behaviour of non-performing loans, which improved significantly as a result of the more favourable macroeconomic environment and the increase in re-performing loans due to the improved efficiency of the recovery teams. Thus, the amount of non-performing loans fell by 10.2%, continuing the trend observed in 2014.

The credit policies limit the maximum loan-to-value ratio to 90% for loans on which principal and interest are repaid and to 50% for loans on which interest is paid periodically and the principal is repaid on maturity.

Current credit risk policies expressly prohibit loans considered to be high risk (subprime mortgages), and establish demanding requirements regarding the credit quality of both loans and customers. For example, the granting of mortgage loans with LTVs exceeding 100% has been forbidden since 2009.

Another indicator of the performance of the portfolio is the small volume of foreclosed properties, which amounted to EUR 62 million at 31 December 2015. The management of foreclosures, coupled with the existence of a dynamic market for foreclosed homes, makes it possible to sell these properties in a short space of time (on average approximately 18 weeks), thus contributing to the good results obtained.

3.2. Spain

Portfolio overview

Total credit risk exposure in Spain (including guarantees and documentary credits but excluding the real estate operations unit - discussed below) amounted to EUR 173,032 million (20% of the Group total), with an adequate degree of diversification in terms of both products and customer segments.

In 2015 the growth was consolidated in new production in the main portfolios in the individuals and companies segments, underpinned by the improvement in the economic situation and in the various strategies implemented at the Group. In year-on-year terms, total credit risk exposure fell by 5% mainly as a result of the lower level of funding to public authorities and a rate of repayments even higher than the rate of growth of new production in the other segments.

The non-performing loans ratio for the total portfolio stood at 6.53%. The reduction in lending was offset by the improvement in non-performing loans. This improvement is due mainly to the fall in gross new NPLs and, to a lesser extent, to the return to performing status of various restructured positions and portfolio sales. The coverage ratio stood at around 48%, continuing the increase recognised in 2014.

Portfolio of home purchase loans to families

Home purchase loans granted to families in Spain stood at EUR 50,786 million at 2015 year-end. Of this amount, 99% was secured by mortgages.

In millions of euros	31/12/15	
	Gross amount	*Of which: Non-performing*
Home purchase loans to families	50,786	2,567
Without mortgage guarantee	*480*	*40*
With mortgage guarantee	*50,306*	*2,527*

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- All mortgage transactions include principal repayments from the very first day.
- Early repayment is common practice and, accordingly, the average life of the transactions is far shorter than their contractual term.
- Debtors provide all their assets as security, not just the home.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.
- Stable average debt-to-income ratio at around 28%.
- 69% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal).

In millions of euros	31/12/15					
	Loan to value ratio					
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Initial gross amount	10,300	11,079	13,178	9,249	6,500	50,306
Of which: Non-performing	*134*	*201*	*359*	*484*	*1,349*	*2,527*

Companies portfolio

The EUR 92,889 million of direct credit risk exposure to SMEs and companies constitute the most important lending segment in Spain, representing 54% of the total.

94% of the portfolio relates to customers to which an analyst has been assigned who monitors the customer on an ongoing basis in all the phases of the risk cycle.

The non-performing loans ratio of this portfolio stood at 7.64% in 2015.

Real estate business

The Group manages, as a separate unit, its real estate business in Spain, which includes loans to customers engaging mainly in property development, for which a specialised management model is in place, investments in real-estate industry companies and foreclosed assets.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

	Millions of euros		
	31/12/15	31/12/14	31/12/13
Balance at beginning of year (net)	9,349	12,105	15,867
Foreclosed assets	(62)	(357)	(848)
Reductions (1)	(1,481)	(2,015)	(2,114)
Written-off assets	(418)	(384)	(800)
Balance at end of year (net)	7,388	9,349	12,105

(1) Includes portfolio sales, cash recoveries and third-party subrogations.

The NPL ratio of this portfolio ended the year at 67.6% (compared with 67.3% at December 2014) due to the increase in the proportion of non-performing assets in the problem loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate exposure in Spain stands at 41.16%.

	31/12/15		
Millions of euros	Gross amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (business in Spain)	7,388	3,618	3,041
Of which: Non-performing	*4,995*	*2,701*	*2,861*
Of which: Substandard	*582*	*231*	*180*
Memorandum items: Written-off assets	1,352		

Memorandum items: Data from the public consolidated balance sheet	31/12/15
Millions of euros	Carrying amount
Total loans and advances to customers excluding the public sector (business in Spain)	153,863
Total consolidated assets	1,340,260
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	919

At year-end, the concentration of this portfolio was as follows:

Millions of euros	Loans: Gross amount 31/12/15
1. Without mortgage guarantee	875
2. With mortgage guarantee	6,513
2.1 Completed buildings	3,862
2.1.1 Residential	1,740
2.1.2 Other	2,122
2.2 Buildings under construction	236
2.2.1 Residential	226
2.2.2 Other	10
2.3 Land	2,415
2.3.1 Developed land	1,991
2.3.2 Other land	424
Total	7,388

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by the Group's senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

In order to manage this credit exposure, the Group has specialised teams that not only form part of the risk areas but also supplement the management of this exposure and cover the entire life cycle of these transactions: commercial management, legal procedures and potential recovery management.

As has already been discussed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander Network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.
- Restricted financing of land purchases, subject to the restoration of a sufficient level of coverage in existing financing arrangements or to the obtainment of increased collateral.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorised on a centralised basis.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

The management of on-balance-sheet property assets is performed by companies that specialise in the sale of property, which is supplemented by the commercial network structure. The sale prices are reduced in line with market conditions.

Foreclosed properties

At 31 December 2015, the net balance of these assets amounted to EUR 4,983 million (gross amount: EUR 10,609 million; recognised allowance: EUR 5,626 million, of which EUR 3,310 million related to impairment after the foreclosure date).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2015:

Millions of euros	31/12/15			
	Gross carrying amount	Valuation adjustments	*Of which: Impairment losses on assets since time of foreclosure*	Carrying amount
Property assets arising from financing provided to construction and property development companies	8,638	4,726	2,771	3,912
Of which:				
Completed buildings	*2,535*	*1,150*	*504*	*1,385*
Residential	*1,019*	*474*	*180*	*545*
Other	*1,516*	*676*	*324*	*840*
Buildings under construction	*831*	*408*	*244*	*423*
Residential	*831*	*408*	*244*	*423*
Other	-	-	-	-
Land	*5,272*	*3,168*	*2,023*	*2,104*
Developed land	*2,167*	*1,268*	*705*	*899*
Other land	*3,105*	*1,900*	*1,318*	*1,205*
Property assets from home purchase mortgage loans to households	1,971	900	359	1,071
Other foreclosed property assets	-	-	-	-
Total property assets	**10,609**	**5,626**	**3,130**	**4,983**
Equity instruments, ownership interests and financing provided to non-consolidated companies holding these assets	-	-	-	-
Total	**10,609**	**5,626**	**3,130**	**4,983**

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell). If fair value (less costs to sell) is lower than the net value of the debt, the difference is recognised under Impairment losses on financial assets (net) - Loans and receivables in the consolidated income statement for the year. Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised. The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions.

The changes in foreclosed properties were as follows:

	Thousands of millions of euros		
	2015	2014	2013
Gross additions	1.7	1.8	1.9
Disposals	(1.1)	(0.9)	(0.9)
Difference	0.6	0.9	1.0

3.3. Brazil

Credit risk exposure in Brazil amounted to EUR 72,173 million, and fell by 20.3% compared to 2014, due mainly to the depreciation of the Brazilian real. Thus, Santander Brazil accounts for 8.5% of the Group's total credit risk exposure. The exposure is adequately diversified and has a predominantly retail profile, with approximately 46.4% of lending granted to individual, consumer finance and SME customers.

At 2015 year-end, growth of 5.70% was recognised, at constant exchange rates, which is in line with the average of private banks in Brazil.

In 2015 the change of mix strategy initiated in recent years was continued, and more intense growth was registered in segments with a more conservative risk profile and, accordingly, higher loan quality products increased their relative importance. Noteworthy in the individuals segment was the growth in the mortgage portfolio and the portfolio of loans that are discounted from salaries ("crédito consignado").

At 2015 year-end, the non-performing loans ratio was 5.98%. The factors explaining the increase on 2014 are: the economic recession the country is suffering and the added difficulties in the sectors of activity most sensitive to changes in the prices of commodities, especially the energy and oil industries.

In view of this situation, Santander Brazil has implemented a series of measures to strengthen risk management. These measures focus both on improving the quality of new production and on mitigating the effects of the aforementioned adverse environment on the portfolio. This package of measures is based mainly on preventive management of arrears, thus anticipating possible further deterioration of customer balances. The highlights of the defensive measures included in the plan are as follows:

- Reduction of limits vis-à-vis medium-high risk products/customers.
- Implementation of maximum debt limits.
- Migration of revolving products to instalment payment products.
- Higher collateralisation of the portfolio.
- Improvements to acceptance models, to make them more precise and predictive, and in collection channels.
- More individualised treatment of SMEs of a certain size (individualised model).
- Management of risk appetite by sector, and restriction of powers in the most critical sectors.

The coverage ratio stood at 83.7% at 2015 year-end.

4. Credit risk from other standpoints

4.1. Credit risk from financial market operations

This concept includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed using both money market financing products arranged with various financial institutions and products with counterparty risk intended to provide service to the Group's customers.

As defined in Chapter 6 of the CRR (Regulation (EU) No 575/2013), counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. It includes the following types of transaction: derivative instruments, repurchase agreements, securities or commodities lending transactions, deferred settlement transactions and guarantee financing transactions.

The Group uses two methods to measure its exposure to this risk: a mark-to-market method (replacement cost for derivatives or amount drawn down for committed facilities) including an add-on for potential future exposure; and another method, introduced in mid-2014 for certain regions and products, which calculates exposure using Monte Carlo simulations. Calculations are also performed of capital at risk or unexpected loss (i.e. the loss which, once the expected loss is subtracted, constitutes the economic capital, net of guarantees and recoveries).

When the markets close, the exposures are recalculated by adjusting all the transactions to their new time horizon, the potential future exposure is adjusted and mitigation measures are applied (netting arrangements, collateral arrangements, etc.) so that the exposures can be controlled daily against the limits approved by senior management.

Risk control is performed using an integrated, real-time system that enables the Group to know at any time the unused exposure limit with respect to any counterparty, for any product and maturity and at any Group unit.

4.2. Concentration risk

Concentration risk control is key to the risk management process. The Group continuously monitors the degree of credit risk concentration, by country, sector and customer group.

The board of directors, by reference to the risk appetite, determines the maximum levels of concentration. In keeping with the risk appetite, the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

In geographical terms, credit risk exposure to customers is diversified in the main markets where the Group has a presence.

The Group is subject to the regulation of “Large Exposures” contained in Part Four of CRR (Regulation (EU) No 575/2013), according to which an institution's exposure to a customer or group of connected customers is considered a “large exposure” where its value is equal to or exceeds 10% of its eligible capital. Additionally, in order to limit large exposures, an institution may not incur an exposure to a customer or group of connected customers the value of which exceeds 25% of its eligible capital, after taking into account the effect of the credit risk mitigation contained in the Regulation.

At 31 December 2015, after applying risk mitigation techniques and the regulations applicable to large exposures, the exposure to each of the reported groups was below 4.9% of eligible capital, with the exception of two entities, one central counterparty in the EU, the exposure to which stood at 7.3% and an EU-based corporate group, the exposure to which stood at 6.8%.

The Group’s risk division works closely with the finance division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at 31 December 2015 is as follows:

Millions of euros	31/12/15				
	Total	Spain	Other EU countries	Americas	Rest of the world
Credit institutions	162,410	26,037	86,726	41,269	8,378
Public sector	158,215	60,482	33,306	59,528	4,899
Of which:					
Central government	*137,873*	*46,353*	*33,020*	*53,677*	*4,823*
Other	*20,342*	*14,129*	*286*	*5,851*	*76*
Other financial institutions	74,246	16,206	24,194	31,586	2,260
Non-financial companies and individual traders	338,140	87,781	113,873	124,082	12,404
Of which:					
Construction and property development	*30,087*	*4,638*	*5,387*	*20,009*	*53*
Civil engineering construction	*4,671*	*2,837*	*1,307*	*525*	*2*
Large companies	*200,380*	*52,141*	*60,194*	*77,534*	*10,511*
SMEs and individual traders	*103,002*	*28,165*	*46,985*	*26,014*	*1,838*
Other households and non-profit institutions serving households	477,693	67,319	298,851	106,405	5,118
Of which:					
Residential	*325,169*	*49,948*	*238,836*	*36,119*	*266*
Consumer loans	*133,841*	*11,990*	*57,270*	*60,490*	*4,091*
Other purposes	*18,683*	*5,381*	*2,745*	*9,796*	*761*
Subtotal	1,210,704	257,825	556,950	362,870	33,059
Less: valuation adjustments for unimpaired assets	9,253				
Total (*)	**1,201,451**				

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to customers, Debt instruments, Equity instruments, Trading derivatives, Hedging derivatives, Investments and Contingent liabilities.

4.3. Country risk

Country risk is a credit risk component inherent in all cross-border credit transactions due to circumstances other than ordinary commercial risk. Its main elements are sovereign risk, transfer risk and other risks that can affect international financial operations (war, natural disasters, balance of payments crises, etc.).

At 31 December 2015, the provisionable country risk exposure amounted to EUR 193 million (2014: EUR 176 million). The allowance recognised in this connection at 2015 year-end amounted to EUR 25 million, as compared with EUR 22 million at 2014 year-end.

The Group's country risk management policies continued to adhere to a principle of maximum prudence, and country risk is assumed, applying highly selective criteria, in transactions that are clearly profitable for the Group and bolster its global relationship with its customers.

4.4. Sovereign risk and exposure to other public sector entities

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with the central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar body (government debt securities) and the risk arising from transactions with public entities that have the following features: their funds are obtained only from fiscal income; they are legally recognised as entities directly included in the central government public sector; and their activities are of a non-commercial nature.

This criterion, which has been employed historically by the Group, differs in certain respects from that requested by the European Banking Authority (EBA) for its periodic stress tests. The most significant differences are that the EBA's criteria do not include risk exposure to central banks, exposure to insurance companies or indirect exposure by means of guarantees or other instruments. However, they do include exposure to public sector entities (including regional and local entities) in general, not only the central government public sector.

Sovereign risk exposure (per the criteria applied at the Group) arises mainly from the subsidiary banks' obligations to make certain deposits at the corresponding central banks, from the arrangement of deposits using liquidity surpluses, and from the fixed-income portfolios held as part of the on-balance-sheet structural interest rate risk management strategy and in the trading books of the treasury departments. The vast majority of these exposures are taken in local currency and are financed out of local customer deposits, also denominated in local currency.

The detail at 31 December 2015, 2014 and 2013, based on the Group's management of each portfolio, of the Group's sovereign risk exposure, net of the short positions held with the respective countries, taking into consideration the aforementioned criterion established by the European Banking Authority (EBA), is as follows:

	31/12/15				
	Millions of euros				
	Portfolio				
Country	Financial assets held for trading and Other financial assets at fair value through profit or loss (*)	Available-for-sale financial assets	Loans and receivables	Held-to maturity investments	Total net direct exposure
Spain	8,954	26,443	11,272	2,025	48,694
Portugal	104	7,916	1,987	-	10.007
Italy	2,717	-	-	-	2,717
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	(211)	143	69	-	1
United Kingdom	(786)	5,808	141	-	5,163
Poland	13	5,346	42	-	5,401
Rest of Europe	120	312	238	-	670
United States	280	4,338	475	-	5,093
Brazil	7,274	13,522	947	2,186	23,929
Mexico	6,617	3,630	272	-	10,519
Chile	193	1,601	3,568	-	5,362
Other American countries	155	1,204	443	-	1,802
Rest of the world	3,657	1,687	546	-	5,890
Total	**29,087**	**71,950**	**20,000**	**4,211**	**125,248**

(*) Includes short positions.

In addition, at 31 December 2015, the Group had net direct derivative exposures the fair value of which amounted to EUR 2,070 million and net indirect derivative exposures the fair value of which amounted to EUR 25 million.

Country	31/12/14			
	Millions of euros			
	Portfolio			Total net direct exposure
	Financial assets held for trading and Other financial assets at fair value through profit or loss (*)	Available-for-sale financial assets	Loans and receivables	
Spain	5,778	23,893	15,098	44,769
Portugal	104	7,811	589	8,504
Italy	1,725	-	-	1,725
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,070)	3	1	(1,066)
United Kingdom	(613)	6,669	144	6,200
Poland	5	5,831	30	5,866
Rest of Europe	1,165	444	46	1,655
United States	88	2,897	664	3,649
Brazil	11,144	17,685	783	29,612
Mexico	2,344	2,467	3,464	8,275
Chile	593	1,340	248	2,181
Other American countries	181	1,248	520	1,949
Rest of the world	4,840	906	618	6,364
Total	**26,284**	**71,194**	**22,205**	**119,683**

(*) Includes short positions.

In addition, at 31 December 2014, the Group had net direct derivative exposures the fair value of which amounted to EUR 1,028 million and net indirect derivative exposures the fair value of which amounted to EUR 5 million. Also, the Group did not have any exposure to held-to-maturity investments.

Country	31/12/13			
	Millions of euros			
	Portfolio			Total net direct exposure
	Financial assets held for trading and Other financial assets at fair value through profit or loss (*)	Available-for-sale financial assets	Loans and receivables	
Spain	4,359	21,144	12,864	38,367
Portugal	148	2,076	583	2,807
Italy	1,309	77	-	1,386
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,229)	67	-	(1,161)
United Kingdom	(1,375)	3,777	-	2,402
Poland	216	4,770	43	5,030
Rest of Europe	5	117	-	122
United States	519	2,089	63	2,671
Brazil	8,618	8,901	223	17,743
Mexico	3,188	2,362	2,145	7,695
Chile	(485)	1,037	534	1,086
Other American countries	268	619	663	1,550
Rest of the world	5,219	596	146	5,964
Total	**20,762**	**47,632**	**17,268**	**85,661**

(*) Includes short positions.

In addition, at 31 December 2013, the Group had net direct derivative exposures the fair value of which amounted to EUR (206) million and net indirect derivative exposures the fair value of which amounted to EUR 6 million. Also, the Group did not have any exposure to held-to-maturity investments.

4.5. Social and environmental risk

The Group considers social and environmental issues to be key to the risk analysis and decision-making processes in its financing transactions. It has implemented processes to identify, analyse and assess risk in the credit transactions that are subject to the Group's policies, which are based on the Equator Principles, an initiative in which the Group has participated since 2009. In accordance with these principles, an analysis is performed of the social and environmental risk of Project Finance transactions and corporate loans granted for known purposes (bridge loans that are intended to be refinanced through Project Finance, and corporate loans for the construction or extension of a particular project).

5. Credit risk cycle

The credit risk management process consists of identifying, analysing, controlling and deciding on, as appropriate, the risks incurred in the Group's operations. The parties involved in this process are the business areas, senior management and the risk units.

The process involves the board of directors and the executive risk committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale. The process is being permanently updated, with the findings and conclusions of the post-sale phase being fed back into the risk analysis and planning of the pre-sale phase.

5.1. Risk analysis and credit rating process

In general, the risk analysis consists of examining the customer's ability to meet its contractual obligations to the Group and to other creditors. This involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

Since 1993 the Group has used internal rating models for this purpose. These mechanisms are used in both the wholesale segment (sovereigns, financial institutions and corporate banking) and the other companies and institutions segment.

The rating is obtained from a quantitative module based on balance sheet ratios or macroeconomic variables and supplemented by the analyst's expert judgement.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship.

The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

In contrast to the use of ratings in the wholesale and other companies and institutions segments, in the individuals and SMEs segment scoring techniques predominate; in general, these tools automatically assign a customer a score for decision-making purposes.

5.2. Planning (Commercial Strategic Plan)

The purpose of this phase is to efficiently and comprehensively limit the risk levels the Group assumes.

The credit risk planning process is used to establish the budgets and limits at portfolio level.

Risk limit planning is instrumented through the Commercial Strategic Plan (PEC), thus ensuring the coordination of the business plan, the risk-appetite-based lending policy and the resources required to implement it. Thus, it was created as a joint initiative between the commercial and risk units and is not only a management tool but also a form of teamwork.

Approval and monitoring is the responsibility of each entity's top executive risk committee. Validation and monitoring is performed at corporate level.

The PECs enable the map of all the Group's loan portfolios to be defined.

Scenario analysis

Credit risk scenario analysis enables senior management to gain a clearer understanding of the performance of the portfolio in response to changing market and circumstantial conditions and it is a basic tool for assessing the adequacy of the provisions recognised and the capital held to cater for stress scenarios.

These analyses, which are performed for all the Group's significant portfolios, comprise the following milestones:

- Definition of benchmark scenarios (at global level and for each of the Group units).
- Determination of the value of the risk parameters (probability of default, loss given default) in various scenarios.
- Estimation of the expected loss associated with each of the scenarios considered and of the other salient credit risk metrics derived from the parameters obtained (non-performing loans, provisions, ratios, etc.).
- Analysis of the changes in the credit risk profile at portfolio, segment, unit and Group level in various scenarios and in comparison with previous years.

The simulation models used by the Group rely on data from a complete economic cycle to calibrate the behaviour of the credit risk parameters in response to changes in the macroeconomic variables. These models undergo regular backtesting and recalibration processes in order to ensure that they provide a correct reflection of the relationship between the macroeconomic variables and the risk parameters.

The process is completed with a package of controls and checks that ensure that the metrics and calculations are appropriate.

The risk and loss parameters are projected, usually with a three-year time horizon, using various economic scenarios that include the main macroeconomic variables (GDP, unemployment rate, housing prices, inflation, etc.).

The economic scenarios defined are based on different stress levels, ranging from the base or most probable scenario to more stressed economic scenarios which, although less probable, could possibly arise.

These scenarios are generally defined by the Group's economic research service, in coordination with each unit, using as a reference the data published by the main international organisations.

A global stress scenario is defined that describes a situation of worldwide crisis and the manner in which it affects each of the main geographical regions in which the Group is present. In addition, a local stress scenario is defined which, affecting certain of the Group's main units in an isolated fashion, includes a higher level of stress than the global stress scenario.

5.3. Limit setting/pre-classifications

The risk limits are planned and set using documents agreed upon by the business areas and risk units and approved by the executive risk committee or its delegated committees, which contain the expected results of transactions in terms of risk and return, as well as the limits applicable to the activity and the management of the related risk by group/customer.

Also, an analysis is conducted at customer level in the wholesale and other companies and institutions segments. When certain features concur, an individual limit is established for the customer (pre-classification).

Thus, for large corporate groups a pre-classification model based on an economic capital measurement and monitoring system is used. The result of the pre-classification is the maximum level of risk that can be assumed vis-à-vis a customer or group in terms of amount or maturity. In the companies segment, a simplified pre-classification model is applied for customers meeting certain requirements (thorough knowledge, rating, etc.).

5.4. Transaction decision-making

The sale phase comprises the decision-making process, the aim of which is to analyse and resolve upon transactions, since approval by the risk unit is a pre-requisite for the arrangement of any risk transaction. This process must consider the transaction approval policies defined and take into account both the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

In the sphere of lower-revenue individuals, businesses and SMEs, the management of large volumes of loan transactions is facilitated by the use of automatic decision-making models that rate the customer/loan relationship. Thus, loans are classified in homogeneous risk groups using the rating assigned to the transaction by the model on the basis of information on the features of the transaction and the borrower.

The preliminary limit-setting stage can follow two different paths, giving rise to different types of decisions in the companies sphere:

- Automatic decisions, consisting of verification by the business that the proposed transaction (in terms of amount, product, maturity and other conditions) falls within the limits authorised pursuant to the aforementioned pre-classification. This process is generally applied to corporate pre-classifications.

- Decisions requiring the analyst's authorisation, even if the transaction meets the amount, maturity and other conditions established in the pre-classified limit. This process applies to pre-classifications of retail banking companies.

Credit risk mitigation techniques

The Group applies various methods of reducing credit risk, depending, inter alia, on the type of customer and product. As we shall see, some of these methods are specific to a particular type of transaction (e.g. real estate guarantees) while others apply to groups of transactions (e.g. netting and collateral arrangements).

The various mitigation techniques can be grouped into the following categories:

Netting by counterparty

Netting refers to the possibility of determining a net balance of transactions of the same type, under the umbrella of a master agreement such as an ISDA or similar agreement.

It consists of aggregating the positive and negative market values of the derivatives transactions entered into by the Group with a particular counterparty, so that, in the event of default, the counterparty owes the Group (or the

Group owes the counterparty, if the net figure is negative) a single net figure and not a series of positive or negative amounts relating to each of the transactions entered into with the counterparty.

An important aspect of master agreements is that they represent a single legal obligation encompassing all the transactions they cover. This is the key to being able to set off the risks of all the transactions covered by the contract with the same counterparty (see Note 2.f).

Collateral

Collateral refers to the assets pledged by the customer or a third party to secure the performance of an obligation. Collateral may be:

- Financial: cash, security deposits, gold, etc.
- Non-financial: property (both residential and commercial), other movable property, etc.

From the risk acceptance standpoint, collateral of the highest possible quality is required. For regulatory capital calculation purposes, only collateral that meets the minimum quality requirements described in the Basel capital accords can be taken into consideration.

One very important example of financial collateral is the collateral agreement. Collateral agreements comprise a set of highly liquid instruments with a certain economic value that are deposited or transferred by a counterparty in favour of another party in order to guarantee or reduce any counterparty credit risk that might arise from the portfolios of derivative transactions between the parties in which there is exposure to risk.

Collateral agreements vary in nature but, whichever the specific form of collateralisation may be, the ultimate aim, as with the netting technique, is to reduce counterparty risk.

Transactions subject to a collateral agreement are assessed periodically (normally on a daily basis). The agreed-upon parameters defined in the agreement are applied to the net balance arising from these assessments, from which the collateral amount (normally cash or securities) payable to or receivable from the counterparty is obtained.

With regard to real estate collateral, periodic re-appraisal processes are in place, based on the actual market values for the different types of real estate, which meet all the requirements established by the regulator.

Personal guarantees and credit derivatives

Personal guarantees are guarantees that make a third party liable for another party’s obligations to the Group. They include, for example, security deposits, suretyships and standby letters of credit. Only guarantees provided by third parties that meet the minimum requirements established by the supervisor can be recognised for capital calculation purposes.

Credit derivatives are financial instruments whose main purpose is to hedge credit risk by buying protection from a third party, whereby the Bank transfers the risk of the issuer of the underlying instrument. Credit derivatives are OTC instruments, i.e. they are not traded in organised markets.

Credit derivative hedges, mainly credit default swaps, are entered into with leading financial institutions.

5.5. Monitoring/anticipation

The monitoring function is founded on a process of ongoing observation, which makes it possible to detect early any changes that might arise in customers' credit quality, so that action can be taken to correct any deviations with an adverse impact.

Monitoring is based on the segmentation of customers, is performed by dedicated local and global risk teams and is complemented by the work performed by internal audit. In the individuals model this function is performed using customer behaviour valuation models.

The function involves, inter alia, identifying and monitoring companies under special surveillance, reviewing ratings and the ongoing monitoring of indicators.

The system called “companies under special surveillance” (FEVE) distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a position in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for the position in question, to place a person in charge and to set the policy implementation period.

Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by internal audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to lower-revenue individuals, businesses and SMEs, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.

5.6. Measurement and control

In addition to monitoring customers' credit quality, the Group establishes the control procedures required to analyse the current credit risk portfolio and the changes therein over the various credit risk phases.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product, etc., thus facilitating the early detection of specific areas requiring attention and the preparation of action plans to correct possible impairment.

Each control pillar can be analysed in two ways:

- Quantitative and qualitative analysis of the portfolio

In the analysis of the portfolio, any variances in the Group's risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these variances in certain future situations, both those of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures aimed at placing the profile and amount of the risk portfolio within the parameters set by the Group.

In addition to the traditional metrics, the following, inter alia, are used in the credit risk control phase: Change in non-performing loans (VMG), EL (expected loss) and capital

- Assessment of the control processes

This includes a systematic periodic review of the procedures and methodology, and is performed over the entire credit risk cycle to ensure that they are in force and effective.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. In this connection, the risk division assesses the efficiency of the internal control of its activities on an annual basis.

5.7. Recovery management

Recovery is a significant function within the sphere of the Group's risk management. This function is performed by the recovery and collection unit, which defines a global strategy and an integrated approach to recovery management.

The Group has in place a corporate management model that defines the general recovery action guidelines. These guidelines are applied in the various countries, always taking into account the local peculiarities required for the recovery activity, due either to the local economic environment, to the business model or to a combination of both. The Recovery Units are business areas involving direct customer management and, accordingly, this corporate model has a business approach that creates value sustainably over time on the basis of effective and efficient collection management, achieved through either the return of unpaid balances to performing status or the full recovery thereof.

The recovery management model requires the proper coordination of all management areas (recovery business, commercial, technology and operations, human resources and risk) and the management processes and methodology supporting it are reviewed and enhanced on an ongoing basis, through the application of the best practices developed in the various countries.

In order to manage recovery properly, action is taken in four main phases: early arrears management, recovery of non-performing loans, recovery of written-off loans and management of foreclosed assets.

In fact, the actions taken by the recovery function commence even before the first missed payment, i.e. when there are signs of a deterioration of the customer’s ability to pay, and they end when the customer’s debt has been paid or has returned to performing status. The recovery function aims to anticipate default events and focuses on preventive management.

The macroeconomic environment has a direct effect on the customer default rate. Therefore, the quality of the portfolios is fundamental to the development and growth of our businesses in the various countries, and particular attention is paid, on a permanent basis, to the debt collection and recovery functions in order to guarantee that this quality remains at the expected levels at all times.

The differing characteristics of customers make segmentation necessary in order to ensure proper recovery management. The mass management of large groups of customers with similar profiles and products is performed using highly technological processes, while personalised management is reserved for customers who, due to their profile, require the assignment of a specific manager and a more tailored analysis.

The recovery activity has been aligned with the social and economic reality of the different countries, and various management mechanisms have been used, all involving appropriate prudential criteria, based on the age, collateral and conditions of the transaction, while always ensuring that, at least, the required ratings and provisions are maintained.

Within the recovery function particular emphasis has been placed on using the mechanisms referred to above for early arrears management, in accordance with corporate policies, considering the various local realities and closely monitoring the production, inventory and performance of those local areas. The aforementioned policies are reviewed and adapted periodically in order to reflect both best management practices and any applicable regulatory amendments.

In addition to the measures aimed at adapting transactions to the customer's ability to pay, special mention should be made of recovery management, in which alternative solutions to legal action are sought to ensure the early collection of debts.

One of the channels for the recovery of debts of customers whose ability to pay has deteriorated severely is foreclosure (either court-ordered or through dation in payment) of the property assets securing the transactions. In geographical regions that are highly exposed to real estate risk, such as Spain, the Group has very efficient instruments in place to manage the sale of such assets, making it possible to maximise recovery and reduce the on-balance-sheet stock of property assets at a much faster pace than at other financial institutions.

Forborne loan portfolio

The term forborne loan portfolio refers, for the purposes of the Group's risk management, to those transactions in which the customer has, or might foreseeably have, financial difficulty that might materially affect its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Group has a detailed customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 6/2012 and the technical standards published by the European Banking Authority in 2014, which it develops in greater detail based on the level of customer impairment.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.

- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.

- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.

- This practice must not give rise to the granting of additional funding, or be used to refinance debt of other entities or as a cross-selling instrument.

- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.

- Forborne transactions are classified using criteria which ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.

- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators to facilitate the identification of situations of financial difficulty that might materially affect whether payment obligations are met.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators assessing financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.

- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.

- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.

- Where a customer submits successive loan modification requests at unreasonable time intervals.

- In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by backtesting), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification relate to financial difficulties, for management purposes a distinction is made between two types of forbearance based on the original management status of the transactions: ex-ante forbearance, when the original transaction was classified as other than non-performing; and ex-post forbearance, when it had previously been classified as non-performing.

In addition, within the category of ex-post forbearance, distinct treatments are established for cases of advanced impairment, the classification requirements and criteria for which are even more stringent than those for other forborne transactions.

As regards the strategies to be applied, corporate policy requires the customer's ability and willingness to pay to be analysed and a distinction to be drawn between the severity and the estimated duration of the impairment. The results of this analysis will be used as a basis for deciding whether the debt should be forborne and the most appropriate way of doing so for each case:

- When borrowers display a severe but transitory deterioration in their ability to pay (which is expected to be recovered in a short space of time), short-term adjustment strategies are applied, such as a payment moratorium on the principal or the reduction of instalments for a short, limited period until the ability to pay is recovered.

- When borrowers display a slight deterioration in their ability to pay (an early recovery of which is not expected), more long-term strategies are applied, such as reducing instalments by deferring either the maturity date or a portion of the principal, which would be paid at the same time as the last instalment, at all times securing its payment through the provision of effective guarantees.

In any case, through a case-by-case analysis, priority is given to modifications for customers displaying a slight but prolonged deterioration, since those experiencing severe but transitory deterioration carry a higher risk, as they depend on the accuracy of the estimated time of their future recovery. Cases of severe deterioration deemed to be prolonged over time are not considered for forbearance.

Corporate policy also establishes mechanisms for the management and control of forborne transactions, allowing them to be treated in a different way from other transactions, with particular attention being paid to the processes of:

- Planning and budgeting, including preparing the pertinent business plans, projections and limits for the most relevant aggregates.

- Monitoring the performance of the portfolio and assessing the degree of achievement of the projections prepared in the planning phase.

Once forbearance measures have been adopted, transactions that have to remain classified as non-performing because at the date of forbearance they do not meet the regulatory requirements to be classified in a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be non-performing, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as non-performing, the original default dates continue to be considered for all purposes, including the calculation of provisions, irrespective of whether as a result of forbearance the transaction becomes current in its payments.

By contrast, if following arrangement of forbearance there is no improvement in the customer's payment performance, the possibility of extending new forbearance measures will be considered, with the application of more stringent classification/return-to-performing criteria, including the establishment of a longer period of uninterrupted payments before the transaction can return to performing status, which could last up to 36 months in certain circumstances. The duration of this period is determined by any collateral provided and the residual maturity of the loan. The Group’s policy permits a maximum of one modification per year and three modifications every five years.

The internal models used by the Group for provisioning purposes include forborne transactions as follows:

- Customers not subject to individual monitoring: the internal models consider forborne transactions as a distinct segment with its own probability of default calculated on the basis of past experience, considering, among other factors, the performance of the successive forbearance measures.

- Customers subject to individual monitoring: the internal rating is an essential input in determining the probability of default and it takes into consideration the existence of successive forbearance measures. This rating must be updated at least once every six months for customers with forborne transactions.

At 31 December 2015, 34% of the forborne loan portfolio had undergone several modifications.

Quantitative information required by Bank of Spain Circular 6/2012

Set forth below is the quantitative information required by Bank of Spain Circular 6/2012 on the restructured/refinanced transactions in force at 31 December 2015. The following terms are used in Bank of Spain Circular 6/2012 with the meanings specified:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES (a)

	Millions of euros																						
	Standard (b)						Substandard							Non-performing							Total		
	Full property mortgage guarantee		Other collateral (c)		Without collateral		Full property mortgage guarantee		Other collateral (c)		Without collateral			Full property mortgage guarantee		Other collateral (c)		Without collateral					
	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Allowance	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Allowance	Number of transactions	Gross amount	Allowance
Public sector	10	21	12	257	78	513	1	8	-	-	2	3	2	5	4	-	-	30	32	8	**138**	**838**	**10**
Other legal entities and individual traders	7,791	2,883	3,567	3,046	84,017	2,495	3,942	1,171	1,254	791	31,047	903	427	10,239	4,808	6,414	5,456	71,890	4,252	7,637	**220,161**	**25,805**	**8,064**
Of which: Financing for construction and property development	*560*	*563*	*118*	*168*	*195*	*4*	*455*	*302*	*39*	*92*	*169*	*15*	*118*	*2,236*	*2,123*	*1,269*	*2,519*	*364*	*509*	*2,869*	***5,405***	***6,295***	***2,987***
Other individuals	91,501	7,252	510,288	8,609	1,227,992	1,865	28,057	2,612	7,617	1,039	266,780	722	359	34,184	2,329	64,794	2,562	909,193	1,729	2,477	**3,140,406**	**28,719**	**2,836**
Total	**99,302**	**10,156**	**513,867**	**11,912**	**1,312,087**	**4,873**	**32,000**	**3,791**	**8,871**	**1,830**	**297,829**	**1,628**	**788**	**44,428**	**7,141**	**71,208**	**8,018**	**981,113**	**6,013**	**10,122**	**3,360,705**	**55,362**	**10,910**

(a) Including all refinanced or restructured transactions as defined in section 1.g) of Annex IX of Bank of Spain Circular 4/2004.
(b) Standard risks classified as under special monitoring pursuant to section 7.a) of Annex IX of Bank of Spain Circular 4/2004.
(c) Including transactions without a full property mortgage guarantee, i.e. with a loan-to-value ratio of more than 1, and transactions with collateral other than a real estate mortgage, irrespective of their loan-to-value ratio.

The transactions presented in the foregoing tables were classified at 31 December 2015, by nature, as follows:

- Non-performing: transactions that are in the process of being returned to performing status, those for which advantageous conditions had to be granted that would not have been granted for an ordinary loan approval or those which, having been classified as standard or substandard, have again encountered payment difficulties during the term of the transaction.

- Substandard: transactions previously classified as non-performing with respect to which, following forbearance, sustained payments have been made for a certain period, depending on the transaction features and the type of guarantee, and transactions previously classified as standard: i) which have been granted an initial grace period and will remain in this category until three monthly instalments (or the equivalent) have been paid after the grace period, or ii) that following forbearance have become irregular (missed payment).

- Standard: transactions previously classified as non-performing or substandard which have successfully completed the precautionary observation periods established in the corporate policy evidencing that payment capacity pursuant to the terms established has been restored, and transactions classified as standard at the date of forbearance, until they meet the requirements to cease to be subject to the special monitoring described above.

The table below shows the changes in 2015 in the forborne loan portfolio:

Millions of euros	2015
Beginning balance	**56,703**
Of which: Unimpaired	*33,135*
Impaired	*23,568*
Additions	18,178
Reductions (*)	(19,519)
Balance at end of year	**55,362**
Of which: Unimpaired	*34,190*
Impaired	*21,172*

(*) Including, mainly, debt repayments, foreclosures and write-offs and transactions that have ceased to be subject to special monitoring because the probation periods and aforementioned requirements have been met.

62% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (77% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 20% of the total forborne loan portfolio and 52% of the non-performing portfolio).

d) Trading market and structural risk

1. Activities subject to market risk and types of market risk

The scope of activities subject to market risk encompasses all operations exposed to net worth risk as a result of changes in market factors. It includes both risks arising from trading activities and the structural risks that are also affected by market fluctuations:

This risk arises from changes in the risk factors -interest rates, inflation rates, exchange rates, equity prices, credit spreads, commodity prices and the volatility thereof- and from the liquidity risk of the various products and markets in which the Group operates.

- Interest rate risk is the possibility that fluctuations in interest rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Interest rate risk affects, inter alia, loans, deposits, debt securities, most financial assets and liabilities held for trading and derivatives.

- Inflation rate risk is the possibility that fluctuations in inflation rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Inflation rate risk affects, inter alia, loans, debt securities and derivatives, the returns on which are linked to inflation or to an actual variation rate.

- Foreign currency risk is defined as the sensitivity of the value of a position in a currency other than the base currency to a potential change in exchange rates. Accordingly, a long position in a foreign currency will generate a loss if this currency depreciates against the base currency. The positions affected by this risk include investments in subsidiaries in currencies other than the euro, and loans, securities and derivatives denominated in foreign currencies.

- Equity risk is the sensitivity of the value of the open positions in equity securities to adverse changes in the market prices of those equity securities or in future dividend expectations. Equity risk affects, among other instruments, positions in shares, equity indices, convertible bonds and equity derivatives (puts, calls, equity swaps, etc.).

- Credit spread risk is the sensitivity of the value of open positions in fixed-income securities or in credit derivatives to fluctuations in the credit spread curves or in the recovery rates (RR) of specific issuers and types of debt. The spread is the differential between the quoted price of certain financial instruments over other benchmark instruments, mainly the IRR of government bonds and interbank interest rates.

- Commodity price risk is the risk arising from the effect of potential changes in commodity prices. The Group's exposure to commodity price risk is not material and it is concentrated in commodity derivatives with customers.

- Volatility risk is the sensitivity of the value of the portfolio to changes in the volatility of risk factors: interest rates, exchange rates, share prices, credit spreads and commodities. Volatility risk arises on financial instruments whose measurement model includes volatility as a variable, most notably financial option portfolios.

All these market risks can be mitigated in part or in full through the use of derivatives such as options, futures, forwards and swaps.

In addition, there are other market risks, which are more difficult to hedge and are as follows:

- Correlation risk. Correlation risk is defined as the sensitivity of the value of the portfolio to changes in the relationship between risk factors (correlation), whether they are the same type (e.g. between two exchange rates) or different (e.g. between an interest rate and a commodity price).

- Market liquidity risk. The risk that a Group entity or the Group as a whole may not able to unwind or close a position on time without affecting the market price or the cost of the transaction. Market liquidity risk may be caused by the reduction in the number of market makers or institutional investors, the execution of large volumes of transactions and market instability, and it increases as a result of the current concentration in certain products and currencies.

- Prepayment or termination risk. When the contractual relationship in certain transactions explicitly or implicitly permits early repayment before maturity without negotiation, there is a risk that the cash flows might have to be reinvested at a potentially lower interest rate. It mainly affects mortgage loans or securities.

- Underwriting risk. Underwriting risk arises as a result of an entity's involvement in the underwriting of a placement of securities or other type of debt, thus assuming the risk of owning part of the issue or the loan if the entire issue is not placed among the potential buyers.

Pensions risk and actuarial risk are also affected by changes in market factors.

The activities are segmented by risk type as follows:

a) Trading: financial services for customers, trading operations and positions taken mainly in fixed-income, equity and foreign currency products. This activity is managed mainly by the Santander Global Corporate Banking (SGCB) division.

b) Structural risks: a distinction is made between on-balance-sheet risks and pensions and actuarial risks:

b.1) Structural balance sheet risks: market risks inherent to the balance sheet, excluding financial assets and liabilities held for trading. Decisions affecting the management of these risks are taken through the ALCO committees in the respective countries in coordination with the Group's ALCO committee and are implemented by the financial management division. The aim pursued is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Group's economic value, whilst maintaining adequate liquidity and solvency levels. The structural balance sheet risks are as follows:

- Structural interest rate risk: arises as a result of the maturity and repricing gaps of all the assets and liabilities on the balance sheet.

- Structural foreign currency risk/hedges of results: foreign currency risk resulting from the fact that investments in consolidable and non-consolidable companies are made in currencies other than the euro (structural exchange rate). In addition, this item includes the positions to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

- Structural equity risk: this item includes equity investments in non-consolidated financial and non-financial companies and available-for-sale portfolios comprising equity positions.

b.2) Pensions and actuarial risks

- Pensions risk: the risk assumed by the entity in relation to pension obligations to its employees. This relates to the possibility that the fund may not cover these obligations in the accrual period of the benefits and the return obtained by the portfolio may not be sufficient and might oblige the Group to increase the level of contributions.

- Actuarial risk: unexpected losses arising as a result of an increase in the obligations to policyholders, and losses arising from an unexpected increase in expenses.

2. Trading market risk

The Group's trading risk profile remained moderately low in 2015, in line with previous years, due to the historical focus of the Group's activity on providing a service to its customers, the limited exposure to complex structured products and the diversification by geographical area and risk factor.

The Group continued to have very limited exposure to complex structured instruments or vehicles, as a reflection of its culture of management in which prudence in risk management constitutes one of its principal symbols of identity. Specifically, at 2015 year-end, the Group had:

- Hedge funds: the total exposure was not material (EUR 220 million at 31 December 2015) and was entirely indirect: the Group acted mainly as a counterparty in derivatives transactions and in hedge fund funding transactions. This exposure featured low loan-to-value ratios, at around 17% (collateral of EUR 1,225 million at the end of December). The risk exposure to this type of counterparty is analysed on a case-by-case basis, and the percentages of collateral are established according to the features and assets of each fund.

- Monolines: the Group's exposure to monoline insurers amounted to EUR 138 million[5] in December 2015, and was concentrated mainly on an indirect exposure of EUR 136 million, by virtue of the guarantee provided by entities of this kind for various traditional financing or securitisation transactions. The exposure was to double-default risk in this case. The primary underlyings had high credit ratings. The small remainder was direct exposure (e.g. through the purchase of a credit default swap to protect it against the risk of default of these insurance companies). Exposure remained substantially the same as in 2014.

In short, it can be affirmed that, in general, the exposure to instruments of this kind in the ordinary course of the Group's business continued to decrease in 2015. It is due mainly to the integration of exposures at entities acquired by the Group, such as Sovereign in 2009. All these exposures were known at the time of the purchase and adequate provisions were recognised. Since their integration in the Group these exposures have been reduced notably, the final objective being their derecognition.

The Group's policy with respect to the approval of new transactions involving these products continues to be very prudent and conservative and is subject to strict supervision by the Group's senior management. Before authorising a new transaction, product or underlying, the risk division checks:

- Whether there is an adequate valuation model (mark-to-market, mark-to-model or mark-to-liquidity) to monitor the value of each exposure.
- Whether the inputs enabling application of this valuation model are observable in the market.

Provided the two aforementioned conditions are met, the risk division ascertains:

- The availability of adequate systems duly adapted for the daily calculation and monitoring of the results, positions and risks of the new transactions envisaged.
- The degree of liquidity of the product or underlying, with a view to arranging the related hedge on a timely basis.

Calibration and test measures

Actual losses may differ from those projected by the value-at-risk (VaR) model for different reasons relating to the limitations of this metric. Therefore, the Group performs regular analyses and tests to check the accuracy of the VaR calculation model in order to verify its reliability.

The most important tests are the backtesting exercises, which are analysed at both local and global level, following the same methodology in all cases. The backtesting exercise consists of comparing the projected VaR measurements, for a given confidence level and time horizon, with the actual losses obtained in the same time horizon. This facilitates the detection of any anomalies in the VaR model of the portfolio in question (e.g. deficiencies in the parameterisation of the valuation models of certain instruments, scantly adequate proxies, etc.).

Three types of backtesting are calculated and assessed at the Group:

- Clean backtesting: the daily VaR is compared with the results obtained without taking into account the intra-day results or the changes in the portfolio's positions. This model serves to check the accuracy of the individual models used to assess and measure the risks of the various positions.
- Backtesting on complete results: daily VaR is compared with the day's net results, including the results of intra-day operations and those generated by fees and commissions.

[5] The guarantees provided by monoline insurers for US municipal bonds are not treated as exposure. These guarantees amounted to EUR 19 million at December 2015.

- Backtesting on complete results without mark-ups or fees and commissions: daily VaR is compared with the day's net results, including the results of intra-day operations but excluding those generated by mark-ups and fees and commissions. This method is intended to obtain an idea of the intra-day risk assumed by the Group's treasury areas.

The number of violations in 2015 is in line with the expected performance of the VaR calculation model, given that a confidence level of 99% and a time horizon of one year are used (with a longer time horizon one could expect an average of two or three violations a year).

3. Structural balance sheet risks[6]

3.1. Main aggregates and variations

The market risk profile inherent to the Group's balance sheet, in relation to the volume of assets and capital, and the projected net interest margin, remained at moderate levels in 2015, in line with previous years.

Structural interest rate risk

- **Europe and the United States**

The main balance sheets, i.e. those of Spain, the UK and the US, in mature markets and against a backdrop of low interest rates, reported positive sensitivities of the market value of equity and of the net interest margin to interest rate rises.

In any case, the level of exposure in all countries is moderate in relation to the annual budget and the amount of capital.

At the end of December 2015, the exposure relating to the net interest margin at one year, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was concentrated on the euro yield curve, with EUR 257 million of exposure, the Polish zloty yield curve, with EUR 83 million of exposure and the US dollar yield curve, with EUR 78 million of exposure, in all cases to falls in interest rates.

At the same date, the most significant exposure relating to the market value of equity, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was that of the euro yield curve, with EUR 3,897 million of exposure to falls in interest rates. The exposure to falls in interest rates of the US dollar and pound sterling yield curves was EUR 691 million and EUR 488 million, respectively. These scenarios are very unlikely at present.

- **Latin America**

The balance sheets are positioned, in terms of both value of equity and net interest margin, for falling interest rates, except in the case of the net interest margin in Mexico, since the country's excess liquidity is invested in local currency in the short term.

In 2015 the level of exposure in all countries continued to be moderate in relation to the annual budget and the amount of capital.

At year-end, the exposure relating to the net interest margin at one year, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was concentrated on three countries: Brazil (EUR 124 million), Mexico (EUR 37 million) and Chile (EUR 23 million).

- **VaR of on-balance-sheet structural interest rate risk**

[6] Includes the total balance sheet, except for financial assets and liabilities held for trading.

In addition to sensitivities to interest rate fluctuations (shifts not only of ±100 basis points, but also of ±25, ±50 and ±75 basis points are assessed, in order to better characterise risk in countries with very low rate levels), the Group uses other methods to monitor on-balance-sheet structural interest rate risk including, inter alia, scenario analysis and VaR calculations, using a methodology similar to that used for the trading book.

Structural foreign currency risk/hedges of results

Structural foreign currency risk arises from the Group's operations in foreign currencies, and relates mainly to long-term investments, the results thereof and the hedges for both.
Foreign currency risk is managed dynamically, in order to limit the impact on the core capital ratio of exchange rate fluctuations[7]. In 2015 the levels of the foreign currency risk core capital ratio remained at around 100%.

At 2015 year-end, the largest long-term exposures (with their potential impact on equity) corresponded, in descending order, to the pound sterling, the US dollar, the Brazilian real, the Chilean peso, the Mexican peso and the Polish zloty. The Group hedges a portion of these long-term exposures through foreign exchange derivatives.

Additionally, the financial management division at consolidated level is responsible for managing the foreign currency risk inherent in the expected results and dividends of the Group at the units whose base currency is not the euro.

Structural equity risk

The Group has equity positions in its balance sheet (banking book) in addition to the trading positions. These positions are classified as available-for-sale financial assets (equity instruments) or as investments, depending on the length of time they are expected to remain in the portfolio.

At the end of December 2015, the equity positions (banking book) were diversified across various geographical areas, the main ones being Spain, the US, China, Brazil and the Netherlands. As regards industries, the equity positions are mainly invested in financial services and insurance; other industries represented to a lesser extent are professional, scientific and technical activities, the public sector (the holding in SAREB), the manufacturing industry and the transport and storage industry.

The structural equity positions are exposed to market risk. VaR is calculated for these positions using series of market prices or proxies.

Structural VaR

In short, a homogeneous metric such as VaR can be used to monitor the total on-balance-sheet market risk (excluding the Santander Global Corporate Banking trading activity), distinguishing between fixed-income (considering both interest rates and credit spreads for ALCO portfolios), exchange rate and equities.

In general, it can be said that structural VaR is not high in terms of the Group's volume of assets or capital.

3.2. Methodologies

Structural interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Group. These measures

[7] At the beginning of 2015 the method of covering the core capital ratio was changed from phase-in to fully-loaded.

can range from the taking of positions on markets to the definition of the interest rate features of commercial products.
The metrics used by the Group to control interest rate risk in these activities are the repricing gap, the sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

Structural foreign currency risk/hedges of results

These activities are monitored by measuring positions, VaR and results on a daily basis.

Structural equity risk

These activities are monitored by measuring positions, VaR and results on a monthly basis.

Limit control system

For trading market risk, structural balance sheet risk limits are established, within the framework of the annual limit plan, in response to the level of the Group's risk appetite.

The main limits are:

- On-balance-sheet structural interest rate risk:
    - Limit on net interest margin sensitivity at one year.
    - Limit on the sensitivity of the market value of equity.
- Structural foreign currency risk: Net position in each currency (for positions hedging results).

If any of these limits or sublimits are breached, risk management officers must explain the reasons why and provide an action plan for remedying the situation.

4. Pensions and actuarial risks

4.1. *Pensions risk*

In managing the risk associated with the defined-benefit employee pension funds, the Group assumes the financial, market, credit and liquidity risks incurred in connection with the fund's assets and investments and the actuarial risks arising from the fund's liabilities, i.e. the pension obligations to its employees.

The aim pursued by the Group in pensions risk control and management is primarily to identify, measure, follow up, control, mitigate and report this risk. The Group's priority, therefore, is to identify and mitigate all clusters of pensions risk.

Therefore, in the methodology used by the Group, the total losses on assets and liabilities in a stress scenario defined by changes in interest rates, inflation, stock markets and property indices, as well as credit and operational risk, are estimated every year.

4.2. Actuarial risk

Actuarial risk arises from biometric changes in the life expectancy of insureds (life insurance), unexpected increases in projected indemnity payments in non-life insurance and, in any event, unexpected changes in the behaviour of insurance policyholders in exercising the options envisaged in the contracts.

A distinction is made between the following actuarial risks:

- Life liability risk: risk of loss in the value of life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:
    - Mortality/longevity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of death/survival of insureds.
    - Morbidity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of disability/incapacity of insureds.
    - Surrender/lapse risk: risk of loss due to changes in the value of liabilities as a result of the early termination of the contract or changes in the policyholders' exercise of rights with regard to surrender, extraordinary contributions and/or paid up options.
    - Expense risk: risk of loss due to changes in the value of liabilities arising from adverse variances in expected expenses.
    - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's life liabilities.
- Non-life liability risk: risk of loss due to changes in the value of non-life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:
    - Premium risk: loss arising from the lack of sufficient premiums to cater for claims that might be made in the future.
    - Reserve risk: loss arising from the lack of sufficient reserves for claims incurred but not settled, including the expenses arising from the management of such claims.
    - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's non-life liabilities.

e) Liquidity and funding risk

1. Introduction to the treatment of liquidity and funding risk

Liquidity and funding management has always been a basic element of the Group's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests.

The Group relies on a decentralised funding model composed of subsidiaries that are autonomous and self-sufficient in terms of liquidity. Each subsidiary is responsible for covering the liquidity needs arising from its current and future activity, either by taking deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates, subject to management and supervision procedures coordinated at Group level.

This funding structure has proven to be most effective in situations of high market stress as it prevents difficulties in one area from affecting funding capacity in other areas and, therefore, the Group as a whole, which could occur if a centralised funding model were used.

In addition, at the Group this funding structure benefits from the advantages of having a commercial banking model with a significant presence in ten markets with great potential, with the focus on retail customers and a high level of efficiency. As a result, the subsidiaries have a considerable capacity to attract stable deposits, as well as a significant issue capacity in the wholesale markets of their respective countries, generally in local currency.

2. Liquidity management

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

Liquidity management at the Group is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term liquidity needs arising from the business must be funded using medium- and long-term instruments.
- High proportion of customer deposits, as a result of a commercial balance sheet.
- Diversification of wholesale funding sources by: instrument/investor; market/currency; and maturity.
- Restrictions on recourse to short-term wholesale financing.
- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.
- Compliance with the regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

In order to ensure the effective application of these principles by all the Group entities, it was necessary to develop a single management framework resting on the following three cornerstones:

- A sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy.
- An in-depth balance-sheet analysis and liquidity risk measurement to support the decision-making process and the control thereof.
- A management approach adapted in practice to the liquidity needs of each business.

2.1. Organisational and governance model

Decisions relating to all structural risks, including liquidity and funding risk, are made though local asset-liability committees (ALCOs) in coordination with the Global ALCO.

The Global ALCO is the body empowered by the board of directors of Banco Santander to coordinate the asset and liability management (ALM) function throughout the Group, including the management of liquidity and funding, which is carried out by the local ALCOs in accordance with the corporate ALM framework.

It is presided over by the Bank's chair and its members are an executive deputy chairman (who, in turn, is the chairman of the executive risk committee), the CEO, the finance and risk executive vice presidents, and other executive vice presidents and heads of certain business and analysis units who perform advisory functions.

The liquidity risk profile and appetite aim to reflect the Group's strategy in conducting its business, which consists of structuring the balance sheet to render it as resilient as possible to potential liquidity stress scenarios. To this end, appetite metrics have been structured to reflect the application, on an individual basis, of the principles of the Group's management model, with specific levels for the structural funding ratio and minimum liquidity horizons under various stress scenarios.

Simultaneously, various scenario analyses are conducted considering the additional liquidity needs that could arise if certain very severe but highly unlikely events occur.

2.2. Balance sheet analysis and liquidity risk measurement

Liquidity and funding decision-making is based on a thorough understanding of the Group's current situation (environment, strategy, balance sheet and liquidity position), of the future liquidity needs of the various units and businesses (liquidity projection) and of the accessibility and situation of the funding sources in wholesale markets.

Its aim is to ensure that the Group maintains adequate liquidity levels to cover its short- and long-term requirements with stable funding sources, optimising the impact of funding costs on the income statement.
This requires the monitoring of the balance sheet structure, the preparation of short- and medium-term liquidity projections and the establishment of basic metrics.

The results of these balance-sheet, projection and scenario analyses provide the inputs required to prepare the Group's various contingency plans, which, if necessary, would enable it to anticipate a broad spectrum of potential adverse situations.

All these measures are in line with the practices being promoted to strengthen the liquidity of financial institutions by the Basel Committee and the various regulators (in the European Union, the European Banking Authority). The objective is to define a framework of principles and metrics which, in certain cases, are nearing implementation and, in others, are at the early stages of development.

In 2015 the Internal Liquidity Adequacy Assessment Process (ILAAP) was conducted for the first time. The ILAAP, which focuses on both quantitative and qualitative aspects, must be integrated with the Group's other strategic and risk management processes. The Group maintained a robust liquidity position across all its units, in both the base scenario and potential stress scenarios.

Methodology for liquidity risk monitoring and control

The aims of the liquidity risk metrics adopted by the Group are:

- To attain the highest degree of effectiveness in liquidity risk measurement and control.
- To provide support for financial management, to which end the metrics are adapted to the manner in which the Group's liquidity is managed.
- To be aligned with the regulatory requirements arising from the transposition of Basel III in the European Union, in order to avoid any conflicts between limits and to facilitate management.
- To act as an early warning system that anticipates potential risk situations by monitoring certain indicators.
- To achieve involvement at country level. Although the metrics are developed on the basis of common, uniform concepts affecting liquidity, these have to be analysed and adapted by each unit.

Two kinds of basic metrics are used to control liquidity risk: short term and structural.
Short-term metrics include basically the liquidity gap, while structural metrics feature the net structural balance-sheet position. The Group supplements these metrics by developing various stress scenarios. Following is a detailed description of these three metrics:

- Liquidity gap

The liquidity gap provides information on potential cash inflows and outflows -both contractual and those estimated using assumptions- for a given period. Liquidity gap analyses are prepared for each of the main entities and for each of the currencies in which the Group operates. At the end of 2015, all units complied comfortably with the horizons set at corporate level for the liquidity scenario.

- Net structural position

The purpose of this metric is to determine the reasonableness of the balance-sheet funding structure. The Group's aim is to ensure that its structural needs (lending, non-current assets, etc.) are satisfied by means of an appropriate combination of wholesale funding sources and a stable retail customer base, as well as capital and other non-current liabilities. Each unit prepares its liquidity balance sheet based on the nature of its business and compares its liquidity needs with the various funding sources available to it. At the end of 2015, the Group had a structural liquidity surplus of more than EUR 149,000 million.

- Scenario analysis

The Group supplements the aforementioned metrics by developing various stress scenarios. Its main objective is to identify the critical factors of potential crises and, at the same time, to define the most appropriate management measures to address each of the situations assessed.

In their liquidity analyses the units generally consider three different scenarios: idiosyncratic, local systemic and global systemic. These scenarios constitute the minimum standard analysis established for all Group units to be reported to senior management. Also, each unit develops ad-hoc scenarios which replicate major historical crises or the liquidity risks specific to its particular environment.

The definition of scenarios and the calculation of metrics under each of them are directly related to the definition and execution of the liquidity contingency plan, which is the responsibility of financial management.

2.3. Management tailored to business needs

The Group performs its liquidity management at subsidiary and/or business unit level in order to finance its recurring activities with the appropriate terms and prices.

In practice, in keeping with the funding principles mentioned above, the liquidity management at these units consists of the following:

- Preparation of a liquidity plan each year on the basis of the funding needs arising from the budgets of each business. Based on these liquidity requirements and taking into account certain prudential limits on the raising of funds in the short-term markets, the financial management area establishes an issue and securitisation plan for the year at subsidiary/global business level.

- Year-round monitoring of the actual changes in the balance sheets and in the funding requirements of the subsidiaries/businesses, which results in the relevant updates of the plan.

- Monitoring and management of the units' compliance with the regulatory ratios, and oversight of the level of encumbered assets in each unit's funding, from a structural standpoint and with regard to its shortest-term component.

- Continuous active presence in a wide range of wholesale funding markets, enabling the Group to maintain an adequate issue structure that is diversified in terms of product type and has a conservative average maturity.

The effectiveness of this management effort at Group level is based on the fact that it is implemented at all subsidiaries. Specifically, each subsidiary budgets the liquidity requirements resulting from its intermediation activity and assesses its own ability to raise funds in the wholesale markets so that, in ongoing coordination with the Group, it can establish an issue and securitisation plan.

Traditionally, the Group's main subsidiaries have been self-sufficient in terms of their structural funding. The exception is Santander Consumer Finance (SCF), which, because it specialises in consumer financing mainly through dealer/retailer recommendations, has required the financial support of other Group units, especially the Parent.

This support, at all times provided at market prices based on the term of the funding and the internal rating of the borrower unit, has decreased over time and currently relates substantially in full to needs with regard to the new portfolios and business units included in SCF within the framework of the agreement with Banque PSA Finance. This requirement for increased financial support from the Group will remain in 2016, since further units have yet to be included. In the medium term, as the new units develop their own wholesale funding capacities, as required by the Group's model, this financial support will be reduced.

3. Funding strategy and evolution of liquidity in 2015

3.1. Funding strategy

In the last few years the Group's funding activity has been underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions, and, above all, by the adaptation of the subsidiaries' strategies to the growing demands of both markets and regulators. These demands were not uniform across the markets and reached far higher levels of difficulty and pressure in certain areas, such as the peripheral regions of Europe.

In any case, it is possible to identify a series of general trends in the policies implemented by the Group's subsidiaries in their funding and liquidity management strategies since the beginning of the crisis, namely:

- Maintenance of adequate, stable medium- and long-term wholesale funding levels at Group level. At 2015 year-end, this funding represented 21% of the liquidity balance sheet, a level similar to that of recent years but well below that at 2008 year-end (28%) when wholesale liquidity, which was more abundant and less expensive, had not yet suffered the pressures of the crisis.

- Holding a sufficient volume of assets eligible for discount at central banks as part of the liquidity reserve to cater for episodes of stress on wholesale markets. In particular, in recent years the Group has raised its total discount capacity significantly, from close to EUR 85,000 million at 2008 year-end to the current level of more than EUR 195,000 million.

- Strong generation of liquidity from the commercial business due to the lower growth of credit and greater emphasis on attracting customer funds.

Thanks to all these market and business developments, based on a sound liquidity management model, the Group currently enjoys a very robust funding structure, the main features of which are as follows:

- High proportion of customer deposits in a predominantly commercial balance sheet. Customer deposits are the Group's major source of funding. These deposits represent around two thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and at the end of 2015 they accounted for 86% of net loans.

- Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term. Medium- and long-term wholesale funding represents 21% of the Group's net liabilities and enables it to cater for the net loans not funded with customer deposits (the commercial gap).

This funding is well-balanced by type of instrument (approximately 40% senior debt, 30% securitisations and structured instruments with collateral, 20% cédula-type covered bonds, with the remainder consisting of preference shares and subordinated debt) and by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

3.2. Evolution of liquidity in 2015

At the end of 2015, in comparison with 2014, the Group reported:

- A stable ratio of loans to net assets (total assets less trading derivatives and interbank balances) at 75% due to the improvement in lending following the end of deleveraging in mature markets.

- A loan-to-deposit (LTD) ratio of 116%. This trend reflects the recovery of credit in mature markets, both organic and inorganic (acquisition of consumer finance businesses in Europe), and the increased focus on optimising the cost of retail deposits in countries with low interest rates.

- A decline in the ratio of customer deposits plus medium- and long-term funding to loans, for reasons similar to those for the trend in the LTD ratio, since the increase in the wholesale funds raised at the Group is also lower than that in loans.

- A continuing limited recourse to short-term wholesale funding at the Group. The ratio of this funding stood at around 2%.

- Lastly, an increase in the Group's structural surplus (i.e. the excess of structural funding resources - deposits, medium- and long-term funding, and capital- over structural liquidity requirements -non-current assets and loans-), which had an average balance of EUR 159,000 million in 2015.

Early compliance with regulatory ratios

As part of its liquidity management model, in recent years the Group has been managing the implementation, monitoring and early compliance with the new liquidity requirements set by international financial legislation.

- **LCR (Liquidity Coverage Ratio)**

In 2014, following the approval by the Basel Committee of the final definition of the short-term liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, within the scope of the CRD IV, defines the criteria for calculating and implementing this metric in the European Union. The implementation has been delayed until October 2015, although the level of initial compliance remains at 60%, which should gradually increase to 100% by 2018.

The starting position in short-term liquidity, coupled with the autonomous management of the ratio in all major units, has enabled compliance levels exceeding 100% to be maintained throughout 2015, thereby surpassing regulatory requirements.

- **NSFR (Net Stable Funding Ratio)**

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and it has still to be transposed into local legislation.

In relation to this ratio, the Group benefits from a high weighting of customer deposits, which are more stable, from long-term liquidity needs arising from the commercial activity funded by medium- and long-term instruments, and from limited recourse to short term. All of this enables the Group to maintain a balanced liquidity structure, which is reflected in NSFR levels exceeding 100% at 2015 year-end, although compliance will not be required until 2018.

Asset encumbrance

It is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources. Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The reported Group information as required by the EBA at 2015 year-end is as follows:

On-balance-sheet encumbered assets

Thousands of millions of euros	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets
Assets	**323.3**	**1,017.0**
Credits and loans	217.8	725.9
Equity instruments	13.2	10.5
Debt securities	74.6	105.1
Other assets	17.7	175.1

Encumbrance of collateral received

Thousands of millions of euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**44.9**	**52.0**
Credits and loans	1.2	-
Equity instruments	0.9	1.7
Debt securities	42.8	45.1
Other collateral received	-	5.2
Own debt securities issued other than own covered bonds or ABSs	-	5.6

Encumbered assets and collateral received and matching liabilities

Thousands of millions of euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**302.6**	**368.3**

On-balance-sheet encumbered assets amounted to EUR 323.3 thousand million, more than two-thirds of which are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 44.9 thousand million, relating mostly to debt securities received as security in asset purchase transactions and re-used. Taken together, these two categories represent a total of EUR 368.3 thousand million of encumbered assets, which give rise to EUR 302.6 thousand million of matching liabilities.

At 31 December 2015, total assets encumbered in funding transactions represented 26% of the Group's expanded balance sheet under EBA standards (total assets plus collateral received: EUR 1,437 thousand million at December 2015). Therefore, the ratio of encumbered assets in funding transactions remained at the same level as in 2014: the Group's recourse to TLTROs in 2015 was offset by the maturity of secured debt (mainly mortgage-backed securities) that has been replaced by unsecured debt.

Lastly, regard should be had to the different sources of encumbrance and the role they play in the Group's funding:

- 44% of total encumbered assets relate to security provided in medium- and long-term financing transactions (with residual maturity of more than one year) to fund the commercial balance-sheet activity. This places the level of asset encumbrance in "structural" funding transactions at 11% of the expanded balance sheet under EBA standards.
- The other 56% relate to transactions in the short-term market (with residual maturity of less than one year) or to security provided in derivative transactions whose purpose is not to fund the ordinary business activity but rather to ensure efficient short-term liquidity management.

f) Operational risk

1. Definition and objectives

Following the Basel guidelines, the Group defines operational risk (OR) as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational risk is inherent in all products, activities, processes and systems, and is generated in all business and support areas; accordingly, all employees are responsible for managing and controlling the risks arising in their area of activity.

The aim pursued by the Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report this risk.

The Group's priority, therefore, is to identify and mitigate any clusters of operational risk, irrespective of whether or not they have given rise to any losses. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the standardised approach provided for under the European Capital Requirements Directive.

2. Operational risk management and control model

2.1. Operational risk management cycle

The operational risk management and control model includes the following phases:

- Identification of the operational risk inherent in all the Group's activities, products, processes and systems.
- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the annual loss budget and the monitoring thereof.
- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.

- Objective and ongoing measurement and assessment of operational risk, consistent with the industry and regulatory standards (Basel, Bank of Spain, etc.).

- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of the internal control environment and mitigation of losses.

- Establishment of mitigation measures to eliminate or minimise operational risk.

- Preparation of periodic reports on the exposure to operational risk and its level of control for senior management and the Group's areas/units, and reporting to the market and the regulatory authorities.

- Definition and implementation of the methodology required for the internal calculation of capital in terms of expected and unexpected loss.

The following is required for each of the key processes indicated above:

- Definition and implementation of systems enabling the Group to monitor and control operational risk exposures. These systems are integrated into the Group's daily management, using the current technology and maximising the automation of applications.

- Definition and documentation of operational risk management and control policies and implementation of the related methodologies and tools consistent with current regulations and best practices.

2.2. Risk identification, measurement and assessment model

In order to identify, measure and assess operational risk, the Group defined a set of quantitative and qualitative corporate techniques/tools that are combined to perform a diagnosis based on the identified risks and obtain a valuation through the measurement/assessment of the area/unit.
The quantitative analysis of this risk is carried out mainly using tools that record and quantify the potential level of losses associated with operational risk events.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place.

2.3. Operational risk information system

The Group has a corporate information system that supports the operational risk management tools and facilitates the information and reporting functions and requirements at local and corporate level.
This system features event recording, risk mapping, assessment, indicator, mitigation and reporting modules, and is applicable to all the Group entities.

3. Mitigation measures

The model requires the Group to monitor the mitigation measures established in response to the main sources of risk, which were identified through an analysis of the tools used in managing operational risk, and as a result of the organisational and development model and the preventive implementation of operational risk management and control policies and procedures.
The Group's model integrates the measures in a shared database, which makes it possible to assign each mitigating measure to the various tools used (events, indicators, self-assessment, scenarios, recommendations and preventive policies).

The most significant mitigation measures have focused on the improvement of security for customers in their day-to-day transactions, the management of external fraud, the ongoing improvement of processes and technology, and on taking steps to ensure that products are sold and services are provided in an appropriate manner.

Cybersecurity and data security plans

In 2015 the Group continued to devote its full attention to cybersecurity-related risks, which affect all types of companies and institutions, including those in the financial sector.
This situation, which is generating concern among entities and regulators, is prompting the adoption of preventive measures in order to be prepared for cyberattacks.

In order to step up and supplement the actions already in progress, the Group has prepared the Santander cyber-security programme, which stipulates: i) a governance integrating the three lines of defence; ii) a cyber resilience-oriented line of action envisaging measures in the areas of identification, prevention, protection, detection and reaction; iii) aspects of cybersecurity with an impact on training, access control and segregation of functions, as well as secure software development; and iv) initiatives for organisational reinforcement.

Inspired by international standards, the Group has developed its internal cybersecurity reference model, endowing it with certain maturity concepts. At the same time, it has continued to implement the cybersecurity master plans at the various Group entities, achieving the following noteworthy milestones:

- Specific budgetary allocations for the improvement of mechanisms to protect against cybersecurity problems at the Group's various entities and geographical locations.
- Arrangement of a corporate-wide cyber insurance policy.
- Improvement of the security monitoring services and extension of their scope.
- Participation in the numerous cyber exercises conducted at various Group locations, aimed at evaluating the response of companies to cyber incidents.
- Cooperation with international forums with the objective of identifying best practices and sharing information about threats.

4. Business continuity plan

The Group has a business continuity management system to ensure the continuity of the business processes of its entities in the event of a disaster or serious incident.

This basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for the Group, resulting from an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Protecting the public image of, and confidence in, the Group.

- Meeting the Group's obligations to its employees, customers, shareholders and other third-party stakeholders.

In 2015 the Group continued to make progress in the implementation and ongoing improvement of its business continuity management system. Implementation of the three lines of defence with regard to business continuity was reinforced and the newly-created businesses and divisions were included in the scope of management.

5. Other matters relating to operational risk control and monitoring

Analysis and monitoring of controls in market operations

In view of the specific features and complexity of financial markets, the Group continually improves its operational control procedures in order to remain in line with new regulations and best market practices. Thus, in 2015, further improvements were made to the control model for this business, placing particular emphasis on the following points:

- Analysis of the individual transactions of each treasury operator to detect any possible anomalous conduct. In the course of the year, the thresholds applied for each of the controls were reviewed, together with the other control areas, and, as a new feature, specific limits were introduced for each desk.

- Implementation of a new tool enabling compliance with new record-keeping requirements in monitoring communication channels adapted to the new regulations.

- Tightening of controls on transaction cancellations and modifications, and calculation of the actual cost of such events if they are due to operational errors.

- Reinforcement of controls on contributions of prices to market indices.

- Development of additional controls to detect and prevent irregular transactions (such as, for example, the establishment of controls on triangular transactions).

- Development of additional controls on access to front-office transaction record-keeping systems (for example, for the purpose of detecting shared users).

- Adaptation of existing controls and development of new controls to comply with Volcker Rule requirements.

- Formalisation of IT procedures, tools and systems for cybersecurity risk protection, prevention and training.

The financial market business is also undergoing a global transformation and evolution of the operational risk management model, combined with a modernisation of the technology platforms and operating processes which, incorporating a robust control model, will reduce the operational risk associated with this activity.

Corporate information

The operational risk function has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: one corporate, with consolidated information, and the other individualised for each country/unit.

- Dissemination of best practices among the Group's countries/units, obtained from the combined study of the results of qualitative and quantitative analyses of operational risk.

This information acts as the basis for meeting reporting requirements vis-à-vis the risk control committee, the risk, regulation and compliance oversight committee, the operational risk committee, senior management, regulators, rating agencies, etc.

The role of insurance in operational risk management

The Group considers insurance as a key factor in operational risk management. 2015 saw the reinforcement of the common guidelines for coordinating the various functions involved in the management cycle for operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also the various front-line risk management areas, based on the procedure designed in 2014.

These guidelines included most notably the following activities:

- Identification of all risks at the Group which could be covered by insurance, as well as new insurance cover for risks already identified in the market.

- Establishment and implementation of methods for quantifying insurable risk, based on loss analysis and loss scenarios that make it possible to determine the Group's level of exposure to each risk.

- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.

- Technical assessment of the level of protection provided by a policy, and of the cost and retention levels that the Group will assume (excesses and other items to be borne by the insured), for the purpose of deciding whether to arrange it.

- Negotiation with insurance providers and award of policies in accordance with the relevant procedures established by the Group.

- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting, establishing action protocols and specific monitoring forums.

- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any deficiencies detected.

- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.

- Active involvement of the two areas in the global insurance sourcing desk (the Group's highest technical body for the definition of insurance cover and arrangement strategies), in the insured risk monitoring forum and in the corporate operational risk committee.

g) Compliance and conduct risk

1. Scope, mission, definitions and objective

The compliance function encompasses all matters relating to regulatory compliance, the prevention of money laundering and terrorist financing, product governance and consumer protection, and reputational risk.

To this end, the compliance function promotes adherence by the Group to the rules, oversight requirements, principles and values of good conduct by establishing standards, holding debates and providing advice and information in the interest of employees, customers, shareholders and society in general.

Based on the current corporate arrangement of the Group's three lines of defence, the compliance function is a second-line independent control function that is directly accountable to the board of directors and its committees through the Group Chief Compliance Officer (GCCO), who reports to these bodies on a regular and independent basis. This structure is in line with banking regulatory requirements and supervisory expectations.

Compliance risks are defined as including the following:

- Compliance risk: the risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.
- Conduct risk: the risk caused by inappropriate practices vis-à-vis the Bank's relationship with its customers, the treatment and products offered to customers, and their suitability for each particular customer.
- Reputational risk: the risk arising from negative perception of the Bank on the part of public opinion, its customers, investors or any other stakeholder.

The Group's objective regarding compliance and conduct risk is to minimise the likelihood of non-compliance and irregularities occurring and to ensure that, should they ultimately occur, they are promptly identified, assessed, reported and resolved.

Other control functions (risk) and support functions (legal, T&O, etc.) are also involved in the control of the aforementioned risks.

2. Control and supervision of compliance risks

Based on the arrangement of the Group's lines of defence, in particular within the compliance function, primary responsibility for managing compliance risks is shared, in the first line of defence, by the business units directly originating those risks and the compliance function, acting either directly or by assigning compliance activities or tasks to that first line.

Furthermore, as the second line of defence, in its control and oversight capacity, the compliance function is charged with establishing, encouraging and achieving adherence by the units to the uniform frameworks, policies and standards in place across the Group. To this end, a set of controls is established, the application of which is monitored and verified.

In the sphere of compliance, the GCCO is responsible for reporting to the governing and managing bodies, and also for advising and informing senior management about compliance matters and for fostering a compliance culture, within the framework of an annual programme, the effectiveness of which is assessed on a regular basis. In addition to the foregoing, the deputy chairman in charge of risk and the CRO also report to the governing and managing bodies on all the Group's risks, including compliance risks.

The compliance function provides the basic components for the management of these risks (frameworks and policies for anti-money laundering measures, codes of conduct, product marketing, reputational risk, etc.) and ensures that the other components are duly addressed by the corresponding Group units (responsible financing, data protection, customer claims, etc.), for which purpose it has established the appropriate control and supervision systems, within the second line of defence against compliance risk.

Also, internal audit - as part of its functions in the third line of defence - conducts the tests and reviews required to check that the appropriate supervision controls and components are applied, and that the standards and procedures established at the Group are being complied with.

The essential components of compliance risk management are based on resolutions adopted by the board of directors, as the highest authority for such matters, through the approval of corporate frameworks - which regulate the relevant matters - and the Group's general code of conduct. These frameworks are approved at corporate level by Banco Santander, S.A. as the Parent of the Group, and are subsequently approved by the units, by way of their adherence thereto, for the purpose of transposing them, taking into account any applicable local requirements.

The corporate frameworks for the compliance function are as follows:

- General compliance framework.
- Product and service marketing framework.
- Claims management framework.
- Framework for the prevention of money laundering and of terrorist financing.

These corporate frameworks are developed within the sphere of the Group's internal governance and are in keeping with the parent-subsidiaries relationship model.

For its part, the general code of conduct contains the rules of behaviour and ethical principles that must govern the actions of all Group employees and is supplemented in certain matters by the rules contained in other codes and the related internal implementing regulations.

Also, the code establishes:

- The functions and responsibilities relating to the compliance matters addressed by it.
- The rules regulating the consequences of failure to observe the code.
- The channel for submitting and processing notifications of allegedly irregular actions.

The regulatory compliance function, under the supervision of the risk, regulation and compliance oversight committee (CSRRC) and the regulatory compliance committee, is responsible for ensuring the effective implementation and monitoring of the general code of conduct.

3. Governance and organisational model

It is the responsibility of the board of directors of the Bank, as part of its general supervisory function, to approve the appointment of the person ultimately responsible for the compliance function (the GCCO), as well as for its framework and its development policies. In addition, the board is in charge of the Group's general code of conduct and the corporate frameworks developed by the compliance function.

In order to reinforce the independence of compliance, the executive committee of the board of directors resolved to appoint an executive vice president to the position of GCCO. In this connection, pursuant to the GCCO's mandate, in 2015 a programme was developed for the transformation of the compliance function at global level, namely the target operating model for compliance (TOM), which will be implemented over a three-year time horizon, with the aim of elevating this function to place it on a par with the best standards in the financial services industry.

The compliance function reports to the board of directors and its committees on a monthly basis.

Also worthy of mention is the appropriate coordination in place with the operational risk function, which compiles the various loss events arising from compliance and conduct risks and which, using a risk governance featuring a combined view of all the Group's risks, also reports to the board and its committees.

3.1. Governance

The corporate committees listed below are collective bodies with responsibilities in the sphere of compliance and are replicated at local level:

- The regulatory compliance committee: this is the collective governance body for regulatory compliance, without prejudice to the responsibilities assigned to the specialist bodies currently existing in the function (namely the corporate product and service marketing committee, the monitoring committee and the committee for the prevention of money laundering and terrorist financing).

- The product and service marketing committee: this is the collective governance body for the validation of products and services. The units are empowered to make the initial proposals and give authorisation for new products and services, although such proposals and their compliance with corporate policies must be validated at corporate level. The committee's objectives and functions are based on minimising the improper marketing of products and services for customers, taking into account consumer protection principles. Its functions are performed at both corporate and local level.

- The corporate monitoring committee is the Group's collective governance body for the monitoring of products and services and the evaluation of customer claims across all the Group's units. Approved products and services are monitored locally by the local monitoring committees or equivalent bodies, which report their conclusions directly to the corporate monitoring committee.

- The committee for the prevention of money laundering and terrorist financing (formerly the analysis and resolution committee - CAR) is the collective body in this sphere that defines the related action frameworks, policies and general objectives. It also validates the prevention and coordination regulations of other collective bodies and units of the Group. In order to reinforce the governance of the function and safeguard its independence, the objectives and duties of the aforementioned committees have been revised, in the adaptation of TOM, to bring them into line with the Group's governance model.

3.2. Organisational model

As a result of the aforementioned transformation programme (TOM) and in order to ensure a vision and integrated management of the various compliance risks, the organisational structure of the function was modified, using a hybrid approach, so as to make the specialist compliance risks (vertical functions) converge with the standardised aggregate vision of those risks (transversal functions).

4. Regulatory compliance

The following functions are in place to ensure the proper control and supervision of regulatory compliance risks:

- Application of the Group's general code of conduct and the other codes and rules implementing it. Provision of advice on the resolution of any doubts arising from their application.
- Cooperation with Internal Audit in the periodic reviews conducted by it on compliance with the general code of conduct and with the other codes and rules implementing it, without prejudice to any periodic reviews of compliance matters that have to be conducted directly.
- Preparation (or amendment) of compliance programmes on specific regulations, for submission to the regulatory compliance committee and, where appropriate, subsequent approval by the board of directors or its committees.
- Presentation of periodic reports to the risk, regulation and compliance oversight committee (CSRRC) and to the board of directors on the development of the framework and the application of the compliance programme.
- Assessment of any changes that may need to be made to the compliance programme, in particular where unregulated risk situations and improvable procedures are detected, and proposal of such changes to the regulatory compliance committee or to the CSRRC.
- Receipt and handling of the complaints made by employees through the whistleblowing facility.
- Direction and coordination of any investigations into breaches, with possible support from internal audit, and proposal of the appropriate penalties to the related committee.
- Supervision of the compulsory training activity for the compliance programme.

The target operating model (TOM) for compliance places the spotlight of the regulatory compliance function on the following areas:

- Compliance in employee-related matters.
- Compliance in organisational matters.
- Compliance with market regulations.
- Conduct in securities markets.

5. Product governance and consumer protection

As a result of the transformation of the compliance function into its new TOM, the former reputational risk management office was renamed as the product governance and consumer protection office. Its responsibilities were extended to bolster the adequate control and oversight of product and service marketing risks, to foster transparency and a simple, personal and fair approach to customers in order to protect their rights, and to ensure that policies and procedures take the consumers' perspective into account. For this purpose, the functions listed below were established, based on two corporate frameworks and a set of policies that define the basic principles and rules of action in this area:

- Frameworks:

    - Corporate marketing framework: a uniform system for the marketing of products and services, aimed at minimising exposure to the risks and possible claims arising in all phases of the marketing process (validation, pre-sale, sale, monitoring).

    - Claims management framework: a uniform system for the systematised management of the recording, control, management and analysis of the causes of claims, based on their various types; this makes it possible to identify the reasons for customer dissatisfaction, to provide suitable solutions for each case and to improve, where appropriate, the processes that gave rise to the claims.

- Functions:

    - To promote the adherence of the units to the above-mentioned corporate frameworks.

    - To facilitate the functions of the corporate marketing committee by guaranteeing the proper validation, prior to its launch, of any new product or service proposed by any Group subsidiary or by the Parent.

    - To safeguard the internal protection of consumers, with the aim of improving their relationships with the Group, by effectively promoting their rights and providing solutions to possible disputes, in accordance with best practices through any channel, as well as by fostering consumers' financial knowledge. All these efforts are geared towards building lasting relationships with customers.

    - To identify, analyse and control the fiduciary risk generated by the private banking, asset management and insurance businesses and the outsourced custody services for customers' financial instruments. Fiduciary risk is considered to be that arising from the management of financial instruments on behalf of customers.

    - To compile, analyse, and report to the Group's governance bodies, the information required to conduct a proper analysis of product and service marketing risk and of claims risk, from a two-fold perspective: the possible impact on customers and on the Group, as well as on the monitoring of products and services throughout their life-cycle.

    - To supervise the marketing and claims management processes in place at the subsidiaries, making proposals for improvements and monitoring the mitigating actions taken for the risks detected.

6. Prevention of money laundering and of terrorist financing

The following functions are in place to ensure the proper control and supervision of risks relating to the prevention of money laundering and of terrorist financing:

- One of the Group's strategic objectives is to have an effective advanced system for the prevention of money laundering and terrorist financing that is constantly adapted to the latest international regulations and has the capacity to respond to the appearance of new techniques employed by criminal organisations.

- This system is based on a corporate framework that defines the principles and basic action guidelines required to set minimum standards that the Group's units must observe and which in addition are formulated on the basis of the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and of the obligations and stipulations of EU directives on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

- The local units, in their role as the first line of defence, are responsible for directing and coordinating the systems and procedures for the prevention of money laundering and terrorist financing in the countries where the Group has a presence, as well as for investigating and reporting suspect transactions and meeting the related supervisory reporting requirements. In addition, all local units have officers in charge of this function.

- Corporate systems and processes have been set up at all Group units, based on decentralised technology systems, which make it possible to obtain locally managed information and data, as well as corporate function reporting, monitoring and control information. These systems enable the Group to take an active and preventive approach in analysing, identifying and monitoring any transactions that could be linked to money laundering or terrorist financing activities.

- The Group is a founder member, along with other large international banks, of the Wolfsberg Group, the objective of which is to establish international standards to increase the effectiveness of programmes to combat money laundering and terrorist financing in the financial community. In this connection, various initiatives have been conducted which have addressed a number of different issues. The supervisory authorities and experts in this area consider that the Wolfsberg Group and the principles and guidelines set by it represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

7. Reputational risk

As a result of the transformation of the compliance function in the development of the TOM, major progress has been made in the definition of the reputational risk model.

The specific nature of reputational risk, which arises from a wide variety of sources, combined with the highly variable perception of this risk, as it is understood by the various stakeholders, requires an approach and a management and control model that are unique, different from those used for other risks.

The reputational risk model is based on an eminently preventive approach, but also on effective crisis management processes.

Therefore, the Group's intention is for reputational risk management to be integrated both in business and support activities and in internal processes, thus allowing the risk control and supervision functions to integrate it in their activities.

Also, the reputational risk model requires a comprehensive understanding, not only of the Group's business activities and processes, but also of how it is perceived by its stakeholders (employees, customers, shareholders, investors and society in general) in its different environments. This approach requires close coordination between the management, support and control functions and the various stakeholders.

As mentioned above, reputational risk governance is one of the components of compliance governance. The compliance function reports on reputational risk to senior management, once the information on sources of reputational risk has been consolidated.

8. Compliance risk assessment model and risk appetite

The Group's risk appetite, in relation to compliance, is set by its statement that it is not willing to accept any risks of this nature, the clear objective being to minimise any economic, regulatory or reputational impact on the Group. To this end, a uniform system is implemented across the units through the establishment of a common methodology consisting of the setting of a series of compliance risk indicators and assessment matrices prepared by each local unit.

In 2015 the corporate compliance function carried out a regulatory risk assessment exercise focusing on the main countries in which the Group operates. Each quarter the Group monitors -on a country-by-country basis- the action plans designed to mitigate any high risks arising from this risk assessment exercise.

Based on the new compliance TOM, in 2015 an exercise was also launched to establish new indicators and an initial risk assessment in the following functions: product governance and consumer protection, regulatory compliance, prevention of money laundering and terrorist financing, and reputational risk.

In order to obtain a global integrated view of all compliance risks and to ensure that these can be included, together with all the Group's risks, in a single view, so that the board of directors may in turn have a holistic perspective of those risks, from 2015 onwards the risk assessment will be conducted on a consolidated basis.
Thus, the setting of the Group's compliance risk appetite, the monitoring of compliance risks and the adoption of corrective measures, if necessary, will be included in a single view. All this will be achieved using methods and indicators that are shared with the risk function and, therefore, form part of the Group's risk appetite framework.
The incurred losses resulting from compliance risks are entered into the shared event database managed by the risk function, in order to facilitate a comprehensive view, as well as an integrated control and management, of non-financial risks.

The Group also intends, as part of the development of the TOM, to revise the taxonomy of the various types of compliance risk, as first-level risks, in order to clearly identify them and thus be able to respond to possible stress test exercises in the future.

h) Model risk

The Group understands a model as being any metric based on a quantitative method, system or approach that provides a simplified representation of reality by applying statistical, economic, financial or mathematical techniques to process data and obtain a result based on a series of assumptions and subject to a certain degree of uncertainty. Using models makes it possible to take swifter, more objective decisions, generally supported by the analysis of large quantities of information.

The use of models invariably presents model risk, which is defined as the potential for adverse consequences, including losses, from decisions based on incorrect or misused models.

According to this definition, the sources of model risk are as follows:

- The model itself, due to the use of incorrect or incomplete data in its construction, and due to the modelling method used and its implementation in the systems.

- The misuse of the model.

In recent years the Group has been working on the definition, management and control of model risk. A particularly noteworthy development was the creation in 2015 of a dedicated area within its risk division. This area comprises both the former model validation team and a specific control team.

The model risk function is performed both at corporate level and at each of the main entities in which the Group is present. A control framework has been defined for this function detailing, inter alia, matters relating to organisation, governance and model management and validation.
Model risk management and control are structured around the life cycle of a model, as defined by the Group:

1.- Definition of standards

The Group has defined a series of standards for the development, monitoring and validation of its models. All models used within the Group -both those developed in-house and those acquired from third parties- must meet these standards. Thus, the quality of the models used at the Group for decision-making purposes is assured.

2.- Inventory

A key component of good model risk management is a complete, exhaustive inventory of the models in use.

The Group has a centralised inventory that has been constructed using a uniform taxonomy for all the models used in the various business units. This inventory contains all the relevant information on each of the models, which permits an appropriate monitoring of the models based on their importance.

The inventory also makes it possible to perform cross data analyses (by geographical area, type of model, materiality, etc.), thus facilitating the taking of strategic decisions in relation to the models.

3.- Planning

This phase features the participation of all those involved in the life-cycle of the model (users, developers, validators, data providers, technology personnel, etc.), who agree upon and set the relevant priorities.

Model planning is performed annually at each of the Group's main units and is approved by the local governance bodies and endorsed at corporate level.

4.- Compilation of information

As indicated above, the data used in the construction of a model constitute one of the potential sources of model risk. These data must be reliable, complete and have sufficient historical depth to guarantee the suitability of the model developed.

The Group has teams that specialise in providing model construction data that have previously been certified by the data owners.

5.- Development

This is the phase in which the model is constructed, based on the needs established in the model plan and using the information provided by specialists for this purpose.

Most of the models used by the Group are developed by in-house methodology teams, although certain models are also acquired from external providers. In both cases, the models must be developed in accordance with the established standards.

6.- Pre-implementation testing

Once a model has been constructed, the developers, together with the model owners, subject it to various tests in order to ensure that the model functions as expected and, where appropriate, they make the necessary adjustments.

7.- Materiality

Each of the Group's models must have an associated level of materiality that is set by consensus of the parties involved.
The criteria for establishing materiality are documented in a corporate policy, which is transposed and approved by each of the Group's main units.

Materiality determines the thoroughness, frequency and scope of the validations and follow-ups performed on the model, as well as the governance bodies in which decisions on the model have to be taken.

Materiality is one of the basic data for the proper management of model risk and one of the attributes contained in the corporate inventory.

8.- Independent validation

In addition to being a regulatory requirement in certain cases, the independent validation of models is a fundamental cornerstone for the proper management and control of model risk at the Group.

Therefore, as mentioned earlier, the Group has a specialist unit, fully independent of the developers and users, which issues a technical opinion on the suitability of the internal models for the intended purposes and concludes on their robustness, usefulness and effectiveness.

Internal validation currently covers all models used in the risk function, i.e. credit, market, structural and operational risk models, as well as economic and regulatory capital models, allowance models and stress test models (including, for the latter, the models used to estimate the Group's balance sheet and income statement aggregates).

The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the data quality that underpin the effective operation of the models. In general, it includes all the relevant aspects of model management: controls, reporting, uses, involvement of senior management, etc.

After each model has been reviewed, the opinion issued is translated into a rating which, on a scale of one to five, summarises the model risk perceived by the internal validation team.

It should be noted that the Group's corporate internal validation environment is fully consistent with the criteria for internal validation of advanced approaches issued by the various supervisory authorities to which the Group is subject. Accordingly, the Group maintains a segregation of functions between the units that develop and use models (first line of defence), the internal validation units (second line of defence) and internal audit (third line), which, in its role as the last layer of control, is responsible for reviewing the efficiency of the function, compliance with internal and external policies and procedures and for giving its opinion on the degree of effective independence.

9.- Approval

Before it is implemented -and, therefore, used- each model must be submitted for approval by the body corresponding to it on the basis of its materiality.

10.- Implementation

This is the phase in which the developed model is implemented in the system through which it is intended to be used. As mentioned above, the implementation phase is another possible source of model risk and, therefore, it is absolutely essential that the technical teams and model owners conduct tests to certify that the model has been implemented as defined in the relevant methodology.

11.- Monitoring

A model is designed and constructed using certain information and in specific circumstances which may change in the course of time. Consequently, models must be reviewed periodically in order to ensure that they continue to function correctly and, if this is not the case, they are adapted or redesigned.
The frequency and thoroughness with which a model is monitored is established on the basis of that model's materiality.

12.- Management reporting

Senior Group management, both at the different units and at corporate level, monitors model risk on a regular basis through various reports that enable it to obtain a consolidated view and take the appropriate decisions.

13.- Governance

According to the model risk control framework, the models committee is the body responsible for authorising the use of models in management. Each business unit has a models committee that is responsible for deciding on the approval of the local use of models once the consent of the corporate models committee has been obtained. Pursuant to current Group policy, all models submitted to a models committee must be accompanied by an internal validation report.

i) Strategic risk

Strategic risk is one of the risks considered by the Group to be transversal. In 2015 a management and control model was designed for this risk that serves as a benchmark for the Group subsidiaries. This model includes the definition of strategic risk, the functional and governance-related matters and a description of the main processes associated with the management and control of this risk.

Strategic risk is the risk associated with strategic decisions and with changes in an entity's general conditions that have a significant impact on its business model and its medium- and long-term strategy.

An entity's business model is a key element around which strategic risk revolves. It must be viable and sustainable, i.e. capable of generating acceptable results each year and for at least three years into the future.

Three categories or subtypes of strategic risk can be distinguished:

- Business model risk: the risk associated with an entity's business model. This includes, inter alia, the risk that the business model may become outdated or irrelevant and/or may no longer have the value to generate the desired results. This risk is caused both by external factors (macroeconomic, regulatory, social and political matters, changes in the banking industry, etc.) and by internal factors (strength and stability of the income statement, distribution model/channels, income and cost structure, operational efficiency, suitability of human resources and systems, etc.).

- Strategy design risk: the risk associated with the strategy reflected in the entity's five-year strategic plan. More specifically, it includes the risk that this plan may prove to be inadequate in terms of its nature or due to the assumptions considered, leading to unexpected results. Another factor that should be borne in mind is the opportunity cost of designing another more effective strategy or even that arising from a lack of action if no such strategy is designed.

- Strategy execution risk: the risk associated with the implementation processes of three- and five-year strategic plans. Due to the medium- and long-term nature of such plans, their execution often entails risk, as a result of its complexity and the numerous variables involved. Other sources of risk to be considered are inadequate resources, change management and, lastly, the inability to respond to changes in the business environment.

In addition, for the purpose of managing and controlling strategic risk, the transversal risks associated with corporate development transactions must be taken into consideration, since they can represent a significant source of risk for the business model. These transactions are understood to be: those resulting in a change in an entity's scope and activity, acquisitions or transfers of significant ownership interests or assets, joint ventures, strategic alliances, shareholders agreements and capital transactions.

Lastly, other types of risk must be taken into account the origin of which may be other than strategic in nature (credit, market, operational and compliance risks, etc.). These risks may have a significant impact on an entity's financial health and also affect its strategy and business model; therefore, they must be identified, assessed, managed and controlled.

Thus, top risks are those risks with a material impact on an entity's earnings, liquidity or capital or risks that may have undesired concentrations. These risks can reduce the entity's distance to default.

In addition, emerging and evolving risks are those risks that had not appeared before or which have taken on a different form. Although these risks often involve a high level of uncertainty and are very difficult to quantify, their impact could be significant over a medium-long term time horizon.

j) Capital risk

The Group defines capital risk as the risk that the Group or any of its companies may have an insufficient amount and/or quality of capital to: meet the minimum regulatory requirements in order to operate as a bank; respond to market expectations regarding its creditworthiness; and support its business growth and any strategic possibilities that might arise, in accordance with its strategic plan.

The objectives in this connection include most notably:

- To meet the internal capital and capital adequacy targets
- To meet the regulatory requirements
- To align the Bank’s strategic plan with the capital expectations of external agents (rating agencies, shareholders and investors, customers, supervisors, etc.)
- To support the growth of the businesses and any strategic opportunities that may arise

The Group has a capital adequacy position that surpasses the levels required by regulations and the European Central Bank. In 2015 the Group continued to bolster its main capital ratios in response to the difficult economic and financial environment and the new regulatory demands. It began the year with a EUR 7,500 million capital increase and established a dividend policy that guarantees the organic generation of capital.

At the end of 2015 the ECB notified each bank of its minimum prudential capital requirements for the following year. In 2016, at consolidated level, Santander Group must have a minimum phase-in CET1 capital ratio of 9.75% (9.5% is the requirement for Pillar 1, Pillar 2 and the capital conservation buffer, and 0.25% is the requirement for being a global systemically important bank). At 31 December 2015, the Group's capital exceeded the ECB's minimum requirement.

The Group is working towards achieving a fully-loaded CET1 capital ratio in excess of 11% in 2018.

1. Regulatory framework

The regulations known as Basel III, which establish new global capital, liquidity and leverage standards for financial institutions, came into force in 2014.

From the capital standpoint, Basel III redefines what is considered to be available capital at financial institutions (including new deductions and raising the requirements for eligible equity instruments), increases the minimum capital requirements, requires financial institutions to operate permanently with capital buffers, and adds new requirements in relation to the risks considered.

In Europe, the new standards were implemented through Directive 2013/36/EU, known as the Capital Requirements Directive (“CRD IV”), and the related Capital Requirements Regulation 575/2013 (“CRR”), which is directly applicable in all EU Member States (as part of the Single Rulebook). In addition, these standards are subject to Implementing Technical Standards commissioned from the European Banking Authority (EBA).

CRD IV was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree 84/2015. The CRR is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

The CRR establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. The phase-in arrangements were incorporated into Spanish regulations through Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

The Group shares the ultimate objective pursued by the regulator, namely to endow the international financial system with greater stability and resilience. In this regard, for many years the Group has provided assistance by supporting the regulators and participating in the impact studies to calibrate standards promoted by the Basel Committee and the European Banking Authority (EBA) and coordinated at local level by the Bank of Spain.

Lastly, the latest G-20 summit (Antalya, November 2015) approved the total loss-absorbing capacity (TLAC) requirement for global systemically important banks (G-SIBs), an event which constitutes a major regulatory milestone. Banks are required to have a sufficient buffer of liabilities (capital and contingently convertible debt) that are capable of absorbing losses, either because they convert into capital or because a debt reduction is applied to them. The aim is to enable banks, when faced with the risk of bankruptcy, to regain solvency without requiring the intervention of any government. The TLAC standard has not yet been included in the current legal framework. However, the Financial Stability Board (FSB) has set its entry into force for 2019, with a three-year phase-in arrangement. For January 2019 the FSB proposes a minimum TLAC requirement equal to the higher of 16% of risk-weighted assets and 6% of leverage exposure, and, for January 2022, the higher of 18% of risk-weighted assets and 6.75% of leverage exposure.

The standard stipulates that the liabilities eligible to meet the TLAC requirement must be subordinated to other non-eligible liabilities and may include common equity, preference shares qualifying as Tier 1 capital and subordinated debt qualifying as Tier 2 capital; also, at least 33% of the TLAC-eligible liabilities must be in the form of senior and junior debt.

The FSB standard provides that the TLAC requirement must be met at consolidated level and at the level of each resolution group, as defined in the living wills. It also establishes certain restrictions on the financial support that a parent may provide to a subsidiary in complying with the standard.

In Europe, Directive 2014/59/EU -known as the Bank Recovery and Resolution Directive (BRRD)- was implemented, which pursues objectives similar to those of the TLAC standard.

This directive also includes the concept of loss absorption and a minimum requirement for own funds and eligible liabilities (MREL), which is similar to the TLAC requirement. However, there are differences in terms of the ratios established, the scope of application and other definitions. The MREL is applicable to all entities operating in Europe and is not limited to global systemically important banks. It shall begin to apply on 1 January 2016, based on an "entity-by-entity" calibration, with a phase-in period of 48 months, and it is only applicable within the EU.

The MREL regulations will be reviewed at the end of 2016, following a report to be submitted to the European Commission by the EBA.

2. Regulatory capital

At 31 December 2015, the Group met the minimum capital requirements established by current legislation.

Model roll-out

With regard to credit risk, the Group is continuing to adopt its plan to implement the advanced internal ratings-based (AIRB) approach under Basel for substantially all its banks, and it intends to do so until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this objective in the short term will also depend on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes for the internal approaches.

The Group is present in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive. However, in other jurisdictions, the same process is subject to the framework of cooperation between the home and host country supervisors under different legislations, which in practice entails adapting to different criteria and timetables in order to obtain authorisation to use the advanced approaches on a consolidated basis.

Accordingly, the Group continued in 2015 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory capital calculation purposes at the remaining Group units.

To date the Group has obtained authorisation from the supervisory authorities to use AIRB approaches for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, as well as for certain portfolios in Germany, Mexico, Brazil, Chile, the Nordic countries (Sweden, Finland and Norway), France and the United States. The Group’s Basel implementation strategy is focused on obtaining authorisation for the use of AIRB approaches at the main entities in the Americas and Europe. In 2015 authorisation was obtained for the Santander Consumer Nordics auto loan portfolios to switch from the standardised approach to the AIRB approach, while the IRB approach was maintained for the corporate and retail portfolios of PSA France, following the acquisition of this investee.

With regard to operational risk, Santander Group currently uses the standardised approach for regulatory capital calculation provided for in the European Capital Directive. In 2015 the Group stepped up the pace of its transition towards an advanced operational risk management (AORM) approach. The AORM programme will enable the Group to have internal capital estimation models in place in the main geographical areas, both for economic capital and stress testing purposes and with a view to their potential application for regulatory capital purposes.

As regards the other risks explicitly addressed in Pillar 1 of the Basel Capital Accord, Santander Group has been authorised to use its internal model for market risk on the treasury areas' trading activities in Spain, Chile, Portugal and Mexico, thus continuing implementation of the roll-out plan it submitted to the Bank of Spain for the other units.

Leverage ratio

The leverage ratio was established within the Basel III regulatory framework as a non-risk-sensitive measure of the capital that financial institutions are required to hold. CRD IV was amended on 17 January 2015 through the modification of Regulation (EU) No 575/2013 to harmonise the calculation criteria with those specified in the Basel Committee's document entitled "Basel III leverage ratio framework and disclosure requirements".

This ratio is calculated as Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).

- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.

- The net value of derivatives (gains and losses vis-à-vis the same counterparty are netted, less the collateral if certain conditions are met) plus an add-on for potential future exposure.

- An add-on for the potential exposure of securities financing transactions.

- Lastly, an add-on for the exposure of credit derivatives (CDSs).

The leverage ratio is still in the calibration phase and there is no obligation to comply with it until 2018. It is currently set at 3%, a ratio which the Bank surpasses.

Global systemically important banks

The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

Designation as a global systemically important bank is the result of an assessment by the regulators (FSB and BCBS) on the basis of five criteria (size, cross-jurisdictional activity, interconnectedness, substitutability and complexity).

Its designation as a G-SIB obliges the Group to comply with additional requirements. These consist mainly of a capital buffer (the Group belongs to the group of banks with the lowest capital buffer, i.e. 1%), total loss-absorbing capital (TLAC) requirements, the requirement to publicly disclose relevant information more frequently than other banks, greater regulatory requirements for its internal control bodies, special supervision and the requirement to submit special reports to its supervisors.

Compliance with these requirements renders the Group more robust than its domestic rivals.

3. Economic capital

Economic capital is the capital required, based on an internally-developed model, to support all the risks of the Group's business activity with a given solvency level. In the Group's case, the solvency level is determined by the A long-term target rating (two notches above the rating for Spain), which results in the application of a 99.95% confidence level (higher than the regulatory 99.90%) for the purpose of calculating the required capital.

The Group's economic capital model includes in its measurement all the significant risks incurred by it in its operations. Accordingly, it considers risks such as concentration risk, structural interest rate risk, business risk, pension risk and other risks outside the scope of regulatory Pillar 1 capital requirements. Economic capital also includes the diversification effect, which in the Group's case, owing to the multinational, multibusiness nature of its operations, is of key importance in determining its overall risk and solvency profile.

Economic capital is a fundamental tool for the internal management and implementation of the Group's strategy, from the viewpoint of both the assessment of capital adequacy and the management of portfolio and business risk.

With regard to capital adequacy, in the context of Pillar 2 of the Basel Capital Accord, the Group conducts the internal capital adequacy assessment process (ICAAP) using its economic capital model. To this end, it plans the evolution of the business and the capital requirements under a central scenario and under alternative stress scenarios. With this planning the Group ensures that it will continue to meet its capital adequacy targets, even in adverse economic scenarios.

Also, the economic capital-based metrics make it possible to assess risk-return targets, price transactions on a risk basis and gauge the economic viability of projects, units or lines of business, with the ultimate objective of maximising the generation of shareholder value.

Since it is a uniform risk measure, economic capital makes it possible to explain the distribution of risk across the Group, placing different activities and types of risk in a comparable metric.

RORAC and value creation

The Group has used RORAC methodology in its risk management since 1993, with the following objectives:

- Calculation of economic capital requirements and of the return thereon for the Group's business units, segments, portfolios and customers, in order to facilitate an optimal allocation of capital.

- Measurement of management of the Group's units, through the budgetary monitoring of capital requirements and RORAC.

- Analysis and setting of prices in the decision-making process for transactions (loan approval) and customers (monitoring).

The RORAC methodology facilitates the comparison, on a like-for-like basis, of the performance of transactions, customers, portfolios and businesses, and identifies those which achieve a risk-adjusted return higher than the Group's cost of capital, thus aligning risk management and business management with the aim of maximising value creation, which is the ultimate objective of Group senior management.

The Group periodically assesses the level of and the changes in the value creation (VC) and return on risk-adjusted capital (RORAC) of the Group and of its main business units. The VC is the profit generated over and above the cost of the economic capital (EC) used, and is calculated using the following formula: value creation = recurring profit – (average economic capital x cost of capital).
The profit used is obtained by making the required adjustments to accounting profit in order to reflect only the recurring profit obtained by each unit from its business activity.

4. Capital planning and stress tests

Capital stress tests have gained particular significance as a tool for the dynamic evaluation of banks' risk exposure and capital adequacy. A new forward-looking assessment model has become a key component of capital adequacy analysis.

This forward-looking assessment is based on both macroeconomic and idiosyncratic scenarios that are highly improbable but nevertheless plausible. To conduct the assessment, it is necessary to have robust planning models capable of transferring the effects defined in the projected scenarios to the various elements that have a bearing on the adequacy of a bank's capital.

The ultimate goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.
Internally, the Group has defined a capital planning and stress process, to serve not only as a response to the various regulatory exercises, but also as a key tool integrated in the Bank’s management and strategy.

The aim of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in adverse yet plausible economic scenarios. To this end, taking as a basis the Group's initial position (as defined by its financial statements, its capital base, its risk parameters and its regulatory ratios), estimates are made of the expected outcomes for the Group in various business environments (including severe recessions as well as “normal” macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The process implemented provides a comprehensive view of the Group’s capital for the time horizon analysed and in each of the scenarios defined. The analysis incorporates regulatory capital, economic capital and available capital metrics.

The entire process is carried out with the maximum involvement and under the close supervision of senior management, and within a framework that guarantees suitable governance and the application of adequate levels of challenge, review and analysis to all components of the process.

It should be noted that this internal capital planning and stress process is conducted transversally across the entire Group, not only at consolidated level, but also locally at the various units composing the Group. These units use the capital planning and stress process as an internal management tool and to respond to their local regulatory requirements.

During the recent economic crisis, the Group has undergone five stress tests in which it has demonstrated its strength and capital adequacy in the most extreme and severe macroeconomic scenarios. All the tests showed that, due mainly to its business model and current geographical diversification, the Group would continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

55. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1.b). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Subsidiaries of Banco Santander, S.A. (1)

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	**Location**	**Direct**	**Indirect**	**2015**	**2014**	**Line of business**	**Capital and reserves**	**Net profit (loss) for the year**	**Carrying amount**
2 & 3 Triton Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	46	6	14
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF (Jersey) Limited (n)	Jersey	0.00%	100.00%	100.00%	100.00%	LEASING	105	0	0
A & L CF December (1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	16	0	0
A & L CF December (10) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	43	0	0
A & L CF December (11) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	14	0	0
A & L CF June (2) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	3	0	0
A & L CF June (3) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	8	3	0
A & L CF June (8) Limited (e) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF March (5) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	3	0	0
A & L CF March (6) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF September (3) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	3	0	0
A & L CF September (4) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	1	0
A N Loans Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
A&L Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	5	0	5
Abbey Business Services (India) Private Limited (d)	India	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(1)	0	0
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	SECURITISATION	(880)	426	0
Abbey National (America) Holdings Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	12	0
Abbey National Beta Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	BANKING	18	11	0
Abbey National Investments (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Nominees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	0	0	0
Abbey National North America Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Abbey National North America LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Pension (Escrow Services) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	0	0	0
Abbey National PLP (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Property Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	582	26	188
Abbey National September Leasing (3) Limited (f) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
Abbey National Treasury Investments (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Treasury Services Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Treasury Services Overseas Holdings	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,497	17	1,477
Abbey National Treasury Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	4,586	377	3,882
Abbey National UK Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey Stockbrokers (Nominees) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	0	0	0
Abbey Stockbrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	7	(5)	2

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Ablasa Participaciones, S.L.	Spain	18.94%	81.06%	100.00%	100.00%	HOLDING COMPANY	458	(5)	454
Acoghe, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	HOTEL OPERATIONS	0	0	0
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	HOLDING COMPANY	1,489	18	1,860
Aevis Europa, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
AFB SAM Holdings, S.L.	Spain	1.00%	49.50%	100.00%	100.00%	HOLDING COMPANY	215	17	111
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	4	0	4
AKB Marketing Services Sp. z.o.o. w likwidacji (j)	Poland	0.00%	81.65%	100.00%	100.00%	MARKETING	7	0	0
ALIL Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	7	0	8
Aljarafe Golf, S.A. (j)	Spain	0.00%	89.41%	89.41%	89.41%	PROPERTY	0	(2)	1
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,215	(1)	1,148
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Commercial Bank plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	30	0	30
Alliance & Leicester Commercial Finance (Holdings) plc (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	25	0	25
Alliance & Leicester Financing plc (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	9	0	8
Alliance & Leicester Investments (Derivatives No.3) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	1
Alliance & Leicester Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	7	0	1
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	4	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(277)	1	0
Alliance Corporate Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	658	(245)	415
Amazonia Trade Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	1	0
AN (123) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	7	0	7
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	53	108	27
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	3	0	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	SERVICES	0	1	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	2	0	2
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	SERVICES	0	1	0
Argenline, S.A. (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Atlantes Azor No. 1	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Azor No. 2	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 6	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 1 FTC	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 1 plc	Ireland	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Atlantes NPL No. 1 - Banif	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes SME No. 4	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes SME No. 5	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantys Espacios Comerciales, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	25	0	24
Atual Companhia Securitizadora de Créditos Financeiros	Brazil	0.00%	89.25%	100.00%	100.00%	FINANCIAL SERVICES	0	0	0
Auto ABS 2012-3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS FCT Compartiment 2011-1 (j)	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS FCT Compartiment 2012-1	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS FCT Compartiment 2013-2	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Loans Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Swiss Leases 2013 GmbH	Switzerland	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans PLC	United Kingdom	-	(b)	-	-	SECURITISATION	(1)	(3)	0
Auto ABS2 FCT Compartiment 2013-A	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS3 FCT Compartiment 2014-1	France	-	(b)	-	-	SECURITISATION	0	0	0
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	78.98%	100.00%	100.00%	TECHNOLOGY SERVICES	2	1	2
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	34	6	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	8	1	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	34	3	25
Aviación Intercontinental, A.I.E.	Spain	65.00%	0.00%	65.00%	65.00%	FULL-SERVICE LEASING	74	5	35
Aviación RC II, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	26	3	23
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	5	1	10
Aviación Regional Cántabra, A.I.E.	Spain	73.58%	0.00%	73.58%	73.58%	FULL-SERVICE LEASING	34	4	22
Aviación Scorpius, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	34	4	26
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	21	2	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	FINANCE	301	142	373
Banbou S.A.R.L.	France	0.00%	90.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Banca PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	50.00%	BANKING	10	0	5
Banco Bandepe S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	BANKING	683	59	662
Banco Bonsucesso Consignado S.A.	Brazil	0.00%	53.55%	60.00%	-	BANKING	138	4	89
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	12	0	9
Banco de Asunción, S.A. in voluntary liquidation (j)	Paraguay	0.00%	99.33%	99.33%	99.33%	BANKING	0	0	0
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	1,094	0	1,095
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	BANKING	3,128	580	2,823
Banco Santander (Brasil) S.A.	Brazil	13.72%	75.53%	89.86%	89.66%	BANKING	12,906	1,295	9,918
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	0.00%	75.07%	99.99%	99.99%	BANKING	5,148	750	4,427
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	75.07%	100.00%	100.00%	FINANCE	85	11	72
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del	Mexico	0.00%	75.03%	100.00%	100.00%	HOLDING COMPANY	15	0	11

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Fideicomiso 2002114									
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	75.06%	100.00%	100.00%	FINANCE	12	0	10
Banco Santander (Panamá), S.A.	Panama	0.00%	100.00%	100.00%	100.00%	BANKING	92	3	95
Banco Santander (Suisse) SA	Switzerland	0.00%	100.00%	100.00%	100.00%	BANKING	542	26	325
Banco Santander Bahamas International Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	957	8	965
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	115	39	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	99.99%	99.99%	99.99%	FINANCE	54	(2)	53
Banco Santander International	United States	100.00%	0.00%	100.00%	100.00%	BANKING	787	68	481
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	BANKING	118	18	103
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	747	40	850
Banco Santander Río S.A.	Argentina	0.00%	99.30%	98.44%	98.44%	BANKING	846	298	416
Banco Santander Totta, S.A.	Portugal	0.00%	99.83%	99.94%	99.91%	BANKING	2,104	515	3,115
Banco Santander, S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	BANKING	312	16	189
Banif International Bank, Ltd	The Bahamas	0.00%	99.83%	100.00%	-	BANKING	20	(3)	18
Bank Zachodni WBK S.A.	Poland	69.41%	0.00%	69.41%	69.41%	BANKING	3,976	412	4,195
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	PROPERTY	7	0	8
Bansalud, S.L.	Spain	72.34%	12.00%	84.34%	84.34%	TECHNOLOGY SERVICES	(1)	(3)	3
Bansamex, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	CARDS	9	0	1
Bayones ECA Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
BCLF 2013-1 B.V.	The Netherlands	-	(b)	-	-	SECURITISATION	0	0	0
Besaya ECA Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
Bilkreditt 1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 2 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 3 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 4 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 5 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 6 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bonsucesso Tecnología LTDA.	Brazil	0.00%	53.55%	100.00%	-	IT SERVICES	0	2	1
BPV Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	53.55%	100.00%	-	FINANCE	2	0	1
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	33	10	73
BST International Bank, Inc.	Puerto Rico	0.00%	99.83%	100.00%	100.00%	BANKING	2	26	4
BW Guirapá I S.A.	Brazil	0.00%	76.49%	85.70%	66.19%	HOLDING COMPANY	119	(2)	101
BZ WBK Asset Management S.A.	Poland	50.00%	34.71%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	14	39
BZ WBK Faktor Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	FINANCIAL SERVICES	14	2	1
BZ WBK Finanse Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	FINANCIAL SERVICES	38	10	21
BZ WBK Inwestycje Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	SECURITIES COMPANY	13	0	8
BZ WBK Lease S.A.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	6	3	2
BZ WBK Leasing S.A.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	102	7	24

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BZ WBK Nieruchomości S.A.	Poland	0.00%	69.40%	99.99%	99.99%	SERVICES	0	0	0
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	0.00%	84.71%	100.00%	100.00%	FUND MANAGEMENT COMPANY	8	10	3
C&C Lucania S.r.l.	Italy	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	0	0	2
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62.87%	0.00%	62.87%	62.87%	FINANCE	0	0	0
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	(60)	0	0
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	176	71	250
CAPB Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Capital Street Delaware LP	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Capital Street Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	14	0	13
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,174	8	1,126
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	FINANCE	2	0	0
Carfax (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKER	28	0	27
Carfinco Financial Group Inc.	Canada	96.42%	0.00%	96.42%	100.00%	HOLDING COMPANY	197	(2)	207
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	-	HOLDING COMPANY	31	6	178
Carpe Diem Salud, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	4	(1)	3
Cartera Mobiliaria, S.A., SICAV	Spain	0.00%	81.12%	95.46%	93.43%	SECURITIES INVESTMENT	713	20	458
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	75.05%	99.97%	99.97%	SECURITIES COMPANY	53	1	40
Cater Allen Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Cater Allen International Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	0	0	0
Cater Allen Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	315	95	303
Cater Allen Lloyd's Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(12)	0	0
Cater Allen Syndicate Management Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	2	0	0
Cavalsa Gestión, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	284	(2)	250
CCAP Auto Lease Ltd.	United States	0.00%	58.94%	100.00%	100.00%	LEASING	290	340	0
Central Eólica Angical S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	8	0	7
Central Eólica Caititu S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	14	0	11
Central Eólica Coqueirinho S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	18	0	14
Central Eólica Corrupião S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	16	0	13
Central Eólica Inhambu S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	20	0	16
Central Eólica Tamanduá Mirim S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	20	0	16
Central Eólica Teiu S.A.	Brazil	0.00%	76.49%	100.00%	66.19%	ELECTRICITY PRODUCTION	11	0	9
Centro de Capacitación Santander, A.C.	Mexico	0.00%	75.07%	100.00%	100.00%	NOT-FOR-PROFIT INSTITUTE	1	0	1
Centros Comerciales Metropolitanos, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	SHOPPING CENTRE	1	(6)	0

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	LEASE OF AIRCRAFT	(47)	(6)	0
Chiplow Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	4	0	4
Chrysler Capital Auto Receivables LLC (consolidated)	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	0	0	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	(45)	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(87)	(36)	0
Club Zaudin Golf, S.A. (j)	Spain	0.00%	85.07%	95.15%	95.11%	SERVICES	0	(3)	0
Compagnie Générale de Crédit aux Particuliers - Crédipar S.A.	France	0.00%	50.00%	100.00%	-	BANKING	497	154	428
Compagnie pour la Location de Véhicules - CLV	France	0.00%	50.00%	100.00%	-	FINANCE	37	5	21
Conaraz Inversiones, SICAV, S.A. (j)	Spain	76.24%	4.54%	81.86%	81.86%	OPEN-END INVESTMENT COMPANY	3	0	2
Crawfall S.A. (g)	Uruguay	100.00%	0.00%	100.00%	100.00%	SERVICES	1	0	0
Dansk Auto Finansiering 1 Ltd	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Darep Limited	Ireland	100.00%	0.00%	100.00%	100.00%	REINSURANCE	8	1	7
Desarrollo de Infraestructuras de Castilla, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	WATER SUPPLY	0	0	0
Desarrollo Urbano de Patraix, S.A.	Spain	0.00%	68.72%	100.00%	45.16%	PROPERTY	24	1	18
Digital Procurement Holdings N.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	CARDS	10	2	9
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Dirgenfin, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	REAL ESTATE DEVELOPMENT	(19)	8	0
Drive Auto Receivables Trust 2015-A	United States	-	(b)	-	-	SECURITISATION	0	(130)	0
Drive Auto Receivables Trust 2015-B	United States	-	(b)	-	-	SECURITISATION	0	(25)	0
Drive Auto Receivables Trust 2015-C	United States	-	(b)	-	-	SECURITISATION	0	(23)	0
Drive Auto Receivables Trust 2015-D	United States	-	(b)	-	-	SECURITISATION	0	(54)	0
Drive Auto Receivables Trust 2016-A	United States	-	(b)	-	-	INACTIVE	0	0	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	75.07%	100.00%	100.00%	SERVICES	0	0	0
Empresas Banesto 5, Fondo de Titulización de Activos (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	55.00%	0.00%	55.00%	55.00%	FINANCE	14	(1)	7
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	PROPERTY	1	0	1
Evidence Previdência S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	HOLDING COMPANY	58	(8)	62
Explotaciones Urbanas Españolas, S.L.U.	Spain	0.00%	68.72%	100.00%	100.00%	HOTEL OPERATIONS	1	0	1
F. Café Prestadora de Serviços Ltda.	Brazil	0.00%	89.25%	100.00%	-	SERVICES	0	0	23
FFB - Participações e Serviços, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,775	3	1,020
Fideicomiso Financiero Super Letras Hipotecarias - clase I (j)	Argentina	0.00%	99.30%	100.00%	100.00%	TRUST SERVICES	0	0	0
Fideicomiso Financiero Super Letras Hipotecarias - clase II (j)	Argentina	0.00%	99.30%	100.00%	100.00%	TRUST SERVICES	0	0	0
Finance Professional Services, S.A.S.	France	0.00%	100.00%	100.00%	-	SERVICES	2	0	2
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	FINANCE	214	53	140
First National Motor Business Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Contracts Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	(1)	0	0
First National Motor Facilities Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
First National Motor Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Tricity Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	5	0	5
Fomento e Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	23	28	31
Fondo de Titulización de Activos PYMES Banesto 3 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 10	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 11	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 3 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 4 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 5 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 6	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 7 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 8 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1 (j)	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2012-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización PYMES Santander 12	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (in liquidation) (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	0	0	0
Formación Integral, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	TRAINING	0	0	0
Fortensky Trading, Ltd.	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Fosse (Master Issuer) Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(64)	45	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	33	(14)	0
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Fosse Trustee Limited	Jersey	-	(b)	-	-	SECURITISATION	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
FTPYME Santander 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fuencarral Agrupanorte, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	91	1	89
Geoban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	3	4	0
Geoban, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	18	3	24
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	SERVICES	1	1	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	COLLECTION AND PAYMENT SERVICES	1	0	0
Gestión de Instalaciones Fotovoltaicas, S.L. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	0	0	0
Gestora de Procesos S.A. in liquidation (j)	Peru	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Gestora Patrimonial Calle Francisco Sancha 12, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	SECURITIES AND PROPERTY MANAGEMENT	12	1	8
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	78.98%	88.50%	88.50%	PAYMENT SERVICES	283	72	244
Gieldokracja Spólka z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	SERVICES	0	0	0
Girobank Carlton Investments Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	1
Girobank Investments Ltd (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	0
Global Carihuela, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	3	17	13
Global Murex Iberia, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	(16)	0	0
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2012-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2013-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2014-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2015-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Green Energy Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	3	0
Grupo Alcanza, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1	0	9
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	HOLDING COMPANY	3,411	353	4,017
Grupo Financiero Santander México, S.A.B. de C.V.	Mexico	51.26%	23.81%	75.11%	75.09%	HOLDING COMPANY	5,246	748	3,953
GTS El Centro Equity Holdings, LLC	United States	0.00%	82.04%	82.04%	81.94%	HOLDING COMPANY	31	0	38
GTS El Centro Project Holdings, LLC (r)	United States	0.00%	82.04%	100.00%	100.00%	HOLDING COMPANY	-	-	-
Guaranty Car, S.A. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	AUTOMOTIVE	1	0	2
Habitatrix, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	0	0	0
Hipototta No. 1 FTC	Portugal	-	(b)	-	-	SECURITISATION	6	1	0
Hipototta No. 1 plc	Ireland	-	(b)	-	-	SECURITISATION	(1)	0	0
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	SECURITISATION	35	0	0

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Hipototta No. 4 plc	Ireland	-	(b)	-	-	SECURITISATION	(11)	6	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	SECURITISATION	27	1	0
Hipototta No. 5 plc	Ireland	-	(b)	-	-	SECURITISATION	(7)	4	0
Hipototta No. 7 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Hispamer Renting, S.A. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	FULL-SERVICE LEASING	12	0	1
Holbah II Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,030	228	1,702
Holbah Santander Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	251	691
Holding Jaureguizahar 2002, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	SECURITIES INVESTMENT	(5)	0	0
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(31)	37	0
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(5)	6	0
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Holneth B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	285	68	316
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.82%	100.00%	100.00%	E-COMMERCE	10	1	6
ICG do Brasil, S.A.	Brazil	0.00%	100.00%	100.00%	-	HOLDING COMPANY	28	7	35
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,906	51	3,957
Independence Community Commercial Reinvestment Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	136	1	127
Ingeniería de Software Bancario, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT SERVICES	184	26	145
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	54	0	54
Inmobiliária Das Avenidas Novas, S.A.	Portugal	0.00%	68.72%	100.00%	100.00%	PROPERTY	3	0	3
Inmobiliaria Metrogolf, S.A.	Portugal	0.00%	68.72%	100.00%	100.00%	SHOPPING CENTRE	4	0	1
Insurance Funding Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(4)	1	0
Integry Tecnologia e Serviços A H U Ltda.	Brazil	0.00%	78.98%	100.00%	100.00%	TECHNOLOGY SERVICES	0	0	0
Interfinance Holanda B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Inversiones Capital Global, S.A.	Spain	95.46%	4.54%	100.00%	100.00%	HOLDING COMPANY	542	0	475
Inversiones Casado del Alisal, S.A.	Spain	100.00%	0.00%	100.00%	-	PROPERTY	(5)	(1)	0
Inversiones Marítimas del Mediterráneo, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INACTIVE	(5)	0	0
Isban Argentina S.A.	Argentina	87.42%	12.58%	100.00%	100.00%	FINANCIAL SERVICES	3	1	2
Isban Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	SERVICES	13	0	22
Isban Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	IT SERVICES	18	2	20
Isban DE GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT SERVICES	5	1	7
Isban México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	IT SERVICES	59	4	61
Isban U.K., Ltd.	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT SERVICES	16	6	0
Kelmarsh Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	7	0	7
La Unión Resinera Española, S.A. in liquidation	Spain	76.79%	19.55%	96.35%	96.35%	CHEMICALS	5	2	7
La Vital Centro Comercial y de Ocio, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	SHOPPING CENTRE	20	2	19
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Mortgages Trustee Limited	Jersey	-	(b)	-	-	SECURITISATION	0	0	0
Langton PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2012-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	AGRICULTURE AND LIVESTOCK	28	0	16
Lease Totta No. 1 FTC (j)	Portugal	-	(b)	-	-	SECURITISATION	28	4	0
Leasetotta No. 1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FACTORING	0	0	0
Luri 1, S.A. (m)	Spain	26.00%	0.00%	100.00%	100.00%	PROPERTY	38	(7)	9
Luri 2, S.A. (m)	Spain	30.00%	0.00%	100.00%	100.00%	PROPERTY	22	(3)	6
Luri 4, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	13	(15)	13
Luri 6, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE INVESTMENT	1,139	8	1,473
Luri Land, S.A. (m)	Belgium	0.00%	28.20%	100.00%	100.00%	PROPERTY	5	0	1
MAC No. 1 Limited (i)	United Kingdom	-	(b)	-	-	MORTGAGE LOAN COMPANY	1	0	0
Mantiq Investimentos Ltda.	Brazil	0.00%	89.25%	100.00%	100.00%	SECURITIES COMPANY	1	1	2
Master Red Europa, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	PROPERTY	0	0	0
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	FINANCIAL ADVISORY	0	0	0
Merlion Aviation One Limited	Ireland	51.00%	0.00%	51.00%	-	FULL-SERVICE LEASING	1	0	0
Metroparque, S.A.	Spain	0.00%	68.72%	100.00%	100.00%	SHOPPING CENTRE	72	5	52
Metropolitana Castellana, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY MANAGEMENT	21	1	41
Metrovacesa Access Tower GmbH (j)	Germany	0.00%	68.72%	100.00%	100.00%	PROPERTY MANAGEMENT	1	0	1
Metrovacesa Alquileres Urbanos, S.L. Sole-Shareholder Company	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	61	1	35
Metrovacesa France, S.A.S.	France	0.00%	68.72%	100.00%	100.00%	PROPERTY	3	6	9
Metrovacesa Inmuebles y Promociones, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	37	(5)	32
Metrovacesa Mediterranée, S.A.S.	France	0.00%	68.72%	100.00%	100.00%	PROPERTY	24	(25)	0
Metrovacesa, S.A.	Spain	68.72%	0.00%	68.72%	55.89%	PROPERTY	1,236	(64)	1,418
Motor 2011 Holdings Limited (j)	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2011 PLC (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2012 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2012 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2013-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2013-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(1)	1	0
Motor 2014-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2014-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	3	(1)	0
Motor 2015-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2015-1 PLC	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2015-2 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Motor 2015-2 PLC	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	(16)	0	43
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	LEASING	21	0	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	18	1	17
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	48	2	43
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	SECURITIES INVESTMENT	98	(2)	96
Novimovest - Fundo de Investimento Imobiliário	Portugal	0.00%	78.46%	78.59%	77.26%	INVESTMENT FUND	325	0	254
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	4	0	2
Oildor, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	166	0	122
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	157	0	159
Optimal Alternative Investments, S.G.I.I.C., S.A. in liquidation (j)	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	2	0	1
Optimal Investment Services SA	Switzerland	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	30	(3)	5
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0,00%	54,18%	51,25%	51,25%	FUND MANAGEMENT COMPANY	3	0	0
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0,00%	44,14%	51,62%	51,62%	FUND MANAGEMENT COMPANY	5	0	0
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidated) (c)	The Bahamas	0,00%	55,62%	56,10%	54,89%	FUND MANAGEMENT COMPANY	47	0	0
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1,793	196	1,348
Paseo Comercial Carlos III, S.A.	Spain	0.00%	34.36%	50.00%	50.00%	SHOPPING CENTRE	25	2	21
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	PROPERTY	110	4	103
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Penmanshiel Energy Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	9	(1)	19
Pentapolitano, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	76	0	76
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	22	6	4
Phoenix C1 Aviation Limited	Ireland	51.00%	0.00%	51.00%	-	FULL-SERVICE LEASING	0	1	0
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Portada S.A. in liquidation (j)	Chile	0.00%	96.17%	96.17%	96.17%	FINANCE	0	0	0
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	INTERNET	0	0	0
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Portal Universia, S.A.	Spain	0.00%	94.72%	94.72%	88.07%	INTERNET	1	(1)	0
Produban Servicios Informáticos Generales, S.L.	Spain	99.96%	0.04%	100.00%	100.00%	SERVICES	202	13	201
Produban Serviços de Informática S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	IT SERVICES	9	1	4
Programa Multi Sponsor PMS, S.A.	Spain	50.00%	50.00%	100.00%	100.00%	ADVERTISING	2	0	1
Project Maple I B.V.	The Netherlands	0.00%	68.72%	100.00%	100.00%	SECURITIES INVESTMENT	(1)	0	0
Promociones Vallebramen, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	(29)	0	0
PSA Finance Suisse, S.A.	Switzerland	0.00%	50.00%	100.00%	-	LEASING	24	10	23
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	-	FINANCE	309	70	149

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
PSA Financial Services Spain, E.F.C, S.A.	Spain	0.00%	50.00%	50.00%	-	FINANCE	324	10	181
PSA Lion Deutschland GmbH	Germany	0.00%	50.00%	50.00%	-	BANKING	7	(1)	4
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	29	1	35
Reintegra, S.A.	Spain	55.00%	45.00%	100.00%	100.00%	SERVICES	7	1	6
Reliz Sp. z o.o. w upadłości likwidacyjnej (j) (l)	Poland	0.00%	69.41%	100.00%	100.00%	FULL-SERVICE LEASING	(10)	2	0
Retail Financial Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Retop S.A. (f)	Uruguay	100.00%	0.00%	100.00%	-	FINANCE	1	11	63
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Roc Aviation One Designated Activity Company	Ireland	100.00%	0.00%	100.00%	-	FULL-SERVICE LEASING	0	0	0
Roc Shipping One Limited	Ireland	51.00%	0.00%	51.00%	-	FULL-SERVICE LEASING	0	0	0
Rosteral, SICAV, S.A. (j)	Spain	99.85%	0.13%	99.98%	99.98%	OPEN-END INVESTMENT COMPANY	3	0	2
Sadorma 2003, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	HOTEL OPERATIONS	20	2	23
Saja Eca Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
SAM UK Investment Holdings Limited	United Kingdom	77.67%	22.33%	100.00%	100.00%	HOLDING COMPANY	594	62	582
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	HOLDING COMPANY	82	35	97
Saninv - Gestão e Investimentos, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Sansol S.r.l.	Italy	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	14	0	5
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander (CF Trustee) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT COMPANY	0	0	0
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT COMPANY	0	0	0
Santander Agente de Valores Limitada	Chile	0.00%	67.43%	100.00%	100.00%	SECURITIES COMPANY	74	13	59
Santander Ahorro Inmobiliario 2, S.I.I., S.A.	Spain	85.50%	0.01%	85.51%	85.51%	REAL ESTATE INVESTMENT	30	0	26
Santander AM Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	189	(2)	150
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	49	5	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	159	79	198
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	26	0	26
Santander Asset Management Chile S.A.	Chile	0.01%	99.93%	100.00%	100.00%	SECURITIES INVESTMENT	4	0	4
Santander Back-Offices Globales Especializados, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	1
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	4	1	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	0	0	1
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	940	12	457
Santander Bank & Trust Ltd.	The Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	787	6	403
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	BANKING	12,080	161	12,240
Santander Benelux, S.A./N.V.	Belgium	100.00%	0.00%	100.00%	100.00%	BANKING	1,162	37	1,125
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.25%	100.00%	100.00%	SERVICES	34	5	35
Santander Brasil Advisory Services S.A.	Brazil	0.00%	86.14%	96.52%	96.52%	CONSULTANCY SERVICES	3	0	3
Santander Brasil, EFC, S.A.	Spain	0.00%	89.25%	100.00%	100.00%	FINANCE	765	6	685
Santander Capital Desarrollo, SGEIC, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL COMPANY	1	0	0
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	COMMERCE	6	2	0

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Santander Capitalização S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	INSURANCE	22	22	39
Santander Carbón Finance, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	SECURITIES INVESTMENT	(31)	0	0
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	CARDS	(10)	3	0
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	CARDS	125	1	126
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	188	7	140
Santander Central Hispano Issuances Limited (j)	Cayman Islands	100.00%	0.00%	100.00%	100.00%	INACTIVE	0	0	0
Santander Chile Holding S.A.	Chile	22.11%	77.72%	99.83%	99.54%	HOLDING COMPANY	1,180	208	1,232
Santander Commercial Paper, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	3	1	0
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	4	2	4
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	635	103	355
Santander Consumer ABS Funding 1 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(3)	(3)	0
Santander Consumer ABS Funding 2 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(4)	(5)	0
Santander Consumer ABS Funding 3 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	(3)	0
Santander Consumer Auto Receivables Funding 2011-A LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	180	47	0
Santander Consumer Auto Receivables Funding 2013-B1 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	142	29	0
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	7	(55)	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	7	(53)	0
Santander Consumer Auto Receivables Funding 2013-L1 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(56)	(74)	0
Santander Consumer Auto Receivables Funding 2014-B1 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(11)	34	0
Santander Consumer Auto Receivables Funding 2014-B2 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(11)	16	0
Santander Consumer Auto Receivables Funding 2014-B3 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(16)	25	0
Santander Consumer Auto Receivables Funding 2014-B4 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(36)	37	0
Santander Consumer Auto Receivables Funding 2014-B5 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(41)	51	0
Santander Consumer Auto Receivables Funding 2014-B6 LLC	United States	0.00%	58.94%	100.00%	100.00%	INACTIVE	0	0	0
Santander Consumer Auto Receivables Funding 2014-L1 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(21)	(23)	0
Santander Consumer Auto Receivables Funding 2015-L1 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	(11)	0
Santander Consumer Auto Receivables Funding 2015-L2 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	(11)	0
Santander Consumer Auto Receivables Funding 2015-L3 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	(15)	0
Santander Consumer Auto Receivables Funding 2015-L4 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	(12)	0
Santander Consumer Auto Receivables Funding 2015-L5 LLC	United States	0.00%	58.94%	100.00%	-	INACTIVE	0	0	0
Santander Consumer Auto Specialty Trust 2015-A	United States	-	(b)	-	-	INACTIVE	0	0	0
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	BANKING	3.063	547	4.820
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	FINANCE	1.359	120	1.783
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	BANKING	326	34	363
Santander Consumer Bank S.A.	Poland	0.00%	81.65%	100.00%	100.00%	BANKING	531	102	518
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	BANKING	542	20	523
Santander Consumer Captive Auto Funding 5 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(3)	(1)	0
Santander Consumer Captive Auto Funding LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(16)	(1)	0
Santander Consumer Chile S.A.	Chile	51.00%	0.00%	51.00%	51.00%	FINANCE	46	12	14
Santander Consumer Credit Funding 3 LLC	United States	0.00%	58.94%	100.00%	-	FINANCE	0	57	0

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Santander Consumer Credit Funding I LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(2)	26	0
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(41)	(1)	0
Santander Consumer Finance Benelux B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	FINANCE	128	20	190
Santander Consumer Finance Media S.r.l. - in liquidazione (j)	Italy	0.00%	65.00%	65.00%	65.00%	FINANCE	8	0	5
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	FINANCE	160	38	130
Santander Consumer Finance Zrt.	Hungary	0.00%	100.00%	100.00%	100.00%	FINANCE	3	(3)	0
Santander Consumer Finance, S.A.	Spain	63.19%	36.81%	100.00%	100.00%	BANKING	9.225	414	7.378
Santander Consumer Finanse Sp. z o.o.	Poland	0.00%	81.65%	100.00%	100.00%	SERVICES	15	1	13
Santander Consumer France S.A.S.	France	0.00%	100.00%	100.00%	100.00%	BANKING	490	(8)	490
Santander Consumer Funding 3 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	203	(3)	0
Santander Consumer Funding 5 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	19	0	0
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	363	34	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4.226	556	5.677
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	58.94%	100.00%	-	SERVICES	0	0	5
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	LEASING	20	36	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.50%	100.00%	-	INSURANCE BROKERAGE	0	0	0
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	81.65%	100.00%	100.00%	LEASING	11	3	5
Santander Consumer Receivables 10 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	285	250	0
Santander Consumer Receivables 11 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	38	64	0
Santander Consumer Receivables 12 LLC	United States	0.00%	58.94%	100.00%	100.00%	INACTIVE	0	0	0
Santander Consumer Receivables 3 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	117	67	0
Santander Consumer Receivables 7 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	64	120	0
Santander Consumer Receivables 9 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	153	27	0
Santander Consumer Receivables Funding LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	0	0	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FULL-SERVICE LEASING	61	4	39
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Consumer Services, S.A.	Portugal	0.00%	100.00%	100.00%	-	PURCHASE AND SALE AND RENTAL OF VEHICLES	10	0	10
Santander Consumer USA Holdings Inc.	United States	0.00%	58.94%	58.94%	60.46%	HOLDING COMPANY	3,284	796	5,597
Santander Consumer USA Inc.	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	2,904	(143)	2,548
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	353	61	505
Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Mexico	0.00%	75.07%	100.00%	100.00%	CARDS	654	160	611
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	INSURANCE BROKER	79	2	54
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	SECURITIES COMPANY	55	2	48
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	SECURITIES COMPANY	94	19	101
Santander de Titulización S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	3	1
Santander Drive Auto Receivables LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	1	0	0
Santander Drive Auto Receivables Trust 2012-5	United States	-	(b)	-	-	SECURITISATION	114	18	0
Santander Drive Auto Receivables Trust 2012-6	United States	-	(b)	-	-	SECURITISATION	190	29	0

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Santander Drive Auto Receivables Trust 2013-1	United States	-	(b)	-	-	SECURITISATION	169	36	0
Santander Drive Auto Receivables Trust 2013-2	United States	-	(b)	-	-	SECURITISATION	164	39	0
Santander Drive Auto Receivables Trust 2013-3	United States	-	(b)	-	-	SECURITISATION	153	42	0
Santander Drive Auto Receivables Trust 2013-4	United States	-	(b)	-	-	SECURITISATION	14	31	0
Santander Drive Auto Receivables Trust 2013-5	United States	-	(b)	-	-	SECURITISATION	95	64	0
Santander Drive Auto Receivables Trust 2013-A	United States	-	(b)	-	-	SECURITISATION	7	22	0
Santander Drive Auto Receivables Trust 2014-1	United States	-	(b)	-	-	SECURITISATION	(3)	74	0
Santander Drive Auto Receivables Trust 2014-2	United States	-	(b)	-	-	SECURITISATION	(31)	76	0
Santander Drive Auto Receivables Trust 2014-3	United States	-	(b)	-	-	SECURITISATION	(55)	79	0
Santander Drive Auto Receivables Trust 2014-4	United States	-	(b)	-	-	SECURITISATION	(100)	99	0
Santander Drive Auto Receivables Trust 2014-5	United States	-	(b)	-	-	SECURITISATION	(98)	82	0
Santander Drive Auto Receivables Trust 2015-1	United States	-	(b)	-	-	SECURITISATION	0	(40)	0
Santander Drive Auto Receivables Trust 2015-2	United States	-	(b)	-	-	SECURITISATION	0	(48)	0
Santander Drive Auto Receivables Trust 2015-3	United States	-	(b)	-	-	SECURITISATION	0	(59)	0
Santander Drive Auto Receivables Trust 2015-4	United States	-	(b)	-	-	SECURITISATION	0	(91)	0
Santander Drive Auto Receivables Trust 2015-5	United States	-	(b)	-	-	SECURITISATION	0	(103)	0
Santander Drive Auto Receivables Trust 2015-S1	United States	-	(b)	-	-	SECURITISATION	0	(1)	0
Santander Drive Auto Receivables Trust 2015-S2	United States	-	(b)	-	-	SECURITISATION	0	(1)	0
Santander Drive Auto Receivables Trust 2015-S3	United States	-	(b)	-	-	SECURITISATION	0	(1)	0
Santander Drive Auto Receivables Trust 2015-S4	United States	-	(b)	-	-	SECURITISATION	0	(1)	0
Santander Drive Auto Receivables Trust 2015-S5	United States	-	(b)	-	-	SECURITISATION	0	(1)	0
Santander Drive Auto Receivables Trust 2015-S6	United States	-	(b)	-	-	SECURITISATION	0	(1)	0
Santander Drive Auto Receivables Trust 2015-S7	United States	-	(b)	-	-	SECURITISATION	0	(2)	0
Santander Energías Renovables I, SCR de Régimen Simplificado, S.A.	Spain	56.76%	0.00%	56.76%	56.76%	VENTURE CAPITAL COMPANY	23	(1)	11
Santander Envíos, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	TRANSFER OF FUNDS FOR IMMIGRANTS	2	0	1
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	45	0	45
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	6	0	0
Santander Factoring S.A.	Chile	0.00%	99.83%	100.00%	100.00%	FACTORING	42	2	44
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	FACTORING	369	98	126
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	2	0	1
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE	900	5	363
Santander Financial Products plc (j)	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Santander Financial Services, Inc.	Puerto Rico	100.00%	0.00%	100.00%	100.00%	FINANCE	395	(92)	403
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	SECURITISATION	40	(3)	34
Santander Fund Administration, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	3	(2)	3
Santander Fundo de Investimento Amazonas Multimercado Crédito Privado Investimento no Exterior (o)	Brazil	0.00%	89.25%	100.00%	100.00%	INVESTMENT FUND	97	13	98
Santander Fundo de Investimento Diamantina Multimercado Crédito Privado Investimento no Exterior (g)	Brazil	0.00%	89.25%	100.00%	100.00%	INVESTMENT FUND	22	1	21
Santander Fundo de Investimento em Cotas de Fundos de	Brazil	0.00%	93.48%	100.00%	100.00%	INVESTMENT FUND	40	1	38

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Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Investimento Contract i Referenciado DI (f)									
Santander Fundo de Investimento Financial Curto Prazo (e)	Brazil	0.00%	89.24%	100.00%	100.00%	INVESTMENT FUND	1,873	129	1,787
Santander Fundo de Investimento Guarujá Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.25%	100.00%	100.00%	INVESTMENT FUND	56	6	55
Santander Fundo de Investimento Renda Fixa Capitalization (e)	Brazil	0.00%	89.25%	100.00%	100.00%	INVESTMENT FUND	82	7	79
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	89.25%	100.00%	100.00%	INVESTMENT FUND	23	0	21
Santander Fundo de Investimento Unix Multimercado Crédito Privado (o)	Brazil	0.00%	89.25%	100.00%	100.00%	INVESTMENT FUND	54	13	60
Santander GBM Secured Financing Limited	Ireland	-	(b)	-	-	SECURITISATION	8	(1)	0
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.83%	100.00%	100.00%	FINANCIAL SERVICES	1	1	2
Santander Gestión Inmobiliaria, S.A.	Spain	0.01%	99.99%	100.00%	100.00%	PROPERTY	1	0	0
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	7	0	8
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	PROPERTY MANAGEMENT	109	1	142
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	685	4	614
Santander Global Property U.S.A., Inc.	United States	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	SECURITIES INVESTMENT	251	48	255
Santander Global Services, S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SPORTS OPERATIONS	31	(1)	29
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	5	0	4
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Mexico	0.00%	75.07%	100.00%	100.00%	FINANCE	262	45	230
Santander Holanda B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	12	0	12
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	HOLDING COMPANY	5,807	(7)	3,954
Santander Holding Vivienda, S.A. de C.V.	Mexico	0.00%	75.07%	100.00%	100.00%	SERVICES	29	2	23
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	16,968	305	9,168
Santander Insurance Agency, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKER	12	3	16
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	INSURANCE	1	0	1
Santander Insurance Holding, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	574	(4)	384
Santander Insurance Services UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT COMPANY	46	1	35
Santander Intermediación Correduría de Seguros, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKER	17	1	9
Santander International Debt, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	8	1	0
Santander International Products, Plc.	Ireland	99.99%	0.01%	100.00%	100.00%	FINANCE	1	0	0
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,153	159	1,032
Santander Investment Bank Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	958	26	899
Santander Investment Bolsa, Sociedad de Valores, S.A. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	176	10	140
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE	487	31	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	(5)	(5)	25

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Santander Investment Limited	The Bahamas	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	153	(4)	143
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	333	(18)	157
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FUND AND PORTFOLIO MANAGER	8	0	7
Santander Issuances, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	2	0	0
Santander Lease, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	100.00%	LEASING	65	5	35
Santander Leasing S.A. Arrendamiento Mercantil	Brazil	0.00%	89.24%	99.99%	99.99%	LEASING	1,204	56	1,125
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	14	1	0
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MORTGAGE LOAN COMPANY	235	9	243
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	37.36%	62.64%	100.00%	100.00%	INSURANCE BROKERAGE	3	0	1
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	1
Santander Microcrédito Assessoria Financeira S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	FINANCIAL SERVICES	5	0	5
Santander Operaciones Retail, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	SERVICES	11	1	9
Santander Overseas Bank, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	199	101	165
Santander Paraty Qif PLC	Ireland	0.00%	89.25%	100.00%	100.00%	INVESTMENT COMPANY	25	(8)	15
Santander Participações S.A.	Brazil	0.00%	89.25%	100.00%	100.00%	HOLDING COMPANY	423	(99)	289
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	4	0	4
Santander Perpetual, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	2	0	0
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	30	5	26
Santander Private Banking S.p.A.	Italy	100.00%	0.00%	100.00%	100.00%	BANKING	51	(6)	48
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	353	(7)	443
Santander Private Equity, S.A., S.G.E.C.R. (j)	Spain	90.00%	9.98%	100.00%	100.00%	VENTURE CAPITAL MANAGEMENT COMPANY	9	(1)	4
Santander Private Real Estate Advisory & Management, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	PROPERTY	4	1	5
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	14	1	16
Santander Public Sector SCF, S.A.	France	94.00%	6.00%	100.00%	100.00%	FINANCE	0	(1)	0
Santander Real Estate, S.G.I.I.C., S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	118	0	116
Santander Revolving Asset Funding 1 LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	0	0	0
Santander Río Servicios S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	SERVICES	0	0	0
Santander Río Valores S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	SECURITIES COMPANY	4	1	5
Santander RSPE 5 LLC	United States	0.00%	58.94%	100.00%	100.00%	INACTIVE	0	0	0
Santander RSPE 6 LLC	United States	0.00%	58.94%	100.00%	100.00%	INACTIVE	0	0	0
Santander S.A. - Serviços Técnicos, Administrativos e de Corretagem de Seguros	Brazil	0.00%	93.48%	100.00%	100.00%	INSURANCE BROKER	134	6	122
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.23%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	0	0
Santander Secretariat Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander Securities LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	62	(36)	26
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	MANAGEMENT COMPANY	182	20	201

Company	Location	% of ownership held by the Bank Direct	% of ownership held by the Bank Indirect	% of voting power (k) 2015	% of voting power (k) 2014	Line of business	Millions of euros (a) Capital and reserves	Millions of euros (a) Net profit (loss) for the year	Millions of euros (a) Carrying amount
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	199	12	272
Santander Securities Services, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	BANKING	435	(10)	372
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	INSURANCE	918	70	664
Santander Service GmbH	Germany	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	1
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	75.07%	100.00%	100.00%	SERVICES	3	1	3
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	75.07%	100.00%	100.00%	FINANCIAL SERVICES	2	0	1
Santander Tecnología y Operaciones A.E.I.E.	Spain	-	(b)	-	-	SERVICES	0	0	0
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.89%	100.00%	100.00%	INSURANCE	152	4	47
Santander Totta, SGPS, S.A.	Portugal	0.00%	99.89%	99.89%	99.89%	HOLDING COMPANY	3,247	71	3,322
Santander Trade Services Limited	Hong Kong	0.00%	100.00%	100.00%	100.00%	SERVICES	18	0	18
Santander UK Foundation Limited	United Kingdom	-	(b)	-	-	CHARITY	0	0	0
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	FINANCE	16,777	689	20,986
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE	59	0	54
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	19,605	157	15,352
Santander US Debt, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	0	0	0
Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	Mexico	0.00%	75.07%	100.00%	100.00%	FINANCE	106	1	80
Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	SECURITISATION	7	(3)	0
Santotta-Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal	0.00%	99.83%	100.00%	100.00%	HOLDING COMPANY	79	102	12
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	HOLDING COMPANY	10,095	215	11,542
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2010-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-2 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 15-1 (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Auto 2014-1 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 15-1 Sp. z o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinta Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto I Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
SCF Rahoituspalvelut 2013 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut I Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Ajoneuvohallinto Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Rahoituspalvelut Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCI BANBY PRO	France	0.00%	90.00%	100.00%	100.00%	PROPERTY	2	0	1
Scottish Mutual Pensions Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	INSURANCE	0	0	0
Secucor Finance 2013-I Limited (q)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Serfin International (j)	Cayman Islands	0.00%	99.83%	100.00%	100.00%	INACTIVE	0	0	0
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	70	0	72
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	PROPERTY	61	1	70
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	SECURITY	2	0	1
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	FINANCE	16	3	1
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	21	0	20
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	285	10	258
SIAF LLC	United States	0.00%	58.94%	100.00%	100.00%	FINANCE	(108)	(8)	0
Silk Finance No. 3 Limited	Ireland	-	(b)	-	-	SECURITISATION	(13)	13	0
Silk Finance No. 4	Portugal	-	(b)	-	-	SECURITISATION	0	(9)	0
Sistema 4B, S.L. (consolidated)	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	1	0
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	APPRAISALS	1	1	1
Società Energetica Vibonese Due S.r.l.	Italy	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	1	0	2
Société Financière de Banque SOFIB	France	0.00%	50.00%	50.00%	-	BANKING	939	2	463
Socur, S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE	30	20	59
Sol Orchard Imperial 1 LLC (c)	United States	0.00%	82.04%	100.00%	100.00%	ELECTRICITY PRODUCTION	38	(1)	38
Solar Red, SGPS, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Solarlaser Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	0	0	0
SOV APEX LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	37,016	336	29,511
Sovereign Capital Trust IX	United States	0.00%	100.00%	100.00%	100.00%	FINANCE	4	0	4
Sovereign Capital Trust VI	United States	0.00%	100.00%	100.00%	100.00%	FINANCE	9	0	9
Sovereign Community Development Company	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	38	(1)	41
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	129	1	129
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	125	3	123
Sovereign Precious Metals, LLC	United States	0.00%	100.00%	100.00%	100.00%	PURCHASE AND SALE OF PRECIOUS METALS	139	0	14
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	7,127	85	4,840
Sovereign Securities Corporation, LLC	United States	0.00%	100.00%	100.00%	100.00%	INACTIVE	52	0	49

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Sovereign Spirit Limited (n)	Bermuda	0.00%	100.00%	100.00%	100.00%	LEASING	1	0	0
Sterrebeeck B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	5,376	649	11,736
Suleyado 2003, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	5	(1)	5
Super Pagamentos e Administração de Meios Eletrônicos S.A. (m)	Brazil	0.00%	44.62%	50.00%	50.00%	PAYMENT SERVICES	8	(1)	6
Suzaku Aviation One Limited	United Kingdom	100.00%	0.00%	100.00%	-	LEASING	0	0	0
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	INTERMEDIATION	4	0	0
Svensk Autofinans 1 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Svensk Autofinans WH 1 Ltd	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	799	(799)	0
Synergy Abstract, LP (j)	United States	0.00%	70.00%	70.00%	70.00%	INACTIVE	0	0	0
Taralga Holding Land Trust	Australia	0.00%	90.00%	90.00%	-	PROPERTY	62	3	59
Taralga Holding Nominees 1 PTY Limited	Australia	0.00%	90.00%	90.00%	-	HOLDING COMPANY	62	3	0
Taralga Holding Nominees 2 PTY Limited	Australia	0.00%	90.00%	90.00%	-	HOLDING COMPANY	20	(4)	0
Taralga Holding Operating Trust	Australia	0.00%	90.00%	90.00%	-	ELECTRICITY PRODUCTION	20	(4)	20
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.83%	100.00%	100.00%	HOLDING COMPANY	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	HOLDING COMPANY	2,409	256	2,436
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	16	0	16
The National & Provincial Building Society Pension Fund Trustees Limited (d)	United Kingdom	-	(b)	-	-	ASSET MANAGEMENT COMPANY	0	0	0
Time Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Time Retail Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Titulos de Renta Fija, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	4	(1)	2
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	71	0	63
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	78.98%	100.00%	100.00%	TELEMARKETING	0	0	0
Tornquist Asesores de Seguros S.A. (j)	Argentina	0.00%	99.99%	99.99%	99.99%	ADVISORY SERVICES	0	0	0
Totta & Açores Inc. Newark	United States	0.00%	99.83%	100.00%	100.00%	BANKING	1	0	1
Totta (Ireland), PLC (h)	Ireland	0.00%	99.83%	100.00%	100.00%	FINANCE	421	18	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.83%	100.00%	100.00%	PROPERTY	133	3	100
Trade Maps 3 Hong Kong Limited	Hong Kong	-	(b)	-	-	SECURITISATION	0	0	0
Trade Maps 3 Ireland Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Trans Rotor Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	FULL-SERVICE LEASING	15	0	15
Tuttle & Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	COLLECTION AND PAYMENT SERVICES	2	0	2
Unicorn Shipping One Designated Activity Company (g)	Ireland	100.00%	0.00%	100.00%	-	LEASING	0	0	0
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	INTERNET	1	0	0
Universia Chile S.A.	Chile	0.00%	86.34%	86.34%	85.85%	INTERNET	1	0	0
Universia Colombia S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	12	(7)	7
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Perú, S.A.	Peru	0.00%	90.77%	90.77%	79.93%	INTERNET	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Capital and reserves	Net profit (loss) for the year	Carrying amount
Universia Puerto Rico, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	INTERNET	0	(1)	0
Vailen Management, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	0	0	0
Varitelia Distribuciones, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	PROPERTY	(143)	(11)	0
Vertiarama, S.L.	Spain	0.00%	68.72%	100.00%	100.00%	SECURITIES INVESTMENT	(86)	0	0
Viking Collection Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Vista Capital de Expansión, SGEIC, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	VENTURE CAPITAL MANAGEMENT COMPANY	3	0	0
Vista Desarrollo, S.A., SCR	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL COMPANY	291	(22)	215
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PORTFOLIO MANAGEMENT	0	0	0
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	(742)	(200)	0
Waypoint Capital Trust I	United States	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	9	0	9
Webcasas, S.A.	Brazil	0.00%	93.48%	100.00%	100.00%	INTERNET	5	0	5
Whitewick Limited	Jersey	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Winwick Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	7	0	7
WTW Shipping Limited	Ireland	100.00%	0.00%	100.00%	100.00%	LEASING	9	1	9

(a) Amount per books of each company at 31 December 2015, disregarding any interim dividends paid in the year. The carrying amount (cost, net of allowances) is the figure of each holding company multiplied by the Group's percentage of ownership, disregarding impairment of goodwill arising on consolidation. The data on foreign companies were translated to euros at the year-end exchange rates.
(b) Companies over which effective control is exercised.
(c) Data from the latest approved financial statements as at 31 December 2014.
(d) Data from the latest approved financial statements as at 31 March 2015.
(e) Data from the latest approved financial statements as at 30 June 2015.
(f) Data from the latest approved financial statements as at 30 September 2015.
(g) Data from the latest approved financial statements as at 31 July 2015.
(h) Data from the latest approved financial statements as at 30 November 2015.
(i) Data from the latest approved financial statements as at 31 August 2015.
(j) Company in liquidation as at 31 December 2015.
(k) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(l) Data from the latest available approved financial statements at 31 December 2013.
(m) See note 2.b.
(n) Company resident in the UK for tax purposes.
(o) Data from the latest approved financial statements as at 28 February 2015.
(p) Data from the latest approved financial statements as at 31 May 2015.
(q) Data from the latest approved financial statements as at 31 January 2015.
(r) Company with no available approved financial statements.

(1) The preference share issuer companies are detailed in Appendix III, together with other relevant information.

Appendix II

Companies in which Santander Group has ownership interests of more than 5% (g), associates of Santander Group and jointly controlled entities

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
3E1 Sp. z o.o (b)	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	11	1	0
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	COLLECTION AND PAYMENT SERVICES	Associate	53	14	2
Aegon Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled entity	340	143	17
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Jointly controlled entity	15	12	0
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Jointly controlled entity	86	17	3
Aegon Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled entity	270	170	9
Agres, Agrupación Restauradores, S.L.	Spain	0.00%	43.00%	43.00%	43.00%	RESTAURANTS	Associate	2	2	0
Aguas de Fuensanta, S.A.	Spain	36.78%	0.00%	36.78%	36.78%	FOOD	Associate	0	(24)	(16)
Allfunds Bank Brasil Representações Ltda.	Brazil	0.00%	25.25%	50.00%	-	ADMINISTRATIVE SERVICES	Jointly controlled entity	0	0	0
Allfunds Bank International S.A.	Luxembourg	0.00%	25.25%	50.00%	50.00%	BANKING	Jointly controlled entity	263	19	6
Allfunds Bank, S.A.	Spain	0.00%	25.25%	50.00%	50.00%	BANKING	Jointly controlled entity	855	141	69
Allfunds International Schweiz AG	Switzerland	0.00%	25.25%	50.00%	50.00%	SERVICES	Jointly controlled entity	5	3	1
Allfunds Nominee Limited	United Kingdom	0.00%	25.25%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	0	0	0
Anekis, S.A.	Spain	24.75%	24.75%	49.50%	49.50%	ADVERTISING	Associate	5	5	0
Arena Communications Network, S.L.	Spain	20.00%	0.00%	20.00%	20.00%	ADVERTISING	Associate	10	5	0
Asturcontinental de Edificaciones, S.L. (consolidated)	Spain	0.00%	30.93%	45.00%	45.00%	PROPERTY	-	2	1	(1)
Attijari Factoring Maroc, S.A. (b)	Morocco	0.00%	24.21%	24.21%	28.95%	FACTORING	Associate	306	12	4
Attijariwafa Bank Société Anonyme (consolidated) (b)	Morocco	0.00%	5.26%	5.26%	5.26%	BANKING	-	37,266	3,270	477
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	7.14%	MOTORWAY CONCESSIONS	-	84	6	1
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (b)	Poland	0.00%	6.94%	10.00%	10.00%	PENSION FUND MANAGEMENT COMPANY	-	179	38	69
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.94%	10.00%	10.00%	INSURANCE	-	3,604	3,191	142
Banco Internacional da Guiné-Bissau, S.A. (d) (e)	Guinea-Bissau	0.00%	48.92%	49.00%	49.00%	BANKING	-	12	(30)	(1)
Banco RCI Brasil S.A.	Brazil	0.00%	35.60%	39.89%	39.89%	LEASING	Jointly controlled entity	308	171	23
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	FINANCE	Associate	3,034	238	75
Bank of Shanghai Co., Ltd. (consolidated) (b)	China	7.20%	0.00%	7.20%	7.20%	BANKING	-	168,175	8,917	1,615
Benim - Sociedade Imobiliária, S.A. (consolidated) (b)	Portugal	0.00%	25.77%	25.81%	25.81%	PROPERTY	Associate	11	8	0
Bodegas Gran Feudo, S.L. (b)	Spain	21.86%	0.00%	21.86%	-	FOOD	-	77	52	(37)
Brendenbury, S.L.U.	Spain	0.00%	40.00%	40.00%	-	HOLDING COMPANY	Jointly controlled entity	245	142	(4)
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	34.01%	49.00%	66.00%	INSURANCE	Associate	221	11	7
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	0.00%	34.01%	49.00%	66.00%	INSURANCE	Associate	92	23	9
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	VENTURE CAPITAL MANAGEMENT COMPANY	Associate	0	0	0
Carnes Estellés, S.A. (e)	Spain	21.41%	0.00%	21.41%	21.41%	FOOD	Associate	0	0	0
Cartera del Norte, S.L. (o)	Spain	0.00%	0.00%	0.00%	36.10%	FINANCE	Associate	-	-	-

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	47.56%	PROPERTY SERVICES	Jointly controlled entity	1	0	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	COLLECTION AND PAYMENT SERVICES	Associate	7	3	1
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A. (b)	Spain	0.00%	49.00%	49.00%	49.00%	TECHNOLOGY	Associate	2	2	0
CNP Santander Insurance Europe Designated Activity Company	Ireland	0.00%	49.00%	49.00%	49.00%	INSURANCE BROKER	Associate	553	55	5
CNP Santander Insurance Life Designated Activity Company	Ireland	0.00%	49.00%	49.00%	49.00%	INSURANCE BROKER	Associate	1,049	114	17
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	48.56%	48.56%	-	COLLECTION SERVICES	Jointly controlled entity	12	10	0
Comder Contraparte Central S.A	Chile	0.00%	7.44%	11.09%	11.09%	FINANCIAL SERVICES	Associate	17	15	(1)
Companhia de Crédito, Financiamento e Investimento RCI Brasil	Brazil	0.00%	35.60%	39.89%	39.90%	FINANCE	Jointly controlled entity	2,072	284	37
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	FINANCIAL SERVICES	Jointly controlled entity	0	0	(1)
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidated) (b)	Spain	20.53%	0.55%	21.08%	21.08%	CREDIT INSURANCE	-	864	318	48
Cubico Sustainable Investments Holdings Limited (consolidated)	United Kingdom	0.00%	32.94%	32.94%	100.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	1.035	258	(13)
Eko Energy Sp. z o.o. (b)	Poland	0.00%	12.49%	22.00%	22.00%	ELECTRICITY PRODUCTION	-	65	5	1
Farma Wiatrowa Jablowo Sp. z o.o. (b)	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	0	0	0
FC2Egestión, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	ENVIRONMENTAL MANAGEMENT	Jointly controlled entity	0	0	0
Federal Home Loan Bank of Pittsburgh (b)	United States	0,00%	17,60%	17,60%	14,00%	BANKING	-	78.697	3.442	235
Federal Reserve Bank of Boston (b)	United States	0,00%	30,25%	30,25%	30,81%	BANKING	-	129.577	2.272	109
FIDC RCI Brasil I - Financiamento de Veículos	Brazil	-	(h)	-	-	INVESTMENT FUND	Jointly controlled entity	124	(7)	9
First Wind Texas Holdings LLC (c)	United States	0.00%	33.00%	33.00%	-	HOLDING COMPANY	-	-	-	-
Fondo de Titulización de Activos RMBS Prado I	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	455	0	0
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	229	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	605	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	709	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	1,005	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	858	0	0
Fondo de Titulización de Activos UCI 18	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	914	0	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	143	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	320	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	FINANCE	Jointly controlled entity	1,117	138	9
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	PROPERTY	Associate	75	42	32
Generación Andina S.A.C.	Peru	0.00%	49.78%	49.78%	49.78%	ELECTRICITY PRODUCTION	Jointly controlled entity	77	22	(7)
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	COLLECTION AND PAYMENT SERVICES	Associate	135	12	15
Grupo Alimentario de Exclusivas, S.A. (e)	Spain	40.53%	0.00%	40.53%	40.46%	FOOD	Associate	0	(6)	(3)
Grupo Konecta Centros Especiales de Empleo, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	1	0	0
Grupo Konecta Maroc S.A.R.L. à associé unique	Morocco	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	2	0	0
Grupo Konecta UK Limited	United Kingdom	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	5	2	1
Grupo Konectanet México Servicios, S.A. de C.V.	Mexico	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	3	0	(1)
Grupo Konectanet, S.L.	Spain	0.00%	40.00%	40.00%	51.86%	HOLDING COMPANY	Jointly controlled entity	67	13	28

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
HCUK Auto Funding 2015 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled entity	293	0	0
HCUK Auto Funding Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled entity	584	0	0
Hidroatlixco, S.A.P.I. DE C.V.	Mexico	0.00%	50.00%	50.00%	50.76%	ELECTRICITY PRODUCTION	Jointly controlled entity	2	(5)	(6)
HSH Delaware L.P. (l)	United States	0.00%	69.19%	0.00%	0.00%	HOLDING COMPANY	-	0	0	0
Hyundai Capital Germany GmbH	Germany	0.00%	49.99%	49.99%	49.99%	SERVICES	Jointly controlled entity	5	2	2
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	FINANCE	Jointly controlled entity	2,187	92	25
Imperial Holding S.C.A. (e)(i)	Luxembourg	0.00%	36.36%	36.36%	36.36%	SECURITIES INVESTMENT	-	0	(113)	0
Inbond Inversiones 2014, S.L.	Spain	40.00%	0.00%	40.00%	-	FINANCIAL STUDIES	Jointly controlled entity	142	142	0
Indice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	INFORMATION SYSTEM	Jointly controlled entity	4	(1)	(1)
Inmo Alemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	HOLDING COMPANY	-	53	50	2
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associate	402	319	52
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associate	406	220	47
Invico S.A. (b)	Poland	0.00%	14.64%	21.09%	21.09%	COMMERCE	-	9	5	(3)
Izettle do Brasil Meios de Pagamento S.A.	Brazil	0.00%	39.49%	50.00%	50.00%	CARDS	Jointly controlled entity	5	(1)	(1)
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	4.99%	4.99%	HOLDING COMPANY	-	106	89	16
J.C. Flowers II-A L.P. (b)	Canada	0.00%	69.39%	4.43%	4.43%	HOLDING COMPANY	-	63	59	2
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	HOLDING COMPANY	-	94	165	(73)
JCF BIN II-A (k)	Mauritania	0.00%	69.52%	4.43%	4.43%	HOLDING COMPANY	-	0	0	0
JCF II-A AIV K L.P. (b)	Canada	0.00%	69.52%	0.00%	0.00%	HOLDING COMPANY	-	5	5	0
JCF II-A Special AIV K L.P. (b)	Canada	0.00%	72.29%	4.99%	4.99%	HOLDING COMPANY	-	5	5	0
Jupiter III C.V. (b)	The Netherlands	0.00%	72.75%	4.99%	4.99%	HOLDING COMPANY	-	178	216	(38)
Jupiter JCF AIV II-A C.V. (b)	The Netherlands	0.00%	69.41%	4.99%	4.99%	HOLDING COMPANY	-	40	54	(14)
Kallplat Chile Limitada	Chile	0.00%	40.00%	40.00%	-	TELEMARKETING	Jointly controlled entity	3	1	0
Konecta Activos Inmobiliarios, S.L.	Spain	0.00%	40.00%	40.00%	52.80%	PROPERTY	Jointly controlled entity	20	6	0
Konecta Brazil Outsourcing Ltda.	Brazil	0.00%	40.00%	40.00%	99.99%	TELEMARKETING	Jointly controlled entity	10	2	1
Konecta Broker, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	0	0	0
Konecta Bto, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	145	30	10
Konecta Chile Limitada	Chile	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	7	1	0
Konecta Colombia Grupo Konecta Colombia Ltda	Colombia	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	8	1	0
Konecta Field Marketing, S.A.	Spain	0.00%	40.00%	40.00%	100.00%	MARKETING	Jointly controlled entity	2	0	1
Konecta Gestión Integral de Procesos, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	2	0	0
Konecta Servicios Administrativos y Tecnológicos, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	ADMINISTRATIVE SERVICES	Jointly controlled entity	9	0	2
Konecta Servicios de BPO, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	21	0	2
Konecta Soluciones Globales, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	1	0	0
Konectanet Andalucía, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	0	0	0
Konectanet Comercialización, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	2	0	0
Konectanet Portugal Lda.	Portugal	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	6	0	0
Kontacta Comunicaciones, S.A.	Spain	0.00%	40.00%	40.00%	100.00%	MOBILE TELEPHONY	Jointly controlled entity	8	5	0
L'Esplai Valencia, S.L.	Spain	0.00%	25.43%	37.00%	37.00%	PROPERTY	-	1	1	0
Luri 3, S.A.	Spain	10.00%	0.00%	10.00%	10.00%	PROPERTY	Jointly controlled entity	17	17	0

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Massachusetts Business Development Corp. (consolidated) (b)	United States	0.00%	21.60%	21.60%	21.60%	FINANCE	-	62	8	0
Metrofinance Spólka z o.o. (c)	Poland	0.00%	15.08%	21.73%	-	FINANCIAL ADVISORY	Associate	-	-	-
Metrohouse Franchise S.A. (b)	Poland	0.00%	15.08%	21.73%	21.73%	PROPERTY	Associate	6	5	0
MH - Uslugi Wspólne S.A. (b)	Poland	0.00%	15.08%	21.73%	21.73%	PROPERTY	Associate	1	0	0
MH Kraków Spólka z o.o. (c)	Poland	0.00%	15.08%	21.73%	-	PROPERTY	Associate	-	-	-
MH Warszawa Spólka z o.o. (c)	Poland	0.00%	15.08%	21.73%	-	PROPERTY	Associate	-	-	-
Monitise PLC (consolidated) (j)	United Kingdom	5.08%	0.00%	5.08%	5.08%	PAYMENT SERVICES	-	464	637	(293)
New PEL S.a.r.l. (n)	Luxembourg	0.00%	7.67%	0.00%	0.00%	HOLDING COMPANY	-	62	61	0
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.70%	4.99%	4.99%	HOLDING COMPANY	-	40	42	(2)
NIB Special Investors IV-B LP (b)	Canada	0.00%	95.80%	4.99%	4.99%	HOLDING COMPANY	-	14	14	0
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.41%	29.00%	29.00%	HOLDING COMPANY	Associate	28	19	1
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.62%	50.00%	50.00%	SECURITIES COMPANY	Jointly controlled entity	17	10	1
Nowotna Farma Wiatrowa Sp. z o.o. (b)	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	24	2	(3)
NPG Wealth Management S.àr.l (consolidated) (n)	Luxembourg	0.00%	5.90%	0.00%	0.00%	HOLDING COMPANY	-	5.073	41	2
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais Ltda.	Brazil	0.00%	20.59%	23.07%	23.08%	TECHNOLOGY	-	1	2	0
Olivant Limited (consolidated) (b)	Guernsey	0.00%	10.39%	10.39%	10.39%	HOLDING COMPANY	-	52	83	(32)
Omega Financial Services GmbH	Germany	0.00%	50.00%	50.00%	50.00%	SERVICES	Jointly controlled entity	1	0	1
Operadora de Activos Alfa, S.A. de C.V.	Mexico	0.00%	49.98%	49.98%	49.98%	FINANCE	Associate	1	1	0
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	FINANCE	Associate	1	1	0
Operadora de Tarjetas de Crédito Nexus S.A.	Chile	0.00%	8.66%	12.90%	12.90%	CARDS	Associate	31	11	2
Parque Eólico Reynosa I, S.A. de C.V.	Mexico	0.00%	80.00%	80.00%	80.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	9	2	0
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	34	2	(1)
Parques Empresariales Gran Europa, S.A. (consolidated)	Spain	0.00%	34.36%	50.00%	50.00%	LAND MANAGEMENT	-	80	44	1
POLFUND - Fundusz Poręczeń Kredytowych S.A. (b)	Poland	0.00%	34.71%	50.00%	50.00%	MANAGEMENT COMPANY	Associate	22	19	0
Prodesur Mediterráneo, S.L. (b) (e)	Spain	0.00%	50.00%	50.00%	50.23%	PROPERTY	Jointly controlled entity	4	(2)	(1)
Proinsur Mediterráneo, S.L. (b) (e)	Spain	0.00%	50.00%	50.00%	50.00%	PROPERTY	Jointly controlled entity	0	(12)	(6)
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	-	INSURANCE	Jointly controlled entity	42	37	0
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	-	INSURANCE	Jointly controlled entity	11	9	0
PSA UK Number 1 plc	United Kingdom	0.00%	50.00%	50.00%	50.00%	LEASING	Associate	6	5	0
Puntoform, S.L.	Spain	0.00%	40.00%	40.00%	100.00%	TRAINING	Jointly controlled entity	1	0	0
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	SERVICES	Associate	25	6	1
Redsys Servicios de Procesamiento, S.L.U. (b)	Spain	17.56%	0.00%	17.56%	16.97%	CARDS	Associate	112	17	8
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	SERVICES	Jointly controlled entity	62	(23)	(9)
Rías Redbanc, S.A.	Uruguay	0.00%	25.00%	25.00%	20.00%	SERVICES	-	3	1	0
Rio Alto Gestão de Créditos e Participações, S.A.	Brazil	0.00%	44.62%	50.00%	50.00%	COLLECTION AND PAYMENT SERVICES	-	159	99	52
Route 66 Wind Power LLC	United States	0.00%	33.00%	33.00%	-	ELECTRICITY PRODUCTION	-	83	0	0
SAM Asset Management, S.A. de C.V., Sociedad Operadora de Fondos de Inversión	Mexico	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	38	4	14
SAM Brasil Participações S.A.	Brazil	1.00%	49.50%	50.50%	50.50%	HOLDING COMPANY	Jointly controlled entity	33	28	2

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
SAM Finance Lux S.à.r.l	Luxembourg	0.00%	50.00%	50.00%	50.00%	MANAGEMENT COMPANY	Jointly controlled entity	1.057	2	1
SAM Investment Holdings Limited	Jersey	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	2.009	1.071	(79)
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	Spain	40.00%	0.01%	40.02%	30.95%	REAL ESTATE INVESTMENT	Associate	44	29	0
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	11	3	1
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	49.99%	49.99%	49.99%	FUND MANAGEMENT COMPANY	Jointly controlled entity	36	16	7
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	409	410	0
Santander Asset Management UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	FUND AND PORTFOLIO MANAGER	Jointly controlled entity	80	32	15
Santander Asset Management USA, LLC	United States	0.00%	50.00%	50.00%	50.00%	FUND AND ASSET MANAGEMENT COMPANY	Jointly controlled entity	1	0	(4)
Santander Asset Management, LLC	Puerto Rico	0.00%	50.00%	50.00%	50.00%	MANAGEMENT COMPANY	Jointly controlled entity	10	3	6
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	161	39	53
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.50%	50.50%	50.50%	MANAGEMENT COMPANY	Jointly controlled entity	51	30	2
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	50.00%	50.00%	50.00%	REAL ESTATE INVESTMENT	Jointly controlled entity	504	463	24
Santander Elavon Merchant Services Entidad de Pago, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	PAYMENT SERVICES	Jointly controlled entity	228	169	5
Santander Insurance Services Ireland Limited	Ireland	0.00%	49.00%	49.00%	49.00%	SERVICES	Associate	4	0	0
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	50.00%	50.00%	50.00%	PENSION FUND MANAGEMENT COMPANY	Jointly controlled entity	53	28	18
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	7	2	1
Saturn Japan II Sub C.V. (m)	The Netherlands	0.00%	69.30%	0.00%	0.00%	HOLDING COMPANY	-	43	22	21
Saturn Japan III Sub C.V. (m)	The Netherlands	0.00%	72.71%	0.00%	0.00%	HOLDING COMPANY	-	144	67	78
Saudi Hollandi Bank (consolidated) (b)	Saudi Arabia	0.00%	11.16%	11.16%	11.16%	BANKING	-	24.162	2.231	455
Servicios de Infraestructura de Mercado OTC S.A.	Chile	0.00%	7.46%	11.11%	11.11%	SERVICES	Associate	16	14	(1)
Sociedad de Garantía Recíproca de Santander, S.G.R. (b)	Spain	25.59%	0.00%	25.59%	-	FINANCIAL SERVICES	-	9	4	0
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	17.28%	0.00%	17.28%	17.28%	FINANCIAL SERVICES	-	51.314	(1.098)	(585)
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	SECURITIES DEPOSITORY SERVICES	Associate	4	3	1
Sociedad Promotora Bilbao Plaza Financiera, S.A. (b)	Spain	19.04%	14.86%	33.91%	33.90%	ADVISORY SERVICES	-	2	1	0
Solar Energy Capital Europe S.à.r.l. (consolidated)	Luxembourg	0.00%	33.33%	33.33%	33.33%	HOLDING COMPANY	Jointly controlled entity	10	1	0
Stephens Ranch Wind Energy Holdco LLC (consolidated)	United States	0.00%	44.00%	44.00%	44.00%	ELECTRICITY PRODUCTION	-	88	85	4
Syntheo Limited	United Kingdom	0.00%	50.00%	50.00%	-	PAYMENT SERVICES	Jointly controlled entity	9	10	0
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	18.52%	19.81%	19.81%	SECURITY	Associate	9	1	(4)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	18.52%	19.81%	19.81%	TELECOMMUNICATIONS	Associate	7	7	(4)
Tecnologia Bancária S.A.	Brazil	0.00%	18.52%	19.81%	19.81%	ATMs	Associate	285	87	0
Teka Industrial, S.A. (consolidated) (b)	Spain	0.00%	9.42%	9.42%	9.42%	DOMESTIC APPLIANCES	-	604	169	(3)
The HSH AIV 4 Trust (b)	United States	0.00%	69.19%	4.99%	4.99%	HOLDING COMPANY	-	0	0	0
Tonopah Solar Energy Holdings I, LLC (consolidated)	United States	0.00%	26.80%	26.80%	26.80%	HOLDING COMPANY	Associate	984	312	(18)
TOPSAM, S.A de C.V.	Mexico	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	7	1	1
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	SERVICES	Associate	1	1	0
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	CARDS	Associate	885	46	6
Transolver Finance EFC, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	LEASING	Jointly controlled entity	351	31	3

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2015	2014	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	230	61	(10)
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	2	0	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	INSURANCE BROKER	Jointly controlled entity	0	0	0
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	PROPERTY SERVICES	Jointly controlled entity	1	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.46%	21.50%	21.50%	FINANCE	Associate	309	71	40
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	MORTGAGE LOAN COMPANY	Jointly controlled entity	12,719	383	3
Universal Support, S.A.	Spain	0.00%	40.00%	40.00%	100.00%	TELEMARKETING	Jointly controlled entity	3	1	0
Urbanizadora Valdepolo I, S.A.	Spain	0.00%	34.36%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo II, S.A.	Spain	0.00%	34.36%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo III, S.A.	Spain	0.00%	34.36%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo IV, S.A.	Spain	0.00%	34.36%	50.00%	50.00%	PROPERTY	-	24	(1)	0
Uro Property Holdings SOCIMI, S.A. (b)	Spain	14.96%	7.82%	22.77%	-	PROPERTY	-	1,951	9	388
Valdicsa, S.A.	Spain	0.00%	22.68%	33.00%	33.00%	PROPERTY	-	9	1	(1)
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	-	MARKETING	Jointly controlled entity	0	0	0
Vector Software Factory, S.L. (consolidated)	Spain	0.00%	45.00%	45.00%	45.00%	IT	Associate	51	10	1
Venda de Veículos Fundo de Investimento em Direitos Creditórios	Brazil	-	(h)	-	-	INVESTMENT FUND	Jointly controlled entity	38	0	1
Viking Consortium Holdings Limited (consolidated) (n)	United Kingdom	0.00%	24.99%	24.99%	24.99%	HOLDING COMPANY	-	1,152	(13)	(30)
Virtual Motors Páginas Eletrônicas Ltda	Brazil	0.00%	65.43%	70.00%	70.00%	INTERNET	Jointly controlled entity	0	0	0
Webmotors S.A.	Brazil	0.00%	65.43%	70.00%	70.00%	SERVICES	Jointly controlled entity	65	52	8
Yaap Digital Services, S.L.	Spain	33.33%	0.00%	33.33%	33.33%	SERVICES	Associate	9	27	(12)
Zakłady Przemysłu Jedwabniczego DOLWIS S.A. w upadłości likwidacyjnej (b) (e)	Poland	0.00%	30.54%	44.00%	44.00%	TEXTILE PRODUCTION	-	1	1	0
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associate	8,329	399	182
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associate	175	(3)	34
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associate	939	936	152
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associate	384	384	96
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	HOLDING COMPANY	Associate	1.516	1.510	250
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	43	6	14
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	272	47	40
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	175	33	7
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	892	74	93
Zurich Santander Seguros Uruguay, S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	27	8	(1)

(a) Amounts per the books of each company generally as at 31 December 2015, unless otherwise stated, because the financial statements have not yet been authorised for issue. The data on foreign companies were translated to euros at the year-end exchange rates.

(b) Data from the latest approved financial statements as at 31 December 2014.

(c) Recently created company with no available approved financial statements.

(d) Data from the latest approved financial statements as at 30 April 2002.

(e) Company in liquidation as at 31 December 2015.

(f) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.

(g) Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law).

(h) Companies over which the non-subsidiary investee of the Group exercises effective control.

(i) Data from the latest available approved financial statements as at 31 October 2013.

(j) Data from the latest approved financial statements as at 30 June 2015.
(k) Data from the latest available approved financial statements as at 30 September 2014.
(l) Data from the latest available approved financial statements as at 31 December 2010.
(m) Data from the latest available approved financial statements as at 31 December 2012.
(n) Data from the latest available approved financial statements as at 31 December 2013.
(o) Liquidated company in the absence of registration in the register.

Appendix III

Preference share issuer subsidiaries

		% of ownership held by the Bank			Millions of euros (a)			
Company	Location	Direct	Indirect	Line of business	Share capital	Reserves	Preference share cost	Net profit (loss) for the year
Banesto Holdings, Ltd. (b)	Guernsey	99.99%	0.00%	INACTIVE	0	1	0	0
Emisora Santander España, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	0	0	0
Santander Emisora 150, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	1	0	0
Santander Finance Capital, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	1	10	0
Santander Finance Preferred, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	4	108	2
Santander International Preferred, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	0	19	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	FINANCE	5.276	(3.137)	41	19
Totta & Açores Financing, Limited	Cayman Islands	0.00%	99.83%	INACTIVE	0	(9)	21	9

(a) Amounts per the books of each company as at 31 December 2015, translated to euros (in the case of foreign companies) at the year-end exchange rates.

(b) Company in liquidation as at 31 December 2015.

Appendix IV

Notifications of acquisitions and disposals of investments in 2015

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law).

On 22 May 2015, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in NH Hoteles, S.A. had fallen below 3% on 20 May 2015.

On 7 August 2015, the CNMV registered a notification from Banco Santander (and seven other banks) which disclosed that the ownership interest of all of them in GENERAL DE ALQUILER DE MAQUINARIA, S.A. had exceeded 60% on 5 August 2015. Santander Group's position in this company was 4.742% at that date.

Appendix V

Other information on the Group's banks

A) Following is certain information on the share capital of the Group's main banks based on their total assets.

1. Santander UK plc

a) Number of financial equity instruments held by the Group

Santander UK plc has issued 31,051,768,866 ordinary shares with a par value of GBP 0.10 each, amounting to GBP 3,105,176,886.6. On 10 January 2014, Cántabro Catalana de Inversiones, S.A. transferred one ordinary share with a par value of GBP 0.10 to Banco Santander, S.A. for GBP 1. Subsequently, on 1 April 2014, Banco Santander, S.A. transferred 24,117,268,866.6 ordinary shares with a par value of GBP 0.10 each to Santander UK Group Holdings Limited for GBP 2,411,726,886.6. Also, on 1 April 2014, Santusa Holding, S.L. transferred 6,934,500,000 shares with a par value of GBP 0.10 each to Santander UK Group Holdings Limited for GBP 693,450,000. As at 31 December 2015, the Group holds all the ordinary share capital (31,051,768,866 ordinary shares with a par value of GBP 0.10 each, amounting to GBP 3,105,176,886.6) through Santander UK Group Holdings Limited.

On 23 October 1995, Santander UK plc issued 10.0625% exchangeable capital securities amounting to GBP 200,000,000, exchangeable into 200,000,000 10.375% non-cumulative sterling preference shares with a par value of GBP 1 each. At 31 December 2015, the Group held 30.10% of the 10.0625% exchangeable capital securities (amounting to GBP 66,147,000) through Banco Santander, S.A.

Also, on 23 October 1995, Santander UK plc issued 10.375% non-cumulative sterling preference shares amounting to GBP 100,000,000 with a par value of GBP 1 each, and on 13 February 1996 Santander UK plc issued additional 10.375% non-cumulative sterling preference shares amounting to GBP 100,000,000 with a par value of GBP 1 each. At 31 December 2015, the Group held 32% of the 10.375% non-cumulative sterling preference shares (amounting to GBP 63,913,355) through Banco Santander, S.A.

On 9 June 1997, Santander UK plc issued 8.625% non-cumulative sterling preference shares amounting to GBP 125,000,000 with a par value of GBP 1 each. At 31 December 2015, the Group held 80.40% of the 8.625% non-cumulative sterling preference shares (amounting to GBP 100,487,938) through Banco Santander, S.A.

On 28 April 2010, pursuant to current legislation, preference shares of Alliance & Leicester Limited (formerly Alliance & Leicester plc) were exchanged for 300,002 redeemable fixed/floating rate series A non-cumulative preference shares of Santander UK plc amounting to GBP 300,002,000, with a par value of GBP 1 each and a liquidation preference of GBP 1,000. On 16 December 2014, Santander UK plc repurchased 265,069 redeemable fixed/floating rate series A non-cumulative preference shares for GBP 265,069,000. On 12 June 2015, Santander UK plc repurchased 21,136 redeemable fixed/floating rate series A non-cumulative preference shares for GBP 22,509,840. At 31 December 2015, 13,797 redeemable fixed/floating rate series A non-cumulative preference shares, amounting to GBP 13,797,000, were still outstanding.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Share capital authorised by the shareholders at the general meeting

The shareholders at the annual general meeting held on 21 April 2015 resolved to unconditionally authorise the company to carry out the following repurchases of share capital.

1) The repurchase of its own 8.625% non-cumulative sterling preference shares subject to the following conditions:

(a) The company may repurchase up to 125,000,000 of the 8.625% non-cumulative sterling preference shares.

(b) The lowest price that the company may pay for the 8.625% non-cumulative sterling preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each 8.625% non-cumulative preference sterling share will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its 8.625% preference shares even if the purchase is finalised after this authorisation expires.

2) The repurchase of its own 10.375% non-cumulative sterling preference shares subject to the following conditions:

(a) The company may repurchase up to 200,000,000 of the 10.375% preference shares;

(b) The lowest price that the company may pay for the 10.375% non-cumulative sterling preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each 10.375% non-cumulative preference sterling share will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its 10.375% preference shares even if the purchase is finalised after this authorisation expires.

3) The repurchase of its own redeemable fixed/floating rate series A non-cumulative preference shares subject to the following conditions:

(a) The company may repurchase up to 300,002 redeemable fixed/floating rate series A non-cumulative preference shares;

(b) The lowest price that the company may pay for the redeemable fixed/floating rate series A non-cumulative preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each of the redeemable fixed/floating rate series A non-cumulative preference shares will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its redeemable fixed/floating rate series A non-cumulative preference shares even if the purchase is finalised after this authorisation expires.

However, prior to such expiry, the company may submit bids or adopt resolutions that could require the allocation of shares and the directors may allocate shares in accordance with any bid or resolution, considering the expiry of the authorisation granted in this resolution.

In accordance with this resolution, any previous authorisations granted to the directors and not exercised for the allocation of shares are hereby revoked and substituted, notwithstanding any allocation of shares or grant of rights already completed, offered or agreed.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

2. Abbey National Treasury Services plc

a) Number of financial equity instruments held by the Group

The Group holds ordinary shares amounting to GBP 2,549,000,000 through Santander UK plc (2,548,999,999 ordinary shares with a par value of GBP 1 each) and Abbey National Nominees Limited (1 ordinary share with a par value of GBP 1).

The Group also holds 1,000 tracker shares (shares without voting rights but with preferential dividend rights) amounting to GBP 1,000 and 1,000 B tracker shares amounting to GBP 1,000 through Santander UK plc, both with a par value of GBP 1 each.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, “rights” bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

3. Banco Santander (Brasil) S.A.

a) Number of financial equity instruments held by the Group

The Group holds 3,440,170,512 ordinary shares and 3,273,507,089 preference shares through Banco Santander, S.A. and its subsidiaries Sterrebeeck B.V., Grupo Empresarial Santander, S.L. and Santander Insurance Holding, S.L., and Banco Madesant - Sociedade Unipessoal, S.A.

The shares composing the share capital of Banco Santander (Brasil) S.A. have no par value and there are no capital payments payable. At 2015 year-end the bank’s treasury shares consisted of 20,217,733 ordinary shares and 20,217,733 preference shares, with a total of 40,435,466 shares.

In accordance with current Bylaws (Article 5.7) the preference shares do not confer voting rights on their holders, except under the following circumstances:

a) In the event of the transformation, merger, consolidation or spin-off of the company.

b) In the event of approval of agreements between the company and the shareholders, either directly, through third parties or other companies in which the shareholders hold a stake, provided that, due to legal or bylaw provisions, they are submitted to a general meeting.

c) In the event of an assessment of the assets used to increase the company’s share capital.

The General Assembly may, at any moment, decide to convert the preference shares into ordinary shares, establishing a reason for the conversion.

However, the preference shares do have the following advantages (Article 5.6):

a) Their dividends are 10% higher than those on ordinary shares.

b) Priority in the distribution of dividends.

c) Participation, on the same terms as ordinary shares, in capital increases resulting from the capitalisation of reserves and profits and in the distribution of bonus shares arising from the capitalisation of retained earnings, reserves or any other funds.

d) Priority in the reimbursement of capital in the event of the dissolution of the company.

e) In the event of a public offering due to a change in control of the company, the holders of preference shares are guaranteed the right to sell the shares at the same price paid for the block of shares that changed hands as part of the change of control, i.e. they are treated the same as shareholders with voting rights.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

The company is authorised to increase share capital, subject to approval by the board of directors, up to a limit of 9,090,909,090 ordinary shares or preference shares, and without the need to maintain any ratio between any of the different classes of shares, provided they remain within the limits of the maximum number of preference shares established by Law.

At present the share capital consists of 7,563,082,417 shares (3,850,970,714 ordinary shares and 3,712,111,703 preference shares).

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At the general meeting held on 30 April 2015, the shareholders approved the rules relating to the 2015 deferred remuneration plans for the directors, management and other employees of the company and of companies under its control. The delivery of the shares is linked to the achievement of certain targets in 2015. The company considers that the exercise of these rights could give rise to the delivery of 8,800,000 treasury shares to these directors and employees.

At the general meeting held on 14 December 2015, the shareholders approved the rules relating to the 2016 deferred remuneration plans for the directors, management and other employees of the company and of companies under its control. The delivery of the shares is linked to the achievement of certain targets in 2016. The company considers that the exercise of these rights could give rise to the delivery of 9,000,000 treasury shares to these directors and employees.

e) Specific circumstances that restrict the availability of reserves

The only restriction on the availability of Banco Santander (Brasil) S.A.'s reserves relates to the legal reserve (restricted reserves), which can only be used to offset losses or to increase capital.

The legal reserve is provided for in Article 196 of the Spanish Public Limited Liability Companies Law, which establishes that before being allocated to any other purpose, 5% of profits must be transferred to the legal reserve, which must not exceed 20% of share capital.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares are listed on the Brazilian Securities, Commodities and Futures Exchange (BM&FBOVESPA) and the share deposit certificates (units) are listed on the New York Stock Exchange (NYSE).

4. Santander Bank, National Association

a) Number of financial equity instruments held by the Group

At 31 December 2015, the Group held 530,391,043 ordinary shares that carry the same voting and dividend acquisition rights over Santander Holdings USA, Inc. (SHUSA). This holding company and Independence Community Bank Corp. (ICBC) hold 1,237 ordinary shares with a par value of USD 1 each, which carry the same voting rights. These shares constitute all the share capital of Santander Bank, National Association (SBNA).

SHUSA holds an 80.84% ownership interest in SBNA, and the remaining 19.16% belongs to ICBC. ICBC is wholly owned by SHUSA. There is no shareholders' meeting for the ordinary shares of SBNA.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, “rights” bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

5. Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

a) Number of financial equity instruments held by the Group

The Group holds a 75% ownership interest in the subsidiary in Mexico through the holding company Grupo Financiero Santander México, S.A.B. de C.V. At 31 December 2015, this holding company and Santander Global Facilities, S.A. de C.V. (Mexico) held 80,848,258,165 ordinary shares that constitute 99.99% of the share capital of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

The shareholders at the general meeting held on 22 February 2012 resolved to increase the authorised share capital of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México to MXN 8,085,540,380.30, represented by a total of 80,855,403,803 fully subscribed and paid shares of MXN 0.10 par value each, which remained unchanged at 31 December 2015.

d) Rights on founder's shares, bonds or debt issues, convertible debentures and similar securities or rights

(i) At the board of directors meeting held on 22 October 2015 the directors acknowledged their awareness of the situation of the debt issue of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México that had been ratified at the board meeting held on 17 October 2013 for the issue of debt up to USD 6,500 million in local or international markets. They stipulated that the debt should be senior or subordinated for a maximum term of 15 years and that debt instruments that qualify as capital under current legislation should be included, and resolved that such issue may be instrumented individually or through various issue programmes.

At present, the detail of Banco Santander's debt issue is as follows:

Instrument	Type	Term	Amount	Undrawn balance
Issue programme in connection with stock market certificates and term deposit certificates of deposit	Revolving	We are currently in the process of authorising a new programme for the same amount, as recurring issuer	Up to MXN 55,000,000,000.00	N/A
Private structured bank bond certificate	Non-revolving (*)	16 December 2044	Up to MXN 20,000,000,000.00	Up to MXN 1,800,000,000.00
Private structured bank bond certificate	- - -	We are currently in the process of authorising a new programme for the same amount, as recurring issuer	Up to MXN 10,000,000,000.00	N/A
Issue of Tier II subordinated debt in international markets	Non-revolving	26 January 2021	USD 1,300,000,000	N/A

* The issue of private structured bank bonds is non-revolving. Once the amount established in the related certificate is placed, a new certificate is issued for the authorised amount

The issue of public structured bank bonds with subsequent placements was approved for up to MXN 10 thousand million, the equivalent amount in US dollars or in any other currency, for a term of 1 day to 15 years, with the understanding that the bonds may not be redeemed after the term of the related certificate of issue. They may be issued with or without loss of capital, with a public offering and with registration in the Mexican National Securities Register. This issue had not yet been launched at the reporting date.

(ii) On 19 December 2013, Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México issued a total of USD 1,300,000,000 in subordinated notes that meet the capital requirements established by Basel III for Tier 2 capital at a rate of 6.125% and maturing in 2023. The Parent of Santander México, Banco Santander, S.A. Spain, resolved to purchase USD 975,000,000, i.e. 75% of the total amount of the notes.

These notes were offered through a private placement to qualified institutional buyers only in accordance with Rule 144A under the US Securities Act of 1933 and subsequent amendments thereto. Outside the US, they were offered in accordance with Regulation S of the Securities Act.

The issue was approved with a view to increasing the efficiency of the bank's capital structure, adapting the bank's profile with regard to capitalisation to that of its competitors and obtaining greater returns on capital with the same strength of capital and capacity for growth of risk-weighted assets.

(iii) The shareholders at the general meeting held on 14 May 2012 ratified the resolution adopted by the shareholders at the extraordinary general meeting held on 17 March 2009, which approved the arrangement of a collective loan from the shareholders for USD 1,000,000,000 through the placement of unsecured subordinated non-preference debentures not convertible into shares. This issue had not yet been launched at the reporting date.

(iv) At the board of directors meeting held on 27 January 2011 the directors approved the general terms and conditions for the issue of senior debt in international markets. This issue of USD 500 million and USD 1,000 million at a five to ten year term was authorised on 18 October 2012. The issue was approved in order to obtain resources to finance the increase of business assets and the management of the Bank's liquidity. As a result of these resolutions adopted by the board of directors, on 9 November 2012, debt amounting to USD 1,000 million was issued.

e) Specific circumstances that restrict the availability of reserves

Pursuant to the Mexican Credit Institutions Law and the general provisions applicable to credit institutions, the Mexican Companies Law and the institutions' own Bylaws, universal banking institutions are required to constitute or increase capital reserves for the purposes of ensuring solvency and protecting payment systems and savers.

The bank increases its legal reserve annually directly from the profit obtained in the year.

The bank must recognise the various reserves as stipulated in the legal provisions applicable to credit institutions. Credit loss reserves are calculated on the basis of the credit rating assigned to each loan and are released when the rating of the related loan improves or when the loan is settled.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

6. Banco Santander Totta, S.A

a) Number of equity instruments held by the Group

The Group holds 956,153,370 ordinary shares through its subsidiaries: Santander Totta, SGPS, S.A. with 941,269,620 shares, Taxagest Sociedade Gestora de Participações Sociais, S.A. with 14,593,315 shares, and Banco Santander Totta, S.A. with 290,435 treasury shares, all of which have a par value of EUR 1 each and identical voting and dividend rights and are subscribed and paid in full.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Under Article 296 of the Portuguese Companies' Code, the legal and merger reserves can only be used to offset losses or to increase capital.

Non-current asset revaluation reserves are regulated by Decree- Law 31/98, under which losses can be offset or capital increased by the amounts for which the underlying asset is depreciated, amortised or sold.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

7. Santander Consumer Bank AG

a) Number of financial equity instruments held by the Group

At 31 December 2015, through Santander Consumer Holding GmbH, the Group held 30,002 ordinary shares with a par value of EUR 1,000 each, all of which carry the same voting rights.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, “rights” bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

8. Banco Santander - Chile

a) Number of financial equity instruments held by the Group

The Group holds a 67% ownership interest in its subsidiary in Chile corresponding to 126,593,017,845 ordinary shares of Banco Santander - Chile through its subsidiaries: Santander Chile Holding S.A. with 66,822,519,695 ordinary shares, Teatinos Siglo XXI Inversiones S.A., with 59,770,481,573 ordinary shares and Santander Inversiones S.A. with 16,577 fully subscribed and paid ordinary shares that carry the same voting and dividend rights.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Share capital at 31 December 2015 amounted to CLP 891,302,881,691.

d) Rights on founder’s shares, “rights” bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Remittances to foreign investors in relation to investments made under the Statute of Foreign Investment (Decree-Law 600/1974) and the amendments thereto require the prior authorisation of the foreign investment committee.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares are listed on the Chilean stock exchanges and, through American Depositary Receipts (ADRs), on the New York Stock Exchange (NYSE).

9. Bank Zachodni WBK S. A.

a) Number of financial equity instruments held by the Group

At 31 December 2015, Banco Santander, S.A. held 68,880,774 ordinary shares with a par value of PLN 10 each, all of which carry the same voting rights.

b) Capital increases in progress

At 31 December 2015, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, “rights” bonds, convertible debentures and similar securities or rights

At the general meeting held on 30 June 2014, the shareholders resolved to approve the “Incentive Scheme V” as an initiative to attract, motivate and retain the bank’s employees. Delivery of the shares is tied to the achievement of certain targets in the years from 2014 to 2016. The bank considers that the exercise of these rights might give rise to the issuance of more than 250,000 shares.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares of Bank Zachodni WBK S.A. are listed on the Warsaw stock exchange.

B) The restrictions on the ability to access or use the assets and settle the liabilities of the Group, as required under paragraph 13 of IFRS 12, are described below.

In certain jurisdictions, restrictions have been established on the distribution of dividends on the basis of the new, much more stringent capital adequacy regulations. However, there is currently no evidence of any practical or legal impediment to the transfer of funds by Group subsidiaries to the Parent in the form of dividends, loans or advances, repatriation of capital or any other means.

Appendix VI

Annual banking report

The Group's total tax contribution in 2015 (taxes incurred directly by the Group and the collection of taxes incurred by third parties generated in the course of its economic activities) exceeded EUR 16,000 million.

This Annual Banking Report was prepared in compliance with Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and its transposition into Spanish law pursuant to Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must send the Bank of Spain and publish annually a report as an appendix to the financial statements audited in accordance with the legislation regulating audits of financial statements, which specifies, by country in which they are established, the following information on a consolidated basis for each year:

a) Name(s), nature of activities and geographical location.

b) Turnover.

c) Number of employees on a full time equivalent basis.

d) Gross profit or loss before tax.

e) Tax on profit or loss.

f) Public subsidies received.

Following is a detail of the criteria used to prepare the annual banking report for 2015:

a) Name(s), nature of activities and geographical location

The aforementioned information is available in Appendices I and III to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The number of Group offices totals 13,030 (the largest commercial network of any international bank) and these offices provide our customers with all their basic financial needs.

b) Turnover

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

c) Number of employees on a full time equivalent basis

The data on employees on a full time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Gross profit or loss before tax

For the purposes of this report, gross profit or loss before tax is considered to be profit or loss before tax, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

e) Tax on profit or loss

In the absence of specific criteria, this is the amount of tax effectively paid in respect of the taxes the effect of which is recognised in Income tax in the consolidated income statement.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- supplementary payments relating to income tax returns, normally for prior years.
- advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.
- refunds collected in the year with respect to returns for prior years that resulted in a refund.
- where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts are part of the statement of cash flows and, therefore, differ from the income tax expense recognised in the consolidated income statement. Such is the case because the tax legislation of each country establishes:

- the time at which taxes must be paid and, normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax.
- its own criteria for calculating the tax and establishes temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carryforwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

f) Public subsidies received

In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2015.

The detail of the information for 2015 is as follows:

Jurisdiction	2015			
	Turnover (millions of euros)	Headcount	Gross profit or loss before tax (millions of euros)	Tax on profit or loss (millions of euros)
Germany	1,519	4,748	463	140
Argentina	1,548	7,475	544	202
Australia	7	9	2	-
Austria	129	382	43	-
The Bahamas	19	43	15	-
Belgium	83	118	60	9
Brazil(1)	11,720	44,957	2,411	361
Canada	34	135	9	2
Chile	2,364	12,041	828	166
China	89	197	29	16
Colombia	11	57	(2)	1
Spain(2)	5,551	29,838	(990)	69
United States(3)	7,581	15,140	1,545	(95)
Denmark	115	236	56	10
Finland	83	136	48	4
France	468	665	266	119
Hungary	2	31	(15)	-
Ireland	25	10	27	3
Isle of Man	5	20	2	-
Cayman Islands	8	-	8	-
Italy	324	738	59	84
Jersey	(16)	92	(36)	2
Morocco	1	-	1	-
Mexico(4)	3,467	17,345	1,054	86
Norway	381	522	103	16
The Netherlands	57	192	12	33
Panama	5	5	1	-
Peru	78	141	19	8
Poland	1,653	14,874	705	251
Portugal(5)	1,108	5,904	647	72
Puerto Rico	388	1,492	(13)	29
United Kingdom	6,561	24,716	1,514	582
Singapore	8	11	4	-
Sweden	116	338	7	5
Switzerland	83	161	27	12
Uruguay	320	1,398	94	18
Consolidated Group total	**45,895**	**184,167**	**9,547**	**2,205**

(1) Including the information relating to a branch in the Cayman Islands the profits of which are taxed in full in Brazil. The contribution of this branch to profit before tax for 2015 is EUR 365 million.

(2) Includes the corporate centre.

(3) Tax accrued in the year in this jurisdiction amounted to approximately EUR 500 million due mainly to the difference in deferred taxes.

(4) Including the information on a branch in the Bahamas the profits of which are taxed in full in Mexico. In 2015 the contribution of this branch to profit before tax was EUR 50 million.

(5) Including the information relating to the branch in the UK, which is taxed both in the UK and in Portugal. In 2015 the contribution of this branch to profit before tax was EUR 127 million.

At 31 December 2015, the Group's return on assets (ROA) was estimated at 0.5%.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Directors' Report
for 2015

This report has been prepared following the recommendations given in the guide for the preparation of management reports of listed companies published by the Spanish Securities Market Commission (CNMV) in September 2013, and is arranged in the nine sections suggested in the guide.

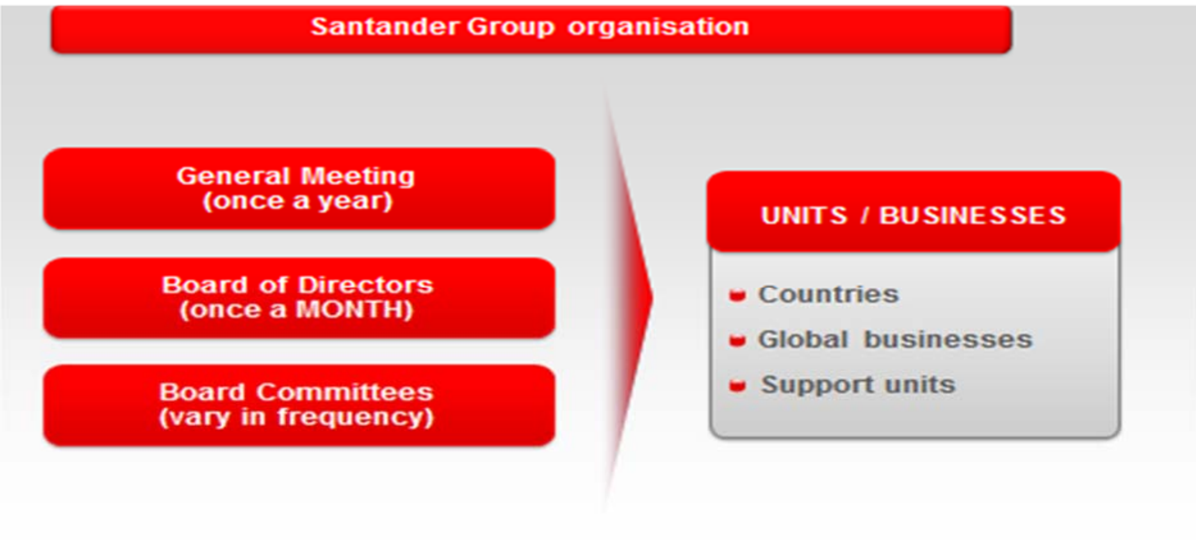
1. SITUATION OF THE ENTITY

1.1 Description

At the end of 2015, the Group was the largest bank in the euro area and the 19th in the world in terms of market capitalisation: EUR 65,792 million.

Its corporate purpose is to engage in all kinds of activities, operations and services that are typical of the banking business in general. Its business model focuses on commercial banking products and services with the objective of meeting the needs of its 121 million customers - private individuals, SMEs and businesses, through its global network of 13,030 branch offices, which is the biggest in international banking, as well as digital channels, in order to provide top-quality service and greater flexibility. It has EUR 1,340 thousand million in assets and manages funds of EUR 1,507 thousand million for all the customer segments. It has 3.6 million shareholders and more than 190,000 employees. Commercial banking accounts for 88% of its income.

The Group is highly diversified and operates in 10 main markets where it has a significant market share.



Within the Group organisation, the senior decision-making body is the board of the directors, which has the broadest powers to administer the Bank except with respect to matters for which the general meeting has sole responsibility. The board's operating procedures and actions are regulated under the Bank's internal regulations, which are governed by the principles of transparency, efficiency and defence of shareholder interests. The board also monitors compliance with international best practices in corporate governance, and engages fully in the Group's risk taking.

In particular, at the proposal of the senior management, it is responsible for establishing and monitoring the Group's risk appetite, and for approving the internal capital and liquidity adequacy assessment processes (ICAAP/ILAAP).

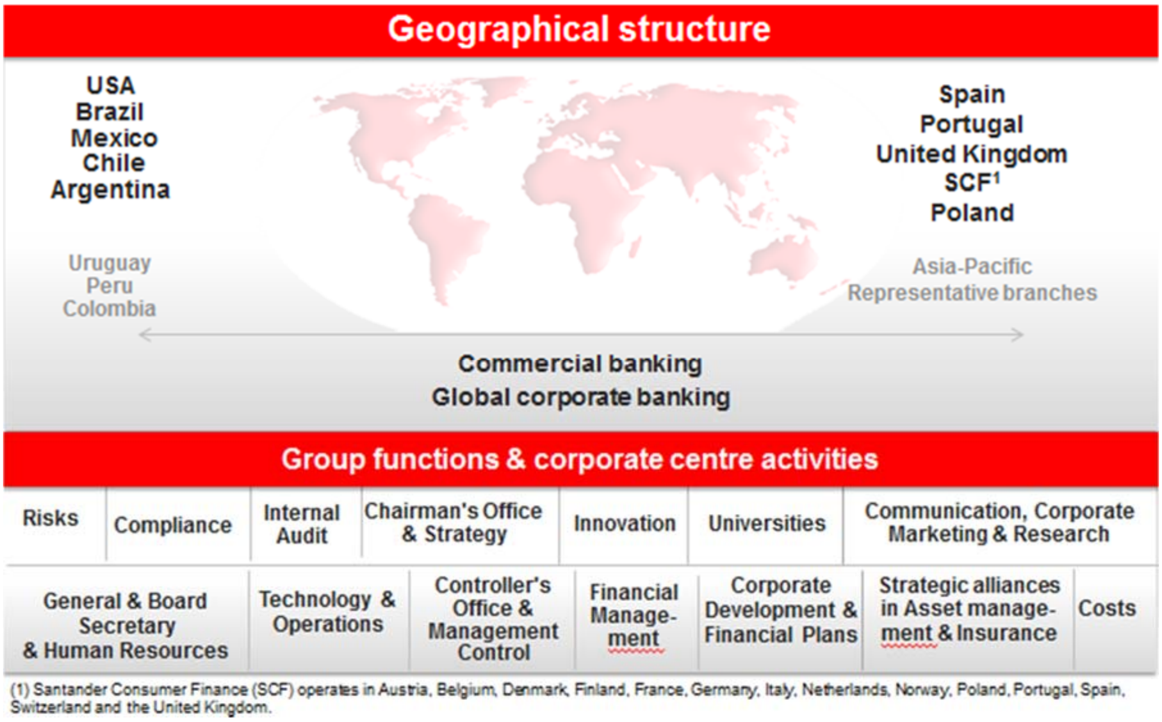
The board has fifteen members: four executive directors and eleven non-executive directors. Of the latter, eight are independent, one is a proprietary director and two, in the board's opinion, are neither proprietary nor independent.

The board has set up an executive committee to which general decision-making powers have been delegated. The board also has other committees with supervisory, reporting, advisory and proposal powers (the audit; risk supervision, regulation and compliance; appointments; remuneration; innovation and technology; and international committees).

The model of corporate governance follows a set of principles designed to safeguard the equal rights of shareholders. These include the principle of one share, one vote, one dividend. The Bylaws do not contain any protective measures, and steps are taken to encourage informed participation at shareholders' meetings.

A policy of maximum transparency is also applied, particularly as regards remuneration. This model of corporate governance is recognised by socially responsible investment indices. The Group has been included in the DJSI and FTSE4Good indices since 2000 and 2003, respectively. Further information on the Bank's administrative structure is provided in Section C of the Annual Corporate Governance Report.

Regular (usually weekly), meetings are held, which are chaired by the CEO and attended by the executive vice presidents of each division and the country heads, to monitor the various businesses and other important matters concerning the day-to-day running of the Group.



The structure of the operating business areas is presented on two levels:

a) Geographic businesses

This segments the activities of the operating units by geographical region, a view that coincides with the first level of Group management and reflects the positioning of Santander in the three areas of monetary influence in the world (euro, pound sterling and dollar). The segments reported on are:

- Continental Europe, which comprises all the businesses in the region, as well as the real estate operations in Spain business unit. Detailed financial information is given for Spain, Portugal, Poland and Santander Consumer Finance (which covers all the business in the region, including that of Spain, Portugal and Poland).

- United Kingdom, which includes all the business done by the Group's units and branches operating there.

- Latin America. This includes all of the financial business activities that the Group engages in through its banks and subsidiaries in the region. Details are provided of the accounts for Brazil, Mexico and Chile.

- United States. This includes the holding company (SHUSA) and the businesses of Santander Bank, Santander Consumer USA, Banco Santander Puerto Rico, the specialised unit of Banco Santander International and the New York branch.

There are no customers located in areas other than those in which the Group’s assets are located that generate income exceeding 10% of gross income.

b) Global businesses

The activities of the operating units are divided by type of business into commercial banking, Santander Global Corporate Banking (SGCB) and the real estate operations in Spain unit.

- Commercial banking. This contains all of the customer banking businesses, including consumer finance, except those of corporate banking, which are managed through SGCB. Also included in this business area are the results of the hedging positions taken in each country within the scope of the relevant ALCO committees.

- Santander global corporate banking (SGCB). This reflects the income from the global corporate banking, investment banking and markets businesses worldwide, including the globally managed treasury departments (after passing the appropriate share to commercial banking customers), and the equities business.

In addition to the operating businesses described above by region and business, the Group also maintains the corporate centre area. This segment includes the centralised management businesses relating to financial investments, the financial management of the structural currency position, taken from within the scope of the Group's corporate ALCO committee, as well as the management of liquidity and equity through issues.

As the Group’s holding unit, this segment handles the total capital and reserves, capital allocations and liquidity with the other businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services, which are charged to the areas, with the exception of corporate and institutional expenses related to the Group's functioning.

Lastly, the Group has a number of support units, such as Risks; Compliance; Internal Audit; Strategy; Innovation; Communication, Marketing and Research; General Secretary's Office and Human Resources; Technology and Operations; Controller's Office and Management Control; Financial Management; Corporate Development; Strategic Alliances; and Costs.

The function of them all is to ensure that the Group is a cohesive, efficient and productive group, and they are responsible for implementing the Group's corporate policies.

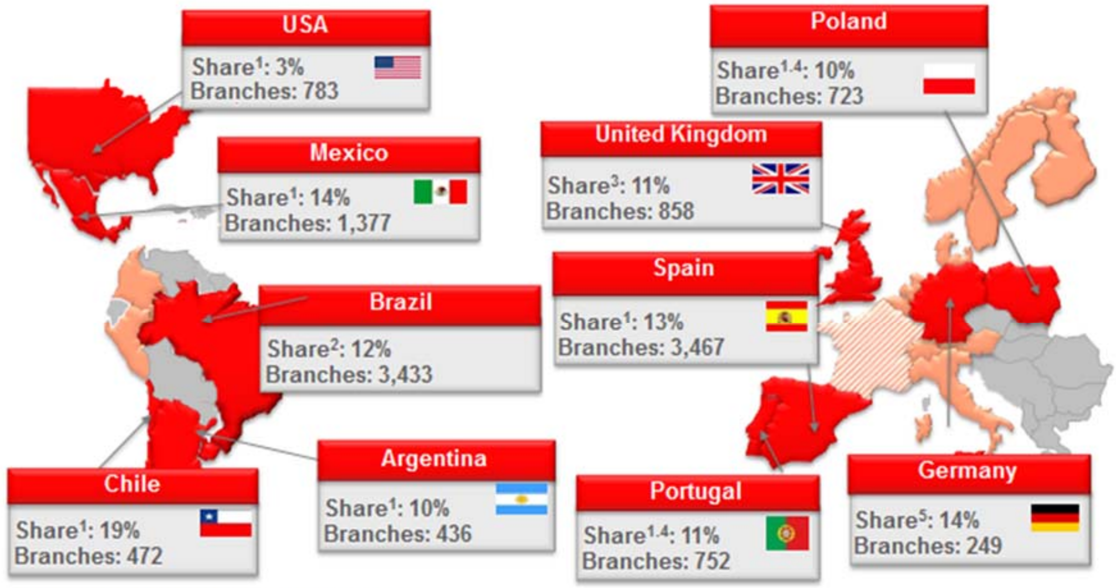
1.2 Mission and business model

Santander has a customer-focused business model that enables it to fulfil its mission of helping people and businesses to prosper.

Geographic diversification, focused on Europe and America

The Group's geographic diversification is balanced between mature and emerging markets, with significant operations in Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has a significant market share in Uruguay, and consumer finance businesses in other European countries.

In addition to its local offering of services, Santander has global business areas which develop products that are distributed in the Group's commercial networks and serve global customers.



Note: branches do not include consumer finance business

(1) Lending (2) "Free" lending (3) Including total mortgage loans, UPLs & SME loans
(4) Includes Santander Consumer Finance (SCF) businesses (5) Consumer loans

Focus on customer-oriented commercial banking

Banco Santander's commercial model focuses on meeting the needs of all types of customers: individuals with different levels of income; businesses of any size in different sectors of activity; private corporations and public institutions.

Developing lasting and sustainable relations with them is the Bank's principal objective. Santander has high market shares in commercial banking in its main countries where its biggest business is attracting deposits and extending loans. The Bank concentrates its wholesale banking offering on serving its principal customers in the local markets where it operates.

Model of subsidiaries

Santander Group is structured using a model of subsidiaries that are autonomous in terms of capital and liquidity, which are subject to the regulation and supervision of their local authorities as well as the European Central Bank's regulation and supervision of the Group.

The subsidiaries are managed according to local criteria and by local teams with a high level of knowledge and experience of customer relations in their markets, while enjoying the benefit of the synergies and advantages of belonging to Santander Group. The autonomy of the subsidiaries limits any contagion among the Group's units, thereby reducing risk.

International talent, with the same culture and a global brand

Santander employees share a culture focused on fulfilling the Group's mission and achieving its vision.

The Santander brand synthesises the Group's identity and expresses a corporate culture and a unique international positioning that is consistent and congruent with a way of doing banking that helps people and businesses to prosper in a Simple, Personal and Fair way.

Balance sheet strength, prudence in risks and global control frameworks

Santander has a medium-low risk profile and high quality assets, with a risk management and culture that it endeavours to improve day by day. It has sound capital that is appropriate for its business model, balance sheet structure, risk profile and regulatory requirements.

The corporate centre contributes value and maximises the competitiveness of the subsidiaries by helping them to be more efficient, supporting them in the generation of income and enforcing the highest standards in terms of corporate governance through frameworks for action, corporate policies and global control systems. This enables the Group to obtain better results and add more value than would be achieved by the sum of each of the local banks.

Innovation, digital transformation and best practices

Innovation has always been one of Santander Group's distinguishing features. On numerous occasions the Bank has revolutionised the financial sector with new products and services. The Group’s size allows it to identify and quickly and efficiently transfer best practices between the various markets in which it is present, and to adapt them to local peculiarities.

Santander is engaged in a major process of digitization that affects not just the services it provides to customers but all of its operations, both internally and externally, as well as how it uses data to drive growth, the updating and modernisation of systems, and the simplification of processes and of the organisation in general.

The Group's vision

The Group's vision is to be the best commercial bank there is by winning the trust and loyalty of its employees, customers and shareholders and of society.

In order to be the best commercial and business banking bank for its customers the Group must start with its employees. If they feel proud to belong to Santander and more committed, they will be able to win the trust and loyalty of the Bank's customers.

- Santander's aim is to help its customers to prosper day by day with simple customised solutions that increase their engagement with the Bank; fair and equal treatment based on trust, and excellent service through the branch offices and digital channels.

- One of the priorities of Santander's strategy is to win the trust and loyalty of its shareholders and investors in a manner that is Simple, Personal and Fair.

- Banco Santander's business model is focused on helping people and businesses to prosper, and on generating active and sustainable profitability that benefits the development of the communities in which it operates.

1.3 Economic, regulatory and competitive context

The world economy slowed its rate of growth in 2015 (3.1% vs. 3.4% in 2014). The improved performance of the advanced economies was not sufficient to counter the slowdown of the emerging economies. The fall in commodity prices and the cooling of the Chinese economy had a greater relative impact on the emerging economies, although the degree of slowdown varied depending on their internal context.

As for the financial markets, their performance in 2015 can be divided into two parts. In the first half of the year there were rises across the board in stock market indices, and risk premiums on both government and private debt securities fell significantly, especially in the developed economies. Access to capital markets was more fluid and in the advanced economies the conditions on the supply of bank credit eased.

This performance was supported by the monetary policies of the central banks, which supplied abundant liquidity, and this facilitated investors' pursuit of returns. The quantitative easing of the European Central Bank (ECB) contained any contagion effect during the worst moments of the Greek bail-out negotiations.

During the summer there was an increase in volatility in the markets linked to the concerns about the slowdown of growth in China and the emerging economies. Although the start of monetary normalisation in the United States was delayed until December, equities underwent a major adjustment that significantly eroded the gains accumulated in the year.

The banking sector environment of the countries in which Banco Santander operates continued to be marked by the regulatory changes and the challenging economic environment, which presented a significant challenge for management to raise profitability.

Interest rates remained extraordinarily low; although business volumes gradually recovered they were still low; and there was a big increase in competitive pressure in most markets.

In the supervisory and regulatory context, there was once again an intensive regulatory agenda in 2015. While progress continued with the revision of the prudential framework and the development of crisis management frameworks, issues concerning consumer and investor protection were the focus of increased attention. The aim is to make all these matters compatible with driving economic growth.

Lastly, as regards banking supervision, the Single Supervisory Mechanism (SSM) launched in November 2014 enabled the ECB to assume the comprehensive supervision of banks in the euro area. In 2015 the SSM became fully operational and the 123 most important banking groups came under the direct supervision of the ECB. Each bank has a joint supervisory team made up of personnel from the ECB and the national authorities of the member states where the bank has a significant presence.

A summary of the macroeconomic performance of the main countries in which the Group operates is given in the comments made in this Report on the geographical units with which it operates.

2. BUSINESS PERFORMANCE AND RESULTS

	2015	2014
BALANCE SHEET (millions of euros)		
Total assets	1,340,260	1,266,296
Loans and advances to customers (net)	790,848	734,711
Customer deposits	683,122	647,628
Customer funds under management & marketed	1,075,565	1,023,437
Shareholders' equity	88,040	80,806
Total funds managed & marketed	1,506,520	1,428,083
ORDINARY INCOME STATEMENT (*) (millions of euros)		
Net interest income	32,189	29,548
Gross income	45,272	42,612
Pre-provision profit (net operating income)	23,702	22,574
Profit before tax	10,939	9,720
Profit attributable to the Group	6,566	5,816
EPS, NET RETURN AND EFFICIENCY (%) (*)		
Attributable profit per share (euro)	0.45	0.48
RoE (1)	7.2	7.0
RoTE (1)	11.0	11.0
RoA	0.6	0.6
RoRWA	1.3	1.3
Efficiency (incl. depreciation and amortisation)	47.6	47.0
SOLVENCY AND NON-PERFORMING LOANS (%)		
Fully-loaded CET1 (1)	10.05	9.65
Phase-in CET1 (1)	12.55	12.23
Non-performing loans ratio	4.36	5.19
Non-performing loans coverage ratio	73.1	67.2
SHARES AND CAPITALISATION		
Number of shares (millions)	14,434	12,584
Market price (euro)	4.558	6.996
Market capitalisation (millions of euros)	65,792	88.041
Shareholders' equity per share (euro)	6.12	6.42
Price / Shareholders' equity per share (times)	0.75	1.09
PER (price / earnings per share) (times)	10.23	14.59
OTHER DATA		
Number of shareholders	3,573,277	3,240,395
Number of employees	193,863	185,405
Number of branches	13,030	12,951
INFORMATION ON TOTAL PROFIT (**)		
Profit attributable to the Group	5,966	5,816
Attributable profit per share (euro)	0.40	0.48
RoE (1)	6.6	7.0
RoTE (1)	10.0	11.0
RoA	0.5	0.6
RoRWA	1.2	1.3
PER (price / earnings per share) (times)	11.30	14.59

(1).- In 2014, pro forma figure including January 2015 capital increase.

(*).- Excluding Non-recurring capital gains and write-downs, net

(**).- Including Non-recurring capital gains and write-downs, net

2.1 Review of the year

Against this background, the review of the year for Santander Group is positive, since it succeeded in making the organisational changes and the implementation of the commercial transformation process in which it is engaged compatible with achieving the objectives that the Group had set itself at the beginning of the year: it grew in volumes, in profit, accumulated capital, and increased the dividend paid in cash.

The highlights of the Group's management in 2015 were:

- Strong earnings. Santander faces these challenges with a business model that has proved its strength in recent years and which it is adapting to the new environment in order to maximise the levels of profitability.

  The Santander model, which has demonstrated its validity during the crisis, rests on two main pillars:

  - Santander is a big bank, but it is uncomplicated. Its diversification is unique, it engages in commercial banking in nine core countries in addition to the different services it provides through Consumer Finance and in the United States with Santander Consumer USA. Its management approach is adapted to each market, and its subsidiaries, which are autonomous in capital and liquidity, have sufficient critical mass to be within the three top players in each market and generate value for the Group's shareholders.

  - The Bank has a corporate centre that enables it to attract talent, and to share best practices and "best-in-class" information and control systems. The corporate centre will continue to add value in the future and will do so even more efficiently.

  As a result, in 2015 Santander Group obtained ordinary attributable profit of EUR 6,566 million, which was 13% more than in 2014, based on:

  - consistent and recurring growth of commercial income quarter by quarter (disregarding the impact of exchange rates) resulting in net interest income and total income that were all-time records.

  - cost control and operating excellence that resulted in growth of 1% in real terms, disregarding the changes in the scope of consolidation.

  - a decrease in period provisions and a fall in the cost of lending, reflecting the strategy for growth and the appropriate risk management policy.

  Also, both positive and negative non-recurring results were booked in the year, with a net charge of EUR 600 million, taking the final profit to EUR 5,966 million, an increase of 3%.

- Commercial transformation process. 2015 saw further progress in the transformation of the Bank's commercial model to one that is increasingly simple, personal and fair. The focus is on the customers – both private individuals and businesses, and the Group's efforts are directed at developing specialised models, ranges of simple products and comprehensive proposals that cover all of their requirements, thereby anticipating their needs and winning their confidence.

  There was a significant improvement in customer engagement and long-term relations, supported heavily by differential value offerings and their expansion to all the geographical areas, with the sharing of best practices. Examples are:

  - The launch of the 1|2|3 strategy in Spain, after its success in the United Kingdom and Portugal, and similar products in Poland and Germany. A number of products and services were also launched in the high-income segment, such as *Select Premium Portfolios* in Germany or *Select Expat* in Mexico.

  - In SMEs and businesses, comprehensive proposals to strengthen our support for this segment, with the rollout of *Santander Advance* in 8 countries, *Santander Trade* now available in 12 countries with over

30,000 export and import users, *International Desk*, *Santander Passport* and the 1|2|3 current account in Spain.

A major effort was also made to promote multichannel banking, with noteworthy developments in digital channels, which are playing a key role in this process of transformation. Innovation and technology development are one of the Group's strategic pillars, with the objective of responding to the new challenges arising out of the digital revolution, with the focus on operating excellence and customer experience.

As a result, improvements were made to the commercial websites, and new applications and developments for mobile phones were launched, such as *Cash Kitti* and *Spendlytics* in the United Kingdom, and the new *Deposit capture* functionality for mobile phones in the United States. There were also some noteworthy initiatives in smartwatches such as the investment in the United Kingdom and Spain in the first group of *Apple Pay* issuers.

No less important were the simplification of processes and products, the implementation of a new commercial front with 360° vision in many of the countries, latest generation ATMs and the opening of what are being called the branch offices of the future.

Santander wishes to be a digital bank without losing the essence of what makes it a bank. The branch offices will continue to be an important channel for both customers and the Bank, and in the long term they will focus to a greater extent on the sale of more complex products and advisory services.

These improvements as part of the commercial transformation process were reflected in increased engagement and digitization, enabling the Bank to reach the figure of 13.8 million engaged customers (an increase of 1.2 million (+10%) in the year); and 16.6 million digital customers (an increase of 2.5 million (+17%) in the year). These are improvements that will translate into an increased income base.

- Growth of business activity. The commercial activity and the increased customer engagement were reflected in the growth of lending and customer funds.

  In lending, by geographical area, there was growth at nine of the ten main units, and by segment, private individuals, SMEs and large companies also all recorded growth. In customer funds, all the countries were up, while the Group continued to apply a strategy of reducing the cost of funding, which was reflected in the growth of demand accounts and investment funds, and the decrease in time deposits.

- Stronger solvency. The target set for capital in 2015 was achieved, in spite of negative extraordinary impacts. The fully-loaded CET1 ratio was 10.05% at year end, evidencing the Group's capacity for organic generation of capital of 10 basis points per quarter on average.

  In addition, in regulatory terms, the Group ended the year with a CET1 ratio of 12.55%, which was 280 basis points above the minimum required by the European Central Bank for 2016. On 3 February 2016, the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil) S.A. The impact of the aforementioned authorisation on the Group’s risk-weighted assets (EUR -7,836 million) and, in consequence, on its capital ratios, was not taken into account in the data published on 27 January 2016, which are those presented in this report.

- Improved credit quality. 2015 was a good year in terms of credit quality, with improvements in the Group's principal indicators. The non-performing loans ratio improved by 83 basis points, taking it to 4.36%; the coverage ratio rose by 6 percentage points to 73%, and the cost of lending fell to 1.25%.

  This positive performance was also recorded in practically all of the geographical areas, and is a reflection of the change in mix towards lower risk products in some countries, and an appropriate management policy that the Bank is strengthening with the launch of the advanced risk management (ARM) programme.

Creation of value for shareholders.

Taking into account the ordinary profit, the Bank's RoTE in 2015 was 11%, which is higher than the sector average. There was also a slight improvement in the Group's RoRWA, which stood at 1.30%.

The tangible book value per share increased by 3% in the year, on a like-for-like basis, which was compatible with the distribution of dividends amounting to over EUR 2,200 million in cash in 2015.

The dividend yield was 4.4% based on the share price at year end.

2.2 Earnings

The 2015 earnings performance as compared with 2014 is shown below.

Condensed consolidated statements of income

Millions of euros

	2015	2014
Interest and similar income	57,198	54,656
Interest expense and similar charges	(24,386)	(25,109)
NET INTEREST INCOME	**32,812**	**29,547**
Income from equity instruments	455	435
Share of results of entities accounted for using the equity method	375	243
Fee and commission income	13,042	12,515
Fee and commission expense	(3,009)	(2,819)
Gains/(losses) on financial assets & liabilities, net	(770)	3,974
Exchange differences, net	3,156	(1,124)
Other operating income	3,067	5,214
Other operating expenses	(3,233)	(5,373)
GROSS INCOME	**45,895**	**42,612**
Administrative expenses	(19,302)	(17,899)
Staff costs	(11,107)	(10,242)
Other general administrative expenses	(8,195)	(7,657)
Depreciation & amortisation charge	(2,418)	(2,287)
Provisions, net	(3,106)	(3,009)
Impairment losses on financial assets, net	(10,652)	(10,710)
PROFIT FROM OPERATIONS	**10,417**	**8,707**
Impairment losses on non-financial assets, net	(1,092)	(938)
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	112	3,136
Negative difference on business combinations	283	17
Gains/(Losses) on disposal of non-current assets held for sale not classified as discontinued operations	(173)	(243)
PROFIT BEFORE TAX	**9,547**	**10,679**
Income tax	(2,213)	(3,718)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**7,334**	**6,961**
Profit/(loss) from discontinued operations, net	—	(26)
CONSOLIDATED PROFIT FOR THE YEAR	**7,334**	**6,935**
Profit attributable to the parent	5,966	5,816
Profit attributable to non-controlling interests	1,368	1,119

In the statement presented above, the capital gains and write-downs that are considered non-recurring are included in each of the income statement line items where they were recognised due to their nature.

To facilitate understanding of the changes between the two years, below is a condensed income statement that presents these non-recurring capital gains and write-downs for the net amount on a separate line just before the profit attributable to the Group (Extraordinary capital gains and write-downs, net).

The negative net impact of the non-recurring capital gains and write-downs in 2015 was EUR 600 million. Specifically, there were capital gains of EUR 1,118 million relating to the net result of the reversal of tax liabilities in Brazil (EUR 835 million), and the generation of badwill amounting to EUR 283 million as a result of the transaction to acquire the assets and liabilities of Banco Internacional do Funchal (Banif) in Portugal. There were also charges for an aggregate amount of EUR 1,718 million that related to the provisioning of an allowance to cover possible claims relating to payment protection insurance (PPI) products in the United Kingdom (EUR 600 million), the impairment and accelerated amortisation of intangible assets (EUR 683 million) and other write-downs (EUR 435 million).

In 2014 capital gains were booked for: the sale of Altamira Asset Management, S.L. (EUR 385 million, net), the flotation of Santander Consumer USA Holdings Inc. (EUR 730 million, net), the changes to pension commitments in the United Kingdom (EUR 224 million, net) and the insurance transaction with CNP (EUR 250 million, net). There were write-downs that related to restructuring costs, impairment of intangible assets and other write-downs for an aggregate amount, net of taxes, of EUR 1,589 million. The net impact of these amounts on the profit was therefore nil.

Condensed income statement - Directors' report

Millions of euros

	2015	2014
Net interest income	**32,189**	**29,548**
Net fees and commissions	10,033	9,696
Gains (losses) on financial assets & liabilities	2,386	2,850
Other income	665	519
Gross income	**45,272**	**42,612**
Operating expenses	(21,571)	(20,038)
General administrative expenses	(19,152)	(17,781)
Staff costs	*(11,107)*	*(10,213)*
Other general administrative expenses	*(8,045)*	*(7,568)*
Depreciation and amortisation charge	(2,419)	(2,257)
Net operating income	**23,702**	**22,574**
Provisions to the allowance for loan losses	(10,108)	(10,562)
Impairment losses on other assets	(462)	(375)
Other income and provisions	(2,192)	(1,917)
Ordinary profit before tax	**10,939**	**9,720**
Income Tax	(3,120)	(2,696)
Ordinary profit from continuing operations	**7,819**	**7,024**
Profit/(loss) from discontinued operations, net	—	(26)
Ordinary consolidated profit for the year	**7,819**	**6,998**
Profit attributable to non-controlling interests	1,253	1,182
Ordinary profit attributable to the Group	**6,566**	**5,816**
Extraordinary capital gains and write-downs, net	(600)	—
Profit attributable to the Group	**5,966**	**5,816**

In 2015 the Group obtained an attributable profit of EUR 5,966 million, which represents an increase of 3% on the profit for 2014. Excluding the effect of the net amount of non-recurring capital gains and write-downs, the ordinary attributable profit was EUR 6,566 million, an increase of 13% on 2014.

Before analysing the performance of the income statement lines, the details of some of the aspects that have affected the comparison between the two years are as follows:

- A macro environment in which the world economy slowed its rate of growth.
- Interest rates that remained at all-time lows in many of the economies.
- Strong competition in some of the markets in which the Group operates.
- A more demanding regulatory environment, with impacts in revenue limitation and increased costs.
- A positive effect on the scope of consolidation due to the transactions in consumer banking (mainly the agreements with PSA) and in Brazil (agreement with Bonsucesso, Getnet and the acquisition of non-controlling interests in the fourth quarter of 2014).

- The impact of the exchange rates of the various currencies in which the Group operates against the euro was less than one positive percentage point for the Group as a whole in the comparison of income and costs. By unit, the impacts were as follows: United States (+21 percentage points), United Kingdom (+12 percentage points), Argentina (+7 percentage points), Chile (+5 percentage points), Brazil (-16 percentage points). In Mexico and Poland the impact was less than one percentage point.

Exchange rates: Parity 1 euro=currency

	Av. exchange rate (income statement)	
	2015	2014
US dollar	1.109	1.326
Pound sterling	0.725	0.806
Brazilian real	3.645	3.118
Mexican peso	17.568	17.647
Chilean peso	724.014	756.718
Argentine peso	10.207	10.747
Polish zloty	4.182	4.185

Breakdown of the main lines of the income statement

The most noteworthy aspects of the performance of the income statement year on year were as follows.

Income totalled EUR 45,272 million, an increase of 6% on 2014. This was good quality growth, since it was based on increases in the most commercial levers of the income line (net interest income and fees and commissions), and the gains on financial assets and liabilities accounted for only 5% of the Group's income (7% in 2014). Broken down:

The increase in income was due mainly to the net interest income, which at EUR 32,189 million accounted for 71% of the total, and was up by 9% year on year, mainly as a result of the increase in lending and the decrease in the cost of liabilities.

The table below shows the average balance sheet balances for each year, obtained as the average of the months in the period, which does not differ significantly from obtaining the average of the daily balances. The distinction between domestic and international is based on the domicile of the customer.

Average balance sheet - assets and interest income

ASSETS	2015 Average balance	2015 Interest	2015 Average rate	2014 Average balance	2014 Interest	2014 Average rate
	(in millions of euros, except percentages)					
Cash and balances with central banks						
Domestic	2,511	7	0.28%	1,737	13	0.75%
International	72,101	1,385	1.92%	75,567	2,025	2.68%
	74,612	**1,392**	**1.87%**	**77,304**	**2,038**	**2.64%**
Loans and advances to credit institutions						
Domestic	28,449	126	0.44%	22,614	98	0.43%
International	60,238	1,719	2.85%	59,180	1,684	2.85%
	88,687	**1,845**	**2.08%**	**81,794**	**1,782**	**2.18%**
Loans and advances to customers						
Domestic	159,897	4,134	2.59%	164,517	5,125	3.12%
International	625,763	41,311	6.60%	542,853	37,050	6.83%
	785,660	**45,445**	**5.78%**	**707,370**	**42,175**	**5.96%**
Debt securities						
Domestic	51,467	859	1.67%	44,797	1,582	3.53%
International	130,918	6,502	4.97%	110,741	5,665	5.12%
	182,385	**7,361**	**4.04%**	**155,538**	**7,247**	**4.66%**
Income from hedging transactions						
Domestic		83			95	
International		(350)			198	
		(267)			**293**	
Other interest-earning assets						
Domestic		658			689	
International		764			432	
		1.422			**1,121**	
Total interest-earning assets						
Domestic	242,324	5,867	2.42%	233,665	7,602	3.25%
International	889,020	51,331	5.77%	788,341	47,054	5.97%
	1,131,344	**57,198**	**5.06%**	**1,022,006**	**54,656**	**5.35%**
Investments in Group companies						
Domestic	1,366		0.00%	1,630		0.00%
International	2,086		0.00%	1,969		0.00%
	3,452		**0.00%**	**3,599**		**0.00%**
Total earning assets						
Domestic	243,690	5,867	2.41%	235,295	7,602	3.23%
International	891,106	51,331	5.76%	790,310	47,054	5.95%
	1,134,796	**57,198**	**5.04%**	**1,025,605**	**54,656**	**5.33%**
Other assets	**210,861**			**177,655**		
Assets from discontinued operations	-			-		
Average total assets	**1,345,657**	**57,198**		**1,203,260**	**54,656**	

The average balance of earning assets in 2015 was EUR 1,135 thousand milion, which was 11% more than in 2014.

This increase occurred mainly in the international component, in which the biggest rises were in Loans and advances to customers and Debt securities, partially offset by the fall in Cash and balances with central banks.

The lower increase in the domestic component was due to the Loans and advances to credit institutions and Debt securities, that were partially offset by the lower balances of Loans and advances to customers, largely due to those booked at the real estate operations in Spain unit.

The average return on total earning assets fell by 29 basis points to 5.04%.

Average balance sheet - liabilities and interest expense

LIABILITIES & SHAREHOLDERS' EQUITY	2015			2014		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions of euros, except percentages)					
Deposits from credit institutions						
Domestic	31,931	180	0.56%	16,211	225	1.39%
International	134,781	2,176	1.61%	116,761	1,980	1.70%
	166,712	**2,356**	**1.41%**	**132,972**	**2,205**	**1.66%**
Customer deposits						
Domestic	173,793	1,102	0.63%	170,327	1,629	0.96%
International	511,282	12,347	2.41%	459,133	11,787	2.57%
	685,075	**13,449**	**1.96%**	**629,460**	**13,416**	**2.13%**
Marketable debt securities						
Domestic	62,510	1,628	2,60%	68,571	2,242	3.27%
International	140,147	5,337	3.81%	122,029	4,602	3.77%
	202,657	**6,965**	**3.44%**	**190,600**	**6,844**	**3.59%**
Subordinated liabilities						
Domestic	7,045	250	3.55%	7,114	407	5.72%
International	8,296	684	8.24%	7,762	677	8.72%
	15,341	**934**	**6.09%**	**14,876**	**1,084**	**7.29%**
Other interest-bearing liabilities						
Domestic	6,896	137	1.99%	6,987	192	2.75%
International	2,160	133	6.16%	2,158	152	7,04%
	9,056	**270**	**2.98%**	**9,145**	**344**	**3.76%**
Expenses from hedging transactions						
Domestic		(307)			(388)	
International		(103)			(158)	
		(410)			**(546)**	
Other interest-earning assets						
Domestic		761			725	
International		684			1,037	
		1,445			**1,762**	
Total interest-bearing liabilities						
Domestic	282,175	3,751	1.33%	269.210	5,032	1.87%
International	796,666	21,258	2.67%	707.843	20,077	2.84%
	1,078,841	**25,009**	**2.32%**	**977.053**	**25,109**	**2.57%**
Other liabilities	**166,313**			**141,352**		
Non-controlling interests	**10,283**			**9,808**		
Shareholders' equity	**90,220**			**75,047**		
Liabilities from discontinued operations	-			-		
Total average liabilities and shareholders' equity	**1,345,657**	**25,009**		**1,203,260**	**25,109**	

The average balance of interest-bearing liabilities in 2015 was EUR 1,079 thousand milion, which was 10% more than in 2014.

The increase in balances was largely due to the international component, in which Customer deposits was the most noteworthy heading. Most notable in the advance in the domestic component were the Deposits from credit institutions.

The average cost of the interest-bearing liabilities fell by 25 basis points to 2.32%. As in the case of assets, there were falls by heading across the board in both the domestic and international components.

The changes in income and expense shown in the table below are calculated and attributed mainly to:

- The change in volume, which is obtained by applying the previous period's interest rate to the difference between the average balances of the present and previous periods.

- The change in interest rate, which is obtained by applying to the average balance for the previous year the difference between the rates of the present and previous periods.

Distinguishing between interest income and interest expense reveals that:

- Interest income rose by EUR 2,542 million, as a result of the increased volume (up by EUR 6,292 million), since the lower rates resulted in a decrease of EUR 3,750 million. The net positive variation occurred in the international component; the domestic component fell.

- Interest expense was down by EUR 100 million due to the interest rate effect (EUR -2,213 million), mostly as a result of the lower cost of customer deposits, which offset the higher cost by volume (up by EUR 2,113 million). In this case, the decrease in the expense was due to the rate effect in the domestic component.

The net result is an increase of EUR 2,642 million, all due to the increased volumes.

Interest income	2015/2014 Increase (decrease) due to changes in:		
	Volume	Rate	Net variation
	(in millions of euros)		
Cash and balances with central banks			
Domestic	4	(10)	(6)
International	(89)	(551)	(640)
	(85)	**(561)**	**(646)**
Loans and advances to credit institutions			
Domestic	26	2	28
International	30	5	35
	56	**7**	**63**
Loans and advances to customers			
Domestic	(140)	(851)	(991)
International	5,506	(1,245)	4,261
	5,366	**(2,096)**	**3,270**
Debt securities			
Domestic	209	(932)	(723)
International	1,005	(168)	837
	1,214	**(1,100)**	**114**
Total interest-earning assets excl. hedging transactions and other interest			
Domestic	99	(1,791)	(1,692)
International	6,452	(1,959)	4,493
	6,551	**(3,750)**	**2,801**
Income from hedging transactions			
Domestic	(12)	-	(12)
International	(548)	-	(548)
	(560)	**-**	**(560)**
Other interest			
Domestic	(31)	-	(31)
International	332	-	332
	301	**-**	**301**
Total interest-earning assets			
Domestic	56	(1,791)	(1,735)
International	6,236	(1,959)	4,277
	6,292	**(3,750)**	**2,542**

Interest expense	2015/2014 Increase (decrease) due to changes in:		
	Volume	Rate	Net variation
	(in millions of euros)		
Deposits from credit institutions			
Domestic	138	(183)	(45)
International	294	(98)	196
	432	**(281)**	**151**
Customer deposits			
Domestic	33	(560)	(527)
International	1,286	(726)	560
	1,319	**(1,286)**	**33**
Marketable debt securities			
Domestic	(186)	(428)	(614)
International	690	45	735
	504	**(383)**	**121**
Subordinated liabilities			
Domestic	(4)	(153)	(157)
International	45	(38)	7
	41	**(191)**	**(150)**
Other interest-bearing liabilities			
Domestic	(2)	(53)	(55)
International	0	(19)	(19)
	(2)	**(72)**	**(74)**
Total interest-bearing liabilities excl. hedging transactions and other interest			
Domestic	(21)	(1,377)	(1,398)
International	2,315	(836)	1,479
	2,294	**(2,213)**	**81**
Expenses from hedging transactions			
Domestic	81	-	81
International	55	-	55
	136	**-**	**136**
Other liabilities			
Domestic	36	-	36
International	(353)	-	(353)
	(317)	**-**	**(317)**
Total interest-bearing liabilities			
Domestic	96	(1,377)	(1,281)
International	2,017	(836)	1,181
	2,113	**(2,213)**	**(100)**

Excluding the impact of exchange rates, the net interest income was up by 8% year on year, with increases in most of the geographical areas, except for Poland (down by 6%), due to the fall in interest rates, Spain (down by 5%), in an environment of low interest rates and strong competition in lending, and Chile (down by 1%), due to the impact of the lower rate of variation in the UF unit of account and the regulation of the policy on maximum rates. There was noteworthy growth in Santander Consumer Finance (up by 31%), partly due to the change in the scope of consolidation, Mexico (up by 14%), due to the increase in lending, Brazil (up by 10%), after quarter-by-quarter improvements throughout the year, and the United States (up by 7%) due to the higher portfolio volume at Santander Consumer USA and Santander Bank.

Fees and commissions amounted to EUR 10,033 million, an increase of 4%. By unit, performance was very uneven due to the different economic and business cycles in each of the countries. In some cases regulatory changes that limited revenues, mainly in insurance and cards, also had an impact.

The aggregate net interest income and income from fees and commissions was up by 8% at EUR 42,222 million, and accounted for 93% of the total income (92% in 2014).

Gains on financial assets and liabilities were down by 16%, impacted by the higher income in 2014 from the management of interest rate hedging portfolios and the global corporate unit.

Other income increased by EUR 146 million, which was the net result of two opposite impacts. On the one hand, the positive impact of the income from leasing operations (mainly in the United States) and the higher results of companies accounted for using the equity method. On the other, the contribution to the deposit guarantee funds, which is also booked on this line, was more than EUR 750 million in the year for the whole Group, after rising by over 30%, mainly due to Poland (where the sector made extraordinary contributions due to the failure of a bank), Spain and Argentina.

Operating costs totalled EUR 21,571 million, and were up by 8% year on year (up by 7% disregarding the impact of exchange rates). This increase was due to a number of factors: the evolution of inflation in Latin America, the investments in programmes for innovation and improved future efficiency, the impact of the measures adopted by the Bank as a result of the new regulatory requirements (in particular in the United States) and the change in the scope of consolidation.

- Adjusted for the effects of the changes in the scope of consolidation and the average inflation for the period, costs increased by only 1%, which reflects the positive impact of the three-year efficiency and productivity plan launched at the end of 2013, which is making it possible to make the bigger investments mentioned earlier, and keep the real growth of costs close to zero.

- By country, noteworthy was the fall in real terms in Brazil (down by 6% disregarding changes in the scope of consolidation) and in Spain and Portugal (down by 1% in each case).

The efficiency ratio was 47.6%, compared with 47.0% in 2014. This increase was due to the performance of the results on financial assets and liabilities mentioned above, since without them, the efficiency ratio remained stable.

The period provisions to allowances for loan losses amounted to EUR 10.108 million, a decrease of 4% year on year. There were significant falls in the United Kingdom (down by 71%), Spain (down by 43%), Portugal (down by 42%) and the real estate operations in Spain unit (down by 26%). They were also down in Poland and Santander Consumer Finance. In contrast, the period provisions were higher in countries like Chile (up 4%), Brazil (up 5%), Mexico (up 15%) and the United States (up 16%), which all recorded significant growth in volumes. All these variations at the units are disregarding the effect of exchange rates.

- The lower provisions combined with the increase in lending made it possible for continued improvement of the cost of the Group's lending, which fell from 1.43% in December 2014 to 1.25% in December 2015. Excluding Santander Consumer USA, which has a high level of provisions due to its type of business, the cost of lending stood at 0.90%, compared with 1.15% in December 2014.

- This improvement in the cost of lending was recorded at all of the Group's units, with the exception of the United States. Noteworthy were Spain, Portugal, the United Kingdom and Brazil. This performance was due to the increased quality of the portfolios as a result of the active risk management, combined with a better macro situation in certain countries.

Accordingly, the net operating income after loan loss provisions was up by 13% (+12% excluding the exchange rate effect) driven by the double-digit growth of a large proportion of the units.

Together, Other income and write-downs were negative by an amount of EUR 2,654 million (EUR 2,292 million in 2014).

The ordinary profit before taxes, which equates with the performance of the business, was 13% higher in current euros (+10% in constant euros).

The increase in taxes was largely due to the greater tax burden at some units such as Portugal, Santander Consumer Finance, Mexico, Chile and the United States, mainly.

Non-controlling interests were up by 6%, since the increases in the United States (due to the improvement in Santander Consumer USA's earnings) and Santander Consumer Finance (implementation of the agreements with PSA), were partially cancelled out by the repurchase made in Brazil in the fourth quarter of 2014.

The ordinary attributable profit was EUR 6,566 million, an increase of 13% year on year (10% in constant euros). By geographical region, the biggest increases were in Portugal (up by 63%), Brazil (up by 33%, due in part to the repurchase of non-controlling interests), SCF (up by 18%, due in part to the changes in the scope of consolidation), Spain (up by 18%) and the United Kingdom (up by 14%). In all cases, in the respective currencies in which they operate.

Conversely, there were decreases in Poland (mainly due to the fall in interest rates and the extraordinary charge for the deposit guarantee fund), Chile (due to the lower UF inflation, the effect of which was not fully offset by the increased volumes and higher gains on financial assets and liabilities, combined with a higher tax rate) and the United States (where the setting up of the holding company, the improvement in the franchise of Santander Bank and the discontinuance of personal loans in order to focus more on vehicle finance, is having a temporary impact on income and costs).

The ordinary RoTE stood at 11.0%, while the ordinary earnings per share were EUR 0.45, which was 7% less year on year, impacted mainly by the increase in the number of shares in the period (capital increase in January 2015 and Santander Dividendo Elección scrip dividend scheme), as well as the increased financial cost as a result of the new issues of AT1 instruments.

After incorporating the net result of extraordinary capital gains and write-downs, the profit attributable to the Group was EUR 5,966 million in 2015, 3% more than in 2014.

The RoTE was 10.0% and the earnings per share EUR 0.40, down 16% on 2014.

2.3 Balance sheet

Below is the condensed balance sheet as at 31 December 2015, compared with that as at 31 December 2014.

Condensed balance sheet - Directors' report

Millions of euros

	2015	2014
Assets		
Cash and balances with central banks	81,329	69,428
Financial assets held for trading	147,287	148,888
Debt instruments	43,964	54,374
Loans and advances to customers	6,081	2,921
Equity instruments	18,225	12,920
Trading derivatives	76,724	76,858
Loans and advances to credit institutions	2,293	1,815
Other financial assets at fair value	45,043	42,673
Loans and advances to customers	14,293	8,971
Other (loans and advances to credit institutions, debt instruments and other equity instruments)	30,750	33,702
Available-for-sale financial assets	122,036	115,251
Debt instruments	117,187	110,249
Equity instruments	4,849	5,001
Loans and receivables	831,637	781,635
Loans and advances to credit institutions	50,256	51,306
Loans and advances to customers	770,474	722,819
Debt instruments	10,907	7,510
Held-to-maturity investments	4,355	—
Investments	3,251	3,471
Tangible and intangible assets	27,790	26,109
Goodwill	26,960	27,548
Other assets	50,572	51,293
Total assets	**1,340,260**	**1,266,296**
Liabilities and equity		
Financial liabilities held for trading	105,218	109,792
Customer deposits	9,187	5,544
Marketable debt securities	—	—
Trading derivatives	76,414	79,048
Other	19,617	25,200
Other financial liabilities at fair value	54,768	62,318
Customer deposits	26,357	33,127
Marketable debt securities	3,373	3,830
Deposits from central banks and credit institutions	25,038	25,360
Financial liabilities at amortised cost	1,039,343	961,053
Deposits from central banks and credit institutions	148,079	122,437
Customer deposits	647,578	608,956
Marketable debt securities	201,656	193,059
Subordinated liabilities	21,153	17,132
Other financial liabilities	20,877	19,468
Liabilities under insurance contracts	627	713
Provisions	14,494	15,376
Other liabilities	27,057	27,331
Total liabilities	**1,241,507**	**1,176,581**
Shareholders' equity	102,402	91,664
Share capital	7,217	6,292
Reserves	90,765	80,026
Profit attributable to the Group	5,966	5,816
Less: dividends and remuneration	*(1,546)*	*(471)*
Valuation adjustments	(14,362)	(10,858)
Non-controlling interests	10,713	8,909
Total equity	**98,753**	**89,714**
Total liabilities and equity	**1,340,260**	**1,266,296**

At 31 December 2015, the total business managed and marketed was EUR 1,506,520 million. Of this amount EUR 1,340,260 million related to on-balance-sheet assets and the remainder to investment funds, pension funds and assets under management.

In the Group overall, the impact of exchange rates on the variation in lending to customers was zero, and just one negative percentage point on the variation in customer funds. However, by unit, the impact was significant in the United States (+13 percentage points), the United Kingdom (+6 percentage points), Chile (-5 percentage points), Mexico (-6 percentage points), Brazil (-28 percentage points) and Argentina (-42 percentage points).

Exchange rates: Parity 1 euro=currency

	Final exchange rate (balance sheet)	
	2015	2014
US dollar	1.089	1.214
Pound sterling	0.734	0.779
Brazilian real	4.312	3.221
Mexican peso	18.915	17.868
Chilean peso	773.772	737.323
Argentine peso	14.140	10.277
Polish zloty	4.264	4.273

The change in the scope of consolidation had a slight positive effect on the year-on-year variation in lending, in the area of consumer finance (mainly due to the implementation of the agreement with PSA), and the addition at the end of December of the assets and liabilities acquired from Banco Internacional do Funchal (Banif) in Portugal.

The Group's gross lending to customers amounted to EUR 817,366 million at 31 December 2015, an increase of 7% year on year. Disregarding the effect of exchange rate variations and excluding reverse repos, the balances were up by 6%.

Loans and advances to customers
Millions of euros

	2015	2014
Loans to the Spanish public sector	13,993	17,465
Loans to other residents	153,863	154,905
Commercial credit	9,037	7,293
Secured loans	92,478	96,426
Other loans	52,348	51,187
Loans to the non-resident sector	649,509	589,557
Secured loans	409,136	369,266
Other loans	240,373	220,291
Loans and advances to customers (gross)	**817,366**	**761,928**
Allowance for loan losses	26,517	27,217
Loans and advances to customers (net)	**790,848**	**734,711**
Memorandum items: Non-performing assets	36,133	40,424
Public sector	145	167
Other resident sectors	16,301	19,951
Non-residents	19,686	20,306

Loans maturing in over 1 year as at 31 December 2015

	Domestic		International		TOTAL	
	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total
Fixed rate	30,159	24%	244,073	49%	274,232	44%
Floating rate	93,460	76%	250,725	51%	344,185	56%
TOTAL	**123,619**	**100%**	**494,798**	**100%**	**618,417**	**100%**

At 2015 year end, of the total gross lending to customers maturing in over 1 year, 56% was linked to floating interest rates and the remaining 44% was linked to fixed rates. The geographical breakdown of these loans reveals that:

- In Spain, 76% of the loans were floating rate and 24% were fixed rate.
- 51% of loans granted outside Spain were floating rate and 49% were fixed rate.

The breakdown by activity of Loans and advances to customers can be found in Note 10.b of the notes to the accompanying consolidated financial statements.

The breakdown by geographical region of the variations in gross lending to customers, excluding reverse repos, in 2015 was as follows (disregarding the exchange rate effect):

- The biggest increases were at Santander Consumer Finance (up by 21%, assisted by the change in the scope of consolidation referred to above), the Latin American countries (Brazil: +9%; Mexico: +19%; Chile: +11%) and Poland (+11%). They were joined by Portugal, with an increase of 26% (+1%, disregarding the change in the scope of consolidation).

- There was also growth in the United States (+7%) with positive performance from Santander Bank and Santander Consumer USA, and in the United Kingdom (+5%). Noteworthy in the UK was the good performance of the businesses segment, where Santander achieved much higher growth than the market, and the progress in mortgages.

- Spain was down 3% in an environment of strong competition in prices, in which the growth of new lending, at double-digit rates, was still below that of loans repaid.

- Generally speaking, there was growth in the businesses segment, which was assisted by the launch or development, in those countries where it already existed, of the Advance strategy, as well as the 1|2|3 strategy.

- At the real estate operations in Spain unit, net lending was down by 33% year on year in response to the ongoing policy of divestment adopted in recent years.

As for the liability side of the balance sheet, the customer funds under management, including investment funds, pension funds and assets managed, totalled EUR 1,070,134 million, an increase on December 2014 of 5%. Disregarding the impact of exchange rates, the increase was 6%.

In 2015 the increase in customer funds overall (i.e. customer deposits excluding repos and investment funds) was 5%. At constant exchange rates, customer deposits excluding repos rose 6% and investment funds rose 14%, resulting in an aggregate increase of 7%.

Customer funds increased in all of the Group's geographical regions in the year; disregarding the impact of exchange rates the breakdown is as follows:

- Growth of 12% in Brazil, of 10% or close thereto in the United States, Mexico and Chile, while the United Kingdom was up by 6%, Portugal 5% (excluding the change in the scope of consolidation) and Poland by 4%.

- In Spain, there was an increase of just 1%, which was more in line with the variations in lending referred to above.

The general strategy of reducing time deposits and growing demand accounts and investment funds continued, with practically all of the regions achieving growth in both.

Customer funds under management & marketed

Millions of euros

	2015	2014
Resident public sector	11,737	9,349
Other resident sectors	157,611	163,340
Demand deposits	108,410	88,312
Time deposits	47,297	67,495
Other deposits	1,904	7,532
Non-resident sector	513,775	474,939
Demand deposits	313,175	273,889
Time deposits	146,317	151,113
Other deposits	54,283	49,937
Customer deposits	**683,122**	**647,628**
Marketable debt securities	205,029	196,890
Subordinated liabilities	21,153	17,132
On-balance sheet customer funds	**909,304**	**861,649**
Investment funds	129,077	124,708
Pension funds	11,376	11,481
Assets under management	25,808	25,599
Other customer funds under management & marketed	**166,260**	**161,788**
Customer funds under management & marketed	**1,075,565**	**1,023,437**

This performance of the business meant that at year end the loan-to-deposit ratio was 116%.

In addition to attracting customer deposits, the Group considers it to be strategic to maintain a selective policy of issuance on the international bond markets, and endeavours to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and the receptivity of each market.

In 2015, through different Group units there were:

- Medium- and long-term issues of senior debt amounting to EUR 36,986 million, subordinated debt amounting to EUR 4,217 million and covered mortgage bonds amounting to EUR 3,657 million.

- Securitisations placed on the market amounting to EUR 14,379 million.

In turn, there were medium- and long-term debt maturities totalling EUR 36,462 million.

Hybrid capital instruments were also issued.

Goodwill totalled EUR 26,960 million, which was EUR 588 million less than in 2014, since the increase from the change in the scope of consolidation was wholly cancelled out by the variation in the exchange rate of the Brazilian real against the euro.

The financial assets available for sale totalled EUR 122,036 million in December 2015, which was EUR 6,785 million (6%) more than at the end of 2014. This increase was located mainly in Spain, the United States and Mexico.

Available-for-sale financial assets

Millions of euros

	2015	2014
Debt instruments	117,187	110,249
Equity instruments	4,849	5,001
Total	**122,036**	**115,251**

Information about the valuation adjustments generated by the available-for-sale financial assets can be found in Note 29.a of the notes to the accompanying consolidated financial statements.

2.4. Business Areas Continental Europe

Continental Europe includes all of the business activities carried on in the region.

Environment and strategy

The growth of GDP in the euro area accelerated. However, it was still uneven country by country, with Spain being among the economies growing the most.

In the euro area, inflation of around 0% encouraged the ECB to continue with its expansive monetary policy: interest rates at record lows and quantitative easing.

Highlights of the year were the start of the implementation of the agreement between Santander Consumer Finance and PSA to establish joint ventures in a number of countries, as well as the acquisition of assets and liabilities of Banco Internacional do Funchal (Banif) in Portugal, which positioned the Group as the second private bank in the Portuguese market.

In addition, as part of the Group's strategic focus, the upward trend in engaged and digital customers continued, powered in many cases by the *Mundo 1|2|3* strategy for private individuals, and the launch of the *Advance* strategy for businesses.

Business activities and earnings

The business dynamics in Continental Europe were still moderate, with some countries still engaged in deleveraging. However, there were signs during the year of an acceleration in business activity, particularly in the arrangement of new loans.

Lending to customers increased by 5% year on year and customer funds by 4%, with growth rates of around 10% in demand accounts and investment funds.

In earnings, the attributable profit in Continental Europe amounted to EUR 2,218 million, an increase of 34% on 2014, driven by Santander Consumer Finance, Spain and Portugal.

This improvement is mainly due to the decrease in provisions to allowances for loan losses (-31%) that can be observed at all the units and resulted in improvements in non-performing loans ratios and the cost of lending.

Strict cost control also contributed to the income statement (-0.4% disregarding the effect of changes in the scope of consolidation).

Lastly, there was moderate growth in income (up by 3%) in an environment of strong competition that impacted loan spreads, interest rates at all-time lows, and higher charges for deposit guarantee and resolution funds.

Spain

Environment and strategy

Spain grew by around 3.2% in 2015 with a well-diversified base that made it possible to bring the unemployment rate down to around 21% by the end of the year. In addition, progress was made in correcting the imbalance in the public accounts while at the same time maintaining the foreign trade surplus.

Energy prices kept inflation rates negative for a large part of the year, although the underlying rate remained positive.

Against this background, activity in Spain is well placed to accelerate its growth and build long-term relationships with its customers, in addition to boosting its business with SMEs and businesses, and maintaining its lead in big companies.

Activity in Spain has set itself the objective of taking the lead in a new way of doing banking and for this purpose has defined a strategy based on five pillars:

1. Building long-term relationships with customers. To achieve this, 2015 saw the launch of the *Cuenta 1|2|3* account, a new concept of relationship that rewards transactional engagement and increases the relationship with the Bank.

2. Being the bank of choice for businesses in Spain. With this aim, the Bank continued financing businesses and changed its model of segmentation so that the value offering is better tailored to customers' needs.

3. Attaining excellence in service quality, with greater customer satisfaction, the revision of all processes with a customer-focused view, the start of the conversion of the branch office network to a new model, and efforts focused on the digital transformation.

4. Developing advanced risk management to improve the comprehensive customer-based view of risk.

5. Generating sustainable profitability, based on the stability of earnings thanks to the "pay-for-value" model and the monetisation of the long-term customer relations strategy.

Business activities and earnings

The arrangement of new loans to SMEs, micro-businesses and private individuals increased in 2015. This is not yet reflected in the variation in the stock, which was down by 3% year-on-year as a result of the fall in institutions and the repayment of mortgages.

There was a 1% increase in customer funds, with the continuing strategy of growing demand deposits (up by 9%) and investment funds (up by 11%) and reducing time deposits (down by 20%), which is being reflected in the lower cost of deposits.

As regards earnings, the attributable profit amounted to EUR 977 million, an increase of 18% supported by the good performance of period provisions and the operating excellence.

Income was down 8% against a background of interest rates at all-time lows and strong competition in lending, combined with a regulatory environment that had a negative impact on fees and commissions, lower income from financial business activities and the increased charges to deposit guarantee and resolution funds.

There was a 2% reduction in costs as a result of the synergies achieved through the optimisation plans introduced.

Period provisions were 43% lower than in 2014 with the continuing process of normalisation in a more favourable economic cycle. Specifically, the non-performing loans ratio stood at 6.53%, 85 basis points lower year on year. The coverage ratio rose 3 percentage points to 48%.

The positive trend in the cost of lending continued: it fell to 0.62% from 1.06% in 2014.

Portugal

Environment and strategy

The Portuguese economy continued to recover in 2015. The growth of GDP accelerated to an estimated rate of 1.4% compared with 0.9% in 2014. The recovery benefited from the ECB's expansive monetary policy and the positive effect it had on spreads and the euro exchange rate. The country's economic fundamentals continue to improve, the rate of unemployment has fallen for the past three years and the current account balance remains positive.

In 2015 the Bank's strategy was closely focused on managing lending and borrowing rates, increasing market shares, particularly in the businesses segment, controlling non-performing loans and improving efficiency.

Noteworthy among the principal commercial actions was the launch of the *Mundo 1|2|3* product with the objective of growing in the middle segment of the private individuals market. The product is having a major impact on the process of customer attraction and engagement. The Bank's efforts to attract new business customers are supported by the *Santander Advance* scheme, which has become an essential tool.

This strategy has resulted in an increase in the number of engaged customers, with a 14% rise in businesses and a 4% rise in private individuals. There was a 20% increase year on year in digital customers.

In addition to this organic performance, on 21 December 2015 the Bank of Portugal selected Santander Totta to acquire most of the assets and liabilities of Banco Internacional do Funchal (Banif) for EUR 150 million. With this transaction, which evidences the commitment to the economic development of Portugal, Santander became the second private bank in the country with a market share in loans and deposits of over 14%.

Business activities and earnings

Disregarding the addition of Banif, 2015 brought a slowdown in the fall of lending overall (-1% in 2015 compared with -5% the previous year) and a rise in lending to businesses, in contrast to the fall of the market. Noteworthy were the shares attained in new lending to businesses and in mortgages.

There was a 5% increase in customer funds as part of the strategy of growing demand accounts (up by 37% year on year) and investment funds (up by 18%), while time deposits were down by 7%. This led to the improvement in the cost of deposits. These increases via the business were reinforced by the acquisition of Banif liabilities.

In earnings, the attributable profit for 2015 was EUR 300 million, an increase of 63% on 2014 due to the good performance of the main lines of the income statement.

There was growth of 6% in income, with increases in net interest income due to the improvement in the cost of funding, and in gains on financial assets and liabilities (sales of government debt securities and the investment in Banco Caixa Geral Totta Angola).

Costs fell 1% due to the optimisation of the commercial network in line with the business environment.

Period provisions to allowances for loan losses were down by 42% due to the decrease in net additions to delinquent balances, and the cost of lending improved to 0.29% from 0.50% in 2014.

The non-performing loans ratio was 7.46% and the coverage ratio was 99%, in both cases an improvement on December 2014 (8.89% and 52%, respectively). Under local criteria, the non-performing loans and coverage ratios continued to be better than the system average.

Poland (changes in local currency)

Environment and strategy

Poland grew strongly in 2015 (3.6%) with inflation (-1%) well below the target of 2.5% set by the National Bank of Poland, which lowered the reference rates to 1.5% in March.

Noteworthy as the most positive factor was the significant improvement in the labour market, with steady creation of jobs and a substantial fall in unemployment to the lowest rate since 2008.

The Bank was awarded the prestigious 'Best Bank in Poland' award in the Euromoney Awards for Excellence 2015, and continued implementing its 'Next Generation Bank' strategic scheme to develop the Bank at all levels. Its main objective is to be the bank of choice for customers.

The Bank continued to lead in cards and mobile and internet banking, with its marketing of a variety of products and initiatives that make it a benchmark in innovation and electronic security.

In retail banking, 2015 was a good year in terms of growth of lending, with noteworthy performance in mortgage and cash loans. In the businesses segment, the focus continued to be on leasing and factoring transactions.

Business activities and earnings

At the end of 2015, net lending in Poland amounted to EUR 18,977 million and deposits to EUR 21,640 million, enabling the Bank to maintain a sound funding structure, as is evidenced by the loan-to-deposit ratio of 88%. In 2015 lending was up by 11% and deposits by 6%.

In earnings, the profit does not reflect the good business performance, largely as a result of the fall in interest rates. Consequently, at EUR 300 million it was 15% lower than in 2014.

Income was down 7% year on year due to the net impact of the following effects:

- The decrease in net interest income and fees and commissions. The net interest income, as a result of the fall in interest rates, which particularly affected the consumer finance rates due to the ceiling set by the Lombard rate. The fees and commissions, due to increased regulation mainly affecting the card business.

- There was also the impact of the one-time charge to the Deposit Guarantee Fund as a result of the failure of SK Wołomin Bank.

This fall in income was partially offset with the control of costs and provisions to allowances that were down by 10% in contrast to the increase in lending. This led to an improvement in the non-performing loans ratio, which stood at 6.30% (112 basis points lower than in 2014).

Santander Consumer Finance

Environment and strategy

The main European markets in which this area does business presented growths in their economies ranging from 1.7% to 3.5% in 2015.

The Santander Consumer Finance units in Continental Europe operated in an environment of incipient recovery of both consumer spending and vehicle registrations (+9% year on year in the countries in which they operate).

In 2015, SCF continued to win market share, supported by a business model that has been strengthened during the crisis thanks to a high level of geographical diversification with critical mass in key projects, high levels of efficiency, and a shared risk control and recovery system that makes it possible to maintain a high level of credit quality.

In 2015 the management focuses were:

- The integration of the GE Nordics businesses acquired in the second half of 2014, which was optimally accomplished and enabled SCF to increase the proportion of direct business.

- The implementation of the agreements with PSA. By year end the operations in Spain, Portugal, the United Kingdom, France and Switzerland had been set up. France and Switzerland are two new markets without prior SCF presence. The remaining countries (Germany, Italy, Netherlands, Belgium, Poland and Austria) will be incorporated in 2016.

- Promoting new lending and cross-selling tailored to the situation in each market, supported by brand agreements.

Business activities and earnings

There was a 27% increase in new lending in 2015, assisted by the increase in the scope of consolidation and heavily supported by direct credit and cards (up by 20%) and vehicle loans (up by 35%). In the peripheral countries there was noteworthy growth in new business in Spain (up by 32%) and the Nordic countries (up by 30% in constant currency). Germany grew by 7% year on year.

Noteworthy on the liability side was the stability of customer deposits (around EUR 32,000 million, most of them in Germany) which set SCF apart from its competitors. SCF is also increasing its recourse to wholesale funding in order to optimise its funding structure.

In earnings, attributable profit of EUR 938 million was obtained in 2015, which was EUR 143 million more than in 2014, an increase of 18%.

This increase benefited from the impact on the scope of consolidation of the units incorporated, which brought growth in income that was higher than that of costs and period provisions.

As a result, the gross operating income was up by 23% (net interest income: up by 31%) year on year, which was more than the increase in costs (21%). This took the efficiency ratio to 44.7%, an improvement of 0.8 percentage points on the previous year.

Period provisions were 1% lower, thanks to the exceptional performance of the credit quality. As a result the cost of lending was 0.77%, an improvement on the 2014 figure of 0.90%. The non-performing loans ratio was 3.42%, an improvement of 140 basis points on the previous year, and the coverage ratio was 109%, 9 percentage points higher than in 2014.

In the breakdown of profit, the three main units were Germany with EUR 393 million, the Nordic countries with EUR 234 million and Spain with EUR 169 million.

Real estate operations in Spain

In addition to the above business units, there is a separate unit covering real estate operations in Spain, which includes the loans of customers whose main activity is property development that have a specialised management model, the investments in SAREB and Metrovacesa, the assets of the former real estate fund and the foreclosed assets.

The Group's strategy in recent years has been directed at reducing these assets, mainly loans and foreclosed assets. The net loans totalled EUR 2,794 million, which was 33% less than in 2014. They accounted for 0.4% of the Group's loans and less than 2% of those of Santander Spain.

The real estate operations in Spain ended the quarter with a non-performing loans ratio of 80.96% and a coverage ratio of 61%. The total credit coverage ratio, including the outstanding balance, was 56%. The coverage ratio for the foreclosed assets was 55%.

In earnings, a loss of EUR 420 million was booked in 2015, compared with the loss of EUR 652 million in the previous year, due mainly to the lower need for write-downs.

United Kingdom (changes in local currency)

Environment and strategy

The UK economy kept up its steady pace of growth (2.2%) of recent years, which has been accompanied by falls in the rate of unemployment to close to pre-crisis levels. Inflation was around 0% with no signs of wage stress, as a result of which the Bank of England kept the discount rate at 0.5%.

The Bank's focus was on boosting the loyalty and engagement of its private individual and business customers. The 1|2|3 range now has 4.6 million private individual customers, and Santander is the bank that has attracted the highest number of switchers since September 2013.

For business customers, regional centres were opened and the number of relationship managers was increased.

In 2015, as a new strategic priority, the Bank put greater focus on operational and digital excellence. A number of different digital solutions were launched in the year that were very well received by the market, and attracting new digital customers was set as a priority. By year end there were 3.7 million digital customers, an increase of 22% year on year.

The Bank also kept the focus on the profitability and strength of the balance sheet, while at the same time establishing a target ring-fencing structure to enable it to meet the distinct needs of its retail, business and institutional customers.

Business activities and earnings

The success of these strategies was reflected in increased growth of volumes year on year. Thus, there was a 5% increase in lending, mainly in the business segment, mortgages and consumer and vehicle finance. Also, February 2015 saw the completion of the joint venture agreement with PSA.

The Bank gave firm support to businesses in 2015, and this was reflected in the 10% growth in lending to businesses in a market in which the trend was downward. There was also a 2% rise in mortgages.

On the liability side, there was strong growth in deposits (up by 7% year on year) driven by current accounts for private individuals and, to a lesser extent current accounts for businesses.

As for earnings, the attributable profit for the year was GBP 1,430 million (up by 14% year on year) supported by the good performance of both period provisions and net interest income.

There was growth of 5% in net interest income, due mainly to the increase in volumes. The ratio of net interest income to average earning assets (1.83%) remained practically stable in 2015, in line with the announcements made during the year.

Costs rose due to investments in the growth of the business and improvements to the Bank's digital channels. This strategic transformation is providing the basis for improved efficiency in the future.

Lastly, the 71% decrease in period provisions was a reflection of the better balance sheet quality throughout the range of products, the conservative loan-to-value criterion, and the favourable economic environment.

Latin America (changes in constant currency)

Environment and strategy

In Latin America the regional GDP shrank 0.4% in 2015 after the growth of 1.2% in 2014, in a complex international environment faced with the prospect of a rise in interest rates in the United States, the downturn of international trade and the lower growth in China. There was very different performance country by country, with some in recession and others showing a gradual recovery. There was a slight upturn in inflation, mainly as a result of the effects of the depreciation of the Latin American currencies.

The Group continued to focus as a priority on strengthening customer relations by improving their experience and increasing their satisfaction. For this purpose, 2015 saw the launch in the principal geographical areas of the Mundo 1|2|3 range of products that is designed to attract and engage private individual customers, and the Advance programme, the aim of which is to strengthen the Bank's positioning in business customers.

As a result, the number of engaged and digital customers rose in all countries. In 2015, in the region's main countries the average growth was 11% in engaged customers and 17% in digital customers.

Business activities and earnings

The Group achieved significant rates of growth in the business. Specifically, lending and customer funds grew by 13%, principally in the Group's strategic segments.

The attributable profit obtained by the Group in the region in 2015 was EUR 3,193 million, and it was negatively affected by the exchange rate effect. As a result the increase was 17% in constant euros and 10% in current euros.

Excluding the exchange rate effect, income was up by 10%, driven by the growth of volumes and transactionality, which impacted both the net interest income and the fees and commissions.

Costs increased by 10% as a result of pay agreements against the background of high inflation in countries such as Brazil, Argentina and Uruguay, dollar-indexed costs, and investments to develop the commercial and digital networks. The growth was moderate when measured in real terms.

The change in the mix of lending towards products with a lower risk premium continued in 2015. The period provisions performed well as a result, rising 7%, which was below the rate of growth of lending.

Brazil (changes in local currency)

Environment and strategy

Brazil went into recession, with the contraction of consumer spending and private investment and rising unemployment. There was an upturn in inflation to over 10%. The central bank reinforced its commitment to control inflation by raising the Selic rate 250 basis points in the year, taking it to 14.25%.

In 2015, the Bank made progress in its process of transformation to simplify, modernise and improve the experience of customers, while agreements were also reached in order to increase the more transactional portion of the Bank's income.

The action taken as part of this process of transformation included most notably:

- The implementation of the CERTO model to increase commercial productivity and enable more time to be spent on contact with customers.

- The simplification of the procedures for attracting and activating new customers (with same-day account opening, delivery of cards and PIN number).

- A strong campaign for digitalising customers - '*Vale a Pena Ser Digital*' - [It's worth being digital] together with the offering of new digital channels that are simpler and more accessible.

- The launch of the new '*Santander Negócios e Empresas*' segment designed to create closer relationships in order to promote the development of SMEs.

In addition, the more commercial actions taken included: relaunching the Van Gogh (mass affluent) segment with products and specialised attention through remote account managers; launching *Autocompara* (a platform for pricing insurance from different companies at the same time); strengthening the merchant acquiring business (an operation with Getnet); boosting the payroll business (in partnership with Banco Bonsucesso S.A.) and expanding the business after the acquisition of Súper (a digital platform offering electronic bank accounts, prepaid cards and access to simplified financial services).

These strategies made it possible to achieve a 15% increase in digital customers, of whom there are now 4.4 million, and 12% in engaged businesses.

Business activities and earnings

Lending to customers was up by 9% year on year, partly due to the impact of the exchange rate on the dollar portfolios combined with the addition of Bonsucesso. The change in mix towards products with less risk continued in the year.

By line, the increase occurred mainly in businesses and large companies and mortgages for private individuals. Growth in lending to SMEs was lower, although it did reflect a change in trend as a result of the initiatives referred to above.

Customer funds were up by 12%, with the best performance in investment funds (up by 24%), since deposits remained practically flat.

As regards earnings, the profit was EUR 1,631 million, an increase of 33% year on year. The earnings confirmed the progress made during the year, particularly of the net interest income and fees and commissions.

There was a 10% increase in income, with good performance of the net interest income (up by 10%), which rose for the fifth consecutive quarter, and fees and commissions, which were up by 9%. Noteworthy were those from cards (merchant acquiring), foreign trade, cash and insurance. In contrast, the results on financial assets and liabilities were down due to the great volatility of the markets.

Costs were up by 5% (half of an inflation rate that topped 10% in December). In real terms and disregarding the changes in the scope of consolidation, they fell by 6% as a result of the efforts made in recent years to improve efficiency and productivity.

The credit quality variables performed very well against a background of increasing delinquency. Here, the change in mix made in the course of the last two years towards products with lower yields but also lower risk, was reflected in:

- Better performance in non-performing loans in the year than that recorded by private Brazilian banks as a whole.

- A 5% increase in provisions to allowances for loan losses, resulting in a reduction in the cost of lending of 41 basis points.

This resulted in a 20% increase in the profit before taxes.

Lastly, the decrease in non-controlling interests in the year led to a 33% increase in the attributable profit.

Mexico (changes in local currency)

Environment and strategy

Mexico gave clear signs of improvement in the second half of the year driven by the recovery of both domestic demand and exports. Although the inflation rate remained low, the central bank decided to raise the official interest rate in response to the increase by the Federal Reserve, in order to prevent possible outbreaks of volatility given the country's strong commercial and financial connection with the United States.

The Group continued to pursue its objective of being the market leader in profitability and growth by attracting new customers and increasing the engagement of existing customers. To achieve this the Bank is focusing on multichannel banking and the transformation of the operating model with improvements in technology and infrastructure, talent, service quality, processes and innovation.

2015 saw the completion of the branch expansion plan, following the opening of 200 branch offices in the last three years. The increase in installed capacity was accompanied by improvements in customer segmentation and sales platforms.

Efforts continued to boost multichannel banking (new ATMs in the year and mobile and internet banking initiatives) and consolidate the strategic alliances with correspondents, enabling the Bank to expand its basic banking services through a network of over 17,000 retail outlets.

The most profitable businesses with private individuals were strengthened, achieving higher than market average rates of growth in consumer loans, cards and mortgages. In SMEs offers of simple credit were launched and there were campaigns for the reinstatement of credit lines to promote lending. In businesses and institutions work continued on new commercial initiatives designed to attract and penetrate the automobile sector and also reverse factoring.

All of these actions made it possible to increase the number of engaged customers by 14%, while the number of digital customers rose by 36% in the year to over 850,000.

Business activities and earnings

Lending to customers was up by 19% year on year, with strong advances in all the segments, reflecting the strategies referred to above. The growth of deposits was combined with an improved composition of them as part of a policy to improve the cost of deposits. Investment funds were up by 5%.

This growth in the business was assisted by the greater installed capacity, combined with better customer segmentation and improvements to the sales platforms.

As for earnings, the profit before taxes for the year as a whole increased by 8%. After taxes at an increased rate of 22% (19% in 2014), and non-controlling interests, the attributable profit amounted to EUR 629 million, an increase of 3%.

The growth in profit was basically driven by the income, which was up 9% year on year, mainly as a result of the 14% increase in net interest income, which reflected the growth in lending. There was a 4% increase in fees and commissions, the most notable being those of transactional banking, insurance and investment banking.

Costs were up by 6% as a result of the greater installed capacity and the new commercial ventures designed to increase the attraction and penetration of the customer base.

Period provisions to allowances for loan losses were 15% higher, mainly due to the increase in volumes, while the cost of lending recorded a slight improvement of seven basis points year on year.

There was a 46 basis-point improvement in the non-performing loans ratio, taking it to 3.38%, and the coverage ratio stood at 91%.

Chile (changes in local currency)

Environment and strategy

The Chilean economy recovered in 2015 as a result of the expansion of investment and private consumer spending, which led the central bank to begin to normalise its monetary policy by raising the official interest rate 50 basis points to 3.50%.

The Group continued to pursue its strategy of increasing long-term profitability in a climate of smaller margins and greater regulation. The focus of management in 2015 was on improving the quality of customer service and customer experience, transforming the commercial banking business, especially in the high- and medium-to-high-income private individuals segment and SMEs, and boosting the business with large and medium-sized companies.

In the individual customers segment this strategy was supported by the use of NEO CRM, and enhancements and new functionalities were introduced to the remote and digital customer service channels (telephone (VOX) and internet).

Progress was also made in opening branch offices and exclusive Select areas for high-income customers, as well as the new model of branch offices in the traditional network.

The *Advance* strategy, supported by *Neo Advance*, the CRM for SMEs, was launched in the SME segment, and in the businesses segment the new business centres generated greater proximity to customers, particularly in the regions.

There was a 2% increase in total customers year on year, with a noteworthy rise in high-income private individuals. The total number of engaged customers also rose, with notable growth in businesses and high-income individuals. Lastly, the number of digital customers rose to almost 900,000.

Earnings and business activities

In terms of the business, there was an 11% increase in lending year on year, with progress in the target segments. There was noteworthy growth in the high income and business segments. Deposits were up by 10% year on year.

In earnings, the attributable profit was EUR 455 million at the end of 2015, which was 13% less than in 2014. As detailed below, this fall was mainly due to the lower UF inflation, some regulatory impact, higher technology costs and a greater tax burden.

The 2% increase in income was the result of the 5% rise in fee and commission income and the higher gains on financial assets and liabilities. The net interest income fell by only 1% because the impact of the lower rate in the variation of the UF (4.1% compared with 5.7% in 2014) and the regulation of the policy on maximum rates was offset by higher volumes in asset transactions and the reduction in the cost of funding liabilities.

Costs rose by 11% because of increases due to the indexing to inflation of rents and wages, the impact of the exchange rate on contracts for technology services indexed to the dollar and the euro, as well as the increased in investment in technology developments.
The cost of lending fell from 1.75% to 1.65% because the period provisions to allowances for loan losses rose by 4%, which was well below the rise in lending. This was reflected in the improvement of the credit quality ratios, with a non-performing loans ratio that fell by 35 basis points in the year to 5.62%.

The profit before taxes was down by 6% year on year. After including taxes and non-controlling interests, the attributable profit was down by 13% year on year as a result of the increase in the tax rate due to the tax reforms implemented in 2014.

Argentina (changes in local currency)

Environment and strategy

Argentina ended the year with an economy that was still weak and inflation that was among the highest in the region. In mid-December the new government announced the liberalisation of capital movements and the exchange rate of the Argentine peso began to float freely.

The Group's strategy in 2015 focused on increasing its penetration through its branch office expansion plan, the transformation towards a digital bank with the focus on efficiency and customer experience, and the engagement of the customer segments of high-income private individuals and SMEs.

Forty new branch offices were opened in 2015, and the number of totally transformed branches reached 157, equivalent to 40% of the total network; the first completely digital branch was opened, with the focus on customer self-management, streamlined transactions and immediate access to products.

In the high-income segment the *Select* products were promoted and new specialised areas and corners were opened. In SMEs, the *Santander Río Advance* strategy was launched, offering them international reach for their businesses, among other services.

Business activities and earnings

The strategic measures (and the high rate of inflation) led to big increases in lending to customers and customer funds. Lending was up by 52% in 2015, with similar rates of growth in both business and consumer loans. Deposits were up by 58%, driven by time deposits, which increased 86%. Investment funds were up by 73%.

The profit attributable to the Group in 2015 was EUR 378 million, an increase of 22% on 2014. The commercial strategy resulted in a 27% increase in income, with noteworthy increases of 29% in the net interest income and 39% in fees and commissions.

Costs rose by 43% year on year due to the increase in the number of branch offices, the transformation and technology projects and the review of the pay agreement.

Period provisions to allowances for loan losses increased by 16% in 2015, below the rate of growth in lending. The credit quality remained among the best in the market: the cost of lending was 2.15%, the non-performing loans ratio was 1.15%, and the coverage ratio was 194%. All of these ratios improved in 2015.

Uruguay (changes in local currency)

Environment and strategy

Growth of GDP of around 1.2% is estimated for 2015. Inflation stood at over 9%, above the target of between 3% and -7% set by the central bank, which kept the interest rates on monetary regulation bills high in order to converge on that target.

The Group continued to apply a strategy aimed at growth in commercial banking and improvements in efficiency and service quality. With this aim, 2015 saw the launch of value added products and services: the *Advance* programme for SMEs, initiatives to reduce waiting times in branches (most notably a new version of the app with an innovative information service that indicates the nearest branch and how busy it is) and measures to reduce the time taken to deal with complaints.

The acquisition in July 2015 of Créditos de la Casa (Retop, S.A.), Uruguay's fourth largest financial institution, giving Santander a market share of 28% in finance companies and 25% in consumer credit in the private financial system.

This was all reflected in the variation in the number of customers: private individuals almost doubled and businesses increased by 10%. The number of digital customers rose by 32%.

Business activities and earnings

There was a 21% increase in lending, most notably consumer loans, cards and SMEs. Deposits were up by 32%.

The attributable profit was EUR 70 million, an increase of 38%, heavily supported by the net interest income which increased by 49% assisted by the measures of the efficiency plan.

Period provisions to allowances for loan losses were 46% higher, although the base was low, and credit quality continued to be excellent (non-performing loans ratio of 1.27% and coverage ratio of 205%).

Disregarding the effect of the addition of Créditos de la Casa (Retop, S.A.), which contributed profit of EUR 5 million, the increase would be 28%.

Peru (changes in local currency)

Environment and strategy

The Peruvian economy slowed in 2015 to a growth rate of 2.7% which was similar to that of domestic demand. Inflation ended the year at 4.4%. The central bank relaxed the reserve requirements and raised the reference rate from 3.25% to 3.75%.

The Bank's activities focus on corporate banking and the Group's global customers. Priority is given to close relationships with customers and high quality service by harnessing the synergies with other Group units.

2015 saw the ongoing consolidation of the business of a financial institution specialising in vehicle loans set up the previous year in collaboration with an international partner with long-standing experience in Latin America

Business activities and earnings.

Lending was up by 24% and deposits by 18% year on year, and they were complemented by the growth of stable medium-term funding.

The profit before taxes in 2015 was EUR 43 million, an increase of 52% year on year, heavily supported by the growth of the net operating income (up 56%), which in turn rose as a result of the improved efficiency (income: +46%; costs: +27%).

There was a 25% increase in period provisions to allowances for loan losses, and the cost of lending was 0.69%. The non-performing loans ratio was 0.52% and the coverage ratio a very high 402%.

The increase recorded in the profit before taxes was not fully reflected in the attributable profit (up by 37%) because of the increase in taxes.

Colombia

Banco Santander de Negocios Colombia S.A. began operating in January 2014. The new bank is licensed and has share capital of USD 100 million. It specialises in the corporate and business market, focusing particularly on global customers, the Group's International Desk programme customers, and local customers in the process of internationalisation.

The products on which it focuses are those of investment banking and capital markets, transactional banking, cash and risk hedging, foreign trade funding and products for funding working capital in local currency such as reverse factoring.

The Bank is close to reaching break-even between income and expenses.

United States (changes in local currency)

Environment and strategy

The United States is experiencing a phase of moderate but steady economic growth. In 2015, there was a 2.5% increase in GDP and the unemployment rate continued to fall to what are considered to be levels of full employment (5%). Inflation fell as a result of the decrease in oil prices, although the underlying rate of 1.3% remained below the target figure of 2%. The Federal Reserve raised its interest rates in December 2015 to 0.25%-0.5%.

Santander in the United States includes the holding entity (SHUSA), Santander Bank, National Association, Banco Santander Puerto Rico, Santander Consumer USA Inc., Banco Santander International (BSI), Santander Investment Securities Inc. and the Santander branch in New York.

Santander US continues focusing on several strategic priorities directed at enhancing its position and diversification, including: the implementation of a multi-year project to comply with regulatory requirements globally, the improvement of the governance structure, the setting up of local managerial team with wide experience in the management of large financial companies, the improvement of profitability at Santander Bank, National Association, and the optimisation of the vehicle finance business at Santander Consumer USA.

At Santander Bank, management is focused on improving customers' experience with the Bank in order to increase the customer base and cross-selling. The Bank launched initiatives in checking accounts and redesigned its website.

At Santander Consumer USA the strategy is focused on optimising the mix of assets retained as opposed to sold, increasing third-party servicing as a means of increasing income via fees and commissions, while at the same time realising the value of the relationship with Chrysler.

Business activities and earnings

At Santander Bank, lending was up by 6% and deposits by 7%. In lending, the biggest increase was in loans to businesses, both in the commercial and industrial segment and in the global corporate banking segment. As for customer funds, the growth was mainly located in the more core products, resulting in an improvement in the cost of funding. Investment funds rose by 9% year on year.

At Santander Consumer USA, lending was up by 11%, with a 10% increase in new loans.

In earnings, income from Santander Consumer USA performed well to rise by 9%, due both to the greater volume of portfolios, which boosted the net interest income, and to fees and commissions from servicing. At Santander Bank the net interest income was under pressure from lower than expected interest rates, which were offset by the net gains on financial assets and liabilities.

This good performance in income is not reflected in the profit, which at USD 752 million was 34% less than in 2014.

This decrease was the result of the rise in costs due to the development of the franchise, the setting up of the holding company and the regulatory requirements. There was also an increase in the period provisions to allowances for loan losses mainly due to the higher volumes and withholdings at Santander Consumer USA, which accounted for more than 95% of the provisions in the US. There was also a negative impact due to the heavier tax burden.

Corporate centre

The corporate centre recorded a loss in 2015 of EUR 2,093 million, which includes the net negative result of EUR 600 million booked under Extraordinary capital gains and write-downs.

Disregarding this amount, the ordinary attributed net result was negative by EUR 1,493 million compared with the negative figure of EUR 1,151 million in 2014.

These increased losses are due to the decrease in the results on financial assets associated with interest rate hedges.

Breakdown by global businesses

The activities of the operating units are divided by type of business into commercial banking, Santander global corporate banking (SGCB) and the real estate operations in Spain unit, the operations of which were broken down in the Continental Europe segment of the distribution by geographical area.

Commercial banking

In 2015 Santander continued to make very good progress with its programme for transforming commercial banking, as discussed above in the comments by area. It is summarised below.

In order to gain greater knowledge of customers, progress is being made in improving the analytical capabilities. A new commercial front has been developed for the branch offices in order to improve commercial productivity and customer satisfaction. In 2015, based on a best practice in Chile, this tool was introduced in Uruguay and its development is continuing in the United States, Chile and Brazil. It will be extended to the rest of the units in the course of 2016.

In order to increase customer engagement and long-term relations, progress was made in 2015 in the launching and consolidation of differential value offerings. These included most notably:

- The Mundo 1|2|3 strategy: after the success of this initiative in the United Kingdom, 2015 saw the launch of similar proposals in other geographical regions such as Portugal and Spain, where they proved popular with customers.

- Comprehensive offerings launched in Chile with proposals such as the Santander *LANPASS* Plans, which reward transactionality and increase customer benefits, or the Combined accounts in Brazil that offer new solutions which simplify the value offering for private individuals and make it easier for them to choose their accounts.

- The expansion of the *Select* value offering for high-income customers. Now available throughout the geographical regions, this value proposal was enhanced and expanded in 2015.

- The roll-out of the programme for SMEs that combines a very attractive financial offering with non-financial solutions. In 2015 this was extended to Uruguay, Argentina Brazil and Chile with the result that it is now available in eight countries.

The Bank made further progress with the development of its distribution models focused on digital channels, resulting in substantial improvements to the different channels, most notably with new apps, developments and functionalities for mobile phones in the various geographical areas and the new model of branch office in Spain and Brazil, which offers simpler procedures, more intuitive technology and differentiated areas within the branch.

The Bank supports the internationalisation of its business customers by harnessing the synergies and international capabilities of the Group, thereby:

- Ensuring consistent and uniform customer relations throughout all the local units by means of the *International Desk* (available in 12 countries, this is a service that provides support to businesses wanting to enter the markets where Santander operates), and *Santander Passport* (a model of specialised customer service for companies engaging in multinational business that offers global management and uniform service and is now available in 8 countries).

- Enabling our customers to connect with each other and capturing international trade flows with the Santander *Trade Portal* (information, tools and resources to help companies to grow their business abroad), now available in 12 countries, and the Santander *Trade Club* (an innovative platform that enables customers from different countries to make contact with each other and set up trade relations), available in 8 countries.

As regards earnings (in constant euros), the attributable profit in 2015 was EUR 6,854 million, an increase of 10% year on year.

This was the result of the good performance in income, which was up by 6% year on year due to the net interest income. Costs rose 7% (1% disregarding the changes in the scope in consolidation and in real terms), while period provisions were down by 5% year on year.

Santander global corporate banking (SGCB)

In 2015 SGCB maintained the key pillars of its business model, which is focused on the customer, on the division's global capabilities, and its interconnection with the local units, combined with active management of risk, capital and liquidity.

SGCB's results were underpinned by the strength and diversification of the income from customers, which accounted for 88% of the unit’s total.

In the cumulative figure for the year, the area accounted for 12% of the income and 19% of the attributable profit of the Group's operating areas.

Income was up by 8% in 2015. By type of business, there was growth in all the products. In global transaction banking there was an increase of 5%, in a context of contained spreads and low interest rates. In financing solutions and advisory, the increase was 9%, reflecting the strength of the various businesses, and there was a 1% increase in global markets, with good performance from America and Iberia.

Costs rose due to the investments made in high-potential markets, in particular the United Kingdom and Poland. Period provisions to allowances for loan losses increased, mainly due to Brazil.

2.5 Issues relating to the environment

Banco Santander incorporates respect for and protection of the environment in the management of its financial business activities. To do this the Bank manages its operations efficiently, includes the environmental impact in the assessment of the risks of its financing transactions and develops and promotes financial products and services that contribute to the conservation of the environment and the fight against climate change, particularly in the sphere of renewable energies.

The Bank has a defined governance structure which governs the actions taken on sustainability.

The sustainability committee, chaired by the chief executive officer and composed of the executive vice presidents of the Bank's principal divisions, proposes and promotes the Group's principal sustainability initiatives. It meets at least once a year. There are also local sustainability committees in nearly all the countries in which the Group operates, chaired in each case by the relevant country head.

In 2015, a social, environmental and reputational risk working group was set up with the objective of evaluating the risk of large transactions in sensitive sectors and issuing the relevant recommendation to the risk committee responsible for approving them. The working group is chaired by the chief compliance officer and consists of the heads of commercial banking, wholesale banking, risks, compliance, legal counsel, sustainability and communication.

The Bank has conducted a review and update of its sustainability policies, including its social and environmental policy, now called sustainability policy, which is the framework of reference in corporate social responsibility and in the management of social and environmental risks throughout the Group.

In this same process, the Bank has reviewed the sectorial policies which establish the criteria to which the financial activities connected with the sectors of defence, energy and soft commodities must adhere. These policies prohibit the financing of certain activities and set limits on others (transactions requiring special attention in view of their social and environmental risk, which must comply with certain requirements in order to be approved). In addition to including new activities and sectors, the review of the policies extends the pre-2015 scope of application to include all wholesale banking transactions in the case of restricted transactions and all transactions in the case of the prohibitions.

Also noteworthy was the update of the policy on climate change to include the international framework after the Paris Agreement, the objective of which is to keep the rise in the average global temperature below 2°C in comparison with the preindustrial levels.

These policies were approved by the board of directors in December 2015 and will be reviewed annually.

The Group has signed up to a number of international commitments including some relating to the environment, including most notably: UNEP Finance Initiative, Equator Principles, Carbon Disclosure Project, Banking Environment Initiative, Round Table on Responsible Soy, and the adoption of the Soft Commodities Compact promoted by the Banking Environment Initiative (BEI). In 2015, Santander joined the World Business Council for Sustainable Development and signed the declaration of the European Financial Service Round Table in support of an international response to the fight against climate change.

The Bank's environmental actions focused on the following lines of work:

a) Reduction of energy consumption and emissions

Since 2009 Santander has measured, calculated and controlled the environmental footprint of all Group installations.

The environmental footprint includes information on the electricity, fuel, water and paper used, and the waste paper and cardboard generated, as well as a breakdown of the Bank's direct and indirect greenhouse gas emissions.

In 2015, both electricity consumption, at 1.2 thousand million Kwh, and CO_2 emissions arising from the consumption of electricity and fossil fuels, at 0.3 million tonnes of CO_2 equivalent, remained the same as in 2014. Green energy represents 40% of the Group’s energy consumption.

Santander has drawn up an energy efficiency plan (the 2016-2018 plan) that includes targets for the reduction of energy consumption, waste generation, greenhouse gas emissions and also for raising the environmental awareness of the Group's employees.

Targets for 2016-2018:

- 9% reduction in electricity consumption
- 9% reduction in CO_2 emissions
- 4% reduction in paper consumption

The data processing centres (DPCs) are built to the highest standards of energy efficiency and security. Accordingly, they are able to assure uninterrupted service with minimum energy consumption, taking into account sustainability and reliability criteria. In 2015 the Campinas DPC in Brazil won the DPC Energy Efficiency Improvers Award at the DCD Converged Brasil conference in Sao Paulo, and the Querétaro DPC
In Mexico won the Best Enterprise Data Centre Award at that same conference. The ICREA (International Computer Room Experts Association) also awarded the Mexico DPC the prize for the best certified DPC in the world.

The energy efficiency actions taken include: lighting (presence detectors and external perimeter regulation; more efficient lamps and lights, time switches); air conditioning (office automation, regulation of comfortable temperature band, replacement of appliances with more efficient systems); awareness raising; others (total switch-off of equipment, carbon offsetting, purchasing green power at corporate facilities in Spain, the United Kingdom and Germany).

In the United Kingdom a pioneering project was carried out involving the installation of more than 90,000 LED lights in over 791 branch offices and 13 corporate buildings. The project was designed to achieve a reduction in costs and energy consumption (over 50%).

The Group is also committed to maintaining the environmental certificates (ISO 14001 or LEED) at corporate centres in Brazil, Chile, Spain, Mexico and the United Kingdom.

b) Integrating social and environmental risks in credit extension

The Group considers social and environmental aspects to be a key part of the procedures for risk analysis and decision-making in its financing transactions subject to the Equator Principles and the Group's sustainability policies. The Bank has procedures in place to identify, analyse and assess the environmental and social risks associated with large credit transactions. It also identifies and implements the measures required for the appropriate management of such risks.

c) Development of financial solutions

The Group contributes to the global objective of combating climate change by providing financial solutions and taking the lead in matters relating to project finance for renewable energies and energy efficiency at an international level.

Noteworthy here are:

- The Group's participation in 2015 in the financing of new renewable energy projects: wind farms, hydroelectric and photovoltaic power plants in Brazil, the United States, Germany, Italy, Chile, Portugal, the United

Kingdom and Uruguay, with a total installed capacity of 7,362 MW. This increased its participation in the financing of MW by 42% year-on-year (5,197 MW in 2014).

- Further credit lines were arranged with the European Investment Bank (EIB) for a total amount of EUR 361 million in Spain and the United Kingdom for energy efficiency and renewable energy projects.

Sustainability report and presence in sustainable indices

Information on the main steps taken in relation to the environment and the other sustainability actions performed by the Group is provided every year in the sustainability report. The report is checked by Deloitte.

The Group is also included in the main stock market indices that analyse and assess the sustainability actions taken by businesses. In 2015, the Bank was once again included in the Dow Jones Sustainability Index (DJSI), in which it has been included since 2000.

Accordingly, Santander maintains its position as one of the best financial institutions internationally in terms of sustainable management, with a total score of 84 points, making it the leading Spanish financial institution.

The Group has also been a signatory since 2007 of the Carbon Disclosure Project (CDP), the international benchmark initiative for business reporting on climate change, and since 2012 it has been filing the CDP Water Disclosure.

2.6. Issues relating to human resources

At 31 December 2015, Santander Group had 193,863 professionals worldwide with an average age of 37.8 years; 55% were women and 45% were men.

This team is the engine for being a Bank that is simple, personal and fair, for its employees, its customers, its shareholders and for society in general. Accordingly, the Bank's professionals have been placed at the heart of the strategy, and the strategic objective has been set of being in the top three best places to work by 2017 in the main geographical regions where the Group operates.

Therefore, a review is being undertaken of the human resources strategy to ensure that it responds to the needs of the new culture and contributes to the rest of the Group's strategic lines.

In order to have staff that are motivated, committed and excited about making Santander the best commercial bank, the human resources area has three lines of action:

- Talent management: to promote a global model based on meritocracy, with mechanisms to identify and develop people's potential, with training and career plans, and succession plans to ensure the Group's leadership.

- To listen to staff and engage them: encouraging dialogue in the teams and a style of communication that is transparent and participatory in the organisation.

- To introduce new ways of working: creating a new style of doing things, in order to work in a way that is more flexible, and better adapted to today's world.

A process in which staff in the main countries have participated, has been carried out to define the actions that are required to make the Bank more simple, personal and fair, and these will form the basis of the human resources processes. Each country has identified the actions that are most closely adapted to their local situation and, in addition, eight corporate actions have been defined that summarise those of the entire Group.

The main initiatives include the following:

1. Talent management

- Talent Appraisal Committees (TAC): these committees meet on a regular basis to analyse the performance and potential of the professionals with the support and input of the senior management (country heads, members of the management committees and corporate function heads). Over 1,350 executives have been reviewed and 35% of them have an individual development plan.
- Performance appraisal: SPF behaviour has been included in the 180 degree appraisal for managers, including feedback from their staff. In order to adapt the process to the new culture, the "people management" objective has evolved into "SPF management" and it assesses the corporate behaviours that will facilitate the building of a new bank.

- ERM (Employee Relationship Management): a talent management tool has been developed that provides information on the performance and potential of the professionals.

- Global Job Posting: a corporate platform that gives all the Group's professionals the opportunity of finding out about and applying for vacancies in other countries, companies or divisions. In 2015, 381 job offers were finalised.

- Succession planning policy and process: this is intended to establish the guidelines for the appropriate management and monitoring of possible replacements and succession planning by following a shared structured methodology for key senior management positions and control functions.

- Policy on customer satisfaction metrics in the Group's local variable pay systems: this sets out the framework of rules, recommendations and other essential aspects that are used to measure and relate variable pay with customer satisfaction, with the purpose of supporting the achievement of the long-term targets set by the Group concerning customer engagement.

2. To listen to staff and engage them

In 2015, further progress was made in the process of ongoing listening and dialogue with staff.

- *Santander Ideas*: this internal social network enables the professionals in all the countries to share their ideas about issues that are strategic to the Bank, vote on them and comment on them. Its 27,850 users have contributed over 13,000 ideas since the platform was launched in 2014.

The initiatives implemented in response to the requests made through this channel, as well as flexiworking, include ideas such as Best4Us that enables employees throughout the group to make contact and share common interests (such as learning languages or cultural exchanges), Santander Benefits, a website that promotes offers and services for the Group's professionals in Spain, and ideas relating to the Branch of the Future, a new branch model that facilitates simpler processes, more intuitive technology and differentiated spaces depending on customers' needs.

In April a pulse survey of 12,000 Group employees was launched to measure their awareness of the new culture, and also to measure the evolution of the levels of commitment and organisational support.

On 1 October 2015 the annual commitment survey was distributed to all the Group's professionals. The high participation rate of 84% and the more than 76,000 comments made in response to the open questions firmly establish the survey as a listening tool for staff to express their opinions and build a better place to work.

The results indicated a 75% level of commitment. The survey also revealed that pride in belonging continues to be one of the bank's greatest strengths. 82% of the respondents are proud to be part of Santander.

3. New ways of working and simpler structures

2015 was the year that flexiworking came into being. The aim of this initiative is to promote new ways of working, simplify procedures, and adapt the management systems and the structures to the organisation.

The first milestone of this plan was the launch of the corporate flexibility policy.

This framework for action proposes:

- Better organisation and planning of work, by being more efficient, making a more rational use of technology, getting rid of bureaucracy, and making better use of meetings and email.

- New flexibility measures, giving line managers the autonomy to implement measures in their teams to help the Bank's professionals to achieve a greater and better work-life balance.

- Responsiveness to the commitment and dedication of the Bank's staff.

Work has begun on the other elements of the project, such as providing the best technologies and means for remote working.

The first flexiworking phase ended with 91% of the flexibility plans formalised at the corporate centre and 94% of individuals with flexibility measures assigned. In addition, it is the aspect that experienced the biggest variation in the commitment survey.

Significant flexiworking initiatives are being rolled out in the main countries where the Group operates, such as staggered working days in Mexico, working close to home in Argentina, and some of the Chilean initiatives: flexible timetables; free afternoons for birthdays; extra holidays, with three additional vacation days, and teleworking.

Knowledge

Staff training is one of the areas to which the Group is committed in order to achieve this transformation and create a new bank. The Group spent EUR 104 million in 2015 on disseminating knowledge amongst its employees, which translated into 94% of professionals trained and an annual average of 39.4 hours of training per employee.

A number of different global initiatives were launched to establish the culture in the Bank. Examples are Listening and Sharing workshops to train change drivers, and Santander Business Insights lectures where both external and internal good practices are shared. There were two in 2015: one on flexiworking and the other on digital transformation.

Approval was also given to the open offering policy, which seeks to increase the transparency in the training that is offered, increase the proactive involvement of the professionals in the design of their training plan, so that they can choose courses in accordance with their preferences and needs, and promote self-management of employees' professional development within the Group. It also helps to align the efficiency of the training and to have greater awareness of staff needs and priorities, thereby increasing efficiency and achieving a greater impact on the business.

Somos Santander Week

In June the Group’s employees celebrated *Somos Santander* [We are Santander] Week, which in 2015 was dedicated to the new corporate culture that is making Santander a more Simple, Personal and Fair bank. The corporate and local activities arranged during the week were designed to foster commitment, cooperation and listening in the teams, as well as the pride of belonging.

Corporate Volunteering Policy

The aim of this policy, approved by the sustainability committee and the board of directors, is to organise the volunteering initiatives there are in the Group and give them value.

It establishes education as the central pillar, impact measurement indicators and two occasions for volunteering together: the *Somos Santander* Week in June and International Volunteering Day in December, in addition to the activities and schemes that each country arranges.

Diversity

Work continued in 2015 to develop female leadership through schemes such as *Sumando Talento* [Adding Talent], Take the Lead and the *Conectad@s* [Connected] series of talks at the corporate centre to facilitate networking among women and enable the experiences of other women who are professional leaders both within and outside the Group to be heard first hand.

In order to broaden the scope of diversity to other groups, the Bank has signed up to the Generation and Talent Observatory. The purpose of this observatory is to promote the management of generational diversity in organisations, by helping to extract indicators and conclusions in terms of profitability and competitiveness.

Remuneration system

The principles guiding remuneration at the Group are as follows:

- To be aligned with the Group's values, culture and strategy, and with those of the countries and businesses.
- To support the attraction, development and retention of talent.
- To guide and focus conduct that supports the strategy and culture, by recognising individual and team contributions, offering incentives and rewards for achieving business targets, ensuring rigorous management of risks and promoting the creation of long-term value.
- To comply with labour, tax and pay legislation and regulations, as well as any others, which are applicable in the regions where the Group operates.
- To establish appropriate standards of internal equality, ensuring that the pay of Group employees is consistent with the level of responsibility of the positions they hold.
- To ensure adequate positioning and external competitiveness, by offering pay packages that are competitive with those offered in comparable markets.
- To offer performance incentives, ensuring that levels of pay are graded and consistent with employee performance.
- Not to discriminate against Group professionals on the grounds of sex, age, race, religion, nationality, marital status, or sexual orientation.

On the basis of these principles, the Group promotes a total compensation system, consisting of a fixed amount of pay that recognises and remunerates the role and level of responsibility of the position held by the employee; and a variable amount of short- and long-term pay, which rewards performance based on the achievement of Group, team or individual objectives, ensuring rigorous management of risks and alignment with long-term objectives.

Fixed compensation is determined essentially by the local markets. Compensation levels are determined according to local practice and rigorously respect the collective agreements applicable in each geographic area and society.

Corporate bonus and long-term incentive schemes recompense the achievement of the Group's strategic objectives. In corporate bonus schemes, in which more than 9,000 people from all the geographic areas participate, regard is had to the achievement of the net ordinary profit target, the return on risk-weighted assets and qualitative factors related to the proper management of risk, the quality and recurrence of profits, the level of customer satisfaction and the variation in profits compared with comparable entities.

In the 2015 long-term incentive, objectives directly aligned with the shareholder's interests are also measured: earnings per share, return on tangible equity, customer and employee satisfaction and the loyalty of individual, SME and company customers.

The compensation of the employees whose professional activities have an important impact on an entity's risk profile (Identified Staff) are subject to the deferral of a minimum of 40% of their variable remuneration and they receive at least 50% in the form of shares of Santander or of Group entities that are listed on their markets. The collection and delivery of deferred amounts and shares are subject to the non-concurrence of certain circumstances ("malus" clauses) such as the failure to comply with the internal regulations, in particular, those relating to risks, or significant changes in the Group's economic capital or risk profile as a result of actions that determined the assignment of the bonus or long-term incentive.

This total remuneration system includes a number of benefits for the protection of employees and their families, in accordance with the regulations applicable in each country and the conditions of the various labour markets.
These benefits include advantages in banking products and services, life insurance and health insurance. In some regions, these benefits are offered on a flexible basis for employees to choose.

There are also social welfare schemes set up according to local retirement conditions and local market practices. The social welfare systems bring together protection for employees with a low level of risk for the Group through defined contribution systems.

The Group has recognition programmes that contribute to increasing employee commitment and retention, and also boost motivation and enhance its image as an employer.

Health and the prevention of occupational hazards

The objective of the health and prevention of occupational hazards area of Banco Santander is to consolidate the corporate model of health and safety at work, placing the focus on people, based on uniform policies and standards on health, wellbeing and safety, sharing best practices and promoting diversity, based on a model that is:

Simple, with a clear strategy and simple procedures.

Personal, giving each employee quality service that benefits the health of all the staff.

Fair, with the ultimate aim of contributing to the health and wellbeing of the Bank's employees in particular and society in general.

Basing its strategic lines in the prevention of occupational hazards on the following elements:

- The assessment of physical and psychosocial risks in the working environments, by identifying and evaluating the factors that influence healthy working atmospheres, eliminating potential health hazards and correcting any deviations that may be identified through corrective measures and action plans concerning, for example, road safety or antisocial behaviour.

- The management of emergencies and drills, with efficient protocols for action and trained personnel able to implement them in an emergency, always in collaboration with the business continuity plan. At all Santander workplaces there are instructions setting out the action and resources required in the event of an emergency and the procedure for evacuation, as well as staff trained to cope with emergencies.

- Cardiac protected areas, equipped with defibrillators and staff and security personnel trained in how to use them.

- Training and information on the subject available to all Group employees through the intranet, practical workshops, seminars and e-learning.

- Prevention management in the internationalisation process, providing training and information for travellers, personalised according to the risks attached to each of the destinations and the social and public health environment for those travelling or posted.

And a health strategy based on:

- Health check and health care models with standardised medical examination protocols adapted to positions/individuals and access to the most frequently required medical specialities at the Bank's own medical centres in Spain, Argentina and Brazil.

- Campaigns for training in promoting health and healthy habits, with programmes such as 'Improve your health' in Spain for the control of overweight and obesity, in which more than 550 employees took part. In Mexico the total wellbeing portal was redesigned. This portal is part of the balanced preventive medicine programme which seeks to identify the highest risk factors for employees and provide tools aimed at promoting a healthy lifestyle.

- Blood donor campaigns in Spain, Germany, Portugal, Puerto Rico, the United Kingdom, the United States, Brazil, Mexico and Argentina

- Flu, human papillomavirus and shingles (herpes zoster) vaccination campaigns.

- Nutritional control policies in canteens and vending machines.

- Pregnancy protection, with initiatives in several countries, including the following. Specific risk assessments are made in the United Kingdom of jobs done by pregnant employees. Santander UK is also recognised by external UK organisations as a "Leader in the management of pregnancy at work and support for childbirth". In Spain, antenatal classes and pre- and postnatal pilates classes are available to all female staff in Madrid. In Brazil, specific job assessments are also carried out in the administrative buildings. In Chile there are educational and recreational classes for pregnant employees, their spouses and children. In Argentina, there is an online step-by-step "Healthy pregnancy" programme for all mothers, from the time of conception until the end of the first year. There are also breastfeeding rooms at workplaces in several countries.

- Research projects as an investment in our teams and a contribution to the community, such as the *Santander por tu corazón* [Santander for your heart] research study in Spain, carried out in coordination with the Centro Nacional de Investigaciones Cardiovasculares [National Centre for Cardiovascular Research], in which over 4,000 members of staff are taking part. The first conclusions of the study have already been published in Circulation, the journal of the American Heart Association, one of the world's most important publications in this field.

- Financial aid to cover healthcare expenses and for disabled employees or family members, through welfare programmes and funds in the various geographical regions.

	2015	2014
Workforce		
Number of employees	193,863	185,405
Average age of workforce	37.8	37.7
Average length of service	9.9	9.7
Managers	11.91%	11.82%
Recruitment		
CVs received	779,090	660,120
New hires	25,156	22,379
Turnover		
Annual turnover	12.10%	14.44%
Managerial turnover	7.35%	9.69%
Training		
Employees trained	97.7%	97.1%
Training hours per employee	39.4	44.6
Total investment in training (millions of euros)	103.7	103.2
% of e-learning training	42.23%	32.18%
% of hours with internal trainers	45.62%	35.11%
Management		
Employees promoted	10.11%	10.49%
Employees internationally mobile	954	1,103
Managers in country of origin*	88.50%	87.97%
Commitment		
Overall commitment rate	75%	70%
Remuneration		
Employees with variable remuneration	100%	100%
Diversity and equality		
% women	55%	55%
Occupational health and safety		
Rate of absence from work	3.9%	3.7%

* Top Red and Dir Red managers.

3. LIQUIDITY AND CAPITAL

3.1 Liquidity

- Santander has developed a funding model based on independent subsidiaries that are responsible for meeting their own liquidity requirements.

- This structure enables Santander to take advantage of its commercial banking business model to maintain comfortable liquidity positions at Group level and at its main units, even in situations of market stress.

- In recent years, as a result of the economic and regulatory changes arising from the global financial and economic crisis, it has been necessary to adapt the funding strategies to the new trends in the commercial business, to market conditions and to the new regulatory requirements.

- In 2015, the Group has continued to improve in certain specific aspects on a very comfortable liquidity position at Group and subsidiary level, without any material changes in the liquidity and funding management policies and practices. As a result it is able to face 2016 from a good starting position, with no restrictions on growth.

Liquidity and funding management has always been a basic element of Banco Santander's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests.

The Group relies on a decentralised funding model composed of subsidiaries that are autonomous and self-sufficient in terms of liquidity. Each subsidiary is responsible for covering the liquidity needs arising from its current and future activity, either by taking deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates, subject to management and supervision procedures coordinated at Group level.

This is a funding structure that has proven to be most effective in situations of high market stress as it prevents difficulties in one area from affecting funding capacity in other areas and, therefore, the Group as a whole, which could occur if a centralised funding model were used.

In addition, at Santander Group this funding structure also benefits from the advantages of having a commercial banking model with a significant presence in ten markets with great potential, with the focus on retail customers and a high level of efficiency. As a result, the subsidiaries have a considerable capacity to attract stable deposits, as well as a significant issue capacity in the wholesale markets of their respective countries, generally in local currency, bolstered by the strength of their franchise and their membership of a leading group.

Both the theory and the practice of the Group's management of liquidity and funding risk are detailed below.

- Liquidity management framework - Monitoring and control of liquidity risk
- Funding strategy
- Evolution of liquidity in 2014
- Funding outlook for 2015

3.1.1. Liquidity management framework - Monitoring and control of liquidity risk

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

Liquidity management at Santander is based on the following principles:

- Decentralised liquidity model.

- Medium- and long-term liquidity needs arising from the business must be funded using medium- and long-term instruments.

- High proportion of customer deposits, as a result of a commercial balance sheet.

- Diversification of wholesale funding sources by: instrument/investor; market/currency; and maturity.

- Restrictions on recourse to short-term wholesale financing.

- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.

- Compliance with the regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

1. A sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy.

    - Part of the Group's risk appetite framework, this model establishes individual management metrics with specific levels for the structural funding ratio and minimum liquidity horizons under different stress scenarios.

    - Main units involved: global ALCO, local ALCO, financial management area (strategy and implementation), market risks area (monitoring and control).

2. An in-depth balance-sheet analysis and liquidity risk measurement to support the decision-making process and the control thereof.

    - By means of: monitoring balance sheet structure; short-term and medium-term liquidity projections; establishing basic metrics; and analysis of scenarios (potential additional liquidity requirements in response to severe events).

    - Three basic metrics: liquidity gap; net structural position; and analysis of stress scenarios (idiosyncratic crisis; local systemic crisis; global systemic crisis).

3. A management approach adapted in practice to the liquidity needs of each business.

    - By means of: drawing up a yearly liquidity plan; monitoring the actual balance sheet and adjusting requirements during the year; active, diversified presence in wholesale markets.

In 2015 the Internal Liquidity Adequacy Assessment Process (ILAAP) was conducted for the first time. The ILAAP must form an integral part of the Group's strategic and risk management processes.

A more detailed description of the Group liquidity management framework, its monitoring and control, methodology, metrics and scenarios, among other instruments, can be found in Note 54 (Risk Management; Liquidity and funding risk) to the financial statements

3.1.2. Funding strategy

In the last few years Santander's funding activity has been underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions, and, above all, by the adaptation of the subsidiaries' strategies to the growing demands of both markets and regulators. These demands were not uniform across the markets and reached far higher levels of difficulty and pressure in certain areas, such as the peripheral regions of Europe.

In any case, it is possible to identify a series **of general trends in the policies implemented by Santander's subsidiaries in their funding and liquidity management strategies since the beginning of the crisis.**

Namely:

- **Maintenance of adequate, stable medium- and long-term wholesale funding levels at Group level.** At 2015 year-end, this funding represented 21% of the liquidity balance sheet, a similar level to that of recent years but well below 28% that of 2008 year-end when wholesale funding, which was more abundant and less expensive, had not yet suffered the pressures of the crisis.

  In general, this wholesale activity was modulated at each unit depending on regulatory requirements, the generation of internal funds from the business and the decisions regarding the availability of sufficient reserves of liquidity.

- **Holding a sufficient volume of assets eligible for discount at central banks** as part of the liquidity reserve to cater for episodes of stress on wholesale markets.

  In particular, in recent years the Group has raised its total discount capacity significantly, from close to EUR 85,000 million at 2008 year-end to the current level of more than EUR 195,000 million.

- **Strong generation of liquidity from the commercial business due to the lower growth of credit and greater emphasis on attracting customer funds**.

  In recent years, the performance of the Group's lending has been the result of combining the falls in the Spanish and Portuguese units, due to the severe deleveraging of their economies, with growth in the other geographical areas, either through the expansion of units and businesses that are in development (the US, Germany, Poland, UK companies), or through sustained business growth in emerging countries (Latin America). Taken as a whole, since December 2008 the Group's net loans increased by around EUR 146,000 million (up 26%).

  At the same time, the focus on liquidity during the crisis combined with the Group's capacity for attracting retail funds through the branch network led to an increase of EUR 262,495 million in customer deposits. This represents a 62% increase in the balance at December 2008 and more than double the increase in the balance of net loans in the same period. All the commercial units increased their deposits, both the units in economies involved in deleveraging and those in economies in growth areas where the performance of deposits matched that of loans.

  In 2015, as had already occurred in 2014, these loan and deposit trends were interrupted at Group level. The disparity between the balances of loans and deposits has ceased to narrow and has even widened moderately in the last two years due, on the one hand, to the lower deleveraging and the recovery of production in the economies most affected by the crisis, and on the other, to the focus on reducing the cost of deposits in mature countries with interest rates at record lows.

Thanks to all these market and business developments, based on a sound liquidity management model, Santander currently enjoys **a very robust funding structure, the main features of which are as follows**:

- **High proportion of customer deposits in a predominantly commercial balance sheet.** Customer deposits are the Group's major source of funding. These deposits represent around two thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and at the end of 2015 they accounted for 86% of net loans.

These are also very stable funds because they mainly originate from the retail customer business (89% of the Group's deposits come from commercial and private banking; the remaining 11% come from large corporate and institutional clients).

- **Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term**. Medium- and long-term wholesale funding represents 21% of the Group's net liabilities and enables it to cater for the net loans not funded with customer deposits (the commercial gap).

  This funding is well-balanced by type of instrument (approximately 40% senior debt, 30% securitisations and structured instruments with collateral, 20% cédula-type covered bonds, with the remainder consisting of preference shares and subordinated debt) and by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

  Most of the medium- and long-term wholesale funding is composed of debt issues. The outstanding balance on the market at 2015 year-end stood at a nominal amount of EUR 149,393 million and offered an appropriate profile of maturities with an average term of 3.9 years.

  The table below gives the breakdown by instrument in the last three years and the profile of contractual maturities.

Medium- and long-term debt issues. Santander Group

Millions of euros

Evolution of outstanding balance in nominal value

	December 2015	December 2014	December 2013
Preference shares	8,491	7,340	4,376
Subordinated debt	12,262	8,360	10,030
Senior debt	83,630	68,457	60,195
Covered bonds	45,010	56,189	57,188
Total	149,393	140,346	132,789

Distribution by contractual maturity

	0-1 months	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	Over 5 years	Total
Preference shares	-	-	-	-	-	-	-	8,491	8,491
Subordinated debt	-	7	224	1,058	84	1,079	2,178	7,633	12,262
Senior debt	3,337	4,994	4,327	2,902	5,305	21,617	30,636	10,512	83,630
Covered bonds	2,627	1,444	1,458	1,477	1,669	8,714	10,170	17,452	45,010
Total	**5,964**	**6,444**	**6,008**	**5,438**	**7,058**	**31,410**	**42,984**	**44,087**	**149,393**

* In the case of issues with a put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity. Note: all of the senior debt issued by the Group's subsidiaries does not have additional guarantees.

In addition to the debt issues, medium- and long-term wholesale funding is also composed of securitisation bonds placed on the market and collateralised and other special financing for an aggregate amount of EUR 67,508 million with a maturity of less than two years.

The wholesale funding from the short-term issue programmes is a residual part of the Group's financial structure (it represents around 2% of net liabilities), which is connected with the cash activities and is more than covered by liquid financial assets.

At December 2015 the outstanding balance amounted to EUR 24,448 million and was raised mainly by the United Kingdom unit and the parent through the existing issue programmes: various certificate of deposit and commercial paper programmes in the United Kingdom, 39%; European commercial paper, US commercial paper and the parent's domestic programmes, 22%; and other programmes of other units, 39%.

In short, a sound funding structure based on an essentially commercial balance sheet that enables the Santander Group to comfortably cover its structural liquidity needs (loans and non-current assets) with structural capital funds (deposits, medium- and long-term funding and equity), which generates a high structural liquidity surplus.

3.1.3 Evolution of liquidity in 2015

The key aspects at Group level of the evolution of liquidity in 2015 were as follows:

- **Comfortable liquidity ratios**, underpinned by a balanced commercial activity and greater attraction of medium- and long-term wholesale funding which absorb the growth in lending.

- **Compliance with regulatory ratios**. Compliance with the Liquidity Coverage Ratio (LCR) came into force in 2015. At the end of 2015, the LCR at Group level stood at 146%, considerably above the required minimum (60% in 2015; this percentage must gradually increase until it reaches 100% in 2018).

- **High liquidity reserve**, reinforced with respect to 2014 in terms of quantity (EUR 257,740 million) and quality (52% of the total are high quality liquid assets).

- **Scant weighting of encumbered assets in medium- and long-term wholesale funding transactions**: around 14% of the Group's expanded balance sheet (European Banking Authority -EBA- criteria) at 2015 year-end.

Basic liquidity ratios at comfortable levels

This table shows the performance in recent years of the basic metrics of liquidity monitoring at Group level:

Monitoring metrics. Santander Group

	2008	2012	2013	2014	2015
Net loans/net assets	79%	75%	74%	74%	75%
Net loan-to-deposit ratio (LTD)	150%	113%	112%	113%	116%
Customer deposits and medium- and long-term funding/net loans	104%	117%	118%	116%	114%
Short-term wholesale funding/net liabilities	7%	2%	2%	2%	2%
Structural liquidity surplus (% net liabilities)	4%	16%	6%	15%	14%

At the end of 2015, in comparison with 2014, Santander Group reported:

- A stable ratio of loans to net assets (total assets less trading derivatives and interbank balances) at 75% due to the improvement in lending following the end of deleveraging in mature markets. The high level of this ratio in comparison with those of rival European banks reflects the commercial nature of Santander Group's balance sheet.

- Loan-to-deposit (LTD) ratio of 116%, within very comfortable levels (lower than 120%). This trend reflects the recovery of credit in mature markets, both organic and inorganic (acquisition of consumer finance businesses in Europe), and the increased focus on optimising the cost of retail deposits in countries with low interest rates.

- A decline in the ratio of customer deposits plus medium- and long-term funding to loans, for reasons similar to those for the trend in the LTD ratio, since the increase in the wholesale funds raised at the Group is also lower than that in loans. In 2015 this ratio stood at 114% (2014: 116%), in keeping with the average for recent years (2008-14: 112%).

- A continuing limited recourse to short-term wholesale funding at the Group. The ratio of this funding, at around 2%, was in line with previous years.

Lastly, an increase in the Group's structural surplus (i.e. the excess of structural funding resources -deposits, medium- and long-term funding, and capital- over structural liquidity requirements -non-current assets and loans), rose to an average balance of EUR 159,000 million in 2015, 4% up on the figure at the end of 2014. At 31 December 2015, the structural surplus stood at EUR 149,109 million on a consolidated basis. In relative terms, the total amount of the structural surplus is equal to 14% of the Group's net deposits, a similar level to that recognised in December 2014.

The following table shows the most frequently used liquidity ratios for Santander's main management units at December 2015:

Liquidity ratios for the main units

December 2015. Percentages

	LTD ratio	Deposits and medium- and long-term funding
Spain	89%	149%
Portugal	97%	121%
Santander Consumer Finance	226%	69%
Poland	88%	115%
United Kingdom	122%	107%
Brazil	106%	128%
Mexico	107%	101%
Chile	133%	98%
Argentina	78%	130%
United States	140%	115%
Total Group	**116%**	**114%**

In general, there are two keys to the 2015 performance of both the Group and the subsidiaries' liquidity positions:

1. The widening of the commercial gap, continuing the change of trend started in 2014 and reinforced by inorganic components (SCF).

2. Ongoing intense issuing activity, especially by the European and US units, in view of a more favourable wholesale market situation.

The total medium- and long-term funding raised by the Group as a whole amounted to around EUR 56,000 million in 2015.

By instrument, medium- and long-term fixed-income issues (senior debt, covered bonds, subordinated debt and preferred shares) recorded the largest increases, up 16% to more than EUR 42,000 million, with a higher proportion of senior debt to covered bonds. Spain was the biggest issuer followed by the United Kingdom and the Santander Consumer Finance units; together these three accounted for 87% of the issues.

The remaining EUR 14,400 million of medium- and long-term funding related to securitisation activities and secured funding, and they remained stable year-on-year. The units specialising in consumer finance in the US and Europe account for 85% of the total.

The following figure details the breakdown by instrument and geographical region:

Breakdown by instrument

	Dec. 15	%
Preference shares	886	2%
Subordinated debt	4,256	8%
Senior debt	34,134	60%
Covered bonds	2,954	5%
Securitisations and other	14,379	25%
Total	**56,609**	**100%**

Breakdown by geographic area

	Dec. 15	%
United Kingdom	13,653	24%
Spain	10,095	18%
United States	12,465	22%
Santander Consumer Finance	9,843	17%
Brazil	8,011	14%
Other European countries	890	2%
Rest of Latin America	1,652	3%
Total	**56,609**	**100%**

In short, Santander Group maintains an ample capacity to access the various markets in which it operates, which was strengthened by the incorporation of new issuer units. In 2015 it launched issues and securitisations in 14 currencies, in which 18 significant issuers in 15 countries participated, with an average maturity of approximately 4 years, slightly more than in 2013.

Early compliance with regulatory ratios

As part of its liquidity management model, in recent years Santander Group has been managing the implementation and monitoring of, as well as early compliance with, the new liquidity requirements set by international financial legislation. Noteworthy in 2015 was the entry into force of the LCR, which the Group exceeded by a comfortable margin.

LCR (Liquidity Coverage Ratio)

In 2014, following the approval by the Basel Committee of the final definition of the short-term liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, within the scope of the CRD IV, defines the criteria for calculating and implementing this metric in the European Union. The implementation has been delayed until October 2015, although the level of initial compliance remains at 60%, which should gradually increase to 100% by 2018.

The good starting position in short-term liquidity, coupled with the autonomous management of the ratio in all major units, has enabled compliance levels exceeding 100% to be maintained throughout 2014, at both consolidated and individual level in all of these units. In December 2015, the Group's LCR stood at 146%, comfortably exceeding the regulatory requirement. Although the requirement is only established at Group level, the other subsidiaries also comfortably exceed the requirement.

NSFR (Net Stable Funding Ratio)

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and it has still to be transposed into local legislation.

In relation to this ratio, Santander benefits from a high weighting of customer deposits, which are more stable, from long-term liquidity needs arising from the commercial activity funded by medium- and long-term instruments, and from limited recourse to short term. All of this enables the Group to maintain a balanced liquidity structure, which is reflected in NSFR levels, both at Group level and for most of the subsidiaries, exceeding 100% at 2015 year-end, although compliance will not be required until 2018.

In short, the liquidity model and management enable Santander to bring forward compliance with both regulatory metrics by the Group and by its main subsidiaries, well ahead of the legal requirements.

High liquidity reserve

This is the third key feature reflecting the Group's comfortable liquidity position in 2015.

The liquidity reserve is the collection of highly liquid assets held by the Group and its subsidiaries to serve as a last resort in situations of maximum market stress, when it is not possible to obtain funding for adequate terms at adequate prices.

Consequently, this reserve includes the balances with central banks and cash, uncommitted government debt securities, the discounting capacity at central banks, as well as financeable assets and lines available at official bodies (e.g. the US Federal Home Loans Banks).

This all strengthens the sound liquidity position that Santander’s business model (diversification, focus on commercial banking, autonomous subsidiaries, etc.) affords the Group and its subsidiaries.

At 31 December 2015, Santander Group’s liquidity reserve stood at EUR 257,740 million, i.e. 12% more than at December 2014 and 3% more than the average for 2015. The following table gives the breakdown of this volume by type of asset according to its effective value (net of haircuts):

Liquidity reserve

Effective value (net of haircuts) in millions of euros

	2015	2015 average	2014
Cash and balances with central banks	48,051	46,703	47,654
Available public debt	85,454	75,035	52,884
Discount available at central banks	110,033	112.725	115.105
Financeable assets and undrawn credit lines	14,202	15,703	14,314
Liquidity reserve	**257,740**	**250,165**	**229,957**

This increase in volume was accompanied by a qualitative increase in the Group’s liquidity reserve, resulting from the varying performance of its assets. Accordingly, the first two categories (cash and balances with central banks + available public debt), the most liquid (or "high-quality liquid assets" in Basel terminology, as "first liquidity line") posted above-average growth. In 2015 they rose by EUR 32,967 million, increasing their weighting to 52% of total reserves at year-end (as compared with 44% in 2014).

As part of the autonomy conferred by the funding model, each subsidiary keeps a mix of assets in its liquidity reserve that is appropriate to the conditions of its business and market (e.g. capacity to mobilise their assets or recourse to additional discounting lines such as in the US).

Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use, although in most geographical areas there are regulatory restrictions that limit activities between related entities.

Asset encumbrance

Lastly, it is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources.

Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The detail of these assets is included in Note 54 to the accompanying financial statements.

3.1.4 Funding outlook for 2016

Santander Group begins 2016 with a comfortable initial position and a positive funding outlook for the coming year. However, the environment is not free of risks: instability in the financial markets, adjustment of the Chinese economy and changes in the monetary policies of the main central banks.

With maturities that are assumable in the coming quarters, due to the reduced weighting of short-term and the crucial dynamism of medium- and long-term issues similar to the year-ago period, the Group will manage these needs in each geographical area together with the specific needs of each business, including the projected inclusion of new portfolios and businesses, especially consumer banking in Europe.

The foreseeable scenario of higher growth and new additions will generate moderate liquidity needs at the Group's units, in both mature and emerging countries.

To cover these commercial needs, in most cases the units will have the surplus positions they enjoyed at 2015 year-end. In addition there is substantial access to wholesale markets, especially in Europe thanks to the European Central Bank’s quantitative easing. All of this will enable the Group's subsidiaries to maintain liquidity structures appropriate to their balance sheets.

With the volume of deposits exceeding loans, a moderate recovery in lending is envisaged in Spain after a long period of deleveraging, while the focus on optimising the cost of funds will continue. Liquidity ratios will be strengthened, with an eye on forthcoming repayments of TLTROs.

Of note in the other European units will be Santander Consumer Finance’s increasing activity in issues and securitisations, underpinned by the strength of its business and the quality of its assets. As has already been discussed, in 2016 the consolidation of new portfolios will continue to require a certain dependence of the rest of the Group in the short term.

In the UK, the good performance of commercial activity and the attraction of customers will enable the deposit base to be strengthened as a basic source of credit growth. The projected favourable situation of wholesale markets will make it possible to optimise the unit’s sources of medium- and long-term funding.

The United States, also with balanced growth in loans and deposits, will focus its activity on diversifying its wholesale funding sources, both at Santander Bank and at Santander Consumer USA, which will contribute to reducing its degree of leveraging with respect to the deposits guaranteed.

In Latin America, as in 2015, the emphasis will remain on deposits to fund commercial activities while strengthening issues in wholesale markets open to the Group’s big units.

Additionally, at Group level, Santander maintains its long-term plan to issue liabilities that are eligible to be included in capital. The plan, the purpose of which is to efficiently strengthen current regulatory ratios, also takes into account future regulatory requirements. In particular, compliance with the total loss-absorbing capacity (TLAC) requirement that comes into force in 2019 for global systemically important financial institutions. Although it is still only an agreement at international level and has not yet been transposed into European legislation, the Group is already including it in its future issue plans in order to cover potential needs. It is considered that the issue rates of recent years will be sufficient to cover future needs.

Within this general framework, various Group units have taken advantage of the good market conditions at the start of 2016 to launch issues and securitisations with very narrow spreads, raising over EUR 4,000 million in January.

3.2 Capital

Capital management at the Group seeks to ensure the capital adequacy of the entity and to maximise its profitability, while guaranteeing compliance with internal capital targets and regulatory requirements. It is a fundamental strategic tool for decision-making at local and corporate level.

The Group's capital management is performed at two levels: regulatory and economic.

Regulatory capital management is based on the analysis of the capital base, of the capital adequacy ratios under the criteria of current legislation and of the scenarios used in capital planning. The objective is for the capital structure to be as efficient as possible in terms of both cost and compliance with regulatory requirements. Active capital management includes securitisations, asset sales, issuance of equity instruments (preferred shares and subordinated debt) and equity hybrids.

From an economic standpoint, capital management seeks to optimise value creation at the Group and at its constituent units. To this end, the economic capital, RORAC and value creation data for each business unit are generated, analysed and reported to the management committee on a quarterly basis. Within the framework of the internal capital adequacy assessment process, the Group uses an economic capital measurement model with

the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group.
Capital stress tests have gained particular significance as a tool for the dynamic evaluation of banks' risk exposure and capital adequacy. A new forward-looking assessment model is becoming a key component of capital adequacy analysis.

This forward-looking assessment is based on both macroeconomic and idiosyncratic scenarios that are highly improbable but nevertheless plausible. To conduct the assessment, it is necessary to have robust planning models capable of transferring the effects defined in the projected scenarios to the various elements that have a bearing on the adequacy of a bank's capital.

The ultimate goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.

During the recent economic crisis, Santander Group has undergone five stress tests in which it has demonstrated its strength and capital adequacy in the face of more extreme and severe macroeconomic scenarios. All the tests showed that, due mainly to the existing business model and geographical diversification, Santander Group would continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In the stress test carried out by the ECB in 2014, in cooperation with the European Banking Authority, Santander Group was the bank least affected by the adverse scenario among its international competitors with a capital cushion of approximately EUR 20,000 million over the minimum requirement. These results show, once again, that Santander Group's business model enables it to face the most severe international crisis scenarios with greater robustness.

Santander Group has defined a capital planning and stress process, to serve not only as a response to the various regulatory exercises, but also as a key tool integrated in the Bank’s management and strategy.

The aim of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in adverse economic scenarios. To this end, taking as a basis the Group's initial position (as defined by its financial statements, its capital base, its risk parameters and its regulatory ratios), estimates are made of the expected outcomes for the Group in various business environments (including severe recessions as well as “normal” macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The process implemented provides a comprehensive view of the Group’s capital for the time horizon analysed and in each of the scenarios defined. The analysis incorporates regulatory capital, economic capital and available capital metrics.

The Group's total on-balance-sheet equity amounted to EUR 88,040 million, up 9% year on year. This performance was due to the capital increase of EUR 7,500 million that took place in January and to the profit for the year, the effect of which was reduced in part by the adverse change in valuation adjustments.

In regulatory terms, phase-in eligible capital stood at EUR 84,346 million, equivalent to a total capital ratio of 14.40% and a Common Equity Tier 1 (CET1) ratio of 12.55%. This ratio stands 280 basis points above the 9.75% minimum that the European Central Bank (as part of its Supervisory Review and Evaluation Process (SREP)) set for Santander Group on a consolidated basis (including the 0.25% resulting from its status as a global systemically important financial institution) for 2016.

In fully-loaded terms, the CET1 ratio was 10.05% at 2015 year-end. This represents a 40 basis points increase in the year (disregarding the capital increase).

The fully-loaded total capital ratio was 13.05%, up 130 basis points in the year, adding the aforementioned increase in CET1 ratio to the positive impact of the eligibility of the hybrid securities issues launched.

Further information on capital, capital requirements and capital adequacy ratios, as well as the Group's management policies and criteria, can be found in Notes 1.e and 54 to the consolidated financial statements and also in the disclosure of prudential information that is published annually.

4. RISKS

The Group's business is exposed to the same risks as those faced by other financial institutions; risks that could have a material adverse impact on it if they occur.

The Group's geographical diversification means that it is sensitive to the economic conditions in continental Europe, the United Kingdom, the United States, Brazil and other Latin American countries.

The Group's ordinary business is also subject to other factors, such as strong competition, market volatility, the cyclical nature of some businesses, market, liquidity and operational risk, losses due to litigation and regulatory and other proceedings, which may negatively affect the Group's earnings, its rating and/or funding costs, including risks not identified or envisaged in the Group's risk management methods, policies and procedures.

The Group's risk policy focuses on maintaining a predictable medium-low risk profile for all its risks, and its risk management model is a key factor in achieving the Group's strategic objectives.

Santander Group aims to construct the future through the early management of all risks and the protection of the present using a robust control environment. Thus, the Group has calculated that the risk function should be based on the following cornerstones, which are in line with Santander Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

- The business strategy is defined by the risk appetite. Santander Group's board calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and its deployment in objective verifiable limits that are consistent with the risk appetite for each significant activity.

- All risks must be managed by the units that generate them using advanced models and tools and integrated in the various businesses. Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

- A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

- The independence of the risk function encompasses all risks and appropriately separates the risk generating units from those responsible for risk control. This involves having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.

- The best processes and infrastructure must be used for risk management. Santander Group aims to be the benchmark model for the development of infrastructure and processes to support risk management.

- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. Santander Group understands that advanced risk management cannot be attained without a strong, constant risk culture that is present in each and every one of its activities.

The main risks that the Group faces and the policies and methodologies used to control, manage and mitigate them are described in the notes to the accompanying consolidated financial statements, mainly Note 54. The notes include information on credit risk, market risk, operational risk, country-risk, compliance and reputational risk, foreclosures, restructuring and refinancing transactions and risk concentration.

The Bank's senior management considers that within the intrinsic risks of the banking business, in recent years the emerging risks have been those related to the macroeconomic environment, regulatory change and reputational and conduct risk. The treatment and mitigating actions for these risks are also described in Note 54 to the accompanying consolidated financial statements.

5. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant events occurred from 1 January 2016 to the date on which these consolidated financial statements were authorised for issue.

6. INFORMATION ON THE OUTLOOK FOR THE ENTITY

The directors' report contains certain prospective information that reflects the plans, forecasts and estimates of the Bank's directors which are based on assumptions that they consider to be reasonable. However, users of this report should bear in mind that prospective information should not be viewed as a guarantee of the Bank's future performance, since these plans, forecasts and estimates are subject to numerous risks and uncertainties which mean that the future performance of the Bank need not necessarily match that initially anticipated. These risks and uncertainties are described in the Risks section of this directors' report and in Note 54 to the financial statements.

According to the International Monetary Fund, the outlook for the world economy in 2016 is for growth of somewhat in excess of 3%, underpinned by a slight improvement in the advanced economies and stability in the emerging economies.

The advanced economies have recorded a clear, albeit gradual improvement in recent years, which will continue in 2016. Easier financial conditions, fiscal policy that is no longer contracting, balance-sheet adjustments and the price of commodities are the reasons for this improvement. However, not all these economies are in the same position.

The United States and the United Kingdom are in a relatively advanced phase of the cycle, with projected growth rates of around 2%, which is similar to or somewhat above their potential, and their unemployment rates are practically at levels of full employment. Despite this, so far there is no apparent pressure on prices.

The euro area is at a more incipient stage of recovery with a trend of accelerating growth (expected growth of 1.7% in 2016) although the unemployment rate is still high, and both current inflation and the medium-term forecasts are still off target.

In addition, various different situations coexist within the euro area. For example, Germany is working at full capacity (its cyclical position is closer to those of the US or the UK) and will grow at a rate of at least 1.5%, somewhat above potential. Spain will continue to show notable dynamism, with projected growth rates of close to 3%.

The emerging economies as a whole will maintain growth of around 4%, according to the IMF's latest projections. Various factors explain these developments: the gradual slowdown in China, where the sustainable growth rate has fallen, low commodity prices and a certain tightening of financial conditions tied to the beginning of the Fed's rate rise process.

This situation varies considerably depending on each country's sensitivity to the factors outlined above, the accumulated imbalances of recent years and the ability to apply the appropriate policies.

Latin America could again post zero or slightly negative growth in 2016, though this conceals different situations. Brazil will continue to be in recession, Argentina will undertake profound reforms and Chile and Mexico expect to see growth of around 2-3%, relatively modest rates due to the adverse international environment -especially for Mexico-. Growth in Poland is expected to once again exceed 3%, with a new executive considering more expansive policies.

The expansionary impact of the fall in commodity prices in advanced countries and the monetary and fiscal policy stimulus -or weaker adjustment- measures in China, the US, Japan and the euro area enable the risk to growth and the risk of deflation to be mitigated.

However, as in recent years, the risk balance continues to be downward, albeit less steep, and economic policies allow limited room for manoeuvre.

The risks are fundamentally related to how events unfold in (i) China, with its ability to sustain growth rates above 6% at the same time as it adjusts its imbalances, (ii) the Fed's success in gradually progressing in the normalisation of its monetary policy, (iii) the stabilisation of commodities prices, (iv) the provision of liquidity to avoid sharp adjustments in the markets, (v) the ECB's determination to handle potential shocks and other more local events that might have international repercussions.

The emerging economies are more sensitive to most of these risks than the advanced economies, which started to correct their imbalances earlier.

Interest will in general remain at very low levels. However, the process of raising interest rates that started in the US at the end of 2015 is expected to gradually continue and to have a drag-along effect on other economies, particularly in Latin America. The UK could also increase official interest rates slightly in the second half of 2016. Conversely, the euro area, Japan and other Asian countries will maintain or extend the expansionary bias of their monetary policies in order to foster growth in a context of zero or very low inflation.

Bank lending as a whole will continue to show moderate growth rates although in general rates should be higher than in previous years in the advanced economies. In the Latin American economies, the outlook is more varied, although the growth rates are more moderate than in previous years. Lending in Chile and Mexico could achieve rates similar to those of 2015, while the banking system in Brazil will be more cautious.

The Group is facing this environment after a year that ended with increases in engaged customers, in volume in most countries, and in profit. In 2015 Santander improved loan quality and attained the capital target set at the beginning of the year.

The Bank's ultimate commitment is to become the best bank for individuals and companies, earning the confidence of and long-lasting relationships with its employees, customers, shareholders and society. The Group's commercial transformation will continue with the aim of improving the return on capital employed.

In order to achieve this the focus was placed on the following strategic priorities:

1. In relation to the businesses, the Group seeks to improve the commercial franchises and customer service. In particular, it is already undertaking the transformation of commercial banking, growing in SMEs and companies and in consumer finance. In general, there is an opportunity to gain business share in many of the markets in which the Group operates.

2. Continuing to have one of the best efficiency ratios in the industry. With lower interest rates and moderate growth in certain countries, it is essential to do more at a lower cost in order to improve returns. To this end, on Investor Day it was announced that the savings under the efficiency plan, which was expected to end in 2016 and will now end in 2018, would be increased from EUR 2,000 million to EUR 3,000 million.
3. Best in class efficiency must go hand in hand with operational excellence which implies the digital transformation of the Bank: a simplification of internal processes that help the Group to be more efficient and to provide better customer service.

4. The more efficient use of capital has been a growing priority in recent years. In view of the higher capital requirements for banking, it is essential to optimise the use of risk-weighted assets.

5. The reinforcement of risk management, a traditional priority in well-managed entities, has also become more important in the current environment. Significant measures have been launched in the last two years on which work will continue. The most notable of these measures is the fostering of local implementation of the risk appetite at the Group units and the launch of the Advanced Risk Management Programme (ARM), with which Santander's aims to construct its future through the timely management of all risks.

6. In order to implement all these strategies it is necessary to have employees who are qualified, motivated and aligned with the Bank's policies. The improvement of human resources management is fundamental, and the Group is carrying this out through a new talent management model to enable it to identify and harness employees' potential, thus pursuing Santander's objective of being a better place to work.

7. And finally, as a result of all these strategic actions, Santander expects to achieve higher returns for shareholders. As has already been announced to the market, the Group aims to position the return on tangible equity at 13% by 2018, improve the efficiency ratio, increase dividends in line with the Group's profits and pay them largely in cash. All of which is compatible with an increase in capital ratios. Specifically, at the latest Investor Day, Santander announced its objective of achieving a fully-loaded CET1 capital ratio of 11% in 2018.

Following is a brief description of the management priorities of the main units in 2016, starting with the main units in Europe, followed by those in America:

Europe

United Kingdom. The economy will continue to grow at a good clip although this growth will be supported to a lesser extent by consumption. There will be a moderate recovery in credit, but loan balances to companies will continue to be weak.

Against this backdrop, the Bank will continue to seek excellence by prioritising customers' needs. To this end, the following strategic lines of action have been set:

- Increasing lending to companies at better than market rates and growing mortgages in line with the market.

- In deposits, the Bank will continue to build on its primacy through a differentiated service proposal, leading technology and a complete service offering for UK companies.

- Improving operational activity while optimising Santander's simplified and innovative product range, obtaining greater benefits from digitization and a platform that adapts to growth, and the commercial network capacity already installed.

- Maintaining good loan quality in all portfolios and continuing the Bank's ongoing efforts to maintain the strength of the balance sheet.

Spain. GDP growth will continue to be among the highest in Europe. A gradual recovery in credit should begin to be discernible, especially in lending to consumers and companies, although overall growth will be slight, still held back by mortgages.

In this connection, Santander seeks to have a larger presence and to offer better service quality, to which end the following priorities were set:

- To continue to focus on the creation of long-term relationships with customers, supported by the 123 account.

- To improve customer satisfaction.

- To gain market share in SMEs.

- To continue to improve the cost of credit.

- To make progress in the Bank's digital transformation.

The real estate operations segment in Spain will maintain its strategy of reducing assets, mainly reducing exposure to credits.

Santander Consumer Finance. Taking advantage of its positioning in the European consumer finance market, this area aims to complete the scheduled joint venture processes and take advantage of their growth potential. Its priorities will be centred on:

- Increasing and improving the vehicle financing business through agreements with brands, increasing its presence and customer loyalty.

- Completing the integration agreement with Banque PSA Finance, which encompasses eleven geographical areas overall and will add a portfolio of more than EUR 20,000 million to the Group.

- Strengthening the consumer business through pan-European agreements and increasing its presence through digital channels.

Portugal. With the economy returning to a higher rate of growth, underpinned by domestic demand and a banking sector still undergoing deleveraging, in 2016 Santander will focus on:

- Managing the integration of the customers and volumes acquired from Banco Internacional do Funchal (Banif).

- Increasing the number of loyal digital customers, boosting multichannel banking.

- Improving efficiency levels and maintaining the process of normalisation of funding costs and the cost of credit.

Poland. The leadership position in profitability and digital services allows the following targets to be set for the year:

- Making progress in the digital transformation of the distribution network while maintaining the leadership of the digital channels in Poland.

- Improving efficiency and profitability in order to attain the long-term targets set.

- Increasing market share in a way that is compatible with a reduction in the non-performing loans ratios.

- Boosting growth in companies through a renewed value proposition.
- Continuing to focus on customer satisfaction and on increasing the loyalty of retail customers.

Americas

Brazil. Against a backdrop of macroeconomic recession, Santander is consolidating its leadership in the Corporate Global Banking, companies and consumer banking segments in the Brazilian market. Following the change in the portfolio mix towards lower-risk products, the bank is facing the following challenges in 2016:

- Continuing with the controlled costs and strict management of the entire risk cycle, from approval to recovery.
- Growing selectively, harnessing greater digitization and multichannel banking.
- Simplifying processes optimising quality in customer relations.

Mexico. In a market of moderate growth and good commercial dynamic, Santander should harness its market-share gains in key segments (SMEs, companies and mortgages) to consolidate its position. The key management matters in 2016 will be:

- To continue to strengthen its businesses in the target segments: SMEs, companies and mortgages.
- To attract customers with high potential and increase their loyalty.
- To boost innovation and multichannel banking through the development of digital platforms.

Chile. In a recovering economy in a less favourable external environment, the bank's strategy will focus on:

- Improving the quality of customer service, which will lead to an improvement in loyalty.
- Continuing with the transformation of commercial banking, refurbishing the branches and making a commitment to multichannel banking.
- Gaining market share in target segments, focusing on those that use digital channels.

Argentina. Banco Santander Río S.A., the leading private bank in the country in terms of volumes, will consolidate its leadership position in an environment characterised by the arrival of the new government and the execution of macroeconomic adjustments. Management priorities will centre on growing brokerage volumes with companies and families with low debt levels, continuing with the expansion plan and reaping the rewards of greater banking penetration, and developing the digital bank, offering new, better solutions for customers, increasing loyalty, digital customers and overall satisfaction.

United States. In 2016 Santander will continue to strengthen governance structures with a view to improving the management of the business and making progress vis-à-vis compliance with the regulator's requirements. The commercial management priorities by unit will be as follows:

- To improve the loyalty of Santander Bank customers and the experience provided to them by increasing multichannel banking capacity and offering more, simpler products.
- At Santander Consumer USA, to harness the potential of the agreement with Chrysler, to increase the penetration rate and to continue to optimise the mix of the assets retained and those sold.

In Puerto Rico, the priority will be the integration of the Puerto Rican entities in SHUSA. The Group will look to generate business by giving priority to target markets and always maintaining loan quality. In deposits, the strategy of retaining cheap deposits and holding appropriate levels of liquidity will be maintained.

7. RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

Innovation and technological development constitute a strategic cornerstone for Santander Group, the aim being to respond to the new challenges posed by the digital revolution with a focus on operational excellence and the customer experience.

Also, Santander, as a global systemic institution, and its individual subsidiaries are subject to increasing regulatory requirements that impact on the systems model and the underlying technology, and oblige them to make additional investment to guarantee compliance and legal security.

As a result of all of the foregoing, as in prior editions, the ranking prepared by the European Commission (The 2015 EU Industrial R&D Investment Scoreboard, with figures from 2014) recognises the entity's efforts in technology, making Santander Group the top Spanish company and the top bank worldwide by investment of capital in R&D. In 2015, technology investment in R&D+I totalled EUR 1,345 million, which represents 3% of gross income, in line with previous years.

The investment made in 2015 amounted to EUR 1,481 million (3% of gross income).

Technology strategy

Santander Group starts from a sound, robust technological position that is recognised as one of the best among banks with a global presence, the most noteworthy aspect being its global infrastructure with latest generation data processing centres (DPCs), common Partenon & Altair core banking and the powerful shared services model that facilitates knowledge specialisation and the exploitation of efficiencies in all locations.

Santander Group's technology strategy has continued to evolve, including the deployment of a latest generation technology platform to facilitate the transition to Banco Santander Digital, implementing new, more flexible and innovative ways of working and simplifying, standardising and automating the operating model. In addition, enabling the capability to act in real time and cyber security are key to the strategy.

Development of the technology platform for the digital transformation

The new technology platform will facilitate the introduction of new digital capabilities at the Group and the optimisation of technology investments, and it is characterised by:

- Design of the user experience with an omnichannel view
- Development of capabilities for mobility and integration with social networks
- Cloud services: IaaS, PaaS, etc.
- Open Source / Standard technologies
- Real time analysis & Big Data
- Focus on security (security industry standards & frameworks)
- Greater automation and agile approach.

Infrastructure

In 2015 the strategy of concentrating the Group's infrastructure in a small number of high quality, strategically located data processing centres (DPCs) was completed. There are five pairs of world class or tier IV DPCs (according to the standards of the Uptime Institute) which are close to the Group's biggest business volumes:

Boadilla and Cantabria in Spain, Campinas in Brazil, Carlton Park in the United Kingdom, and Querétaro in Mexico.

This common global infrastructure (which is connected through a proprietary communications system -GSNET-), enables not only the business and customer service to be provided with high standards of quality and efficiency, but also ensures compliance with regulatory requirements and minimises operational risk.

Also, work is continuing on the development of cloud infrastructure to complement on-line services with the new technology strategy.

Cyber security

To continue the efforts made in previous years, and to strengthen the organisation's focus on cyber security, in 2015 Santander Group rolled out the Santander Cyber Security Program (SCSP), which is aimed at both deploying more controls, tools and best practices to protect the Group's IT assets (cyber security) and developing advanced capabilities to detect and react to attacks (cyber resilience) on the Group. The Program focuses on the following:

- Cyber resilience in infrastructure
- Internal control of cyber risks
- Awareness and specific cyber training for the whole organisation
- Security in the software development life cycle
- Definition of security architecture and framework
- Assessment and independent challenge of cyber resilience
- Cyber security project PMOs
- Response to cyber incidents
- Assessment of cyber risks in projects and at suppliers
- Cyber intelligence

The Group's subsidiaries have also participated in various local cyber exercises led and supported by government agencies in various countries. These exercises simulate cyber attacks as they would be carried out by a third party in order to check the organisation's ability to detect them and react and to strengthen the efficiency of the cooperation between entities to ensure a coordinated response to attacks.

Pillars of digitization

In addition to the aforementioned new technology platform, infrastructure development and cyber security initiatives, Santander Group fostered its digital transformation through the following pillars:

- Improving the customer experience by simplifying and reducing manual processes, the design of customer journeys and boosting Front Office investments (mobile banking, internet, new ATMs, etc.)
- Improving data quality and their exploitation (Risk Data Aggregation -RDA-, new CRM platforms, Big Data, etc.)
- Cultural change: new ways of working with a focus on innovation

Specifically, the **most noteworthy areas of progress** in 2015, by geographical area, were as follows:

- Improve the customer experience in the channels:

  - Simplification and reduction of manual processes:

    - New customer *on boarding* processes in Mexico (digital), Portugal and the United States (account opening through tablets), Brazil (accounts become operational the same day).

    - Improvements to the sales and service processes in Spain, with the roll-out of the credit card opening process.

    - Reformulation of the customer communication processes in Portugal.

    - Biometric vein recognition technology in Poland.

  - Mobile banking: one of the plans promoted by the Group is the development of applications specifically designed for smartphone and tablet devices (*MobileFirst*). The objective is for the Group's customers to have access to the services offered by the bank from wherever they are. Additionally, important agreements were established with mobile providers to promote the use of mobile devices for both the Group's employees and its customers.

    The main projects include the following:

    - *Digital Advance* Manager at Santander Spain: a telephone, a tablet and an app so that company managers can perform their functions more easily and professionally.

    - New mobile app for individuals in Portugal, Brazil and Uruguay, which is simpler to use and has more functionality, and a new app aimed at business customers, SMEs and institutions in Spain.
    - Group money management app at Santander UK called cash Kitti.

    - Also in 2015 Santander Spain launched Santander Watch, an app that lets customers consult their accounts and cards from their smartwatches.

    - Improvement of the existing mobile banking payments and services offering, the most noteworthy of which is Apple pay (payment by mobile phone) in the UK, and Santander *Wallet* in Spain, a mobile app that will gradually allow its customers, inter alia, to make payments to traders, withdraw money at ATMs and make transfers between mobile numbers. In addition, Santander Advance and Santander Elavon have launched an innovative on-line payment solution in Spain: the Virtual Advance POS terminal is a solution that lets traders make sales over the internet from any device: computer, telephone, mobile or tablet.

    - Lastly, the Group has developed several apps for employees, with various functionalities, the most noteworthy of which is the management of expenses and incidents implemented at the Corporate Centre.

  - New website in Brazil based on widgets and new internet developments in Mexico, the highlight being the development of internet banking for SMEs.

  - New ATMs in the US and the UK: the launch of *Alhambra Device Handler* as a new ATM solution.

  - New Digital Branch concept in Argentina: the first fully automated branch was opened in Buenos Aires; this maintains the entity's technology leadership in Argentina.

- Improve the quality of data and their use, not only in order to comply with regulatory requirements but also to improve knowledge of customers and detect their needs.

  - New technologies are basic elements for coping with the new requirements imposed by regulators that lead to greater legal security and greater transparency for customers and operators. A good example are the new Risk Data Aggregation (RDA) standards that require greater control and traceability of the information reported to competent bodies. For this purpose, the Group has already defined and deployed a new global architecture.

  - In 2015 new commercial platforms for managers were also deployed. These provide increased simplicity and intelligence, with 360º customer vision and, accordingly, improve commercial productivity. Most notable are the new commercial platforms in Brazil (Portal CERTO and Gerente Remoto), Argentina (CRM + Che), Spain (ADN), Poland (Neo CRM+), Chile (Neo CRM), and Mexico (Neo Júpiter), among others.

  - Highlights among the projects that use Big Data technology are the deployment of Spendlytics (personal expense management tool) in the UK, the ARCA (Automated Root Cause Analysis) project to optimise the identification of the origin of claims at the Group and comply with legislation, and Santander Spain's digital Command Centre, which enables to Bank's customers' digital behaviour to be monitored on line (transaction volume, impact of advertising in digital channels, etc.).

- In addition, the Group is rolling out new work models based on *AGILE* principles, which involve close cooperation between business and technology, with multidisciplinary teams seeking new customer experience designs. The first countries to implement these models were Argentina, the United Kingdom, Mexico, Poland and Spain.

- Lastly, Banco Santander is positioning itself in the Fintech (*Financial Technology*) space as an innovative bank that is a benchmark in the industry. As a result of this positioning, in June 2015 a presentation was given at the MoneyConf in Belfast on the Santander Manifiesto, which stated that the best way to overcome the challenges posed by the new digital economy is cooperation between banks and fintech, called "Fintech 2.0".

  In order to develop this strategy, which goes beyond the digitization of daily operations, the Bank is working on more innovative and disruptive aspects through the global innovation unit, which has the rank of executive vice president, reports directly to the Chair and has a venture capital arm (Santander Innoventures) that invests in start-ups.

  Santander InnoVentures is Santander's corporate venture capital fund. It was launched in July 2014 with USD 100 million with the aim of putting Santander in the middle of the wave of disruptive innovation in the FinTech space.

  Santander InnoVentures aims to be part of the digital revolution and enable Santander customers around the world to benefit from the latest know-how and innovations in the financial services industry.

  The Fund takes non-controlling interests in the share capital of start-ups in the financial services industry, helping them to grow and, at the same time, attempting to learn about the developing new technologies in order to make them useful for the Group and its customers. In addition, the Fund is part of the Santander Group's innovation agenda, since it enables bi-directional synergies to be obtained.

8. ACQUISITIONS AND DISPOSALS OF TREASURY SHARES

The Bank amended its policy on treasury shares in a board resolution adopted on 23 October 2014, taking into account the criteria recommended by the CNMV. Transactions involving the purchase and sale of treasury stock by the Company or other companies controlled by it will conform to the provisions of current legislation and the relevant resolutions of the general meeting.

Treasury stock trading will be used to:

- Provide liquidity or a supply of securities, as appropriate, in markets where the Bank’s shares are traded, giving depth to that market and minimising any potential temporary imbalances between supply and demand.

- Take advantage, to the benefit of shareholders as a whole, of situations of share price weakness in relation to expectations of medium-term performance.

Treasury stock trading will be undertaken by the department of investments and holdings, as a separate area isolated from the rest of the bank’s activities and protected by the respective Chinese walls, to prevent any insider or material information being available to it. The head of the department will be responsible for treasury stock management.

Treasury stock trading will be subject to the following general rules:

- Its purpose will not be to intervene in the free formation of prices.

- It may not take place if the unit responsible for executing the trade is in possession of insider or material information.

- Where applicable, share repurchase and acquisition programmes to cover Bank or Group obligations will be permitted.

At 31 December 2015, the Group held 40,291,209 of its own shares, representing 0.279% of the share capital at year-end; at 31 December 2014 the figure was 1,465,371 shares, 0.012% of the Bank's share capital at that date.

The transactions with treasury shares performed in the Group's interest by the consolidated companies in 2015 involved the acquisition of 537,314,450 shares, at an average purchase price of EUR 6.00 per share, signifying an effective amount of EUR 3,224.9 million.

498,488,612 shares were sold at an average sale price of EUR 6.12 per share, giving an effective amount of EUR 3,048.3 million.

The effect on equity, net of tax, of transactions performed in 2014 involving shares issued by the Bank, was a gain of EUR 16 million, which was recognised in the Group's equity under Shareholders' equity - Reserves. The effect on earnings per share was immaterial.

Note 34 to the accompanying consolidated financial statements and sections A.8 and A.9 of the corporate governance report provide further information about the policy on treasury stock and the acquisition and disposal of treasury shares.

9. OTHER SALIENT INFORMATION

9.1 Stock market information

Santander shares are listed on the electronic market of the Spanish stock exchanges, and on the stock exchanges of New York, London, Milan, Lisbon, Warsaw, Sao Paulo, Mexico and Buenos Aires.

At 31 December 2015, the shares of Banco Santander Río S.A.; Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México; Banco Santander-Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A.; Bank Zachodni WBK S.A.; and Santander Consumer USA Holdings Inc. were listed on official stock markets.

The total number of shareholders at 31 December 2015 was 3,573,277, of which 3,345,889 were European shareholders controlling 82.4% of the share capital, 210,940 were American shareholders with 17.1% of the share capital and 16,448 shareholders in the rest of the world with 0.5% of the share capital.

At 2015 year-end, Banco Santander occupied first place in the euro area and 19th place in the world by market value, with a capitalisation of EUR 65,792 million.

It should be noted that Banco Santander is the most liquid entity in the EuroStoxx index, with 26,556 million shares traded in the year for an effective value of EUR 158,084 million, with a liquidity ratio of 187%. A daily average of 103.7 million shares were traded for an effective amount of EUR 617.5 million.

The performance of Santander's share price was clearly different in the first and second halves of the year.

In the first half of the year, and more specifically in April, a record market capitalisation of EUR 100,000 million was set. This amount is 16% above the market capitalisation before the capital increase. However, in the second half of the year, the performance of the share price was heavily affected by the macroeconomic situation in the emerging markets, especially Brazil.

The total shareholder return since the capital increase, taking into account the change in the share price and the shareholder pay-out (with dividend reinvestment), was -18%. In the same period, the total return on the main global banking index, MSCI World Banks, was -5%.

Santander shares

	2015	2014
Shareholders and shares		
Shareholders (number)	3,573,277	3,240,395
Number of shares (millions)	14,434.5	12,584.4
Market price (euros)		
Closing price	4.558	6.996
Variation in price	-34.8%	+7.5%
Period high	7.169	7.960
Date of period high	07-04-15	04-09-14
Period low	4.445	6.201
Date of period low	14-12-15	04-02-14
Period average	5.947	7.121
Market capitalisation at period end (millions)	65,792.4	88,040.6
Trading		
Total volume of securities traded (millions)	26,556	19,722
Daily average volume of securities traded (millions)	103.7	77.3
Effective total traded (millions of euros)	158,084	139,782
Daily effective average traded (millions of euros)	617.5	548.2
Ratios		
PER (price / earnings per share) (times)	10.23	14.59
Price / Shareholders' equity per share (times)	0.75	1.09
Shareholders' equity per share (euro)	6.12	6.42
Ordinary RoE (attributable profit / average shareholders' equity)	7.2	7.0

9.2 Dividend policy

Under the Bank's Bylaws, the policy on shareholder remuneration is submitted to the general meeting for approval each year. Pursuant to this policy, the Bank habitually remunerates the shareholders on a quarterly basis.

In 2014 the Bank paid its shareholders approximately EUR 0.60 per share through a remuneration scheme called Santander Dividendo Elección whereby shareholders could choose either to receive the dividend amount in cash or in Santander shares. The average percentage accepting payment of the four dividends in shares was 85.21%.

Together with the aforementioned capital increase carried out in early 2015, Banco Santander decided to reformulate its dividend policy. Thus, in view of the improvement in the economic growth scenario and the change in the tax legislation in Spain, the board of directors intend the remuneration out of the profit for 2015 to be EUR 0.20 per share, which would be paid, as always, in four payments, of which three would be received in cash and the other in shares or cash at the shareholder's discretion. At year-end prices, this dividend represents a return of 4.4%.

With respect to 2015, EUR 0.05 per share have already been paid on the dates when the first three interim dividends are usually paid (July/August, October/November and January/February). The Santander Dividendo Elección scrip dividend scheme was applied to the second interim dividend, and the percentage accepting payment in shares was 84.79%. The remaining EUR 0.05 per share will foreseeably be paid in April/May.

Therefore, the total amount for 2015 to be paid in cash will be EUR 2,268 million, compared to EUR 1,143 million for 2014.

In the coming years, changes in the dividend will be commensurate with growth in earnings, with the objective of the cash pay-out representing between 30% and 40% of recurring profit, instead of 20% at present.
The system of shareholder remuneration is described in Note 4 to the accompanying consolidated financial statements.

9.3 Credit rating management

The Group's access to the wholesale financing markets and the cost of the issues depends partly on credit ratings awarded by rating agencies.

The rating agencies regularly review the Group's ratings. The classification of debt depends on a series of internal factors (the Bank's solvency, business model, capacity to generate profits, etc.) and other external factors related to the general economic environment, the situation in the industry and the sovereign risk of the countries where the Bank operates.

In 2015:

- Moody's raised the long-term senior debt rating from Baa1 to A3 and changed the outlook from stable to positive.

- Standard & Poor's upgraded the long-term senior debt rating from BBB+ to A-.

- GBB raised the rating from A+ to AA- with positive outlook.

- The Scope agency also upgraded the long-term senior debt rating to A+.

- DBRS confirmed its ratings with stable outlook.

Rating agency. Santander Group

	Long-term	Short-term
DBRS	A	R1 (low)
Fitch Ratings	A-	F2
GBB Ratings	AA-	
Moody's	A3	P-2
Standard & Poor's	A-	A-2
Scope	A+	S-1

9.4 Branch network

The Group has a network of 13,030 branch offices, making it the international bank with the largest commercial network. Most of these are non-specialised branches, although the Group also has branches that offer specialised services to certain customer segments.

These branches include most notably the 800-plus branches dedicated to consumer credit business, both those of Santander Consumer Finance in Europe and the specialised entities in Latin American countries. There are also branches dedicated to SMEs in various countries, which have been reinforced by the roll out in the Group's main geographical areas over the last two years of the *Advance* programme, together with own branches or specific areas in universal branches for the *Select* high income segment. The Group also has specialised offices for private banking, or for particular sectors of the population, such as universities.

In 2015 the network recorded an increase of 79 branches, mainly due to the addition of 158 in Portugal as a result of the integration in December of Banco Internacional do Funchal (Banif). In general, there were increases in the Latin American countries (except Chile) resulting from the expansion plans implemented (Mexico and Argentina), organic growth (Brazil) or inorganic growth processes (Uruguay). Conversely, there were falls in Spain, Poland and the United States, in general related to efficiency improvement and digitization processes. These changes are in line with the remodelling and specialisation of branches to provide a better customer service, as mentioned above.

The Group is making progress in digitization, but without losing the essence of a bank. The branches will continue to be an important channel for customers, and will engage in sales of more complex products and counselling.

ANNUAL CORPORATE GOVERNANCE REPORT

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
4/11/2015	7,217,246,289.50	14,434,492,579	14,434,492,579

Indicate whether different types of shares exist with different associated rights:

Yes ☐ **No** ☒

At 31 December 2015, the Bank's share capital is represented by 14,434,492,579 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

At 31 December 2015, the only shareholders on record in the Bank's register of shareholders who held an interest in excess of 3% were State Street Bank and Trust Company (12.62%); The Bank of New York Mellon Corporation (6.05%); Chase Nominees Limited (4.84%); EC Nominees Limited,(3.99%); Société Générale (3.81%), Clearstream Banking S.A. (3.50%) and Guaranty Nominees Limited (3.23%).[1]

However, the Bank believes that those interests are held in custody on behalf of third parties, none of whom, as far as the Bank is aware, holds an interest in excess of 3%[2] in capital or voting rights.

At 31 December 2015 there was no record in the Bank's register of shareholders of owners of shares who were resident in tax havens with an interest in excess of 1% of share capital.

1 Although it thus appears in the information available on Banco Santander on the CNMV website (www.cnmv.es), it is to be noted that Blackrock Inc was not as at 31 December 2015 on record in the Bank's register of shareholders as holding an interest in excess of 3% of voting rights.

2 The threshold set out in Royal Decree 1362/2007 of 19 October to define the concept of a significant interest.

Indicate the most significant movements in the shareholder structure during the year:

In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November, with the issuance of 1,213,592,234, 262,578,993, 256,046,919 and 117,859,774 new shares, representing 9.64%, 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014. The first increase arose through the accelerated bookbuilding and the last three within the framework of the Santander Scrip Dividend programme. All this entailed a total increase in share capital equal to 14.7% in comparison with share capital at year-end 2014.

	No. of shares	**% of share capital.***
9 January	1,213,592,234	9.64
29 January	262,578,993	2.09
29 April	256,046,919	2.03
4 November	117,859,774	0.94
Total	**1,850,077,920**	**14.70**

* Share capital at year-end 2014.

The Bank's share capital at 31 December 2015 was represented by 14,434,492,579 shares.

A.3 Complete the following tables on company directors holding voting rights through company shares:

Below is a breakdown of the interests of directors at 31 December 2015.

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder *	Number of voting rights	
Ms. Ana Botín-Sanz de Sautuola y O'Shea	219,828[1]	N/A	17,502,582[1]	0.123%
Mr. José Antonio Álvarez Álvarez	438,930	N/A	1,287	0.003%
Mr. Bruce Carnegie-Brown	10,099	N/A	-	0.000%
Mr. Rodrigo Echenique Gordillo	665,153	N/A	14,023	0.005%
Mr. Matías Rodríguez Inciarte	1,327,697	N/A	306,729	0.011%
Mr. Guillermo de la Dehesa Romero	143	N/A	-	0.000%
Mr. Ignacio Benjumea Cabeza de Vaca[2]	2,926,372	N/A	-	0.020%
Mr. Javier Botín-Sanz de Sautuola y O'Shea	4,793,481[1]	N/A	68,139,712[1]	0.505%
Ms. Sol Daurella Comadrán	949	N/A	412,521	0.003%
Mr. Carlos Fernández González	15,839,714	N/A	-	0.110%
Ms. Esther Giménez-Salinas i Colomer	5,344	N/A	-	0.000%
Mr. Ángel Jado Becerro de Bengoa	2,200,000	N/A	5,100,000	0.051%
Ms. Belén Romana García[2]	149	N/A	-	0.000%
Ms. Isabel Tocino Biscarolasaga	207,511	N/A	-	0.001%
Mr. Juan Miguel Villar Mir	1,186	N/A	-	0.000%

% total voting rights held by the board of directors	0.709%

1. Syndicated shares.
2. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively.

Complete the following tables on share options held by directors:

The Bank's shareholders, at their general meetings of 17 June 2011, 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, respectively, adopted the five cycles of the deferred and conditional variable pay scheme in which executive directors participate up until 2015.

An overview of these schemes is set out below. For further information, see notes 5 and 47 of the notes to the Group's accounts.

a) Deferred conditional variable remuneration plan (bonuses)

At the general meeting of 17 June 2011, the shareholders adopted the first cycle of the deferred conditional variable remuneration plan in relation to bonuses for 2011 for executive directors and certain executives (including senior management) and employees who take risks, exercise control functions or receive all-in pay in amounts that include them within the same pay scale as that of senior managers and risk-taking employees (all of whom are termed as "identified staff" in accordance with the Guidelines on Remuneration Policies and Practices adopted by the Committee of European Banking Supervisors on 10 December 2010 for 2013; in 2014, in accordance with Article 92(2) of Directive 2013/36/EU of 26 June 2013 and its implementing legislation; and, in 2015, in

* The "Direct shareholder" box does not apply, since at year-end 2015 there were no direct holders of shares with voting rights with a holding in excess of 3% of total voting rights, or in excess of 1% for residents of tax havens.

accordance with article 32(1) of the Spanish Banking Law [Ley 10/2014] and its implementing legislation.)

The purpose of these cycles is to defer a portion of the bonus of the plan beneficiaries over a period of three to five years for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles. For further information, see note 5 to the Group's accounts.

2011 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.002%
Mr. José Antonio Álvarez Álvarez	96,116	96,116	192,232	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	125,756	188,634	314,390	0.002%
Mr. Juan Rodríguez Inciarte	73,380	110,070	183,450	0.001%
Mr. Javier Marín Romano (**)	77,882	77,882	155,764	0.001%
Total	**467,136**	**613,704**	**1,080,840**	**0.007%**
(*) Over 3 years, 2013, 2014 and 2015, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the first cycle. The immediate payment and the tranches for 2013, 2014 and 2015 were paid on the scheduled dates.				
(**) Stepped down as a director with effect on 12 January 2015.				
The first cycle has already delivered all shares as at 31 December 2015. Hence none of the above amounts represents a right over shares as at that date.				

2012 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.001%
Mr. José Antonio Álvarez Álvarez	72,140	72,140	144,280	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	83,059	124,589	207,648	0.001%
Mr. Juan Rodríguez Inciarte	48,466	72,699	121,165	0.001%
Mr. Javier Marín Romano (**)	58,454	58,454	116,908	0.001%
Total	**332,035**	**432,756**	**764,791**	**0.005%**
(*) Over 3 years, 2014, 2015 and 2016, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the second cycle. The immediate payment and the tranches for 2014 and 2015 were paid on the scheduled dates.				
(**) Stepped down as a director with effect on 12 January 2015.				
Part of the shares have already been delivered in respect of the second cycle as at 31 December 2015. Only a third of the shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.				

2013 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0.001%
Mr. José Antonio Álvarez Álvarez	58,681	58,681	117,362	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	69,092	103,639	172,731	0.001%
Mr. Juan Rodríguez Inciarte	44,299	66,448	110,747	0.001%
Mr. Javier Marín Romano (**)	74,850	112,275	187,125	0.001%
Total	**313,163**	**440,405**	**753,568**	**0.005%**

(*) Over 3 years, 2015, 2016 and 2017, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the third cycle. The immediate payment and the tranche for 2015 were paid on the scheduled dates.

(**) Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the third cycle as at 31 December 2015. Two thirds of the shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

2014 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	0.002%
Mr. José Antonio Álvarez Álvarez	78,726	78,726	157,452	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	92,726	139,088	231,814	0.002%
Mr. Juan Rodríguez Inciarte	71,872	107,808	179,680	0.001%
Mr. Javier Marín Romano (**)	128,225	192,338	320,563	0.002%
Total	**493,178**	**700,404**	**1,193,582**	**0.008%**

(*) Over 3 years, 2016, 2017 and 2018, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the fourth cycle. The immediate payment tranche (2015) was paid on the scheduled date.

(**) Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the fourth cycle as at 31 December 2015. The shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

2015 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	211,534	317,300	528,834	0.004%
Mr. José Antonio Álvarez Álvarez	140,609	210,914	351,523	0.002%
Mr. Rodrigo Echenique Gordillo	104,155	156,233	260,388	0.002%
Mr. Matías Rodríguez Inciarte	144,447	216,671	361,118	0.003%
Mr. Juan Rodríguez Inciarte (***)	55,402	83,103	138,505	0.001%
Mr. Javier Marín Romano (**)	0	0	0	0.000%
Total	**656,147**	**984,221**	**1,640,368**	**0.011%**

(*) Over 5 years, 2017, 2018, 2019 and 2020, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the fifth cycle. None of the tranches had been paid out as at 31 December 2015.

(**) Stepped down as a director with effect on 12 January 2015.

(***) Ceased to be a member of the board on 30 June 2015 and senior executive vice president on 1 January 2016. The number of shares stated is that owed to him as executive director.

All the rights relating to the 2015 bonuses were pending delivery as at 31 December 2015.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing - in the opinion of the board of directors following a proposal of the remuneration committee - in relation to the corresponding year in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall in each case be governed by the rules of the relevant plan cycle.

The board, upon a proposal laid before it by the appointments and remuneration committee (now the remuneration committee), based on the extent of fulfilment of those conditions, will from time to time determine the specific amount to be paid of deferred remuneration.

If the above circumstances are not present on each anniversary, the beneficiaries will be paid the cash and the shares in thirds, within the thirty days following the first, second and third anniversary.

On the occasion of each payment of shares and cash, each beneficiary will be paid a cash amount equal to the dividends earned by those shares and interest earned on the cash amount, in both cases as from the initial date to the date of payment of the shares and cash in each applicable event. If the *Santander Dividendo Elección* scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares.

Beneficiaries receiving shares may not transfer them or hedge them directly or indirectly for one year from each delivery of shares. Neither may they give effect to direct or indirect hedges of the shares before they are delivered.

b) Performance share plan (ILP) 2014

From 2014 onwards the variable remuneration to identified staff includes a long-term incentive. At the general meeting of 28 March 2014 the shareholders adopted the first cycle of the performance share plan, the purpose of which is to give shape to the variable remuneration element for identified staff, consisting of that long-term incentive, to be received, if appropriate, fully in the form of shares and based on the Bank's performance over a period of several years. This performance shares plan cycle encompasses 2014, 2015, 2016 and 2017 as the reference period for determining fulfilment of the targets to which the ILP is subject, without prejudice to deferral on the terms set out below.

The board, in response to a proposal laid before it by the remuneration committee, has set the maximum number of shares which executive directors of the Bank may receive under the ILP for 2014 in each of the years indicated, based on a percentage of 15% of their reference bonus as at the date of adoption of the first cycle of the scheme. These amounts have been determined by applying to that 15% of the reference bonus a percentage of 100%, by reason of the total shareholder return for the Bank in 2014 having placed in fourth position in relation to a benchmark group of 15 competing banks.

2014 ILP	**Max No. 2016**	**Max No. 2017**	**Max No. 2018**	**Max. % of total voting rights (*)**
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	20,798	20,798	20,799	0.000%
Mr. José Antonio Álvarez Álvarez	16,327	16,327	16,328	0.000%
Mr. Rodrigo Echenique Gordillo	-	-	-	0.000%
Mr. Matías Rodríguez Inciarte	25,218	25,218	25,219	0.001%
Mr. Juan Rodríguez Inciarte	17,782	17,782	17,782	0.000%
Mr. Javier Marín Romano (**)	21,823	21,823	21,824	0.000%
Total	**101,948**	**101,948**	**101,952**	**0.002%**

(*) Maximum percentage of shares that may be received in 3 years (2016, 2017 and 2018) with respect to the Bank's share capital at 31 December 2015, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for each annual amount of the ILP for this first cycle of the scheme.
(**) Stepped down as a director with effect on 12 January 2015.

As shown in the table, the maximum number of shares for each director thus determined is deferred by thirds over a period of 3 years, and paid, if appropriate, within the month of June 2016, 2017 and 2018, based on the position of the Bank's total return to shareholders with respect to the benchmark group referred to above. That position will determine the number of shares to be received, as the case may be, in each of those years, subject to the maximum amount indicated earlier.

c) Performance share plan (ILP) 2015

At the general meeting of 27 March 2015 the shareholders adopted the second cycle of the performance shares plan. The maximum reference value of the ILP for executive directors was set by the board, in response to a proposal laid before it by the remuneration committee, at an amount equal to 20% of the benchmark bonus for 2015. Based on that figure there was determined for each director an ILP amount (the “Agreed ILP Amount”) having regard to the performance of two indicators (earnings per share, EPS, and return on tangible equity, ROTE) during 2015, as set out in the following table:

2015 ILP	**Maximum number of shares (*)**	**Max. % of total voting rights**
Ms. Ana Botín-Sanz de Sautuola y O’Shea	184,337	0.001%
Mr. Jose Antonio Alvarez Alvarez	124,427	0.001%
Mr. Rodrigo Echenique Gordillo	92,168	0.001%
Mr. Matías Rodríguez Inciarte	143,782	0.001%
Mr. Juan Rodríguez Inciarte (**)	50,693	0.000%
Mr. Javier Marín Romano	-	0.000%
Total	**595,407**	**0.004%**

(*) Agreed ILP Amount in shares = 91.50% (fulfilment of ROTE and EPS) x ILP benchmark value / 3.971 (reference share price resulting from the 15 stock exchange sessions prior to 26 January 2016, the date on which the board decided on the bonus for executive directors for 2015)
(**) Ceased to be a member of the board on 30 June 2015 and senior executive vice president on 1 January 2016. The number of shares stated is that owed to him as executive director.

The Agreed ILP Amount for each beneficiary is deferred over a period of three years and will be paid, if appropriate, in early 2019 on the basis of the extent of fulfilment of the multi-annual targets and the rest of terms of the scheme. For further information, see note 47 to the accounts of Grupo Santander for 2015.

The delivery of shares to be made on each payment date in respect of the performance shares plan for 2014 and for 2015 is subject, in addition to the requirement that the beneficiary remains in Santander Group's employ, to the absence, in the view of the board, following a proposal from the remuneration committee, of any of the following circumstances during the period prior to each of the deliveries as a result of actions carried out in 2014 or 2015, as the case may be: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, when thus recommended by the external auditors, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital* or LSC). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes [X] No [ ]

In February 2006, a shareholder agreement was entered into, that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV") as a material fact. The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

The agreement was signed by Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A. Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, and contemplates syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The syndication agreement and the introduction of restrictions on free transferability of the shares and of rules on the exercise of voting rights carried by those shares are intended to ensure that the representation and actions of the syndicate members as Bank shareholders are at all times concerted, so as to implement a durable and stable policy and preserve an effective and united presence and representation in the Bank's corporate bodies.

The chairmanship of the syndicate rests with such person as at the time is the chairman of the Fundación Botín, who is now Francisco Javier Botín-Sanz de Sautuola y O´Shea.

Syndicate members undertake to syndicate and pool their voting rights and other political rights inherent in the syndicated shares such that the exercise of those rights and, in general, the actions of syndicate members facing the Bank are concerted and consistent with the instructions, indications, principles and voting directions, which must necessarily be unified, emanating from the syndicate, and for that purpose the representation of those shares is attributed to the chairman of the syndicate as the common representative of the syndicate members.

Other than for transfers for the benefit of other syndicate members or for the benefit of the Fundación Botín, there will be required the prior authorisation of the syndicate assembly, which may freely authorise or prohibit the intended transfer.

The Bank informed the CNMV on 3 August and 19 November 2012, by means of the pertinent material fact filings, that it had been officially notified of amendments to this shareholder agreement in respect of the persons subscribing to it.

On 17 October 2013, the Bank filed a material fact with the CNMV updating the holders and distribution of the shares included in the syndication to reflect the business reorganisation of one of the parties to the agreement.

The Bank filed a material fact with the CNMV on 3 October 2014 updating the holders and the distribution of the shares included in the syndication, and changing the chair of the syndicate to Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea, present chair of the Botín Foundation, completing this information through a material fact filed on 6 February 2015.

The Bank filed respective material facts with the CNMV on 6 February and 29 May 2015 updating the holders and the distribution of shares included in the syndication, all within the framework of the inheritance process as a result of the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos.

Lastly, Banco Santander filed a material fact with the CNMV on 29 July 2015 updating the holders and the distribution of shares included in the syndication as a result of extinguishing the usufruct over the shares held by one of the parties to the agreement along with the voting rights arising therefrom, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

In all other respects the aforementioned syndication agreement remains unchanged.

The aforementioned material facts, sent to the CNMV with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 can be found on the Group's website (www.santander.com).

As at the signature of the agreement the syndication encompassed a total of 44,396,513 Bank shares (0.3075% of capital at year-end 2015). In addition, in accordance with stipulation 1 of the shareholder agreement, the syndication, with respect only to the exercise of voting rights, extends to other Bank shares which in future may be under the direct or indirect ownership of the signatories or in respect of which the signatories have had voting rights attributed to them, such that, at 31 December 2015, a further 28,536,680 shares (0.1977% of the Bank's share capital at that date) are also included in the syndicate.

Shares included in the syndication

At 31 December 2015, the agreement encompassed a total of 72,933,193 Bank shares (0.505% of its share capital), broken down as follows:

Parties to the shareholder agreement	Number of shares	% of share capital
Ms. Ana Botín-Sanz de Sautuola O'Shea[1]	8,294,091	0575%
Mr. Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709	0.1169%
Mr. Francisco Javier Botín-Sanz de Sautuola O'Shea[3]	16,290,053	0.1129%
Ms. Paloma Botín-Sanz de Sautuola O'Shea[4]	7,835,293	0.0543%
Ms. Carmen Botín-Sanz de Sautuola O'Shea	8,636,449	0.0598%
PUENTEPUMAR, S.L.	-	-
LATIMER INVERSIONES, S.L.	-	-
CRONJE, S.L., Unipersonal[5]	9,428,319	0.0653%
NUEVA AZIL, S.L.[6]	5,575,279	0.0386%
Total	**72,933,193**	**0.5053%**

1. 8,074,263 shares held indirectly through Bafimar, S.L.

2. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U
3. 4,652,747 shares held indirectly through Inversiones Zulú, S.L. and 6,794,391 shares indirectly through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares held indirectly through Bright Sky 2012, S.L.
5. Controlled by Ana Botín-Sanz de Sautiuola O´Shea.
6. Controlled by Carolina Botín-Sanz de Sautuola O´Shea.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes X No ☐

Described above.

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Described above.

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities Market Act (*Ley del Mercado de Valores*). If so, identify:

Yes ☐ **No** X

A.8 Complete the following tables on the company's treasury shares:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
16,209	40,275,000	0.279%

(*)Through:

Name or corporate name of direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	40,275,000
Total:	40,275,000

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	of total share capital [1]
22/01/2015	100,446,608	37,720,742	1.002%
21/04/2015	137,947,982	41,832,664	1.274%
14/09/2015	96,313,441	47,665,925	1.002%
30/11/2015	109,791,017	34,584,608	1.001%

1 Percentage calculated based on current share capital on the date of notification.

Pursuant to Article 40 of Royal Decree 1362/2007, the CNMV is notified of the percentage of voting rights held by the Bank when acquisitions of treasury shares are made that exceed 1% of the Company's voting rights, individually or in a series of transactions since the last communication.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the general shareholders' meeting to issue, buy back and/or transfer treasury shares.

The annual general meeting of 27 March 2015, under article 297 (1) (b) of the LSC [Ley de Sociedades de Capital] resolved to delegate to the board the power to increase share capital on one or more occasions by means of monetary contributions up to a maximum nominal amount of 3,515,146,471.50 euros (one half of the capital existing at the date of that general meeting), on such terms as the directors might think fit, while the unused portion of the earlier authorisation granted under resolution Nine (II) of the annual general meeting of 28 March 2014 was left without effect. The general meeting further authorised the board, under article 506 of the LSC, to disapply pre-emptive subscription rights in relation to share issues conducted under these delegated powers. However, this power of disapplication is limited to 20% of the Bank's existing capital as at the date of the general meeting, 27 March 2015 (1,406,058,588.50 euros). In accordance with the resolutions of the board, the time available to the directors to conduct and give effect to capital increases under these delegated powers is a period of three years, i.e., up until 27 March 2018.

Moreover, in reliance on article 297(1) (a) of the LSC, the annual general meeting of 27 March 2015 further resolved to increase the capital of the Bank by a nominal amount of 500 million euros, and delegated to the board the broadest powers to determine, within one year of the date of the general meeting, the date and terms of that increase. If within the term appointed by the general meeting for the performance of this resolution the board omits to use the powers delegated to it, those powers will be without effect.

In addition, the general meeting of 27 March 2015 resolved to delegate to the board the power to issue bonds, debentures, preference shares and other fixed income securities and analogous debt instruments (including warrants) that are convertible into and/or exchangeable for Bank shares, up to a maximum amount of one or more issues totalling 10,000 million euros or the equivalent in another currency. The time available to the Bank directors to perform this resolution ends on 27 March 2020.

At the date of this document these authorisations remained unused.

Treasury share policy

At its meeting of 23 October 2014, the board approved the current treasury share policy[1][1] taking into account the criteria recommended by the CNMV for security issuers and financial intermediaries. The treasury share policy was specified as follows:

1. Transactions involving the purchase and sale of treasury shares by the company or other companies dominated thereby must first conform to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.

2. Treasury share transactions have the following objectives, abiding by the terms here indicated and by the recommendations on discretionary treasury share transactions published by the CNMV in July 2013:

a) Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.

b) Take advantage, in benefit of shareholders as a whole, of situations of weakness in the price of the shares in relation to prospects of changes in the medium term.

3. *Transactions with treasury shares are carried out by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of such department is responsible for the management of treasury shares, as notified to the CNMV.*

To ascertain the market situation of Bank shares that department made collect data from such market members as it thinks fit, but ordinary transactions on the continuing exchange must be executed through a single market member, with notice to the CNMV.

No other unit of the Group may carry out treasury share transactions except as indicated in section 10 below.

4. *Treasury share transactions are subject to the following general guidelines:*

- *They may not be carried out for the purpose of intervening in the free formation of prices.*
- *Trading may not take place if the unit responsible for executing the trade is in possession of insider or material information.*
- *Where applicable, the execution of buy-back programmes and the acquisition of shares will be permitted to cover obligations of the Bank or the Group.*

5. *Buy orders must be formulated at a price not exceeding the greater of the following two values:*

- *The price of the latest transaction concluded on the market by independent parties.*
- *The highest price contained in buy order in the order book.*

Sell orders must be formulated at a price not lower than the lesser of the following two values:

- *The price of the latest transaction concluded on the market by independent parties.*

[1] The treasury share policy is published on the Bank's corporate website (www.santander.com).

- *The lowest price contained in sell order in the order book.*

In addition, ask and bid prices must not generate a trend in the share price.

6. *As a rule, treasury share transactions, including buy and sell orders, may not exceed 15% of daily average trading volume of purchases of Bank shares over the 30 previous market sessions of continuing exchange orders.*

That limit will be 25% if treasury shares are to be used as consideration for the acquisition of another company or for delivery in an exchange in the context of a merger process.

7. *Treasury share transactions are subject to the following time limits:*

a) Buy and sell orders may not be placed during opening or closing auctions except on justified grounds and on a basis of extreme caution to prevent such orders from decisively influencing the behaviour of the auction price. In these exceptional events: (i) the cumulative volume of buy and sell orders placed may not exceed 10% of the notional volume resulting from the auction at the time of placing the orders; and (ii) orders may not be put in on a "market" or "best price" basis other than in exceptional and properly justified circumstances.

b) Treasury share transactions may not be entered into if the Bank has decided to delay the publication and disclosure of material information in accordance with article 82.4 of the Securities Market Law [Ley del Mercado de Valores], until such information is disclosed. The compliance area must accordingly inform the investments and holdings department if this circumstance arises.

c) Orders may not be put in during the auction period prior to the lifting of a suspension of trading of Bank shares that might have arisen, and must wait until trades in Bank shares have resumed. Orders that remained unfilled at the time of suspension being declared must be withdrawn.

d) Treasury share transactions may not be entered into for a period of 15 calendar days prior to the disclosure of the Bank's financial information required by Royal Decree 1362/2007 of 19 October.

e) All treasury share transactions must be concluded within normal trading hours, other than exceptional transactions relating to one of the reasons where provision is made for special transactions.

8. *In exceptional circumstances, such as, inter alia, those causing significant alterations in the volatility or supply or demand of shares, and on justified grounds, the limit stated in the first paragraph of section 6 may be exceeded, or the rule stated in section 7.d above may be disapplied. In either event the investments and holdings department must immediately report such situation to the compliance area.*

9. *The rules set out in sections 3 (second paragraph), 5, 6 and 7 above will not apply to treasury share transactions conducted in the block trade market, unless the Bank is aware that its counterparty is unwinding a position previously built up by means of transactions on the orders market.*

10. In accordance with section 3, Group units other than the investments and holdings department may acquire treasury shares in the course of market risk hedging activities or provision of intermediation or hedging for clients. Such activities will not be subject to the rules set out in sections 2, 4 (subsection (c)), 5, 6 and 7 above.

11. The executive committee will receive regular information on treasury share activities.

At each board meeting directors must ensure that the requirements have been satisfied for the acquisition of treasury shares under article 146.3 of the LSC.

12. The head of compliance must on a monthly basis report to the risk supervision, regulation and compliance committee on treasury share trades concluded in that month and on the operation of the controls implemented in that same period.

Treasury share transactions

The current authorisation for transactions with treasury shares concluded in 2015 arises from resolution Five adopted by the shareholders at the general shareholders' meeting held on 28 March 2014, item II) of which reads as follows:

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

A.9 bis. Estimated free float:

	%
Estimated floating capital	100

(*) The Bank's estimated floating capital is 99.01% after deduction of the percentage of capital which at 31 December 2015 was held by directors and by the Company itself as treasury shares in accordance with the instructions given in CNMV Circular 5/2013 of 12 June, as amended by Circular 7/2015 of 22 December.

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes [ ] **No** [X]

Description of restrictions
- Restrictions on the free transfer of shares There are no restrictions on the free transfer of securities other than the legal restrictions indicated in this section. Acquisition of significant ownership interests is regulated by articles 16 to 23 of Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and in articles 23 to 28 of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014. European Union Regulation No 1024/2013 of the Council of 15 October 2013 confers specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, including the assessment of the acquisition and disposal of significant holdings in credit institutions, based on the assessment criteria set out in applicable EU law and, as applicable, on Spanish laws transposing such rules. Notwithstanding the foregoing, a shareholders' agreement notified to the Bank affecting the free transfer of certain shares is described in section A.6 of this report. ***- Restrictions on voting rights*** There are no legal or bylaw restrictions (except for those resulting from the failure to comply with applicable regulations on the acquisition of significant holdings) on the exercise of voting rights. The first paragraph of Article 26.1 of the Bylaws states: *"The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders' meetings."* The Bank's Bylaws do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. General shareholders' meeting attendees are entitled to one vote for every share held, as stipulated in the first sentence of article 35.4 of the Bank's Bylaws: "*The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent."* Therefore, there are no restrictions on the takeover of the company by means of share purchases on the market.

A.11 Indicate whether the general shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes [ ] **No [X]**

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Not applicable.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes [X] No [ ]

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

Banco Santander's shares trade on the continuous market of the Spanish Stock Exchanges and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges. The shares traded on all of these exchanges carry identical rights and obligations.

Santander shares are traded on the London Stock Exchange through Crest Depositary Interests (CDIs), where each CDI represents one share of the Bank, and on the New York Stock Exchange through American Depositary Shares (ADSs), where each ADS represents one share of the Bank, and on the São Paulo Stock Exchange through Brazilian Depositary Receipts (BDRs), where each BDR represents one share.

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate the quorum required for constitution of the general shareholders' meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.

Yes [ ] **No** [X]

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call	-	-
Quorum required for second call	-	-

Description of differences
There are none

The quorum required to hold a valid general shareholders' meeting established in the Bylaws (article 25) and in the Rules and Regulations for the General Shareholders' Meeting (article 12) is the same as provided under the LSC.

Articles 193, 194.1 and 194.2 of the LSC therefore apply.

It should also be borne in mind that sector regulations applicable to credit institutions complement some aspects of the LSC with regard to the quorum and majorities required to adopt resolutions (e.g. article 34 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, requires a two-thirds or three-quarters majority, depending on whether the quorum is higher than 50%, for the setting of ratios higher than 100% of the variable components of remuneration to fixed components).

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes ☐ **No** ☒

Describe how they differ from the rules established under the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions	-	-
Describe the differences		
There are none		

The rules on the adoption of corporate resolutions are set forth in article 35 of the Bylaws and in article 23 of the rules and regulations of the general meeting. Those rules are one and the same as the regime under the LSC.

Articles 159 and 201 of the LSC apply.

Furthermore, industry-specific laws and regulations applicable to credit institutions in some respects supplement the LSC as to the required quorum and majority for adopting certain resolutions, on the terms set out in section B.1 above.

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

As required by article 286 of the LSC, if the Bylaws are to be amended, the Bank's directors or, where appropriate, the shareholders tabling the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change, which must be provided to shareholders in conjunction with the call notice for the meeting at which the proposed amendment will be voted on.

Furthermore, pursuant to article 287 of the LSC, the call notice for the general shareholders' meeting must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the company's registered office, and to request that such documents be delivered or sent to them free of charge.

Article 25 of the Bylaws, which regulates the calling of general shareholders' meetings, stipulates that if the shareholders are called upon to deliberate on amendments to the Bylaws, including the increase and reduction of share capital, on any alteration of legal form, mergers, spin-offs or transfers en bloc of assets and liabilities or transfer the registered office abroad, on the issuance of debentures or on the exclusion or limitation of pre-emptive rights, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the general meeting shall be held on second call, where at least twenty-five per cent of the subscribed share capital with voting rights must be present.

When shareholders representing less than fifty per cent of the subscribed share capital with the right to vote are in attendance, the resolutions mentioned in the preceding paragraph may only be validly adopted with the favourable vote of two-thirds of the share capital present in person or by proxy at the meeting. However, when shareholders representing fifty per cent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority, pursuant to article 201 of the LSC.

Article 291 of the LSC establishes that any changes to the Bylaws involving new obligations for shareholders must receive the consent of those affected. Moreover, if the modification directly or indirectly affects a particular class of shares, or a part thereof, it will be subject to the provisions of article 293 of the LSC.

Elsewhere, as required by article 10 of Royal Decree 84/2015, the amendment of credit institutions' Bylaws requires authorisation from the Bank of Spain. However, the following amendments are exempt from this authorisation procedure (although they must nevertheless be reported to the Bank of Spain): those intended to reflect a change in registered office within Spain, a capital increase, the addition to the wording of the Bylaws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with court for administrative rulings and any other amendments which the Bank of Spain has ruled exempt from authorisation on account of scant materiality in response to prior consultations submitted to it to this end.

B.4 Indicate the attendance figures for the general shareholders' meetings held during the year:

General shareholders' meeting of 27 March 2015:

	Attendance data				
			% remote voting		
Date of general meeting	**% attending in person**	**% by proxy**	**Electronic means**	**Other(3)**	**Total**
27/03/2015	0.35% (1)	43.44% (2)	0.22%	15.93%	59.72%

(1) Of the percentage specified (0.35%), 0.003% corresponds to the capital represented by remote attendance via Internet.
(2) The percentage of capital represented by proxies granted via Internet was 0.903%.
(3) The percentage specified corresponds to postal votes.

Extraordinary general shareholders' meeting of 15 September 2014:

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other(3)	
15/09/2014	0.13% (1)	37.93% (2)	0.06%	14.06%	52.18%

(1) Of the percentage specified (0.13%), 0.001% corresponds to the capital represented by remote attendance via Internet.
(2) The percentage of capital represented by proxies granted via Internet was 0.30%.
(3) This percentage corresponds to postal voting.

General shareholders' meeting of 28 March 2014:

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other(3)	
28/03/2014	0.27% (1)	42.71% (2)	0.06%	15.78%	58.82%

(1) Of the percentage specified (0.27%), 0.002% corresponds to the capital represented by remote attendance via Internet.
(2) The percentage of capital represented by proxies granted via Internet was 0.223%.
(3) This percentage corresponds to postal voting.

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the general shareholders' meetings:

Yes [ ] **No** [X]

Number of shares required to attend the general shareholders' meeting	One share

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on general meetings which must be made available to shareholders on the website.

Since 2004, the Group's website (www.santander.com) has disclosed, in the "Shareholders and investors" section of the main menu, all information required under applicable law (currently, the LSC, Order ECC/461/2013, of 20 March, which defines the content and structure of the annual corporate governance report, the annual remuneration report and other reporting instruments of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets, later amended by Order ECC/2575/2015, of 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and establishing the accounting obligations of banking foundations, and CNMV Circular 3/2015 of 23 June, on technical and legal specifications and information that must be contained on the websites of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets).

The content of the "Shareholders and investors" section can be accessed from the link on the home page of the Group's website (www.santander.com).

Information on corporate governance and general shareholders' meetings can be found in this section ("Shareholders and investors") under the heading "Corporate Governance" and information on general shareholders' meetings can subsequently be found within this section under the heading "*General shareholders' meeting*".

This information can also be accessed from the home page under the heading "*Information for shareholders and investors*", which redirects visitors once again to the "*Corporate governance" section"*.

This information is therefore available at both:

- Home/Information for shareholders and investors/Corporate governance/General shareholders' meeting.

- Home/Shareholders and investors/Corporate governance/General shareholders' meeting.

The information available on the corporate website, in Spanish, English and Portuguese, includes:

- The Bylaws
- The Rules and Regulations of the General Shareholders' Meeting
- The Rules and Regulations of the Board of Directors
- The composition of the board and its committees
- Professional biographies and other information on the directors
- The Annual Report
- The Annual Corporate Governance Report
- The reports of the board committees
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The Sustainability Report

From the date of its publication, the call notice for the 2016 general shareholders' meeting will be available on the website. The meeting information provided will include the resolutions for ratification and the mechanisms for exercising the right to receive information, the right to grant proxies and the right to vote, including an explanation of how to use remote voting mechanisms, and the rules governing the online shareholders' forum which the Bank will set up within its corporate website (www.santander.com).

Article 6 of the Rules and Regulations for the General Shareholders' Meeting specifies the information available on the corporate website, from the publication of the notice of meeting to the holding of the general meeting.

The annual general meeting called for 17 or 18 March 2016, at the original date and time or at the adjourned date and time, respectively, will be presented with a motion to alter article 6 of the rules and regulations of the general meeting to bring its content into alignment with recommendation 10 of the Code of Good Governance for Listed Companies [*Código de buen gobierno de sociedades cotizadas*], adopted by the board of the Spanish securities market regulator [Comisión Nacional del Mercado de Valores] on 18 February 2015.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	22
Minimum number of directors	14

C.1.2 Complete the following table with board members' details:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Ms. Ana Botín-Sanz de Sautuola y O'Shea	N/A	Executive	Chairman	04.02.1989	28.03.2014	Vote in general shareholders' meeting
Mr. José Antonio Álvarez Álvarez	N/A	Executive	Chief executive officer	25.11.2014[1]	27.03.2015[6]	Vote in general shareholders' meeting
Mr. Bruce Carnegie-Brown	N/A	Non-executive independent	Vice chairman	25.11.2014[2]	27.03.2015[6]	Vote in general shareholders' meeting
Mr. Rodrigo Echenique Gordillo	N/A	Executive	Vice chairman	07.10.1988	28.03.2014	Vote in general shareholders' meeting
Mr. Matías Rodríguez Inciarte	N/A	Executive	Vice chairman	07.10.1988	27.03.2015	Vote in general shareholders' meeting
Mr. Guillermo de la Dehesa Romero	N/A	Non-executive (neither independent nor proprietary)	Vice chairman	24.06.2002	27.03.2015	Vote in general shareholders' meeting
Mr. Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent nor proprietary)	Member	30.06.2015[3]	30.06.2015	Appointment by co-option [5]
Mr. Javier Botín-Sanz de Sautuola y O'Shea	N/A	Proprietary	Member	25.07.2004	22.03.2013	Vote in general shareholders' meeting
Ms. Sol Daurella Comadrán	N/A	Non-executive independent	Member	25.11.2014[4]	27.03.2015[6]	Vote in general shareholders' meeting
Mr. Carlos Fernández González	N/A	Non-executive independent	Member	25.11.2014[2]	27.03.2015[6]	Vote in general shareholders' meeting
Ms. Esther Giménez-Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	28.03.2014	Vote in general shareholders' meeting

Mr. Ángel Jado Becerro de Bengoa	N/A	Non-executive independent	Member	11.06.2010	22.03.2013	Vote in general shareholders' meeting
Ms. Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	22.12.2015	Appointment by co-option [5]
Ms. Isabel Tocino Biscarolasaga	N/A	Non-executive independent	Member	26.03.2007	22.03.2013	Vote in general shareholders' meeting
Mr. Juan Miguel Villar Mir	N/A	Non-executive independent	Member	07.05.2013	27.03.2015	Vote in general shareholders' meeting

Pursuant to the provisions of article 55 of the Bylaws and article 22 of the Rules and Regulations of the Board, one-third of the positions on the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

1 Effective 13 January 2015

2 Effective 12 February 2015

3 Effective 21 September 2015

4 Effective 18 February 2015

5 To be put to the next general shareholders' meeting for ratification.

6 Ratification by the general shareholders' meeting of their appointment by co-option.

Total number of directors	15

Indicate any board members who left during the period:

Name or corporate name of director	Status of the director at the time	Leaving date
Mr. Javier Marín Romano	Executive	12/01/2015
Mr. Fernando de Asúa Álvarez	Non-executive (neither independent nor proprietary)	12/02/2015
Mr. Abel Matutes Juan	Non-executive independent	18/02/2015
Mr. Juan Rodríguez Inciarte	Executive	30/06/2015
Ms. Sheila C. Bair	Non-executive independent	1/10/2015

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer to replace Mr. Javier Marín Romano, subject to prior government authorisation. As a result, Mr. Javier Marín Romano resigned from his post as a director, effective as of 12 January 2015, when he ceased to be chief executive officer.

At the board meeting of 25 November 2014, Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan tendered their resignations as directors for personal reasons, in both cases subject to the candidates to replace them, Mr. Bruce Carnegie-Brown and Ms. Sol Daurella Comadrán, obtaining the pertinent government authorisation. Their resignations were made effective as of 12 and 18 February 2015, respectively.

At the board meeting of 30 June 2015, Mr. Juan Rodríguez Inciarte announced his voluntary resignation as a director for personal reasons.

Finally, Ms. Sheila C. Bair resigned from her role as a director, effective as of 1 October 2015, after she was appointed president of Washington College.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Article 6.2.a) of the Rules and Regulations of the Board of Directors establishes that those who perform management functions within the Company or the Group shall be considered executive directors, irrespective of their legal relationship with them. For clarification purposes, the following directors shall be included in this category: the executive chairman, the chief executive officer, and all other directors who perform management or decision-making duties in connection with any part of the business of the Company or the Group other than the duties of supervision and collective decision-making falling upon the directors, either through the delegation of powers, stable proxy-granting, or a contractual, employment or services relationship.

When a director performs management functions and, at the same time, is or represents a significant shareholder or one that is represented on the board of directors, they shall be considered an executive director.

Therefore, the following are executive directors of the Bank at 31 December 2015:

Name or corporate name of director	Position held in the company
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive chairman
Mr. José Antonio Álvarez Álvarez	Chief executive officer
Mr. Rodrigo Echenique Gordillo	Vice chairman
Mr. Matías Rodríguez Inciarte	Vice chairman

Total number of executive directors	4
% of the board	26.67%

EXTERNAL PROPRIETARY DIRECTORS

Article 6.2.b) of the Rules and Regulations of the Board of Directors establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than that legally considered as significant, or those who have been designated as such due to their status as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as those who represent any of such shareholders.

Since 2002, the appointments committee and the board of directors have stipulated that having or representing at least 1% of the Bank's share capital is a necessary condition, though not the only condition, to be appointed a non-executive proprietary director. This percentage was established by the Bank in accordance with its self-regulatory powers and is less than that deemed significant by law, although the Bank believes it is 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 of directors, taking into consideration the circumstances of each case, and following a report from the appointments committee, considers the following director to be a non-executive proprietary director:

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment[1]
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ms. Ana Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own interest. The voting rights of the aforementioned shareholders corresponded to 1.041% of the Bank's share capital at year-end 2015.

Total number of proprietary directors	1
% of the board	6.67%

[1] Significant shareholder: As indicated in section A.2, there are no significant shareholders.

INDEPENDENT EXTERNAL DIRECTORS

The board of directors deems that all directors are independent directors, a classification that is based on the solvency, integrity and professionalism of each director and not on compliance with certain requirements.

Article 6.2.c) of the Rules and Regulations of the Board of Directors contains the definition of an independent director.

Article 6.2.c) of the Rules and Regulations of the Board of Directors:

"External or non-executive directors who have been appointed based on their personal or professional status and who perform duties not conditioned by relationships with the Company or its Group, or with the significant shareholders or management thereof shall be considered independent directors.

In no event may there be a classification as independent directors of those who:

(i) Have been employees or executive directors of the Group's companies, except after the passage of three or five years, respectively, since the cessation of such relationship.

(ii) Receive from the Company, or from another Group company, any amount or benefit for something other than director compensation, unless it is immaterial for the director.

For purposes of the provisions of this sub-section, neither dividends nor pension supplements that a director receives by reason of the director's prior professional or employment relationship shall be taken into account, provided that such supplements are unconditional and therefore, the Company paying them may not suspend, modify or revoke the accrual thereof without breaching its obligations.

(iii) Are, or have been during the preceding three years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such a period.

(iv) Are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.

(v) Maintain, or have maintained during the last year, a significant business relationship with the Company or with any Group company, whether in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such relationship.

Business relationships shall be considered the relationships of a provider of goods or services, including financial services, and those of an advisor or consultant.

(vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding three years, donations from the Company or the Group.

Those who are merely members of the board of a foundation that receives donations shall not be considered included in this item.

(vii) Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of an executive director or senior manager of the Company.

(viii) Have not been proposed, whether for appointment or for renewal, by the appointments committee.

(ix) Have been directors for a continued period that exceeds 12 years.

(x) Are, as regards a significant shareholder or shareholder represented on the board, in one of the circumstances set forth in items (i), (v), (vi) or (vii) of this sub-section 2(c). In the event of a kinship relationship set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the related proprietary directors thereof in the affiliated company.

Proprietary directors who lose such status as a result of the sale of their shareholding by the shareholder they represent may only be re-elected as independent directors if the shareholder they have represented until then has sold all its shares in the company."

A director who owns an equity interest in the Company may have the status of independent director, provided that the director meets all the conditions set out in article 6.2 (c) of the Rules and Regulations of the Board of Directors and, in addition, the shareholding thereof is not significant.

Taking into consideration the circumstances of each case and following a report from the appointments committee, the board considers the following board members to be non-executive independent directors at 31 December 2015:

Name or corporate name of director	Profile
Mr. Bruce Carnegie-Brown	Born in 1959 in Freetown, Sierra Leone. Joined the board in 2015. MA degree in English Language and Literature from the University of Oxford. Other relevant positions: He was the non-executive chairman of Aon UK Ltd, founder and managing partner of the quoted private equity division of 3i Group Plc., chairman and chief executive officer of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group Plc (2008-2014) and Catlin Group Ltd (2010-2014). He is currently the non-executive chairman of Moneysupermarket.com Group Plc and a non-executive director of Santander UK Plc.
Ms. Sol Daurella Comadrán	Born in 1966 in Barcelona, Spain.

	Joined the board in 2015. Graduate in Business and MBA in Business Administration. She is executive chairman of Olive Partners, S.A. and holds several positions in companies of the Cobega Group. Other relevant positions: She has served as a member of the governing board of the Círculo de Economía and an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A.
Mr. Carlos Fernández González	Born in 1966 in Mexico City, Mexico. Joined the board in 2015. An industrial engineer, he has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas. He is the chairman of the board of directors of Finaccess, S.A.P.I. Other relevant positions: He is currently a member of the advisory board of the Modelo Group.
Ms. Esther Giménez-Salinas i Colomer	Born in 1949 in Barcelona, Spain. Joined the board in 2012. Doctor in Law. She is emeritus professor at the Universidad Ramon Llull and serves on the boards of Unibasq and Aqu (quality agencies of the Basque and Catalan university system) and of Gawa Capital Partners, S.L. and is a member of the advisory committee of Endesa-Catalunya. Other relevant positions: Previously she served as rector at Ramon Llull University, member of the General Council of the Spanish Judiciary, member of the permanent committee of the Conference of Spanish University Rectors (CRUE) and managing director of the Centre of Legal Studies in the Law Department of the Catalan regional government..
Mr. Ángel Jado Becerro de Bengoa	Born in Santander in 1945. Joined the board in 2010. Graduate in Law and degree in Business Administration. Other relevant positions: He was director of Banco Santander, S.A. from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. He currently holds various positions in investment trusts.
Ms. Belén Romana García	Born in 1965 in Madrid, Spain. Joined the board in 2015. Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist. She is a non-executive director of Aviva Plc, London. Other relevant positions: She was executive vice president of Economic Policy and executive vice president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the Spanish Securities Market Commission. She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She was the executive chairman of Sociedad de Gestión de Activos

	Procedentes de la Reestructuración Bancaria, S.A. (SAREB).
Ms. Isabel Tocino Biscarolasaga	Born in 1949 in Santander, Spain. Joined the board in 2007. Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School. She is a professor at Universidad Complutense de Madrid. Other relevant positions: She is a former Spanish Minister for the Environment, former chairman of the European Affairs Commission and of the Foreign Affairs Committee of the Spanish Congress and former chairman for Spain and Portugal and vice-chairman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A., Naturhouse Health, S.A. and Enagas, S.A..
Mr. Juan Miguel Villar Mir	Born in Madrid in 1931. Joined the board in 2013. Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation. He is chairman of Grupo OHL and of the Grupo Villar Mir, and represents these entities as vice-chairman and director in Abertis Infraestructuras, S.A. and in Inmobiliaria Colonial, S.A., respectively. Other relevant positions: He was Minister of Finance and vice president of the Government for Economic Affairs from 1975 to 1976, and chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, the COTEC Foundation and of Colegio Nacional de Ingenieros de Caminos, Canales y Puertos. He is also currently Professor of Business Organisation at Universidad Politécnica de Madrid, a full member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumerary of the Royal Academy of Economics and Finance.

Total number of independent directors	8
% of the board	53.33%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

Grupo Santander holds risk positions with companies in which some of the independent directors are or have been significant shareholders or directors, through various instruments, such as syndicated loans, long-term bilateral loans, bilateral loans for the financing of working capital, leases or guarantee lines.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

In the assessment of those directors' suitability to perform the duties of independent director, the appointments committee first, and the board of directors subsequently, took into consideration the existence of the financing by Grupo Santander for the benefit of companies where they are or were significant shareholders or directors and concluded that in all cases such financing did not constitute a significant business relationship (as defined in the article 529.duodecies.4.e) of the LSC) for the purpose of those directors' classification as independent; among other reasons, because no situation of financial dependence had been created in the respective companies owing to the replaceability of such financing with other sources of bank or non-bank financing.

At its meeting of 12 February 2016, the board adopted a proposal put forward by the appointments commission at its meeting of 11 February 2016 on the classification of the Bank's directors, whereby the independent directors may continue to be treated as such insofar as they satisfy the requirements of article 529duodecies. 4 of the LSC.

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Mr. Guillermo de la Dehesa Romero	Has held the position of director for more than 12 years.	Banco Santander, S.A.
Mr. Ignacio Benjumea Cabeza de Vaca	For having been employed less than three years since the cessation of that relationship	Banco Santander, S.A.

Total number of other external directors	2
% of the board	13.33%

List any changes in the category of each director which have occurred during the year:

Name or corporate name of director	Date of change	Previous category	Current category
Mr. Rodrigo Echenique Gordillo	16 January 2015	Non-executive director (neither independent nor proprietary)	Executive director
Mr. Guillermo de la Dehesa	27 March 2015	Non-executive independent director	Non-executive director (neither independent nor proprietary)

C.1.4 Complete the following table on the number of female directors over the past four years and their category:

	Number of female directors				% of total directors of each type			
	2015	2014	2013	2012	2015	2014	2013	2012
Executive	1	1	1	1	6.67%	7.14%	6.25%	6.25%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	4	3	2	2	26.67%	21.43%	12.50%	12.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	5(*)	4	3	3	33.33%	28.57%	18.75%	18.75%

(*)No reference is made in the column for 2015 to Ms. Sheila C. Bair, as she left her post as director with effect on 1 October 2015. Ms. Belén Romana García, appointed on 22 December 2015, is included.

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

Both the appointments committee and the board of directors are aware of the importance of promoting equal opportunities for men and women and the benefits of appointing women with the necessary abilities, dedication and skills for the job to the board of directors.

Pursuant to article 31.3 of Act 10/2014 (which covers the same content as the current article 529.quindecies.3.b) of the LSC), at its meeting held on 21 October 2014, the appointments committee set an objective of 25% representation of the less well-represented gender on the Bank's board of directors, and at its meeting on 25 January 2016, it resolved to increase this target to 30% of board members. According to a study carried out by the European Commission with data from April 2015, the percentage of female directors at major European listed companies was an average of 21.2% for all 28 countries in the European Union and 16.8% for Spain.

The current composition of the board (33.3% female directors) exceeds the objective set by the Bank in 2014 and 2016 and the aforementioned European average.

The percentage of women represented on board committees at year-end 2015 was as follows:

	No. of members	No. of female directors	% of female directors
Executive committee	8	2	25
Audit committee	5	2	40
Appointments committee	6	1	16.7
Remuneration committee	6	2	33.3
Risk supervision, regulation and compliance committee	7	1(*)	16.7
International committee	6	2	33.3
Innovation and technology committee	8	2	25

(*)Ms. Sheila C. Bair was also a member of the risk supervision, regulation and compliance committee, until her resignation as a director on 1 October 2015.

C.1.6 Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select

female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

Explanation of the measures
In accordance with our policy on directors and with article 42.4 of the Bylaws and article 6.1 of the board rules and regulations, the board – and consequently the appointments committee – must ensure that the procedures for selection of members guarantee the individual and collective qualifications of directors, encourage diversity in terms of gender, experience and knowledge, and do not carry any implicit bias that might entail any form of discrimination. In particular, the selection of female directors is to be supported. Under article 17 (4) (a) of the board rules and regulations, the appointments committee assesses the balance of expertise, skills, ability, diversity and experience that are necessary and existing on the board and draws up a competency matrix and description of the necessary functions and aptitudes for each specific appointment, while determining the time and dedication needed for the proper performance of the office. In accordance with those rules, at the beginning of the process of selecting a new director the appointments committee analyses the skills and diversity of board members to determine the skills that are needed for the job, and may for this purpose enlist the assistance of an external adviser. The outcome of this analysis is borne in mind when assessing the various shortlisted candidates and evaluating their skills and suitability to be Bank directors, so as to propose to the board the appointment of the candidate thought to be most suitable. The director selection policy also embraces the selection principles described in section C.1.19 of this report. The process of filling board vacancies has no implicit bias against women candidates. Article 42.4 of the Bylaws and article 6.1 of the board rules and regulations, referred to above, require that the procedures for selection of directors encourage gender diversity and do not carry any implicit bias that might entail any form of discrimination. In particular, the selection of female directors is to be supported. Furthermore, at its meeting of 28 September 2015 the appointments committee discussed the succession plan for non-executive directors, on which the board was briefed the following day. This plan requires that director selection processes include women. At the date of writing, there are five women on the board of directors, including the chairman, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Ms. Sol Daurella Comadrán, Ms. Esther Giménez-Salinas, Ms. Isabel Tocino Biscarolasaga and Ms. Belén Romana García. Ms Ana Botín is an executive director, while the other four persons named are independent directors. For further information on the measures put in place by the appointments committee as to the selection of female directors, see sections C.1.5 and C.1.6 bis of this report.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of the reasons
This does not apply since there are several female directors sitting on the board of directors. Refer to sections C.1.5 and C.2.2 of this report for more information on the female presence on the board and its committees.

C.1.6 bis. Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020.

As explained in section C.1.6 above, in director selection processes the committee assesses the balance of expertise, skills, ability, diversity and experience that are necessary and existing on the board and draws up a competency matrix and description of the necessary functions and aptitudes for each specific appointment. At the beginning of the process of selecting a new director the committee analyses the skills of board members to determine the skills that are needed for the job. The outcome of this analysis is borne in mind when assessing the various candidates, so as to propose to the board the appointment of the candidate thought to be most suitable.

The committee produces an annual report summarising its activities over the year and an assessment of its performance, including a description of the director selection processes that have been conducted in the year. This assessment consequently addresses the application of director selection policy.

In relation to the director selection policy, the Bank has promoted the effective application of the principle of equal opportunities for men and women in relation to appointments to the board, avoiding any situation of inequality, and actively favouring the presence on the board of women with the necessary abilities, skills and dedication. However, this is done while respecting the principle of ability, which requires the director selection process to value the candidates' commercial and professional integrity, knowledge, experience and the disposition to exercise good governance of the company.

At its meeting on 25 January 2016, the appointments committee verified that, as the percentage of women on the board of the Bank is 33.3%, the Bank had exceeded its target for representation of the less well-represented gender of 25%, set by the appointments and remuneration committee on 21 October 2014. At the meeting of 26 January, the committee decided to raise the target to 30% representation of the less well-represented gender on the board of directors, and set guidelines on how to maintain compliance with this objective, which were:

1. Continue applying the principle of equal opportunities for men and women when appointing Bank directors.

2. Ensure that director selection processes are not subject to implicit bias that would make it difficult to select candidates of the less well-represented gender.

3. Include among the potential candidates a person of the less well-represented gender that meets the required professional profile, notwithstanding that the proposed appointment be made considering the commercial and professional integrity, knowledge, experience and the disposition to exercise good governance of the candidates.

4. Include in the Bank's rules and regulations explicit references designed to promote the participation of the less well-represented gender on the board.

5. Continue to include the number and percentage of the less well-represented gender on the board and its committees in the Bank's published information, allowing comparison with the average of other large listed companies.

6. Include in the Bank's director training programmes, activities relating to equal opportunities for men and women in accessing director posts in the company.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

No shareholders hold significant holdings. Refer to section A.2 of this report.

C.1.8 Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Name or corporate name of shareholder	Reason
Mr. Javier Botín-Sanz de Sautuola y O'Shea	The criteria for appointing non-executive proprietary directors representing shareholders who hold less than 3% of the capital are described in section C.1.3..

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes ☐ **No** ☒

This does not apply as there have been no formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors.

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing, list below the reasons given by that director:

Name of director	Reasons for resignation
Mr. Javier Marín Romano	Voluntary resignation after ceasing to be chief executive officer
Mr. Fernando de Asúa Álvarez	Voluntary resignation for personal reasons
Mr. Abel Matutes Juan	Voluntary resignation for personal reasons
Mr. Juan Rodríguez Inciarte	Voluntary resignation for personal reasons
Ms. Sheila C. Blair	Voluntary resignation for personal reasons

In every case, the director informed the board in person of the reasons for their resignation.

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s):

Name or corporate name of director	Brief description
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive chairman
Mr. José Antonio Álvarez Álvarez	Chief executive officer

The executive chairman and chief executive officer, without prejudice to the Bylaws establishing the higher hierarchical status in the Bank of the former and the responsibility for the ordinary management of the Bank's business areas of the latter, have been delegated the same powers, that is, all powers of the board of directors, except for those that cannot be delegated by law or the

Bank's Bylaws and those which are reserved for the board in article 3 of the Rules and Regulations of the Board of Directors. These powers are as follows:

(a) Approval of the general policies and strategies of the Company, including, without limitation:

- (i) Strategic or business plans, management goals and annual budget.
- (ii) Investment and financing policy.
- (iii) Capital and liquidity strategy.
- (iv) Tax strategy.
- (v) Dividend and treasury share policy.
- (vi) Risk management and control policy, including tax risks.
- (vii) Policy on corporate governance and internal governance of the Company and its Group.
- (viii) Remuneration policies for personnel of the Company and its Group.
- (ix) Corporate social responsibility policy.
- (x) Regulatory compliance policy, including the approval of codes of conduct, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model).

(b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related-party transactions of particular importance and treasury shares.

(c) Approval of the financial information that the Company must make public on a periodic basis based on its status as a listed company.

(d) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

(e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.

(f) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

(g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

(h) Definition of the structure of the Group of companies of which the Company is the controlling entity.

(i) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.

(j) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the Bylaws.

(k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the Bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.

(l) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

(m) Design and supervision of the director selection policy and of the succession plans for the directors (including those applicable to the Group executive chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 24 of the Rules and Regulations.

(n) Selection, appointment by co-option and continuous evaluation of directors.

(o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

(p) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

(q) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.

(r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 30 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(t) Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.

(u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.

(v) And those specifically provided for in the Rules and Regulations of the Board of Directors themselves.

There is a clear separation of duties between the executive chairman, the chief executive officer, the board of directors and its committees, and sufficient measures to ensure the Bank's corporate governance structure is duly balanced. These include:

- The board and its committees exercise duties of supervision and control over the actions of both the executive chairman and the chief executive officer.
- The lead independent director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.
- The audit committee is also chaired by an independent director.
- The Group executive chairman may not simultaneously hold the position of chief executive officer of the Bank.
- The corporate risk, compliance and internal audit functions report to a committee or a member of the board of directors and have direct access thereto.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

At year-end 2015, the directors who are managers or directors of other Group companies are:

Name or corporate name of director	Corporate name of the group entity	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Santander UK plc	Director (*)
	Santander UK Group Holdings plc	Director (*)
	SAM Investment Holdings Limited	Director (*)
	Portal Universia, S.A.	Chairman (*)
	Universia Holding, S.L.	Chairman (*)
Mr. José Antonio Álvarez Álvarez	Banco Santander (Brasil), S.A	Director (*)
	SAM Investment Holdings Limited	Director (*)
Mr. Bruce Carnegie-Brown	Santander UK plc.	Director (*)
	Santander UK Group Holdings plc	Director (*)
Mr. Rodrigo Echenique Gordillo	Universia Holding, S.L.	Director (*)
	Grupo Financiero Santander México, S.A.B. de C.V.	Director (*)
	Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	Director (*)
	Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Director (*)
	Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Director (*)
	Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México.	Director (*)
	Santander Consumo, S.A. de C.V., SOFOM,	Director (*)

	E.R., Grupo Financiero Santander México. Metrovacesa, S.A.	Chairman (*)
Mr. Matías Rodríguez Inciarte	Unión de Créditos Inmobiliarios, S.A., E.F.C. U.C.I., S.A. Financiera El Corte Inglés E.F.C., S.A.	Chairman (*) Chairman (*) Director (*)
Mr. Ángel Jado Becerro de Bengoa	Cartera Mobiliaria, S.A., SICAV	Director (*)

(*) Non-executive.

For the purpose of this table, the concept of Group under article 5 of the Securities Market Act is used.

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Details of the positions held by the Bank's directors at year-end 2015 are as follows.

Name or corporate name of director	Name of listed company	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	The Coca – Cola Company	Non-executive independent
Mr. Rodrigo Echenique Gordillo	Inditex, S.A.	Non-executive director
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	Non-executive director
Mr. Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	Non-executive vice chairman
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A. Enagás, S.A. Naturhouse Health, S.A.	Non-executive independent Non-executive independent Non-executive independent
Mr. Juan Miguel Villar Mir	Obrascón Huarte Laín, S.A. (OHL) Abertis Infraestructuras, S.A. Inmobiliaria Colonial, S.A.	Chairman (proprietary) Representative of OHL (proprietary vice chairman) Representative of Grupo Villar Mir (proprietary vice chairman)
Ms. Belén Romana García	Aviva plc	Non-executive director

C.1.13 Indicate and, where appropriate, explain whether board regulations establish rules on the maximum number of company boards on which its directors may sit:

Yes [X] No [ ]

Explanation of rules
The maximum number of company boards to which directors may belong, as stipulated in article 30 of the Rules and Regulations of the Board of Directors, shall be governed by the provisions of article 26 of Act 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions. This statutory provision is further implemented by articles 29 *et seq* of Royal Decree 84/2015 of 13 February and rules 30 *et seq* of Bank of Spain Circular 2/2016 of 2 February. In accordance with these laws and regulations, Directors of the Bank may not at the same time occupy more than: (a) one executive directorship plus two non-executive directorships or (b) four non-executive directorships. Positions held within a single group are considered as a single position, while positions held in non-profit or charitable organisations are not taken into account for the purpose of applying this limit. The Bank of Spain may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

C.1.15 List the total remuneration paid to the board of directors in the year:

Board remuneration (thousands of euros)[1]	29,6892
Amount of accumulated pension rights of current directors (thousands of euros)	139,350
Amount of accumulated pension rights of former directors (thousands of euros)	88,880

(1) Not including 6,312 thousand euros in respect of a contribution to the savings scheme during the year.

(2) Not including the agreed ILP amount for executive directors for 2015. This is because under the instructions set out in CNMV Circular 4/2013 the ILP amount is not treated as having accrued, and hence ought not to be included in the tables of section D of the annual directors' remuneration report; this further means that in accordance with Circular 5/2013 neither should it be included in section C.1.15. However, applying those instructions, there is included the maximum amount of the first third of the ILP for 2014, regardless of its arising in respect of services provided in 2014 and of the fact that such shares have not yet been delivered.

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Position(s)	Name or corporate name
Alliances	Mr. Juan Andrés Yanes Luciani (*)
Asia and Strategy	Mr. Juan Rodríguez Inciarte (***)
Group chief audit executive	Mr. Juan Guitard Marín
Retail and commercial banking	Mr. Ángel Rivera Congosto
Retail and commercial banking	Mr. Francisco Javier San Félix García
Retail and commercial banking (private banking, asset management and insurance)	Mr. Luis Moreno García (*)
Global banking and markets	Mr. Jaques Ripoll
Brazil	Mr. Jesús M.ª Zabalza Lotina
Communication, corporate marketing and research	Mr. Juan Manuel Cendoya Méndez de Vigo
Costs	Mr. Javier Maldonado Trinchant
Group chief compliance officer	Ms. Mónica López-Monís Gallego
Corporate development	Mr. José Luis de Mora Gil-Gallardo
Spain	Mr. Rami Aboukhair Hurtado
Spain	Mr. Enrique García Candelas (*)
Consumer finance	Ms. Magda Salarich Fernández de Valderrama
Group chief financial officer	Mr. José García Cantera
Innovation	Mr. José María Fuster Van Bendegem
Group chief accounting officier	Mr. José Manuel Tejon Borrajo (*)
Group chief accounting officier	Mr. José Francisco Doncel Razola
Chairman's office and strategy	Mr. Víctor Matarranz Sanz de Madrid
Human resources, organisation and costs	Mr. Jesús Cepeda Caro (*)
Risks	Mr. José María Espí Martínez (*)
Group chief risk officer	Mr. José María Nus Badía
Risks (recoveries and asset write-downs)	Mr. Remigio Iglesias Surribas (*)
General secretary's office	Mr. Ignacio Benjumea Cabeza de Vaca (*)
General secretary's office and human resources	Mr. Jaime Pérez-Renovales (**)
General secretary's office and human resources	Mr. César Ortega Gómez
Technology and operations	Mr. Andreu Plaza
Universities	Mr. José Antonio Villasante Cerro
Other	Mr. Juan Manuel San Roman López

Total remuneration received by senior management (thousands of euros)	77.523

(*) Senior executive vice presidents who departed from their senior management positions in the course of the year: Ignacio Benjumea Cabeza de Vaca on 31/08/2015 (appointed a director); Enrique García Candelas on 31/08/2015 (appointed vice chairman of Santander Totta), José María Espí Martínez on 31/03/2015, José Manuel Tejón Borrajo on 01/05/2015, Juan Andrés Yanes Luciani on 01/10/2015, Jesús Cepeda Caro on 01/10/2015, Luis Moreno García on 01/07/2015, and Remigio Iglesias Surribas on 01/10/2015.

(**) Senior executive vice presidents who joined senior management in the course of the year: Mónica López-Monís Gallego on 09/02/2015 and Jaime Pérez Renovales on 01/07/2015 (rejoining after unpaid leave).

(***) Stepped down as a director on 30 June 2015 and as a senior executive vice president on 1 January 2016. The above data include remuneration received as a senior executive vice president.

(****) Does not include the pension contributions made in 2015 by the Bank for the benefit of senior executive vice presidents (21,434 thousand euros), or the amount agreed for senior executive vice presidents for the ILP for 2015 for the same reasons as those set out in section C.1.15 above. Does include the maximum amount of the first third of ILP for 2014.

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Position

Not applicable.

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors with significant shareholders and/or their group companies:

Name or corporate name of director	Name or corporate name of related-party significant shareholder[1]	Description of the relationship
Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ana Botín-Sanz de Sautuola y O'Shea, Emilio Botín-Sanz de Sautuola y O'Shea, Carmen Botín-Sanz de Sautuola y O'Shea, Paloma Botín-Sanz de Sautuola y O'Shea, Jorge Botín-Sanz de Sautuola Ríos, Francisco Javier Botín-Sanz de Sautuola Ríos, Marta Botín-Sanz de Sautuola Ríos and his own	Representation on the Bank board of the persons listed in the previous column

[1] As indicated in section A.2 above, there are no significant shareholders.

C.1.18 Indicate whether any changes have been made to the board regulations during the year:

Yes X No

Description of changes
At its meeting of 23 February 2015, the board approved the modification of article 13.3 of the Rules and Regulations of the Board of Directors, changing the name of the technology, productivity and quality committee to the innovation and technology committee. This amendment was filed with the Cantabria Mercantile Registry on 4 March 2015. At its meeting of 29 July 2015, the board subsequently approved a change to the Rules and Regulations of the Board of Directors, which was filed with the Cantabria Mercantile Registry on 14 August 2015. The following is a summary of the main changes: ▪ Complete the changes to the Bylaws approved at the annual general meeting on 27 March 2015, adapting the Rules and Regulations of the Board of Directors to the new aspects of the LSC pursuant to Corporate Governance Law 31/2014, of 3 December. ▪ Review and adapt the Bank's corporate governance regulations to the recommendations applicable thereto in its dual position as a listed company and credit institution. This was done, taking into account: (i) the new good governance code for listed companies issued by the CNMV in February 2015; (ii) the Guide to Internal Governance issued by the European Banking Authority; and (iii) the new Basel corporate governance principles for banks, published on 8 July 2015. ▪ Review the functions of the board committees in view of recent regulatory changes. ▪ Bring the operating rules for the board and its committees (scheduling and calling of meetings, etc.) into line with current Banco Santander practices. Introduce separate regulation of the appointments and the remuneration committees and introduce new articles aimed at regulating the international and the innovation and technology committees. ▪ Include certain internal rules regarding the Bank's criminal risk prevention model, bearing in mind the changes to article 31.bis of Spain's Penal Code; the responsibilities of the board in relation to the

above-mentioned model and the functions that the risk supervision, regulation and compliance committee assumes as a supervisory body for the operation of and compliance with the criminal risk prevention model.

- Introduce technical improvements or enhancements to the wording or explain certain rules of the Bank's internal governance.

The amendment to the Rules and Regulations of the Board of Directors, approved by the board at its meeting of 29 September, was therefore filed with the Cantabria Mercantile Registry on 13 October 2015, increasing the maximum number of directors that form part of the innovation and technology committee from seven to eight.

Finally, and now moving into 2016, the board, at its meeting on 26 January 2016, agreed to amend article 17.quinquies.3 of the Rules and Regulations of the Board of Directors, for the purpose of broadening the functions of the innovation and technology committee, to include those related to the new digital environment in which the banking business will be carried out. This amendment to Rules and Regulations of the Board of Directors was filed with the Cantabria Mercantile Registry on 4 February 2016.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

The most significant regulations governing the procedures, criteria and competent bodies for the selection, appointment, re-election, assessment and removing of directors are contained in various provisions of the LSC (articles 211 to 215, 221 to 224, 243, 244, and 529.decies to 529.duodecies), the Regulations of the Mercantile Registry (143 to 148), the Bank's Bylaws (articles 20.2.(i), 41, 42, 55 and 56) and the Rules and Regulations of the Board of Directors (articles 6, 7, 17 and 21 to 25). All regulations applicable to credit institutions also apply, especially Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, and Royal Decree 84/2015, of 13 February.

Following is a description of the most relevant features of the framework resulting from the aforementioned provisions:

- Number of directors.

The Bylaws (article 41.1) state that the maximum number of directors is 22 and the minimum 14, with the specific number being determined at the annual general shareholders' meeting. At year-end 2015, the Bank's board of directors was composed of 15 directors, a number the institution considers suitable for ensuring proper representation and effective operation of the board, thus fulfilling the provisions of article 7.2 of the Rules and Regulations of the Board of Directors.

Accordingly, article 42.1 of the Bylaws stipulates that the shareholders at the general shareholders' meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors.

- Power to appoint directors.

The appointment and re-election of directors corresponds to the board of directors and is regulated by articles 41.2 of the Bylaws and 21.1 of the Rules and Regulations of the Board of Directors.

Article 41.2 of the Bylaws states that: *"it falls upon the shareholders at a general shareholders' meeting to set the number of members of the board within the aforementioned range. Such number may be set indirectly by the resolutions adopted by the shareholders at a general shareholders' meeting whereby directors are appointed or their appointment is revoked".*

Article 21.1 of the Rules and Regulations of the Board of Directors states that, "*the directors shall be designated, re-elected or ratified by the shareholders at the general shareholders' meeting or by the board of directors, as applicable, pursuant to the provisions of the Corporate Enterprises Act (LSC), the Bylaws, the director selection policy and the succession plan approved by the board.*"

In the event that directors vacate their office during the term for which they were appointed, the board of directors may provisionally designate another director until the shareholders, at the earliest subsequent general shareholders' meeting, either confirm or revoke this appointment.

- Appointment requisites and restrictions.

In accordance with article 21.4 of the Rules and Regulations of the Board of Directors, all persons designated as directors shall meet the requirements set forth by law and the Bylaws, and shall formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and Regulations of the Board of Directors. In this regard, the provisions of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, regarding the honourability requirements for directors, is applicable.

It is not necessary to be a shareholder in order to be appointed a director. The following persons may not hold directorships: minors who are not emancipated, legally disabled persons, persons considered incapacitated in accordance with the Bankruptcy Law during the period of incapacitation by firm ruling for crimes against personal freedom, property or against the social and economic order, collective security or the administration of justice, or any type of forgery or misrepresentation, as well as those whose positions would entail a bar on holding the directorship. Other persons ineligible for directorships are government employees who discharge functions relating to the business activities inherent to the companies in question, judges or magistrates, or other persons subject to legal conflict of interest.

Directors must be persons of renowned commercial and professional integrity, competence and solvency, and must have the knowledge and experience needed to exercise these functions and be in a position to ensure the good governance of the entity.

Nominees for the position of director will also be selected on the basis of their professional contribution to the board as a whole, and particular importance will be attached, where appropriate, to the size of their shareholdings in the Bank's capital.

If a director is a body corporate, the natural person representative thereof is subject to compliance with the same requirements as established for natural person directors.

Once the candidate's suitability has been assessed, the appointment will become effective once the related regulatory authorisations have been obtained.

- Proportional system.

Holders of shares representing an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members, or who pool shares to achieve such a proportion, will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

- Term of office.

The term of office of a director, as regulated by article 55 of the Bylaws, is three years, although directors can be re-elected. Directors who have been designated by interim appointment (co-option) to fill vacancies may be ratified in their position at the first general shareholders' meeting that is held following such designation, in which case they shall vacate office on the date on which their predecessor would have vacated office. Article 55 also provides for the annual renewal of one-third of the board.

- Withdrawal or removal of directors.

The withdrawal or removal of directors is regulated by article 56 of the Bylaws and article 23 of the Rules and Regulations of the Board of Directors. Directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the general shareholders' meeting so resolves, or when they resign or place their office at the disposal of the board.

Directors must place their office at the disposal of the board and tender their resignation if the board, after receiving the report of the appointments committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the Bank's credibility and reputation and, in particular, (i) when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office, or (ii) or in the event of the emergence of any blemishes in terms of their honourability, knowledge or adequate experience or capacity to exercise good governance.

Under (i) and (ii), temporary suspension or definitive removal may be decided by the European Central Bank in accordance with the procedure envisaged in Chapter V of Title II of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and by virtue of the exclusive powers to ensure compliance with the rules and regulations of the European Union or of Spanish law, as the case may be, which require that credit institutions implement sound governance structures, including suitability requirements for the persons responsible for managing credit institutions.

Furthermore, the directors must, at their earliest convenience, notify the board of any circumstances that might jeopardise the Bank's credibility and reputation and, in particular, of any criminal lawsuits in which they are involved as accused parties.

Lastly, the Rules and Regulations of the Board of Directors specifically provide that non-executive proprietary directors must tender their resignations when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

- Procedure.

The proposals for appointment, re-election and ratification of directors, regardless of their category, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting, as well as the decisions adopted by the board regarding appointments by co-option must be preceded by the corresponding report and proposal of the appointments committee.

If the board disregards the proposal made by said committee, it must give the reasons for its decision and place these reasons on record.

Pursuant to article 25 of the Rules and Regulations of the Board of Directors, those directors affected by proposals for appointment or re-election to or withdrawal from office shall abstain from attending and participating in the debate and voting of the board of directors or of the committees thereof that deal with such matters.

In addition to company procedures, the effective appointment of a new director is subject to verification of their suitability by the European Central Bank.

- Criteria applied by the board of directors and the appointments committee.

Considering the set of applicable regulations, the recommendations resulting from Spanish reports on corporate governance and the present situation of the Bank and its Group, the appointments committee and the board of directors have been applying the following criteria to the processes for the appointment, ratification and re-election of directors and to the preparation of proposals for that purpose:

a. First, attention is given to limitations resulting from legal prohibitions and incompatibilities, and from positive requirements (experience, solvency, etc.) applicable to bank directors in Spain and the euro zone.

b. Having complied with these restrictions, a balanced composition of the board of directors is sought, taking into account the content of articles 41 and 42 of the Bylaws and articles 6 and 7 of the Rules and Regulations of the Board of Directors, to this end:

   (i) A broad majority of external or non-executive directors is sought, but leaving room for an adequate number of executive directors. At year-end 2015, 4 of the 15 directors were executive directors.

   (ii) A significant participation of independent directors is sought among the external directors (at year-end 2015, 8 out of 11 external directors), but at the same time, a board of directors representing a significant percentage of the Company's capital is sought, (at 31 December 2015, the board directly or indirectly held 0.709% of the Company's share capital; with one of the proprietary directors representing 1.041% of the share capital, as explained in section C.1.3.).

   Article 21.2 of the Rules and Regulations of the Board of Directors establishes that it is the responsibility of the appointments committee to prepare a reasoned report on and proposal for such appointments, re-elections or ratifications of directors, regardless of their classification. In the event of re-election or ratification, such proposal made by the committee shall contain an assessment of work performed and actual dedication to the position during the last period of time in which the proposed director held office. In addition, such proposals from the appointments committee must in all cases be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate, which shall be attached to the minutes of the general shareholders' meeting or of the board meeting, as applicable. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons on record in the minutes.

   In all cases, and in accordance with the Bylaws (article 42.1) and the Rules and Regulations of the Board of Directors (article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a reasonable number of independent directors. This is currently the case, with external directors representing 73.33% of the board members and independent directors 53.33% of the board at 31 December 2015.

   (iii) In addition, special importance is also given to the experience of board members in different public and private professional arenas (in particular, considering the skills map, which is updated with each appointment) and in the various geographical areas in which the Group carries out its activities, such that the individual and collective abilities of the directors favours diversity of gender, experiences and expertise, and that the selection process is free from any implied bias entailing any kind of discrimination and which facilitates the selection of female directors.

c. Together with the aforementioned general criteria, an assessment of the director's work and effective dedication during the director's term in office is specifically taken into account in the re-election or ratification thereof.

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes
As a consequence of the self-assessment by the members of the board of directors in the last few years, the following measures have been adopted: • A more detailed procedure for the succession of positions on the board (particularly the Group executive chairman and chief executive officer) has been included in the Rules and Regulations of the Board of Directors. • Annual board meetings are held dedicated specifically to the Group's strategy. • An ongoing training programme for directors, which has been in place continuously since its proposal in the 2005 self-assessment process. • Directors have immediate access, via electronic devices, to all the information pertaining to the board and committees (calendar, agendas, presentations and minutes). • Review of the board's composition, incorporating new directors with a more international profile and strengthening diversity. • The Group executive chairman encourages debate at board meetings, inviting directors to ask questions and present queries. • Greater involvement of the appointments committee in the process to appoint new directors. • Review of the Bylaws and the Rules and Regulations of the Board of Directors for the purpose of adapting the duties of some committees to applicable regulations and to best corporate governance practices. • Improve the relationship between directors outside of board meetings. • Inclusion of corporate social responsibility in the functions of the risk supervision, regulation and compliance committee. • Expand the functions of the innovation and technology committee.

C.1.20. bis Describe the assessment process undertaken by the board of directors and the areas evaluated, with the aid of an external facilitator, with respect to the composition, duties and powers of its committees, the performance of the chairman of the board of directors and the company's chief executive officer and the performance and contribution of individual directors.

Article 19 (7) of the board regulations provides that the operation of the board and its committees, the quality of its work and the individual performance of its members, including the chairman and the chief executive officer, must be assessed annually. At least every three years, that assessment must be conducted with the assistance of an independent external consultant, the independence of which will be examined by the appointments committee.

The board undertakes an ongoing process of self-assessment and assessment of its members and committees with the assistance of an independent external adviser. The self-assessment process is reported on by the appointments committee.

The self-assessment exercise includes a specific section for the individual assessment of directors, the Group executive chairman, the chief executive officer and the rest of directors. The Group executive chairman led the assessment of the lead director, who in turn led that of the Group executive chairman and also the process of individual cross-assessments between directors.

This exercise was based on a questionnaire and personal interviews with the directors and on international best corporate governance practices, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The latest self-assessment focused on the following areas: organisation, internal trend and culture, roles and contribution of directors; composition and content of the board and its committees; benchmarking with other international banks; and open questions regarding the future (strategy and internal and external factors that might affect the Group's performance) and other matters of interest.

For the independent assessment, the external adviser compared the Bank with 23 top tier international financial institutions with regard to the composition and dedication of the board and the committees, remuneration and other aspects of corporate governance, with the Bank ranking very highly.

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

C.1.20. ter. Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

None.

C.1.21 Indicate the cases in which directors must resign.

Without prejudice to the provisions of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, regarding the honourability requirements for directors and the consequences of the loss of such honourability, the Bylaws (article 56.2) and the Rules and Regulations of the Board of Directors (article 23.2) establish that directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments committee, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Bank and, particularly, when they are prevented by any legal prohibition against or incompatibility with holding such office.

As such, the Rules and Regulations of the Board of Directors (article 23.3) stipulates that proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes ☐ **No** ☒

If applicable, describe the differences.

Not applicable

C.1.24 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed chairman.

Yes ☐ **No ☒**

C.1.25 Indicate whether the chairman has the casting vote:

Yes ☒ No ☐

Matters where the chairman has the casting vote
According to article 47.5 of the Bylaws and article 20.6 of the Rules and Regulations of the Board of Directors, the chairman has the casting vote to settle any ties.

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors:

Yes ☐ **No ☒**

Age limit for chairman -

Age limit for the chief executive officer - Age limit for directors -

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors:

Yes ☐ **No ☒**

Maximum number of years in office	There are none

Article 529.duodecies.4.i) of the LSC establishes that a director in a post for over 12 years can no longer be considered independent.

The board of directors attaches great value to the experience of its directors, for which reason it does not deem it advisable to limit the terms of office of non-executive independent directors other than by this legal requirement. This decision must be left in each case to the shareholders at the general shareholders' meeting.

At year-end 2015, the average length of service on the board for non-executive independent directors was 3 years

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief detail.

Article 47.1 and 2 of the Bylaws stipulates the following:

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.

2. The directors must attend the meetings held in person. However, if they cannot attend they may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. The non-executive directors may only grant a proxy to another non-executive director."

Furthermore, article 20.1 and 2 of the Rules and Regulations of the Board of Directors states that:

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.

2. When directors cannot attend personally, they may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. Non-executive directors may only grant a proxy to another non-executive director. The proxy shall be granted with instructions."

Likewise, and with regard to delegating votes of committee members, in accordance with articles 14.6, 16.8, 17.9, 17.bis 9, 17.ter.6, 17.quater.6 and 17.quinquies.6 of the Rules and Regulations of the Board of Directors, members of the executive, the audit, the appointments, the remuneration, the risk supervision, regulation and compliance, the international and the innovation and technology committees, respectively, may grant proxy to another member, provided that non-executive directors only represent another non-executive director.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	21
Number of board meetings held without the chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and under the chairmanship of the lead director:

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year:

Number of meetings of the executive committee	59
Number of meetings of the audit committee	13
Number of meetings of the appointments committee	12
Number of meetings of the remuneration committee	10
Number of meetings of the delegate risks committee	81*
Number of meetings of the risk supervision, regulation and compliance committee	13

* The delegated risks committee was disbanded by resolution of the board on 1 December 2015. For more information see section C.2.1.

C. 1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions:

Number of meetings with all members present	11
% of attendances of the total votes cast during the year	92,83%

The percentage shown in the second box (92.83%) was calculated by dividing the number of attendances, including proxies with specific instructions, by the maximum possible number of attendances if every director had attended all board meetings.

Directors	Board	Committees							
		Decision-making		Advisory				Reporting (a)	
		Executive	Delegate risk (b)	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	International
Average attendance	**92.83%**	**90.89%**	**78.44%**	**97.96%**	**92.86%**	**90.57%**	**96.39%**	-	-
Individual attendance									
Ms. Ana Botín-Sanz de Sautuola y O'Shea	21/21	52/59							
Mr. José Antonio Álvarez Álvarez[1]	19/19	52/56	23/67						
Mr. Bruce Carnegie-Brown[2]	17/17	40/51			9/9	9/9	12/12		
Mr. Rodrigo Echenique Gordillo	20/21	53/59	50/81		2/2	1/1	0/0		
Mr. Matías Rodríguez Inciarte	21/21	57/59	81/81						
Mr. Guillermo de la Dehesa Romero	21/21	54/59		4/4	11/12	9/10	11/11		
Mr. Ignacio Benjumea Cabeza de Vaca[3]	4/4	16/16	11/11		3/3	4/4	3/3		
Mr. Javier Botín-Sanz de Sautuola y O´Shea	14/21								
Ms. Sol Daurella Comadrán[4]	15/17				6/8	6/9			
Mr. Carlos Fernández González[2]	15/17			11/11	7/8		10/11		
Ms. Esther Giménez-Salinas i Colomer	19/21								
Mr. Ángel Jado Becerro de Bengoa	21/21		62/67	10/11	8/8	8/9	13/13		
Ms. Belén Romana García[5]	1/1			0/0					
Ms. Isabel Tocino Biscarolasaga	21/21	57/59	79/81	11/11		10/10	11/11		
Mr. Juan Miguel Villar Mir	19/21			10/10			10/11		
Mr. Javier Marín Romano[6]	0/2	1/2							
Mr. Fernando de Asúa Álvarez[7]	4/4	7/8	11/11	1/1	3/3	1/1	1/1		
Mr. Abel Matutes Juan[8]	3/4			1/1	3/3				
Mr. Juan Rodríguez Inciarte[9]	15/15		36/51						
Ms. Sheila C. Bair[10]	15/18						9/10		

(a No meetings were held in 2015.
(b) Disbanded by resolution of the board on 1 December 2015 and held its last meeting on 29 October.
1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Director since 21 September 2015.
4. Director since 18 February 2015.
5. Director since 22 December 2015.
6. Resigned as director on 12 January 2015.
7. Resigned as director on 12 February 2015.
8. Resigned as director on 18 February 2015.
9. Resigned as director on 30 June 2015.
10. Resigned as director on 1 October 2015.

On average, each of the directors has dedicated approximately 100 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 295 hours; members of the delegate risk committee 243 hours; members of the audit committee approximately 52 hours; members of the risk supervision, regulation and compliance committee 52 hours; members of the appointments committee 36 hours; members of the committee hours; and members of the remuneration committee 30 hours.

In accordance with the Rules and Regulations of the Board of Directors, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board. In addition, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chair.

In 2015, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, 9 directors who were not members of the executive committee each attended an average of 7 of the committee's meetings.

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes [X] No [ ]

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for their authorisation for issue by the board:

Name	Position
Mr. José Francisco Doncel Razola	Group chief accounting officer

C.1.32 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated financial statements it prepares from being laid before the general shareholders' meeting with a qualified audit report.

The mechanisms adopted for such purpose (contemplated in article 62.3 of the Bylaws and articles 16.1, 2, 3 and 4 b), c), d), e), f), g), h), and i), and 35.5 of the Rules and Regulations of the Board of Directors) can be summarised as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the Bank and the Group, all in accordance with legal requirements and generally accepted accounting principles.

- Review by the audit committee of the financial statements prepared by the services of the Bank and of the Group. The audit committee is a body specialised in this area and comprises solely non-executive directors. This committee serves as the normal channel of communication between the board and the external auditor.

In reference to the financial statements and management report for 2015, which will be submitted at the annual general meeting to be held on either 17 or 18 March 2016, on first or second call, respectively, the audit committee, at its meeting held on 10 February 2016, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred at the meeting held on 12 February 2016 following certification by the general auditor of the Group.

In meetings held on 21 April, 22 July and 21 October 2015 and on 26 January 2016, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2015, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2015 financial information is prepared in accordance with the same principles and practices applied to the financial statements.

The audit committee has reported favourably on the condensed interim consolidated financial statements for the first half of 2015. These were prepared in accordance with prevailing international accounting principles and rules (specifically IAS 34 Interim Financial Reporting, as adopted by the European Union) and in accordance with article 12 of Royal Decree 1362/2007.

Regular meetings have been held with the external auditor, both by the board of directors (twice in 2015) and by the audit committee. In 2015, the external auditor attended 12 of the 13 meetings held by the committee, providing sufficient time to unearth any possible discrepancies with respect to the accounting criteria employed.

In the case of a discrepancy, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard.

No reservations or qualifications have been made to the individual financial statements of the Bank or to the consolidated financial statements of the Group over the last three fiscal years.

C.1.33 Is the secretary of the board also a director?

Yes ☐ **No** ☒

The person acting as the general secretary and the secretary of the board does not need to be a director.

C.1.35 Indicate and explain, where applicable, the specific mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

a. External auditors

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

In accordance with article 529.quaterdecies of the LSC and articles 16.4.c) and 35 of the Rules and Regulations of the Board of Directors, the relationship with the external auditor is channelled through the audit committee, which ensures the independence of the external auditor.

In this regard, article 35 of the Rules and Regulations of the Board of Directors, states the following:

1. "All relations of the board of directors with the Company's external auditor shall be channelled through the audit committee.

Notwithstanding the foregoing, the external auditor shall attend the meetings of the board of directors twice a year in order to submit its report and permit all the directors to have access to as much information as possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group. For such purposes, one of these meetings shall be held in order for the external auditor to report on the work carried out and on the changes in the Company's accounting situation and risks.

2. The board of directors shall not hire audit firms in which the fees intended to be paid to them, for any and all services, exceed the limits set forth at any time by applicable law.

3. No services shall be contracted with the audit firm, other than audit services proper, which might risk the independence of such firm.

4. The board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing.

5. The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard".

In accordance with article 35 of the Rules and Regulations of the Board of Directors, the Bank may not contract any other non-audit services, that may put the auditor's independence at risk, whereby the board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing.

The fees received in 2015 by the Deloitte worldwide organisation for services provided to the various Group companies were as follows:

	Millions of euros
Audits	49.6
Audit-related services	46.9
Tax advisory services	9.1
Other services	12.6
Total	118.2

The main audit expenses were as follows:

	Millions of euros
Audits of the companies analysed by Deloitte	32.1
Of which, for:	
Santander UK Plc	*6.6*
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	*6.7*
Banco Santander (Brasil), S.A.	*1.4*
Audit of the Bank's individual and consolidated financial statements	*2.4*
Other audit work	17.5
Internal control audit (SOX) and capital computation audit (Basel)	*7.9*
Half-yearly audit of the Group	*6.5*
Issuance of comfort letters	*3.1*
Audit expenses	***49.6***

The main expenses relating to audit services were as follows:

	Millions de euros
Other recurrent work and reports required by the various national supervisory bodies in the countries where the Group operates	10.9
Limited reviews and others required by the Group's listing in Brazil	3.8
Non-recurring reviews required by regulators	0.4
Audit and other reviews of acquisitions (due diligence)	2.2
Issuance of security reports	5.2
Review of procedures, data and controls and other auditing services	24.4
Expenses for audit-related services	**46.9**

The audit committee believes that there are no objective grounds for doubting the independence of the Group's external auditor. In accordance with current legislation and the criteria set down in relevant international documents intended to ensure the effectiveness of external auditing services, the committee:

1. Has reviewed all the services rendered by the auditor for the audit and related services, tax services and other services described above, finding that the services arranged with the Group's auditors comply with the independence requirements set out in the Audit Act, as well as US Securities and Exchange Commission (SEC) and Public Accounting Oversight Board (PCAOB) regulations in the US, and the Rules and Regulations of the Board of Directors.

2. Has examined the relationship between the fees received by the auditor during the year for services other than audit and related services as a proportion of the total fees received by the auditor for all of its services, with the ratio being 18.4%.
By way of reference, and in accordance with available information on leading financial institutions whose shares are listed on official markets, the average fees paid by such institutions to their auditors in 2015 for non-audit services were 21% of the total fees.

3. Has examined the percentage that the fees paid for all items represent compared to the total fees generated by the audit firm. The Deloitte worldwide organisation billed the Group for less than 0.3% of its total revenue.

Therefore, the audit committee, at the meeting of 10 February 2016, issued a favourable report on the independence of the auditors, stating its position on matters including the performance of additional services by the auditor.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by article 529.quaterdecies.4.f) of the LSC.

b. Financial analysts

The Shareholder and Investor Relations department channels communication with the institutional shareholders and financial analysts that cover Santander's activities. Every care is taken, in accordance with Article 32.2 of the Rules and Regulations of the Board of Directors, that institutional shareholders do not receive any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.

In addition, in accordance with article 31.1 of its rules and regulations, the board has drawn up and implemented a policy of communication by the Bank with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

Article 34 of the board regulations governs the board's relationship with the market.

c. Investment banks and rating agencies

The Bank is compliant with the "Guidelines for transmission of insider information to third parties" published by the CNMV on 9 March 2009 (which expressly includes financial institutions and rating agencies as recipients of information) and with the "Recommendations on informational meetings with analysts, institutional investors and other securities market professionals" published by the CNMV on 22 December 2005.

In particular, when the Bank is advised in a transaction by a third party and, within the context of these services, this party receives privileged information, the Bank includes the names of the people who have had access to such insider information on a list drawn up by the compliance function, and alerts these people and/or institutions to the fact that they are also subject to the same applicable legislation and must draw up their own list of insiders. Such entities should provide a description of the internal mechanisms they use to preserve their independence.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes [ ] **No** [X]

At its meeting on 6 July 2015, as announced in a "material fact" filing, the board of directors chose PricewaterhouseCoopers Auditores, S.L. as the external auditor of Banco Santander and its consolidated Group to audit the financial statements for 2016, 2017 and 2018. This decision was taken in accordance with the corporate governance recommendations regarding the rotation of the external auditor, at the proposal of the audit committee, and as a result of a fully transparent selection process. The board is submitting this appointment for approval at the 2016 general shareholders' meeting.

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes [ ] **No** [X]

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes [X]   No [ ]

	Company	Group	Total
Amount of non-audit work (thousands of euros)	6,139	15,558	21,697
Amount of non-audit work as a % of the total amount billed by the audit firm	17.5%	18.7%	18.4%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of those reservations or qualifications.

Yes [ ]   **No** [X]

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	14	14

	Company	Grupo
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	41.2%	42.4%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes [X]   No [ ]

Procedures
The Rules and Regulations of the Board of Directors (article 27) expressly recognise that directors and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology, and the international committees are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board, through the general secretary, to hire external advisors (legal, accounting, financial and technology experts, recruiting specialists and other experts), at the Bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject such requests with good reason.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes [X]   No [ ]

Procedures
According to the first paragraph of article 19.2 of the board regulations, the calendar of board meetings is prepared annually, along with a proposed draft agenda for such meetings and, if any changes are made thereto, each director must be duly notified. The board keeps a formal list of matters reserved for discussion by it and formulates a plan for the distribution of such matters between the ordinary meetings planned in the calendar approved by the board (article 19.6 of the board regulations). The second and third paragraphs of article 19.2 prescribe that the call notice for meetings shall be sent 15 days in advance, by the secretary of the board. The relevant documentation for each meeting (draft agenda, presentations, minutes from previous meetings) is sent to the directors 4 business days prior to the date on which the board meeting is to be held via a secure electronic device. The board committees also adopt an annual calendar of their meetings and the documentation relevant to each meeting (draft agenda, presentations, minutes of earlier meetings) is generally supplied to committee members 3 business days in advance of each meeting (article 16.6, 17.7, 17.bis.7, 17.ter.4 and 17.quinquies.4 of the board regulations). The information provided to the directors prior to the meetings is prepared specifically for the purpose of preparing for these meetings and is intended for such purpose. In the opinion of the board, such information is complete and is sent sufficiently in advance. In addition, article 26 of the Rules and Regulations of the Board of Directors expressly vest directors with the right to request and obtain information regarding any aspect of the Bank and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of such companies. Directors also have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties (article 19.4 of the board regulations). Lastly, under articles 14.7 and 26.3 of the board regulations, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes [X] No [ ]

Details of rules
As part of the duty of loyalty of the directors, article 30 of the Rules and Regulations of the Board of Directors establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the Bank and, in particular, any criminal lawsuits. In addition, when these circumstances arise and, in particular, when they are subject to any incompatibility or prohibition provided for by law, as stipulated in article 56.2 of the Bylaws and article 23.2 of the Rules and Regulations of the Board of Directors, the affected directors must tender their resignation to the board and formally resign from their position if the board, following a report from the appointments committee, deems this appropriate.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC:

Yes ☐ **No** ☒

Name of director	Criminal charges	Remarks

Indicate whether the board of directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Not applicable

Yes ☐ No ☐

Decision/action taken	Justified explanation

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

None.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries (*)	19
Senior executive vice presidents	In 2013, all remaining indemnity clauses for senior management members were eliminated
Other employees	Some employees, if laid off by the Bank in the first two years of their contracts, would be entitled to an indemnity equivalent to one or two years of their basic pay. In addition, for the purposes of statutory indemnities in the event of severance, some employees are entitled to length of service indemnities that include services provided prior to their engagement by the Bank, which would thus lead to their collecting a larger indemnity than what would correspond to their actual length of service with the Bank.

* Data at 31 December 2015

If the contract of employment with Rodrigo Echenique Gordillo were terminated before 1 January 2018 – unless this were through his own free will, his death or permanent disability, or a serious breach of his obligations – he would be entitled to an indemnity of two times his fixed pay.

Mr Echenique was appointed an executive director on 16 January 2014. The entitlement referred to above is set out in the contract entered into on the occasion of his appointment as an executive director.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of directors	General shareholders' meeting
Body authorising clauses	X	

	Yes	No
Is the general shareholders' meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors:

The membership of board committees described in the tables of this section corresponds to the situation at year-end 2015.

EXECUTIVE COMMITTEE

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. Bruce Carnegie-Brown	Member	Non-executive independent director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	25%
% of other external directors	25%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year. Rules and Regulations of the Board of Directors:

The executive committee is regulated by article 51 of the Bylaws and article 14 of the Rules and Regulations of the Board of Directors, as follows:

Article 51 of the Bylaws:

1. The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.

2. Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.

3. The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of these bylaws or of the rules and regulations of the board.

4. The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him.

5. The executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board."

Article 14 of the Rules and Regulations of the Board of Directors

1. The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.

2. The board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board.

3. Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.

4. The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the Bylaws or of these rules and regulations.

5. The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him. As a general rule, the executive committee shall meet on a weekly basis, in accordance with the schedule of monthly meetings approved by the committee before the beginning of each month. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

6. Meetings of the executive committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the executive committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

7. All members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.

8. The executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board."

The permanent delegation of powers by the board of directors to the executive committee shall include all of the board's powers, except for those that may not be delegated by law or which may not be delegated pursuant to the provisions of the Bylaws, or those that are exclusively reserved for the board itself and listed in article 3 of the Rules and Regulations of the Board of Directors, that is:

a) Approval of the general policies and strategies of the Company, including, without limitation:

(i) Strategic or business plans, management goals and annual budget.

(ii) Investment and financing policy.

(iii) Capital and liquidity strategy.

(iv) Tax strategy.

(v) Dividend and treasury share policy.

(vi) Risk management and control policy, including tax risks.

(vii) Policy on corporate governance and internal governance of the Company and its Group.

(viii) Remuneration policies for personnel of the Company and its Group.

(ix) Corporate social responsibility policy.

(x) Regulatory compliance policy, including the approval of codes of conduct, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model.

b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related-party transactions of particular importance and treasury shares.

c) Approval of the financial information that the Company must make public on a periodic basis based on its status as a listed company.

d) Preparation of the financial statements and submission thereof to the shareholders at the general shareholders' meeting.

e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.

f) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

h) Definition of the structure of the Group of companies of which the Company is the controlling entity.

i) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.

j) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the Bylaws.

k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the Bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.

l) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

m) Design and supervision of the director selection policy and of the succession plans for the directors (including those applicable to the Group executive chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 24 of the Rules and Regulations.

n) Selection, appointment by co-option and continuous evaluation of directors

o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

p) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

q) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.

r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 30 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

t) Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.

u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.
v) And those specifically provided for in the Rules and Regulations of the Board of Directors themselves.

The powers set forth in paragraphs (c), (h) (only where related to transactions that do not need a report from the audit committee pursuant to article 16.4.(h) of the Rules and Regulations of the Board of Directors), (j), (q), (r) and (u) may be exercised by the executive committee whenever advisable for reasons of urgency, with a subsequent report thereof to the board for ratification at the first meeting thereafter held by it.

Over the course of 2015 the executive committee has carried out activities related to the different areas of the Bank and its Group, with special attention being placed on the risk function; discussing and dealing with, in the 59 meetings held in the year (see section C.1.29 of the current report), matters relating to, among others, the following:

- Reports by the Group executive chairman: the Group executive chairman of the board of directors, who also chairs the executive committee, regularly reported on certain aspects relating to Group management.

- Corporate transactions: the committee approved investments and divestments undertaken by the Group.

- Risks: the committee was regularly informed about the risks facing the Group and, within the framework of the risk governance model, made decisions about transactions that must be approved thereby due to their amount or relevance.

- Subsidiaries: the committee received reports on the performance of the various units and, in line with current internal procedures, authorised transactions and appointments of directors of subsidiaries.

- Capital: the committee has received frequent information on the performance of capital ratios and of the measures being used to optimise them.

- Activities with supervisors and regulatory matters: the committee was regularly informed of the initiatives and activities of supervisors and regulators.

- Earnings: the committee has been regularly kept up to date on Group earnings, and their impact on investors and analysts.

- Other matters: the committee was kept continuously and fully informed of the performance of the various business areas of the Group, through the management reports submitted thereto regarding, inter alia, the economic environment, liquidity (parent and Group), medium- and long-term wholesale funding, intra-group positions, and technology.

Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:

Yes X No

Given the nature of the executive committee, that has powers delegated from the board of directors, the board considers it sufficient to use the efficiency criteria set out in article 14.2 of the Rules and Regulations of the Board of Directors. This committee has four executive directors at year-end 2015, without discounting the participation of external directors, and particularly, independent directors, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

The board believes that the composition of the executive committee is well balanced, given that it was made up of the following at year-end 2015: 8 directors, 4 executive and 4 external. Of the external directors, 2 are independent and 2 are neither proprietary nor independent.

In addition, according to the Bylaws (articles 45.1 and 45.5) and the Rules and Regulations of the Board of Directors (articles 11.1 and 11.4), the secretary of the board must serve as the general secretary and the secretary of all board committees.

AUDIT COMMITTEE

Name	Position	Type
Mr. Juan Miguel Villar Mir	Chairman	Non-executive independent director
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Belén Romana García	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	100%
% of other external directors	0%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The audit committee is regulated by article 53 of the Bylaws and article 16 of the Rules and Regulations of the Board of Directors.

Article 53 of the Bylaws:

"1. The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The members of the audit committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.

3. The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.

4. The audit and compliance committee shall have at least the following powers and duties:

(i) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers.

(ii) Supervise the effectiveness of the Bank's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit.

(iii) Supervise the process of preparing and presenting the required financial information.

(iv) Propose to the board of directors the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.

(v) Establish appropriate relations with the external auditor to receive information on those issues that might jeopardize its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process, as well as maintain such other communication as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. In any event, the audit committee shall receive annually from the external auditor written confirmation of its independence in relation to the Company or to entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided by the aforementioned auditor, or by persons or entities related thereto, and the fees received by such entities pursuant to the provisions in the law on auditing of accounts.

(vi) *Issue, on an annual basis and prior to the issuance of the auditor's report, a report stating an opinion on the independence of the external auditor. Such report shall, in all cases, contain the evaluation regarding the provision of the additional services mentioned in subsection (v) above, considered individually and as a whole, other than of legal audit and with relation to the rules on independence or to the law on auditing of accounts..*

(vii) *Previously report to the board of directors regarding all the matters established by law, the bylaws and in the rules and regulations of the board, and in particular regarding:*

a) *the financial information that the company must publish from time to time;*

b) *the creation or acquisition of interests in special-purpose entities or with registered office in countries or territories that are considered tax havens; and*

c) *related-party transactions.*

The provisions in paragraphs (iv), (v) and (vi) are without prejudice to the law on auditing of accounts.

5. *The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the external auditor attend such meetings. One of its meetings shall be devoted to preparing the information that the board is to approve and include in the annual public documents.*

6. *Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

7. *The rules and regulations of the board shall further develop the rules applicable to the audit committee established in this article."*

Article 16 of the Rules and Regulations of the Board of Directors:

1. The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.

2. The members of the audit committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.

3. The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.

4. The audit committee shall have the following duties, and any other provided for in applicable law:

(a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers and, specifically, regarding the results of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has played in such process.

(b) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.

(c) In connection with the Company's external auditor:

(i) With respect to the appointment thereof, the audit committee shall have the following powers:

(1) Submit to the board of directors the proposals for selection, appointment, re-election and replacement of the external auditor, assuming responsibility for the selection procedure established by applicable law, as well as the terms of the contract therewith, and periodically obtain from the external auditor information regarding the audit plan and the implementation thereof. The committee shall favour the Group's external auditor also assuming responsibility for auditing the companies making up the Group.

(2) Ensure that the Company gives public notice of the change of external auditor in the form of a material fact (hecho relevante), attaching to such notice a statement regarding the possible existence of disagreements with the outgoing external auditor and, if any have existed, regarding the content thereof, and in the event of resignation of the external auditor, examine the circumstances giving rise thereto.

(ii) With respect to the conduct of the audit, the audit committee shall:

(1) Establish appropriate relationships with the external auditor in order to receive information regarding matters that might risk the independence thereof, for examination by the committee, as well as any other information related to the development of the auditing procedure and such other communications as are provided for in the laws on auditing of accounts and in audit regulations; serve as a channel of communication between the board and the external auditor, assessing the results of each audit and the response of the management team to its recommendations, and acting as a mediator in the event of disagreement between the board and the external auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

(2) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.

(3) Ensure that the external auditor annually attends the meeting of the board of directors provided for in article 35.1 in fine of these rules and regulations.

(*iii*) *And with respect to the independence of the auditor and the provision of services other than audit work, the audit committee shall ensure that the Company and the external auditor comply with applicable regulations regarding the provision of such services, the limits on concentration of the external auditor's business and, in general, all other regulations governing independence of the external auditor. For purposes of ensuring the independence of the external auditor, the audit committee shall take note of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure. And, specifically, it shall ensure that the remuneration of the external auditor for its work does not compromise the quality and independence thereof, and shall verify the percentage that the fees paid for any and all reasons represent out of the total income of the audit firm, as well as the length of service of the partner who leads the audit team in the provision of such services to the Company.*

In addition, a favourable report from the audit committee shall be needed prior to any decision to contract services other than audit work that are not forbidden by applicable regulations, following an appropriate evaluation of any threats to the independence of the external auditor and of the safeguards applied as provided by such regulations.

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

In any event, the audit committee should annually receive from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly related to the Company, as well as detailed and itemised information on additional services of any kind provided by the aforementioned auditor or by persons or institutions related thereto and the fees received from such entities, pursuant to the regulations governing the auditing of accounts.

Likewise, prior to the issuance of the external auditor's report, the committee shall annually issue a report expressing an opinion on whether the independence of the external auditor is compromised. Such report shall in any event contain a reasoned evaluation of each and every one of the additional services mentioned in the preceding paragraph, taken both individually and as a whole, other than legal audit services, and in connection with the rules on independence or with the regulations governing the auditing of accounts.

(d) Supervise the internal audit function and, specifically:

(i) Propose the selection, appointment and withdrawal of the officer responsible for internal audit;

(ii) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report;

(iii) Ensure the independence and effectiveness of the internal audit function;

(iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties;

(v) *Receive periodic information regarding the activities thereof; and*

(vi) *Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports.*

(e) Supervise the financial reporting system and the internal control systems. In particular, the audit committee shall:

(i) *Supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;*

(ii) *Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and*

(iii) *Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit".*

As a consequence of its activities, the audit committee may submit recommendations or proposals to the board of directors.

In any event, the performance of the duties established herein shall not affect the independence of the internal audit function.

(f) Report to the board, in advance of its adoption of the corresponding decisions, regarding:

(i) *The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual accounts.*

(ii) *The creation or acquisition of interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens.*

(iii) *The approval of related-party transactions provided for in article 33.*

(g) Become apprised of and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also:

(i) *Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for generating financial information, auditing and internal controls.*

(ii) *Establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.*

(h) Receive information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to

transactions of little *complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions.*

(i) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this shall be reported to the committee at the first meeting thereafter held by it. The audit committee shall transmit the information received to the board of directors.

(j) Evaluate its operation and the quality of its work at least once per year.

(k) And the other duties specifically provided for in these rules and regulations.

5. The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, will periodically report to the board of directors and, in any event, at least two times per year, and will also have direct access to the board when it deems it appropriate.

6. The audit committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the audit committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

7. Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor. One of its meetings shall be devoted to preparing the information that the board is to approve and include in the annual public documents.

8. Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, but none of them may represent more than two members in addition to himself. The resolutions of the audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

9. The audit committee, through its chairman, shall report on its activities to the board of directors. This reporting process shall be carried out at meetings of the board planned for this purpose. However, if the chairman of the committee deems it necessary based on the urgency and significance of the matters in question, the information shall be given to the board at the first meeting thereof to be held after the meeting of the committee.

Furthermore, a copy of the minutes of the meetings of the committee shall be delivered to all directors.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, to amend article 53 of the Bylaws, for the purpose of increasing the maximum number of members on the audit committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time, and to adapt this provision to the changes made to article 529 *quaterdecies* of the LSC by final provision four of the Audit Law, which will become effective on 17 June 2016.

The audit committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the main activities carried out by the committee in 2015 (see section C.2.5 below).

In 2015 the audit committee carried out, among others, the following actions: (i) reviewed the financial statements of the Bank and its consolidated Group, as well as the quarterly financial statements and other financial information disclosed to the market or to supervisory bodies in 2015, (ii) was informed of the Group's Pillar III disclosures report, annual report, annual corporate governance report, share registration document and Form 20-F, (iii) proposed the re-election of Deloitte, S.L. as external auditor for verification of the financial statements and management reports of the Bank and the Group for 2015, (iv) analysed the audit reports for the 2014 individual and consolidated financial statements, (v) reported on the independence of the external auditor and state its position, among other matters, on the provision of additional services thereby, (vi) actively participated in designing and conducting the process for selecting the Bank's new auditor, (vii) supervised the Group's internal audit function, revising and approving the 2015 internal audit plan and assessing the adequacy and effectiveness of the function to carry out its mission, and (viii) was informed by the heads of compliance on the Group's status with regard to the prevention of money-laundry and of the financing of terrorism.

Identify the director of the audit committee who has been appointed chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been chairman.

Name of director	Mr. Juan Miguel Villar Mir
Number of years as chairman	9 months

APPOINTMENTS COMMITTEE

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Sol Daurella Comadrán	Member	Non-executive independent director
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	66.67%
% of other external directors	33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year. Rules and Regulations of the Board of Directors

The appointments committee is regulated by article 54 of the Bylaws and article 17 of the Rules and Regulations of the Board of Directors.

Article 54 of the Bylaws:

1. *An appointments committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to appointment and withdrawal of directors on the terms established by law.*

2. *The appointments committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive directors, with independent directors having majority representation.*

3. *The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*

4. *The appointments committee shall in any case be presided over by an independent director.*

5. *The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the appointments committee.*

Article 17 of the Rules and Regulations of the Board of Directors:

"1. The appointments committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive directors, with independent directors having majority representation.

2. The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.

3. The appointments committee must in all events be presided over by an independent director.

4. The appointments committee shall have the following duties:

(a) Propose and review the director selection policy and the succession plan approved by the board and the internal criteria and procedures to be followed in order to select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments committee shall:

(i) Evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board of directors and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.

(ii) Receive, for subsequent consideration, any proposals of potential candidates to cover vacancies that the directors may submit.

(iii) Conduct a periodic review, at least once per year, of the structure, size, composition and activities of the board of directors, the operation of and compliance with the director selection policy and the succession plan, making recommendations to the board regarding possible changes.

(iv) Conduct a periodic review, at least once per year, of the fitness and properness of the different members of the board of directors and of the board as a whole and report to the board of directors accordingly.

(v) Establish, in line with the provisions of article 6.1 of these rules and regulations, a goal for representation of the less-represented gender on the board of directors and prepare guidelines as to how to increase the number of persons of that less-represented gender in order to reach such target. The target, the guidelines and the application thereof shall be published as provided by applicable law.

(b) Apply and supervise the succession plan for the directors approved by the board of directors, working in coordination with the chairman of the board or, for purposes of the succession of the chairman, with the lead director. In particular, examine or organise the succession of the chairman and of the chief executive officer pursuant to article 24 of these rules and regulations.

(c) Prepare, by following standards of objectiveness and conformance to the corporate interest, taking into account the succession plan and assessing the fitness and properness of the potential candidates and, in particular, the existence of possible conflicts of interest, the reasoned proposals for appointment, re-election and ratification of directors provided for in section 2 of article 21 of these rules and regulations, any proposals for removal of directors,

as well as proposals for appointment of the members of each of the committees of the board of directors. It shall also prepare the proposals for the appointment of positions on the board of directors and its committees, following the same aforementioned standards.

(d) Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of the confirmation or review thereof at the ordinary general shareholders' meeting and in the annual corporate governance report.

(e) Report on proposals for appointment or withdrawal of the secretary of the board and, if applicable, the vice secretary, prior to submission thereof to the board.

(f) Propose and review the policies and internal procedures for the selection and continuous evaluation of senior executive vice presidents or similar officers and other employees responsible for internal control functions or who hold key positions for the day-to-day conduct of banking activities, as well as the succession plan for such executive officers, report on their appointment and withdrawal from office and their continuous evaluation in implementation of such procedures, and make any recommendations it deems appropriate.

(g) Ensure compliance by the directors with the duties prescribed in article 30 of these rules and regulations, prepare the reports provided for therein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of noncompliance with the abovementioned duties or with the code of conduct of the Group in the securities markets.

(h) Examine the information provided by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.

(i) Evaluate its operation and the quality of its work at least once per year.

(j) Report on the process of self-evaluation of the board and of the members thereof and assess the independence of the external consultant hired pursuant to article 19.7 of these rules and regulations.

(k) Report on and supervise the application of the policy for planning the succession of the Group and any amendments thereto.

(l) The other duties specifically provided for in these rules and regulations and any others assigned to the committee by applicable law.

5. In the performance of its duties, the appointments committee shall take into account, to the extent possible and on a continuous basis, the need to ensure that decision-making at the board of directors is not monopolised by one person or a reduced number of persons in a manner such that the interests of the Company as a whole may be prejudiced as a result.

6. The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the appointments committee shall consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors. Finally, the committee may hire external firms to assist it in the candidate selection process and in the performance of its other duties, pursuant to the provisions of article 27 of these rules and regulations.

7. The appointments committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the appointments committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof.

Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

8. The appointments committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.

9. Meetings of the appointments committee shall be validly held when more than one-half of its members are present in person or by proxy. The appointments committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the appointments committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

During 2015, no members of the appointments committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the appointments committee on 21 September 2015, the date on which his appointment as director took effect.

The board submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March, on first or second call, respectively, to amend article 54 of the Bylaws, for the purpose of increasing the maximum number of members on the appointments committee, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The appointments committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5).

In 2015 the appointments committee carried out, among others, the following actions: (i) proposed the appointment of directors that were designated in 2015, leading the selection process thereof, (ii) proposed the appointment of new members of the board's committees, (iii) verified the status of each director, bringing the related proposal to the board, (iv) assessed the suitability of the board members, the senior executive vice presidents, the heads of the internal control functions and those responsible for key positions for the day-to-day conduct of the Group's banking activities, (v) reported on the self-evaluation process of the board and its members, as well as its committees, (vi) proposed to the board a succession planning policy for the Group, which establishes the structured succession for key positions, including executive directors, and (viii) reported the appointments of members of senior management that took place in 2015.

REMUNERATION COMMITTEE

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Sol Daurella Comadrán	Member	Director Non-executive independent
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	66.67%
% of other external directors	33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The remuneration committee is regulated by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board of Directors.

Article 54.bis of the Bylaws:

1. *"A remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to remuneration on the terms established by law.*

2. *The remuneration committee shall be composed of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive directors, with independent directors having majority representation.*

3. *The members of the remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*

4. *The remuneration committee shall in any case be presided over by an independent director.*

5. *The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the remuneration committee".*

Article 17.bis of the Rules and Regulations of the Board:

1. *"The remuneration committee shall be composed of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive directors, with independent directors having majority representation.*

2. *The members of the remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*

3. *The remuneration committee shall in any case be presided over by an independent director.*

4. *The remuneration committee shall have the following duties:*

   (a) Prepare and propose the decisions relating to remuneration that the board of directors must adopt, including those that have an impact on the Company's risk and risk management. In particular, the remuneration committee shall propose:

      (i) The director remuneration policy, preparing the required reasoned report on such remuneration policy as provided by article 28.bis of these rules and regulations as well as the annual remuneration report provided for in article 29.

      (ii) The individual remuneration of the directors in their capacity as such.

      (iii) The individual remuneration of the directors for the performance of duties other than those in their capacity as such, and other terms of their contracts.

      (iv) The remuneration policy applicable to the senior executive vice presidents and other members of senior management in compliance with the provisions of law.

      (v) The basic terms of the contracts and the remuneration of the members of senior management.

      (vi) The remuneration of those other officers who, while not members of senior management, are assigned to the Company's internal control functions (internal audit, risk management or compliance) or receive significant remuneration, particularly variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.

   (b) Ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company.

   (c) Periodically review the remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management, for which purposes the remuneration committee shall see that the mechanisms and systems adopted ensure that the remuneration programmes take into account all types of risks and capital and liquidity

levels and allow for remuneration to be aligned with the business objectives and strategies, corporate culture and long-term interest of the Company.

(d) *Ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate.*

(e) *And such other duties as are specifically provided for in these rules and regulations or assigned thereto by applicable law.*

In the performance of its duties, the remuneration committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest.

5. *The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the remuneration committee shall consult with the chairman and with the chief executive officer on matters relating to the executive directors and senior officers.*

6. *Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, shall attend the meetings of the remuneration committee, provide their cooperation and make available thereto such information as they may have in their possession, when so required and under such terms as the committee may establish for attendance.*

7. *The remuneration committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the remuneration committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.*

8. *The remuneration committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

9. *Meetings of the remuneration committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the remuneration committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

10. *When the remuneration committee seeks the external assistance provided for in article 27 of these rules and regulations, it shall ensure that any possible conflicts of interest do not prejudice the independent judgement of those giving advice."*

During 2015, no members of the remuneration committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the remuneration committee on 21 September 2015, the date on which his appointment as director took effect.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, to amend article 54.bis of the Bylaws, for the purpose of increasing the maximum number of members on the remuneration committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The committee issued a report on its operations, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5 below).

In 2015, the remuneration committee carried out, among others, the following actions: (i) proposed to the board the director remuneration policy, preparing the related report on this policy and the annual remuneration report, (ii) proposed to the board the individual remuneration of directors, (iii) proposed to the board the remuneration policy for senior executives vice presidents and other members of senior management and ensure the observance there of, and (iv) proposed to the board the remuneration of other executives who, although not belonging to senior management, are assigned internal control functions in the Company (internal audit, risk management and compliance) or receive significant remuneration, particularly variable remuneration, and whose activities may have a significant impact on the Group's assumption of risks.

RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEE

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Juan Miguel Villar Mir	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	71.43%
% of other external directors	28.57%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The risk supervision, regulation and compliance committee is regulated by article 54.ter of the Bylaws and article 17.ter of the Rules and Regulations of the Board of Directors, which reads as follows:

Article 54.ter of the Bylaws:

1 "A risk supervision, regulation and compliance committee shall be established and entrusted with general powers to support and advise the board of directors in its risk control and oversight duties, in the definition of the risk policies of the Group, in relations with supervisory authorities and in compliance matters.

2 The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation.

3 The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of this committee.

4 The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.

5 The rules and regulations of the board shall govern the composition, operation and powers of the risk supervision, regulation and compliance committee."

Article 17.ter of the Rules and Regulations of the Board

1. *The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation.*

2. *The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of this committee.*

3. *The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.*

4. *The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:*

   (a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the current and future risk appetite and the strategy in this area.

   The Group's risk policies shall include:

   (i) The identification of the various types of financial and non-financial risk (operational, technological, tax, legal, social, environmental, political, reputational, and compliance and behavioural, among others) that the Company faces, including, among financial or economic risks, contingent liabilities and others which are off-balance sheet;

(ii) The setting of the risk appetite that the Company deems acceptable;

(iii) The planned measures to mitigate the impact of identified risks, in the event that they materialize; and

(iv) The information and internal control systems that will be used to control and manage such risks, including tax risks.

(b) Assistance to the board in monitoring the implementation of the risk strategy and the alignment thereof with the strategic commercial plans.

(c) Assistance to the board in approving the capital and liquidity strategy and supervision of the application thereof.

(d) Ensuring that the pricing policy for the assets and liabilities offered to customers is fully aligned with the Company's business model, risk appetite and risk strategy. If such is not the case, the committee shall submit to the board of directors a plan for the correction of such policy.

(e) Knowing and assessing the risks arising from the macroeconomic context and from the economic cycles within which the Company and its Group carry out their activities.

(f) Systematic review of exposure to principal customers, economic sectors of activity, geographic areas and risk types.

(g) Supervising the risk function, without prejudice to the direct access of the latter to the board of directors.

(h) Support and assistance to the board in the performance of stress tests by the Company, in particular by assessing the scenarios and assumptions to be used in such tests, evaluating the results thereof and analysing the measures proposed by the risk function as a consequence of such results.

(i) Knowing and assessing management tools, improvement initiatives, advancement of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

(j) Determination, together with the board of directors, of the nature, amount, format and frequency of the risk-related information that is to be received by the committee itself and by the board of directors. In particular, the risk supervision, regulation and compliance committee shall receive periodic information from the chief risk officer (CRO).

(k) Cooperation in establishing rational remuneration policies and practices. For such purpose, the risk supervision, regulation and compliance committee shall examine, without prejudice to the duties of the remuneration committee, whether the incentive policy contemplated in the remuneration system takes risk, capital, liquidity and the likelihood and opportunity of earnings into consideration.

(l) Supervision and regular evaluation of the operation of the Company's compliance programme, of the governance rules and the compliance function, and making such proposals as may be required for the improvement thereof. For such purpose, the risk supervision, regulation and compliance 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, if applicable, shall issue reports on disciplinary measures for members of senior management.*

(iii) *Shall supervise the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities in charge of supervision and control.*

(iv) *Shall supervise the operation of and compliance with the criminal risk prevention model approved by the board of directors pursuant to article 3.2 of these rules and regulations.*

For the performance of this task, the committee shall have its own powers of initiative and control. This includes, without limitation, the power to obtain any information it deems appropriate and to call any officer or employee of the Group, including, in particular, the heads of the compliance function and of the various committees related to this area that may exist in order to assess their performance, as well as the power to commence and direct such internal inquiries as it deems necessary into events related to any possible noncompliance with the criminal risk prevention model.

Furthermore, the committee shall periodically evaluate the operation of the prevention model and the effectiveness thereof in preventing or mitigating the commission of crimes, for which purpose it may rely on external advice when it deems it appropriate, and shall propose to the board of directors any changes to the criminal risk prevention model and, in general, to the compliance programme that it deems fit in view of such evaluation.

(m) Review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitoring of the strategy and practices in this field, evaluating the level of adherence thereto.

(n) Supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders.

(o) Coordination of the process of communication of non-financial and diversity information, in accordance with applicable regulations and leading international standards.

(p) Periodic evaluation of the appropriateness of the Company's corporate governance system, in order to ensure that it fulfils its mission of promoting the corporate interest and that it takes into account, where applicable, the legitimate interests of the other stakeholders.

(q) Support and advice to the board regarding relations with supervisors and regulators in the various countries where the Group operates.

(r) *Tracking and evaluation of rule-making proposals and regulatory changes that may be applicable and of any possible consequences for the Group.*

(s) *Reporting on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.*

5. *The risk supervision, regulation and compliance committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the risk supervision, regulation and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and any member of the Company's management team or personnel shall, when so required, attend its meetings and cooperate and provide access to the information available to them. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.*

6. *Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than one-half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

7. *In order to ensure effective communication and coordination, the risk supervision, regulation and compliance committee may periodically call joint meetings with the audit committee (or with other committees with relevant powers in the area of risks) in order to ensure an effective exchange of information and the coverage of all risks.*

8. *The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, a copy of the minutes of the meetings of the committee shall be delivered to all directors.*

During 2015, no members of the risk supervision, regulation and compliance committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the appointments committee on 21 September 2015, the date on which his appointment as the director took effect.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March, on first or second call, respectively, to amend article 54.ter of the Bylaws, for the purpose of increasing the maximum number of members on the risk supervision, regulation and compliance committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The risk supervision, regulation and compliance committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5 below).

In 2015 the risk supervision, regulation and compliance committee carried out, among others, the following actions: (i) advised the board on risk matters that it has been informed of by the risk division of the Group's risk outlook, (ii) reported on the proposal for the new risk governance model approved by the board on 29 September 2015, (iii) reported on the annual capital self-evaluation report and the liquidity plan, (iv) was briefed on the new target operating model (TOM) of the compliance function, (v) was informed of the application of and compliance with the Group's codes of conduct, the implementation of whistle-blowing channels in its units and the Group's corporate system for the prevention of money-laundering and of the financing of terrorism and the Group's policies with regard to sensitive industries, (vi) became familiar with the most relevant reports issued by Spanish supervisory authorities and those of other countries in which the Group operates, periodically receiving reports monitoring the main issues, (vii) reported on proposals for amending the Rules and Regulations of the Board of Directors that were adopted in 2015, and (viii) was 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.

INTERNATIONAL COMMITTEE

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Esther Giménez-Salinas i Colomer	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	16.67%
% of other external directors	33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The international committee is regulated by article 17.quater of the Rules and Regulations of the Board of Directors, which reads as follows:

Article 17 *quater* of the board regulations:

1. *The international committee shall be composed of a minimum of three and a maximum of seven directors. The chairman of the board of directors shall also be the chairman of the international committee.*

The board of directors shall endeavour to ensure that the size and qualitative composition of the international committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

2. *The members of the international committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience in the areas for which the committee is responsible.*

3. *The international committee shall have the following duties:*

   (a) Monitor the development of the Group's strategy and of the activities, markets and countries in which the Group wishes to operate by means of direct investments or specific transactions, for which purpose it shall be informed of the commercial initiatives and strategies pursued by the various units of the Group and of any new projects that may arise; and

   (b) Review the performance of financial investments and of the business, as well as the international economic situation, in order to submit, if applicable, any proposals required to adjust the limits on country risk, the structure and profitability thereof and the assignment of such risk by business and/or unit.

4. *The international committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the international committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.*

5. *The international committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

6. *Meetings of the international committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the international committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

INNOVATION AND TECHNOLOGY COMMITTEE

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Bruce Carnegie-Brown	Member	Non-executive independent director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms.Esther Giménez-Salinas i Colomer	Member	Non-executive independent director
Mr.Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	25%
% of other external directors	25%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The innovation and technology committee is regulated by article 17.quinquies of the Rules and Regulations of the Board of Directors[2]:

Article 17 *quinquies* of the board regulations:

1. "The innovation and technology committee shall be composed of a minimum of three and a maximum of eight directors. The chairman of the board of directors shall also be the chairman of the innovation and technology committee.

The board of directors shall endeavour to ensure that the size and qualitative composition of the innovation and technology committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

2. The members of the innovation and technology committee shall be appointed by the board of directors taking into account their knowledge, qualifications and experience in the areas for which the committee is responsible.

[2] After the amendment approved by the board of directors at its meeting of 26 January 2016, following report by the risk supervision, regulation and compliance committee.

3. The purpose of the innovation and technology committee is to assist the board of directors in complying with its supervisory responsibilities with respect to the role of technology in the activities and strategies of the Group's business and to advise it in matters related to the Group's innovation strategies and plans, along with the trends resulting from new business models, technology and products.

To fulfil its role, the innovation and technology committee shall have the following duties:

(a) Review and report on plans and activities relating to technology:

(i) information systems and application programming;

(ii) investments in information technology equipment and technological transformation;

(iii) design of operating processes to improve productivity;

(iv) programmes for improvement of service quality and measurement procedures, as well as those relating to means and costs; and

(v) significant projects in the area of innovation and technology.

(b) Review and report on plans and activities relating to innovation:

(i) tests and adoption of new business models, technology, systems and platforms;

(ii) associations, commercial relationships and investments; and

(iii) significant projects in the area of innovation.

(c) Propose to the board the technology framework and the data management framework for the Company.

(d) Assist the board in the approval of the strategic technology plan.

(e) Assist the board by making recommendations relating to the Group's innovation agenda.

(f) Assist the board in the identification of the major threats to the status quo which may result as a consequence of new business models, technology, processes, products and concepts.

(g) Propose to the board the annual systems plan.

(h) Assist the board in evaluating the quality of the technological service.

(i) Assist the board in evaluating the capacity and conditions for innovation at both Group and country level.

(j) Assist the risk supervision, regulation and compliance committee in the supervision of technological and security risks and supervise the management of cybersecurity.

4. The innovation and technology committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the innovation and technology committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

5. The innovation and technology committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.

6. Meetings of the innovation and technology committee shall be validly held when more than one-half of its members are present in person or by proxy. The innovation and technology committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the innovation and technology committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

The rules of operation of the board set out in paragraphs 1 to 6 of the board regulations also apply to its committees (article 20.7 of the board regulations).

On 1 December 2015 the delegated risk committee, which had powers relating to risk management, was disbanded. At that date, this committee was made up of 6 members: 3 executive directors, 2 independent directors and 1 non-executive director that was neither proprietary nor independent. The composition, operation and functions of the committee is governed by article 52 of the Bylaws and article 15 of the Rules and Regulations of the Board. This committee was disbanded as a result of the Group's new risk governance model, approved by the board of directors on 29 September 2015, at the proposal of the risk supervision, regulation and compliance committee. This new risk model includes the creation of two non-statutory internal risk committees: the executive risk committee, which replaces the delegated risk committee, and the risk control committee.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	2015		2014		2013		2012	
	Number	%	Number	%	Number	%	Number	%
Executive committee	2	25%	2	28,57%	1	25%	2	25,00%
Delegate risk committee	1 (*)	20%	1	20%	1	20%	1	20,00%
Audit committee	1	25%	-	-	-	-	-	-
Appointments and remuneration committee	-	-	-	-	1	25%	1	25,00%
Appointments committee	1	20%	-	0%	-	-	-	-
Remuneration committee	2	33,3%	1	25%	-	-	-	-
Risk supervision, regulation and compliance committee	1 (**)	14,2%	1	25%	-	-	-	-
International committee	2	33,3%	2	33,33%	1	28,57%	2	28,57%
Innovation and technology committee (formerly the technology, productivity and quality committee)	2	25%	1	33,33%	1	25%	1	25,00%

(*) The director, Ms. Isabel Tocino, was a member of this committee until it was disbanded by resolution of the board on 1 December 2015.
(**) Ms. Sheila C. Bair was a member of this committee until her resignation from the board on 1 October 2015

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The specific regulations on board committees, are contained in the Bylaws and the Rules and Regulations of the Board of Directors; both documents are available on the Group's corporate website (www.santander.com)

Along with the call notice for the 2016 annual general shareholders' meeting, the 2015 annual reports of the audit committee (including the reports on the auditor's independence and related-party transactions), the appointments committee, the remuneration committee (including the directors' remuneration policy submitted to the general shareholders' meeting for approval) and the risk supervision, regulation and compliance committee, which include a summary of the committees' activities during 2015, have all been made available on the Company's website (www.santander.com).

In 2015 the articles of the Bylaws and of the board rules and regulations that govern board committees were partly altered.

See sections C.1.18 and C.2.1 of this report.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedures for approving related-party transactions

Related-party transactions are governed by articles 16.4 (f), 30 and 33 of the board regulations.

Under article 16.4 (f), it rests with the audit committee to report to the board, prior to the board's adoption of the relevant decisions, on the approval of the related-party transactions referred to in article 33.

Article 30 determines that the duty to avoid conflicts of interest binds a director to abstain from entering into transactions with the Company except in the events set out in article 33 of the board regulations.

Finally, article 33 of the Rules and Regulations of the Board of Directors states:

1. *The board shall examine the transactions that the Company or Group companies carry out with directors (upon the terms established by law and by article 30 of these rules and regulations), with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Company or of other Group companies, or with persons related thereto. The performance of such transactions shall require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval thereof falls within the purview of the shareholders acting at a general shareholders' meeting. Such transactions shall be evaluated in the light of the principle of equal treatment among all shareholders and the prevailing market conditions, and shall be disclosed in the annual corporate governance report and in the periodic public information, upon the terms set forth by applicable regulations.*

2. *However, the authorisation provided for in the preceding subsection shall not be required for transactions that simultaneously meet the following three conditions:*

   1st They are carried out under contracts with basically standard terms that customarily apply to the customers contracting for the type of product or service in question.

   2nd They are performed at prices or rates generally established by the party acting as supplier of the goods or service in question or, if the transactions concern goods or services for which no rates are established, they are performed under arm's length conditions, similar to those applied to commercial relationships with customers having similar characteristics.

   3rd The amount thereof does not exceed 1% of the Company's annual income.

If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.

3. *As an exception, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board."*

The Bank has a finance policy for members of senior management which sets out the terms and conditions for loans, mortgages and consumer credit to executive directors and other members of senior management, as well is the procedure for granting such loans. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

Likewise, pursuant to article 35 of Royal Decree 84/2015, the granting of loans, guarantees and sureties to members of the board of directors, senior executive vice presidents or similar officers requires authorisation from the Bank of Spain; except where these transactions are covered by collective agreements undertaken by the Company, or they are carried out under standard terms and conditions that are usually applied across-the-board to a large number of people and where the amount granted to the same person (including certain people related thereto) does not exceed EUR 200,000. In any event, there is a duty to inform the Bank of Spain of these transactions.

Identical rules (approval bodies and procedures) apply to intragroup transactions as to transactions with customers, with processes in place to monitor that such transactions are under market terms and conditions and prices.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

As indicated above (see section A.2), the Bank is not aware of the existence of significant shareholders and accordingly, there is no information regarding transactions therewith.

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

During 2015 and through the date of publication of this report, to the best of the Bank's knowledge, no member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders, has carried out any significant transaction or any transaction under non-customary market conditions with the Bank, in accordance with Order EHA/3050/2004 of 15 September on the information on related-party transactions that must be supplied in the half-yearly reporting of security-issuing companies listed on organised exchanges.

The audit committee verified that related-party transactions concluded in the year were compliant with the terms of the board rules and regulations for exemption from authorisation from the governing bodies, or had in fact obtained such authorisation after a favourable report from the committee itself to the effect that it had ascertained that the agreed consideration and rest of terms were at arm's length.

The audit committee's report contains a report on related-party transactions, which is published on the Group's corporate website (www.Santander.com). (See section C.2.1 of this report.).

The direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2015 are shown below. The conditions of these transactions are equivalent to those carried out under market conditions or the related compensation in kind was charged.

All these transactions are part of the ordinary course of business of the Bank or the Group company with which the transaction was carried out and are reported in note 5.f to the Group's consolidated financial statements for 2015.

Name or corporate name of director or senior manager	Name or corporate name of related party	Relationship	Type of transaction	Amount (thousands of euros)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	46
Mr. José Antonio Álvarez Álvarez	Banco Santander, S.A.	Director	Financing	11
Mr. Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	13
Mr. Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	24
Mr. Javier Botín-Sanz de Sautuola y O´Shea	Banco Santander, S.A.	Director	Financing	6
Mr. Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Director	Financing	2

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

Pursuant to Spanish legislation, the transactions and the results obtained by the Company (Banco Santander, S.A.) at 31 December 2015 with Group entities resident in countries or territories that were considered tax havens at this date are detailed below. These results were eliminated in the consolidation process.

These jurisdictions are not considered tax havens by the OECD, as they have successfully passed the evaluations of the Global Forum on Transparency and Exchange of Information for Tax Purposes. They are also not considered offshore centres according to the European Commission

See note 3.c) to the 2015 consolidated financial statements of Grupo Santander for more information on offshore entities.

Corporate name of the group company	Brief description of the transaction	Amount (*)
SCH Issuances Ltd. (In liquidation) (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (a):	
	Deposits (liability)	(11,166)
	Subordinated debt (asset)	3,893
Totta & Açores Financing Ltd. (Islas Cay Totta & Açores Financing Ltd. (Cayman Islands tman)	In relation to issuance of preference shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A.(b)	17,913
Banco Santander (Brasil), S.A. (Cayman Islands Branch)	Contracting of derivatives with the New York branch of Banco Santander, S.A. (c)	47,086
	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (d)	(7,714)
	Credit risk hedging contracts (e)	4,120
	Debt instruments (asset) (f)	112

(*) Profit/(loss) for 2015 in thousand euros earned by the company on the activities described.

Details of these transactions and the current balances of these at 31 December 2015 are given below: these were eliminated in the consolidation process:

(a) Issue in 1995 of USD 200 million, fully amortised as of 1 November 2015. The company is in the process of liquidation and its final dissolution is expected in March 2016.

(b) Issue in 2005 of EUR 300 million, 100% subscribed by Banco Santander, S.A., which was amortised as of 30 December 2015. The company is expected to be liquidated in 2016.

(c) Derivatives with a net positive market value of EUR 36.3 million in the company, as follows:

- 116 Non Delivery Forward.
- 17 Options.
- 49 Swaps.

- 36 Cross Currency Swaps.
- 13 Forex.

(d) Nominal overnight deposits of EUR 4,336 million.

(e) Hedging transactions on asset positions of the Cayman branch of Banco Santander (Brasil), S.A. No open position at 31/12/2015.

(f) Debt instruments issued by the Cayman branch of Banco Santander (Brasil), S.A. and acquired by the Company for EUR 4.4 million.

D.5 Indicate the amount from related-party transactions.

The Group's transactions with related parties, including associates and jointly controlled entities, members of the Bank's board of directors and senior managers relate to the Group's ordinary business. The conditions of these transactions are equivalent to those carried out under market conditions or, where applicable, the related compensation in kind was charged.

At year-end 2015, the Group's related-party transactions were as follows: with associates and jointly controlled entities, assets, liabilities, earnings and other positions (off-balance-sheet positions) of EUR 6,542 million, EUR 1,122 million, EUR 802 million and EUR 4,123 million, respectively; with members of the board of directors, assets, liabilities and other positions (off-balance-sheet positions) of EUR 0.1 million, EUR 25 million and EUR 2 million, respectively; with senior executive vice presidents, assets, liabilities and other positions (off-balance-sheet positions) of EUR 28 million, EUR 16 million and EUR 4 million, respectively; and with other related parties, assets, liabilities, earnings and other positions (off-balance-sheet positions) of EUR 573 million, EUR 103 million, EUR 24 million and EUR 2,682 million, respectively.

In addition to the above, there were also insurance contracts linked to pensions amounting to EUR 299 million at 31 December 2015.

See note 53 (Related parties) to the Group's 2014 financial statements.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

- Directors.

Article 30 of the board regulations determines that directors must take the necessary steps to avoid situations in which their interests, whether their own or on behalf of others, might conflict with the interests of the Company or the duties that they owe to the Company. The duty to avoid conflicts of interest imposes on a director certain obligations, such as abstaining from using the name of the Company or invoking his or her capacity as a director to improperly influence the conclusion of private transactions.

Directors must notify the board of any direct or indirect conflict that they or persons related thereto may have with the interests of the Bank.

If the conflict of interest arises from a transaction, under article 33 of the board regulations the director shall not be allowed to conduct it unless the board, following a favourable report from the audit committee, approves such transaction, unless under the law such approval rests with the shareholders at general meeting. Transactions must be examined from the standpoint of equality of treatment and arm's length terms, and must be disclosed in the annual corporate governance report and in regular public reporting on the terms set out in applicable laws and regulations.

However, the board's authorisation will not be required for transactions that simultaneously satisfy the following three conditions:

1. They are given effect under contracts the terms of which are essentially standardised and are customarily applied to clients contracting for the type of product or service in question.

2. They are concluded at prices or rates set in a general manner by the person acting as supplier of the goods or services in question or, if the transaction relates to goods or services for which no set rates exist, on arm's length terms similar to those applied to commercial relations with similar clients.

3. The amount of the transaction does not exceed 1% of the annual revenue of the Company.

If these conditions are satisfied, the directors concerned are not under a duty to report such transactions or to seek pre-emptive authorisation for them from the board.

The rules on related-party transactions also govern transactions which the Company or a company within its Group concludes with shareholders who, whether individually or in an arrangement with others, own a significant interest, including shareholders represented on the board of the Company or of another company within the Group or their related parties.

- Senior management.

The Code of Conduct in Securities Markets, which may be found on the Group's corporate website (www.santander.com), governs this matter under Title 1, chapter III, letter A (www.santander.com). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

Subjected Persons should present a statement to Compliance Management detailing their linkages. Such statement should be constantly updated.

13. Situations of possible conflict.

Subjected Persons should notify Compliance Management of any situation in which a conflict of interest could occur, from the point of view of an impartial and unbiased observer and with respect to a specific act, service or operation, owing to the linkages of such Subjected Person or because of any other reason or circumstance."

Title 1, chapter III, letter B (Conduct in the event of conflicts of interest) of the code of conduct in securities markets regulates the actions of subjected persons in conflicts of interest based on the principle of avoidance of conflicts of interest. Point 14 of the code states:

"Subjected Persons shall endeavour to avoid conflicts of interests, both their own and those of the Group, and if affected personally by such conflicts, shall abstain from deciding (or where applicable, issuing) their vote in situations where such conflicts arise and shall likewise advise those who are to take the respective decision."

Regarding the rules to be applied in resolving conflicts of interest, section 15 of the code provides that the following shall be borne in mind:

"15.1 In the event of a conflict between the Group and a customer, the safeguarding of the latter's interests.

15.2 In the event of a conflict between Subjected Persons and the Group, the loyal obligation of the former.

15.3 In the event of a conflict between customers, the affected persons will be notified, and the services or operations where the conflict is present may only be implemented if the affected parties agree. The favouring of any affected party shall be avoided."

Decision-making bodies that regulate and resolve conflicts of interest:

- **Directors.**

The board of directors.

- **Senior management.**

The provisions contained in title I, chapter III, letter B (Conduct in the event of a conflict of interest), section 15, establish the following decision-making bodies:

"Conflicts of interest shall be resolved by the person holding maximum responsibility for the area affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomsoever Compliance Management may decide. In the event of any doubt, Compliance Management should be consulted".

D.7 Is more than one group company listed in Spain?

Yes [ ] **No** [X]

Identify the listed subsidiaries in Spain:

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Yes [ ] **No** [X]

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies
Not applicable

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms
Not applicable

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including fiscal risks.

The scope of the risk management system in place at Grupo Santander follows the first option included in appendix I of CNMV Circular 5/2013, of 12 June (amended by CNMV Circular 7/2015, of 22 December):

"The risk management system works in an integrated, continuous and consolidated manner for activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level".

The Group's risk management and control model ensures that its risk profile remains within the defined risk appetite levels approved by the Bank's board and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

Adequate management and control of all risks resulting from the Group's activities is guaranteed through:

1) Risk maps

Identifying and assessing all risks is a cornerstone of risk management and control. The risk map covers the main risk categories in which Banco Santander has its most significant actual and/or potential exposure, facilitating their identification.

This risk map is described in the general risk framework approved by the board of directors and, at its initial level, identifies the following risk types:

Financial risks

• Credit risk: deriving from failure to comply with agreed contractual obligations for financial transactions.

• Market risk: arising from possible changes in market factors affecting the value of positions in trading portfolios.

• Liquidity risk: risk of not complying with payment obligations in due time, or doing so at excessive cost.

• Structural risks: arising from management of different balance sheet items, including capital adequacy and insurance and pension activities.

Non-financial risks

• Operational risk: risk of losses due to inadequacies or failures in processes, people and internal systems, or external events.

• Conduct risk: arising from inadequate practices in the Bank's relationship with, treatment of, and product offer to its customers, and their suitability for each specific customer.

• Compliance and legal risk: arising from failure to comply with the legal framework, including tax matters, with regard to that not classified is operational risk, as well as internal regulations or the requirements of regulators and supervisors.

Transversal risks

• Model risk: losses arising from decisions based mainly on the results of models, due to errors in their concept, application or use.

• Reputational risk: risk of damage to the perception of the Bank among customers, investors, public opinion and other stakeholders.

• Strategic risk: the risk that results might diverge significantly from the firm's business strategy or plan, due to changes in general business conditions and risks relating to strategic decisions. This includes the risk of poor implementation of decisions and lack of capacity to react to changes in the business environment.

2) Risk appetite and limits structure

Risk appetite is defined as the maximum level and type of risk it is prepared to assume, within its risk capacity, in order to achieve its strategic objectives and roll out its business plan. The risk appetite framework, approved by the board of directors, establishes the roles, processes and responsibilities for its development and control. This involves examining severe scenarios that might negatively impact its capital, liquidity, profitability and/or share price.

The board of directors is responsible for establishing the Group's risk appetite and updating this annually; it is also responsible for monitoring its effective risk profile and ensuring that the two are consistent. The risk appetite is formulated for the Group as a whole, and for each of its business units, based on a corporate methodology adapted to the nature of each business and unit. Locally, the boards of subsidiaries are responsible for approving their own risk appetite proposals, once these have been validated by the Group as being suitable.

In addition, in the annual and tri-annual strategic planning process, limits are established to determine the risk appetite for each of the related portfolios or risks, setting all of the operating limits that facilitate the day-to-day management process of the business and its close monitoring. The risk profile and compliance with limits are continuously monitored, adopting, where applicable, the measures necessary to ensure they are suitable.

3) Scenario analysis

The Bank takes an advanced approach to risk management by analysing the potential impact of different scenarios in the environment in which it operates. These scenarios involve both macroeconomic variables and other variables affecting the management of our business.

Scenario analysis enables the Bank to assess the sensitivity of different scenarios and to verify the adjustment of risk appetite to the desired risk profile. In this way it allows the Bank to test its robustness in the face of stress environments and scenarios and to put in place measures to reduce its risk profile or mitigate the potential impact of such scenarios.

4) Risk identification and assessment (RIA)

As part of its routine activity, Banco Santander identifies and assesses the financial and non-financial risks inherent to its activities to which it is exposed in the markets where it operates.

With the aim of increasing the solidity of and systematic approach to the Group's risk profile assessment, a corporate risk identification & assessment project was launched at the end of 2014 and continued to be rolled out.

This exercise enables the identification, assessment and evaluation of the Bank's main risks, the associated control environment and the possible factors that could pose a threat to the success of the Group's strategic plan.

5) Measurement models

The measurement and monitoring of risks is based on the existence of metrics and models that allow the different risks to be quantified and modelled under a robust and standardised structure.

One of the Bank's continued strengths is therefore its ability to develop internal models and, at the same time, it has rolled out an independent risk control structure model that regularly validates and revises the suitability of the models to the risks it is trying to measure, to the environment and in the necessary detail.

6) *Reporting*

The risk information framework is one of the key elements in the management model. It sets standards that ensure a comprehensive overview of all risks faced, based on complete, precise and regular data, enabling the Group's senior management to assess and take action.

This framework is constantly evolving to incorporate best practice in the market. Santander is committed to complying with the highest standards in this respect, as defined by the Basel Committee on Banking Supervision's "Principles for effective risk data aggregation and risk reporting".

7) *Enterprise Risk Management* (ERM)

ERM ensures identification, assessment, adequate management and control of all risks, from a comprehensive and integrated perspective at all levels of the organisation. The coordinated implementation and management of its elements ensures on-going assessment and comprehensive management of the Group's risk profile, improving risk management at all levels of the organization.

The Group has implemented the Santander Advanced Risk Management programme to accelerate implementation of its strategic improvement projects to improve its risk management and control capacity, seeking to position Grupo Santander at the forefront of best practices in today's financial services market.

The programme seeks to achieve excellence in risk management at both the corporate and local levels, maintaining a commitment to doing "more and better" business.

8) Internal controls

Risk management features an internal control environment ensuring a comprehensive overview and adequate control of all risks faced. This control is carried out in all Group units and for every risk type, ensuring that the Group's global risk profile and exposure remains within the limits set by the board of directors and regulators.

The main elements involved in guaranteeing effective risk control are:

1. The clear assignment of responsibilities in those areas which generate risks, through internal decision making and control of activities.
2. The specialised control of each risk factor.
3. Aggregated consolidation and supervision for all risks.
4. Assessment of internal control mechanisms.
5. Independent assessment by internal audit.

9) Risk culture

A solid risk culture is one of the key factors that has enabled the Group to respond to the changes in the economic cycle; the latest demands of customers, supervisors and regulators; and the increase in competition, and position itself as a bank in which employees, customers, shareholders and society trust.

This risk culture is defined through five principles, which form part of the ordinary management of all the Group's employees:

- Responsibility: because all units and employees (regardless of the function they carry out) must know and understand the risks they incur in their daily activities and are responsible for identifying, assessing, managing and reporting such risks.

- Resilience: understood as the sum of prudence and flexibility. All employees must be prudent and avoid those risks that are unfamiliar or that exceed the established risk appetite; the main objective of Grupo Santander is sustainability. They also have to be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.

- Challenge: because continuous debate is encouraged within the organisation. Pro-active, positive and open discussion on the best way to manage risks, so as to always have an outlook that enables future challenges to be anticipated.

- Simplicity: because universal risk management requires clear processes and decisions, documented and understandable for employees and customers.

- Customer oriented. All risk actions taken are oriented towards customers in defence of their long-term interests.

In order to do this, the Bank undertakes various projects which seek to reinforce the risk culture and involve training mechanisms at all levels of the organisation.

10) Recovery and resolution plans

As one of its instruments in risk management, the Bank continues to constantly update its corporate viability plan, the most relevant part of which covers the measures that the Bank would have available to overcome a severe crisis situation without external help.

The Group's senior management is fully involved in preparing and monitoring the content of these plans, through specific technical forums and monitoring at the institutional level to ensure that the content and structure of the documents is compliant with local and international crisis management regulations.

In terms of resolution plans, the competent authorities involved in the Crisis Management Group (CMG) have agreed on a common approach to the Group's strategy for resolution. Given its legal and business structure, the Bank applies a multiple point of entry (MPE) approach. The corresponding resolution cooperation agreement (COAG) has been signed and the operational resolution plans have been drawn up for our main geographical areas. The Group is working continuously with the competent authorities, providing the detailed information they need to prepare the resolution plans, which they are, in general, responsible for preparing.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

Risk governance must ensure adequate and efficient risk decision making, the effective control of risks and their management in accordance with the level of risk appetite defined by the boards of the Group and its business units.

In relation to this final point, risk governance is based on the following principles: (i) sufficient separation of risk decision making and control, (ii) increased responsibility of the functions that assume risks in decision making, (iii) ensure that all decisions have a formal approval process, (iv) ensure there is an overall vision of all types of risks, (v) strengthen the role of risk control committees and (vi) ensure a simple committee structure.

On the basis of these aforementioned principles, the Group follows a risk management and control model based on three lines of defence. In this way, the business lines or activities that take or generate exposure to risk, as well as the support functions, form the first line of defence against risk. The generation of risk by the first line of defence should be adjusted to the risk appetite and its defined limits.

The second line of defence is formed by the risk and compliance functions. This second line ensures effective risk control and ensures that risks are managed in accordance with the risk appetite and its defined limits.

Finally, internal audit, as the third line of defence, and in its role as the final layer of control, regularly monitors that the policies, methods and procedures used are adequate and tests their effective implementation.

There is a sufficient degree of separation and independence between the risk control function, the compliance function and the internal audit function themselves, and with regard to those other functions they control or supervise, to enable them to carry out their functions, and they have access to the board of directors and/or its committees through their heads.

- Risk governance bodies and their duties:

The ultimate responsibility for risk control and management matters, and especially, in the setting of the Group's risk appetite, belongs to the board of directors.

In particular, the board is responsible for the approval of the Bank's general policies and strategies and, especially, for the general risk control and management policy, including tax risks, and the supervision of the internal information and control systems. On 12 February 2016, the board, having seen a report issued by the audit committee on 10 February 2016, adopted the general policy on the control and management of tax risks.

The board is supported in this mission by the risk supervision, regulation and compliance committee. In addition, the Group's executive committee, which is chaired by the executive chairman, meets weekly and pays special attention to the management and control of the Group's risks.

a) *Risk supervision, regulation and compliance committee (RSRCC)*

This committee was established to support the board of directors in its risk control and supervisory duties and, in particular, in the definition and assessment of the Group's risk policies, the determination of risk propensity and strategy in this area, in relations with supervisory authorities, and in regulatory and compliance matters. The committee members are external or non-executive directors, with a majority of independent directors. The committee is chaired by the lead independent director.

Section C.2.1 of this report describes the duties, composition and members of the risk supervision, regulation and compliance committee.

b) *Risk committee (RC)*

Up until 1 December 2015, the delegate risk committee had powers delegated thereto by the board of directors to manage risk and make decisions within the scope of these powers. In exercising these responsibilities, and among others, the RC approved risk operations, established risk policies and monitored the global risk profile, ensuring that the Group has the structure, resources and systems needed for adequate risk control and management.

c) *Other committees*

Without prejudice to the abovementioned powers of the board of directors and its committees, with the aim of strengthening the Group's risk governance and ensuring compliance with the principles on which it is based, and, in particular, the separation between the decision making and control functions and the responsibility of the business lines that generate exposure to risk, or form the first line of defence, the Group has the set up the following internal committees.

Executive Risk Committee (ERC)

Since 1 November 2015 and following approval of the new risk governance model, this committee has been delegated the following powers by the board to manage global risk: (i) propose to the board, at least annually, the Group's risk appetite, following a report from the risk supervision, regulation and compliance committee, (ii) assess its development and the risk identification & assessment (RIA) of subsidiaries; (iii) manage exposures to different customers, economic sectors of activity, geographic areas and types of risk, which shall include, among other functions, to approve and, where appropriate, validate the global limits by risk type within the risk appetite approved by the board of directors and make decisions on risk proposals, within the quantitative and qualitative limits established by the board; (iv) approve the creation, modification and termination of other lower-level risk committees or decision-making bodies and their regulations; (v) analyse and recommend Group corporate transactions; (vi) approve risk regulations; (vii) authorise the risk management tools necessary to monitor projects; and (viii) adopt the necessary measures in matters of risk to comply with the recommendations and indicators formulated by supervisory bodies and Group internal audit. The committee is chaired by one of the executive vice-chairmen of the board of directors, and is composed of the chief executive officer, another executive vice-chairman, and the Bank's chief risk officer (CRO), chief financial officer (CFO), chief compliance officer (CCO) and general secretary. The Group's CRO has the right of veto the committee's decisions.

Risk Control Committee (RCC)

This committee is responsible for the supervision and control of Group's global risk and has been delegated the following powers by the board: (i) assist the risk supervision, regulation and compliance committee in carrying out its support and assessment functions to the board; (ii) supervise risk identification & assessment (RIA); (iii) carry out full and regular monitoring of all risks, both actual and potential, checking whether their profile fits within the Group's risk appetite as approved by the board; (iv) undertake periodic independent monitoring of risk management activities; (v) determine the information on risks that must be submitted to the risk supervision, regulation and compliance committee or the board of directors and (vi) supervise the measures adopted in risk matters to comply with the recommendations and indicators formulated by supervisory bodies and internal audit. This committee is chaired by the GCRO and is composed of the following Bank executives: the CFO (finance function), the CAO (financial accounting and control function), and the CCO (compliance function).

The risk governance function is supplemented with delegate decision-making committees and others specialising in the control of certain risks.

- Risk management relationship between parent and subsidiaries

- With respect to the alignment of these subsidiaries with the parent

The risk management and control model shares certain basic principles in all Group business units, through the use of corporate frameworks. These emanate from the Group itself and are adhered to by subsidiaries, through their various boards of directors.

Beyond these basic principles, each unit adapts its risk management to the local environment, in accordance with corporate frameworks and reference documents provided by the Group, which allows the Group to have a recognisable risk management model.

One of the strengths of this model is the adoption of the best practices developed in each of the Group's units and markets. The corporate risk divisions act as a central focus and channel for these practices.

- With respect to the structure of committees

The subsidiaries' governing bodies are structured taking into account local regulatory and legal requirements, and the size and complexity of each unit. They are consistent with those of the parent, by being in accordance with the guidelines set by the internal governance framework, thereby enabling communication, reporting and effective control.

The boards of directors of subsidiaries, in accordance with the internal governance framework established by the Group, have their own risk models (quantitative and qualitative), although these must follow the principles contained in the models and reference frameworks developed at corporate level.

Given its ability to take an overall and aggregated view of all risks, the parent reserves the power to challenge and approve management policies and transactions in the various business units, in so far as it affects the Group's risk profile.

Likewise, to ensure the control of risks in the Group, the Group Subsidiary Governance Model and good governance practices for Grupo Santander's subsidiaries require regular communication with and functional reporting to the Group CRO from each local CRO, and the Group's involvement in the appointment, objective setting, assessment and remuneration of these local CROs.

E.3 Indicate the main risks, including fiscal, which may prevent the entity from achieving its targets.

Note 54 (risk management) to Grupo Santander's 2015 consolidated financial statements details how the Group identifies, measures and manages the risks to which it is exposed in its ordinary activities.

In short, the Group's economic capital model enables it to quantify its risk profile, considering all the significant risks involved in its activities and the diversification effect inherent to a multi-national, multi-business group such as Banco Santander.

The concept of economic capital has traditionally been contrasted with that of regulatory capital, the latter being the measure required by capital adequacy regulations. The Basel capital framework brings these two concepts together. While Pillar I determines the minimum regulatory capital requirements, Pillar II quantifies, through economic capital, the Group's overall capital adequacy position.

As of 31 December 2015, the Group's main risks, measured in terms of economic capital, were: credit (38%), market (11%), business (4%), operational (4%) and interest (4%).

No risks of a fiscal nature were identified that could affect the business achieving its objectives.

By operating area, Continental Europe accounted for 42%; Latin America, including Brazil, 23%; the UK 18% and the US 17%.

The concept of diversification is essential for adequately understanding and measuring the risk profile of a group with global operations such as Santander. The fact that the Group undertakes a particular business activity in several countries through a structure of different legal entities, involving a variety of customer segments and products, subject to different interest rates, means that the Group is less vulnerable to poor conditions in particular markets and portfolios or for particular customers or risks. Despite the significant scale of globalisation in today's world, economic cycles are not the same and differ in degree in different geographic areas. This gives groups with a global presence greater business stability and enhanced capacity to resist a crisis in a particular market or portfolio, which contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is less than that risk and capital would be if its parts were considered separately.

E.4 Identify if the entity has a risk tolerance level, including fiscal.

As explained in section E.1, risk appetite is one of the cornerstones of Grupo Santander's risk management and control.

The Group's risk appetite is defined and established consistently with its risk culture, and its banking business model is consistent from the risk perspective. The main elements defining this business model and providing the foundations for Grupo Santander's risk appetite are:

• A predictable, low-medium general risk profile. This is based on a diversified business model focusing on retail banking, with a diversified international presence and significant market shares, and a wholesale business model that prioritises relationships with our customer base in the Group's main markets.

• A stable, recurrent policy of generating income and shareholder returns based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities

• A corporate structure based on subsidiaries that are autonomous in terms of capital and liquidity, minimising the use of non-operating or purely instrumental companies, and ensure that no subsidiary has a risk profile that might jeopardise the Group's solvency.

• An independent risk function with intense involvement from senior management, ensuring a strong risk culture focused on protecting and ensuring an adequate return on capital.

• A management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, all geographical areas.

• A business model built around products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).

• A model of conduct that seeks to protect the interests of customers, shareholders and other stakeholders, including the various tax authorities.

• Adequate and sufficient availability of human resources, systems and tools to ensure the risk profile remains compatible with the established risk appetite, both globally and locally.

• A remuneration policy that contains the incentives necessary to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework and that the incentives are consistent with the Group's long-term earnings performance.

Risk appetite limit, structure and factors

The risk appetite is expressed through limits based on quantitative metrics and qualitative indicators that measure the Bank's risk profile and exposure by risk type, portfolio, segment and business line, under both actual and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions Santander's senior management seeks to adopt or maintain in developing its business model:

• The income statement volatility the Group is prepared to accept.

• The solvency position the Group wishes to maintain.

• The minimum liquidity the Group wishes to have available.

• The maximum risk concentrations the Group considers reasonable.

• Qualitative aspects and complementary metrics.

For more information, see note 54 (risk management) to the Santander Group's 2015 financial statements.

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and expresses in quantitative and qualitative terms the maximum risk exposure each Group company, and the Group as a whole, is prepared to assume.

Compliance with risk appetite limits is continuously monitored. The Group's specialist control functions report at least quarterly to the board and to the risk, supervision, regulation and compliance committee on how well the risk profile fits with the authorised risk appetite.

Any breaches of risk appetite limits are reported by the risk control function to the relevant governance bodies. Such presentations are accompanied by an analysis of the causes of the breach, an estimate of how long the situation will last and proposals, where appropriate, for corrective actions.

This linking of risk appetite limits with the limits used in managing business units and portfolios is a key element in ensuring the effectiveness of risk appetite as a risk management tool.

The management policies and the structure of limits used in managing the various risk types and categories are directly related and traceable to the defined risk appetite principles and limits.

Therefore, any changes in the risk appetite feed through to changes in the Group's risk management limits and controls. Each business and risk area is then responsible for ensuring that the limits and controls they use in their day-to-day activities do not result in any breach of the risk appetite limits. The control functions then monitor this assessment, ensuring that management limits are appropriate for the risk appetite.

E.5 Identify any risks, including fiscal, which have occurred during the year.

The Group is exposed to the risks identified in the risk map in section E.1. The most important of these, in terms of economic capital, is credit risk.

Gross exposure (customer loans, financial institutions, fixed income, derivatives and repos) to credit risk in 2015, was EUR 1,310,192 million. Loans to customers and financial institutions predominated, accounting for 86% of the total exposure.

Risk diversification in the main areas where the Group operates, was as follows: Continental Europe (41%); the UK (29%); Latin America (19%) and the US (11%).

Credit risk exposure increased by 7.5% in 2015, largely due to the joint effects of an increase in lending in the UK, the US, Spain and Portugal.

Grupo Santander's profile is largely one of a retail bank, with 84% of total credit risk being generated by commercial banking.

With current lending standing at EUR 850,909 million, and a drop in non-performing loans of EUR 37,094 million (-11% compared to 2014), the Group's non-performing loans ratio fell to 4.36% (-83 b.p. compared to 2014).

In order to provide for this, the Group has made insolvency provisions EUR 10,108 million (-4% compared to 2014), having deducted recoveries. This decrease is reflected in a 1.25% reduction in the cost of credit, 18 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 27,121 million, with a coverage ratio for the Group of 73%. It should be noted that this ratio is reduced by the weight of mortgage portfolios (particularly in the UK and Spain), which, as they are backed by collateral, require lower balance sheet provisions.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Note 54 (risk management) to the Santander Group's 2015 consolidated financial statements provides detailed information on the Group's plans for responding to the main risks to which it is exposed: credit, market, liquidity and financing, operational and compliance and reputational risk.

As set out in section E.1, in general terms, a range of mechanisms are in place to respond to and monitor the entity's risk, such as risk assessment, scenario analysis, the risk appetite, recovery & resolution plans and the risk control framework.

From a structural point of view, the chief risk officer (CRO) is responsible for the risk function and reports to one of the Bank's executive vice-chairmen.

The CRO who advises and challenges the executive branch, reports independently to the risk supervision, regulation and compliance committee and the board.

The risk control and management model, including fiscal risk, is based on:

- Coordination of the relationship between the countries and corporation, valuing the effective implementation of the management and control framework in each unit and ensuring alignment in the achievement of strategic risk objectives.
- Enterprise Wide Management (EWM) entails a consolidated view of all risks to the Group's senior management and governing bodies, as well as the development of risk appetite and the identification and evaluation of all risks. It also helps develop relationships with risk supervisory and regulatory bodies.
- Control of financial, non-financial and transversal risks (refer to the risk map in section E.1.), verifying that they are managed correctly and exposure is appropriate for each risk type, as established by senior management.
- With regard to risks, implement rules and regulations, methodologies, scenario analysis and stress tests, and an information infrastructure, along with robust risk governance.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

This section describes key aspects of the internal control and risk management systems in place at Grupo Santander with respect to the financial reporting process, specifically addressing the following aspects:

- Control environment
- Risk assessment in financial reporting
- Control activities
- Information and communication
- Monitoring

F.1 The entity's control environment

Indicate the existence of at least the following components, describing their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The board of directors is ultimately responsible for the internal control and risk management systems.

In accordance with article 16.4.e) of the Rules and Regulations of the Board of Directors, this function is entrusted to the audit committee, which must:

"(e) Supervise the financial reporting system and the internal control systems. In particular, the audit committee shall:

(i) Supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;

(ii) Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and

(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit."

In addition, article 34.2 of the Rules and Regulations of the Board of Directors establishes that the board will adopt any measures required to ensure that the quarterly, half-yearly, and any other financial information that is made available to the markets is prepared in accordance with the same principles, standards and professional practices used to prepare the annual financial statements and is as reliable as such financial statements. To this end, such information shall be reviewed by the audit committee before dissemination thereof.

Moreover, the financial accounting and control units in each of the countries in which the Group operates (each of which is headed by a controller) and the corporate internal control department, which reports to the operational risk control area, are responsible for the existence, maintenance and implementation of an appropriate ICFR structure. Section F.1.2 below provides further information on the roles of the controllers and the corporate internal control department.

The general code of conduct[3] sets out the main ethical principles and regulations on behaviour for all Group employees. Chapter VIII of Title IV of the Code of Conduct (section 35) sets out obligations relating to the appropriate design of ICFR with regard to the Group's accounting obligations. A number of internal control systems are in place to ensure that ICFR is implemented correctly. These are described in section 36.

These sections state.

35. Accounting obligations

1. Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:

[3] The complete text of Grupo Santander's general code of conduct can be found on the corporate website (www.santander.com).

i. *The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*

ii. *The information reflects all transactions, facts and other events in which the institution is an affected party.*

iii. *Transactions, facts and other events are recorded and valued according to applicable regulations.*

iv. *Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*

v. *The financial information reflects, as of the respective date, the rights and obligations through the respective assets and liabilities, in accordance with applicable regulations.*

2. The financial information includes all information of an accounting and economic nature which the Group presents to securities markets and files with supervisory bodies. It therefore includes the annual financial report, the half-yearly financial report and intermediate statements, both individual and consolidated, and the prospectuses drawn up by the Group for the issuances of financial instruments.

36. Internal controls

1. All the internal control procedures established by the Group to guarantee the correct entry of transactions and their appropriate reflection in the financial information published by the Group shall be observed.

2. On preparing financial information, the areas of the Group responsible for each activity, process and sub-process shall certify that they have observed the controls established by the Group and that the information supplied is correct.

3. The audit committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit and risk management systems.

The general code of conduct allocates responsibility for these obligations to management and other employees at their corresponding levels.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity.**

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of expertise of the human resources, organisation and costs division), defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation division is responsible for defining and documenting the Corporate Model for Managing Structures and Staff, which serves as the framework manual across the Group; it is similarly responsible for communicating this framework model to all Group entities.

The organisational function delegated to the countries/entities/businesses is designed to:

- optimise and align the organisational structures to the strategy defined by the corresponding corporate divisions and the Group's strategic targets;
- define the job map in the units under its remit as a core tool for organising how the structure works and facilitating the management of its human resources.

The business/support areas channel any initiatives relating to their organisational structures through the aforementioned organisation units. These units are tasked with analysing/reviewing and, where appropriate, inputting the opportune structural modifications into the corporate IT tools. In addition, the organisation units are responsible for identifying and defining the main functions attributed to each structural unit.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of internal control over financial reporting.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has financial accounting and control units in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controllers report to their country heads and to the Group's financial accounting and control division.

In addition, to encourage the existence of adequate documentation in the Group's internal control model, there is a corporate internal control department, that reports to the corporate operational risk control area, which is committed to spreading a common methodology of internal control model documentation and the criteria for assessing control and processes. To ensure that the documentation is kept up-to-date, to adapt it to organisational and legislative changes and provide the audit committee with the conclusions on the internal control model assessment process. Likewise, internal control departments exist in every business unit that reports to this department.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group's general code of conduct is approved by the board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters[4].

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A. and Grupo Santander companies, who acknowledge as much when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work.

[4] The complete text of Grupo Santander's general code of conduct can be found on the corporate website (www.santander.com).

The Group provides all its employees with e-learning courses on the aforementioned general code of conduct. Moreover, the compliance department is available to address any queries with respect to its application.

Title V, Chapter I of the general code sets out the functions of the Group's governance bodies, units and areas with competences for compliance with the code, in addition to the compliance area.

The irregularities committee, consisting of representatives from various parts of the Group, is responsible for imposing disciplinary measures for breaches of the general code and proposing corrective actions.

Title V, Chapter II, section 57 sets out the consequences of breaches, which may "*lead to labour-offence sanctions, notwithstanding any administrative or criminal sanctions that may also result from such breach*".

- **'Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Article 16.4.g of the Rules and Regulations of the Board of Directors stipulates that the audit committee is responsible for *"becoming apprised of and, if applicable, responding to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also: (i) receive, deal with and keep a record of the claims received by the Bank on matters related to the process for generating financial information, auditing and internal controls, and (ii) establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.*"

No such communications have been received during the last three fiscal years.

The procedure for communicating such claims to the audit committee is regulated by internal regulations that establish that such communications, whether from employees or others, must be sent in writing to the Bank's registered office.

The following measures are in place to ensure the confidentiality of communications prior to their examination by the audit committee:

- The personal details and the sender and their contact details are not required in such communications.

- Only certain persons from the office of the general secretary and human resources may review the communication, so as to determine whether it deals with accounting or audit matters and forward it to the accounting committee or the head of the relevant area or department as appropriate, who will report to the committee.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the financial accounting and control division itself and are designed and overseen together with the corporate learning and career development unit which is in turn part of the general secretary's office and human resources division and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and onsite sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

With respect to the training received concerning financial information preparation and reviews, the secretary's office and human resources division, in coordination with the financial accounting and control division, among others, has provided the employees involved in preparing and reviewing the financial information with courses on the following topics: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

In 2015, 56,561 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 351,000 training hours at the Corporate Centre in Spain and remotely (e-learning). In addition, each country develops its own training programme based on that developed by the parent.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

• The process exists and is documented.

• The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

• A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

• The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

• Which of the company's governing bodies is responsible for overseeing the process.

Grupo Santander's internal control over financial reporting model (hereinafter, the ICFR model) encompasses all of the processes and procedures put in place to ensure reasonable assurance that the control targets set at the corporate level will be met.

The Group's ICFR model complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organizations of the Tradeway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of corporate strategy, operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICFR documentation is implemented at the main Group companies using standard and uniform methodology such that it ensures inclusion of the appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk Committee). Its scope is greater than the totality of risks directly related to the preparation of the Group's financial information.

The identification of potential risks that must be covered by ICFR is based on the knowledge and understanding that management have of the business and its operating processes, taking into account both criteria of relative importance and qualitative criteria associated with the type, complexity or the structure of the business itself.

In addition, for each risk event identified, the model assigns the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICFR model are worth highlighting:

- It is a corporate model involving the totality of the Group's relevant organisational structure by means of a direct structure of individually-assigned lines of responsibility.
- The management of the ICFR documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the corporate internal control department, which issues general criteria and guidelines to ensure uniformity and standardisation of the documentation of procedures, control validation tests, criteria for the classification of potential weaknesses and rule changes.
- It is a far-reaching model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.
- It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICFR model.

All of the Group companies' ICFR documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Grupo Santander's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the financial accounting and control division and the office of the general secretary and human resources.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over or is exposed to its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, as stated in section F.1.1 above, the audit committee is responsible for supervising the Company and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As already noted elsewhere in this report, the board itself has delegated in its audit committee the duty to: "*supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards*" (article 16.4.(e) (i) of the Rules and Regulations of the Board of Directors).

The process of generating, reviewing and authorising financial information and the description of the ICFR is documented in a corporate tool that includes a description of the activities, processes, risks and controls associated with all transactions that could have a material impact on the financial statements. This documentation covers recurrent banking transactions and one-off operations (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

The audit committee also has the duty to "*report to the board, in advance of its adoption of the corresponding decisions, regarding: (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual accounts"* (article 16.4. (f) (i) of the Rules and Regulations of the Board of Directors).

The most significant aspects of the accounting close process and the review of the material judgements, estimates, measurements and projections used are as follows:

- the impairment losses on certain assets;
- the assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;
- the useful lives of property, plant and equipment and intangible assets;
- the measurement of goodwill;
- provisions and contingent consideration liabilities;
- the fair value of certain unlisted securities; and
- the recoverability of deferred tax assets.

The Group's chief accounting officer presents the Group's financial information to the audit committee on a quarterly basis, at least, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The board of directors is responsible for approving the financial information that the Bank is obliged to publish, in accordance with article 3.2 c) of its Rules and Regulations.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

To verify that the ICFR model is working properly and check the effectiveness of the established controls, processes and activities, the Group has in place an evaluation and certification process which starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions, the next step is to certify the sub-processes, processes and activities related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the controller can rule on the effectiveness of the ICFR model.

In 2015, the Group performed two evaluation processes:

- Evaluation of the effectiveness of the controls during the first half of the year in order to identify any potential incidents and remedy them before year end.
- Annual evaluation of the effectiveness of the controls and processes.

The corporate internal control department prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- A list of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.
- The ICFR model design and operation tests performed by those responsible for its maintenance and/or independent experts.

This report also itemises any incidents unearthed throughout the certification process by any of the parties involved, indicating whether these incidents have been properly resolved or, to the contrary, the plans in place to bring them to a satisfactory conclusion.

The conclusions of these evaluation processes are presented to the audit committee by the Operational Risk Control division, following a presentation in the risk control committee.

Lastly, on the basis of this report, the Group's chief accounting officer (CAO), chief financial officer (CFO) and chief executive officer (CEO) rule on the effectiveness of the ICFR model in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The technology and operations division issues corporate IT policies.

For internal control purposes, the following policies are of particular importance.

The Group's IT systems which are directly or indirectly related to the financial statements are configured to ensure the correct preparation and publication of financial information at all times by means of a specific internal control protocol.

To this end, the Bank has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based on roles and in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

The Group's internal policies establish that access to all systems that store or process data shall be strictly controlled, and that the level of access control required is determined by potential impact on the business. Access rights are assigned by Group experts in this area (known as authorised signatures), by roles and functions. In addition, to ensure compliance, the user and profile maintenance control and review processes in which responsible personnel in each area are involved ensure that information is only accessed by persons who need it for their work.

The Group's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a definition-development-testing cycle that guarantees that financial information is handled reliably.

In this way, once software developments have been completed on the basis of the defined requirements (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

The Corporate Certification Office (CCO) is then responsible for the complete testing cycle of the software in a pre-production environment, prior to its final implementation. The CCO manages and coordinates this whole cycle, which includes: technical and functional testing, performance testing, user acceptance testing, and pilot and prototype testing as defined by the entities, prior to making the applications available to all end users.

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure on-going performance of key functions in the event of disasters or other events that could halt or interrupt business operations.

These plans catalogue the measures, which translate into specific initiatives, designed to mitigate the scale and severity of IT incidents and to ensure that operations are up and running again as quickly and with as little fallout as possible.

To this end, the Group has highly-automated back-up systems to ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specific force majeure risk mitigation strategies in place, such as virtual data processing centres, back-up power suppliers and offsite storage facilities.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

With regard to suppliers belonging to the Group, policies and procedures have been put in place to ensure coverage of the risks associated with such outsourcing.

The relevant processes include the following:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support services not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

Furthermore, the Group has signed service level agreements and put in place controls to ensure the integrity and quality of information for external suppliers providing significant services that might impact the financial statements (mainly the management of foreclosed property and management of non-performing loans).

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The financial accounting and control division includes the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the operations that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.
- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The accounting policies are set out in the Grupo Santander accounting principles and policies and applicable measurement bases manual. In addition, any new accounting developments and the most relevant interpretations of the accounting standards in force prepared in the financial regulation and accounting processes area are reported on a monthly basis. These documents are stored in the accounting regulation library (IAS-KEY) and are accessible to all Group units.

The financial accounting and control division has put in place procedures to ensure it has all the information it needs to update the audit plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the financial accounting and control division.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group's computer applications are configured in a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers' supplying different kinds of services, including:

- General IT systems: these provide information to division/business unit heads.

- Management systems: these produce information for business monitoring and control purposes.
- Business systems: software encompassing the full product-contract-customer life cycle.
- Structural systems: these support the data shared and used by all the applications and services. These systems include all those related to the accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:

- General software architecture, which defines the design patterns and principles for all systems.
- Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to and consultation of the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates that specifies the accounting entries and movements to be made for the said transaction. These accounting entries and movements are designed, authorised and maintained by the financial accounting and control division.
The applications execute all the transactions performed in a given day across various distribution channels (branches, internet, telephone banking, e-banking, etc.) into the 'daily transaction register' (DGO for its acronym in Spanish).

The DGO generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the application named *accounting infrastructure*.

This application carries out the other processes necessary to generate financial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

Some applications do not use this process. These rely instead on their own account assistants who upload the general accounting data directly by means of account movements, so that the definition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the movements into the general accounting system, the accounting information is uploaded into a verification system which performs a number of controls and tests.

This accounting infrastructure and the aforementioned structural systems generate the processes needed to generate, disclose and store all the financial information required of a financial institution for regulatory and internal purposes, all of which under the guidance, supervision and control of the financial accounting and control division.

To minimise the attendant operational risks and optimise the quality of the information produced in the consolidation process, the Group has developed two IT tools which it uses in the financial statement consolidation process.

The first channels information flows between the units and the financial accounting and control division, while the second performs the consolidation proper on the basis of the information provided by the former.

Each month, all of the entities within the Group's scope of consolidation report their financial statements, in keeping with the Group's audit plan.

The Group's audit plan, which is included in the consolidation application, generally contains the disclosure needed to comply with the disclosure requirements imposed on the Group by Spanish and international authorities.

The consolidation application includes a module that standardises the accounting criteria applied so that the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities that do not operate in euros into the Group's functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan and which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls to enable the detection of incidents in the consolidation process. The financial accounting and control division also performs additional oversight and analytical controls.

F.5. Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the audit committee and an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

At its meeting on 28 October 2015, the board approved the current version of the corporate internal audit framework for Grupo Santander, defining the global internal audit function and how this is carried out.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. The internal audit function will report to the audit committee and, periodically, to the board of directors, and has direct access to the board when it thinks fit.

Internal audit therefore assesses:

- the efficacy and efficiency of the processes and systems cited above;
- compliance with applicable legislation and requirements of supervisory bodies;
- the reliability and integrity of financial and operating information; and
- the integrity of capital.

Internal audit is the third line of defence, independent of the others.

The scope of its work encompasses:

- all Group entities over which it exercises effective control;
- separate asset pools (for example, mutual funds) managed by the entities mentioned in the previous section; and
- all entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder.

Article 16.5 of the Rules and Regulations of the Board of Directors states that: *"The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, shall periodically report to the board of directors and, in any event, at least two times per year, and shall also have direct access to the board when it deems it appropriate."*

As provided for in article 16.4.(d) of the Rules and Regulations of the Board of Directors, the audit committee supervises the Group's internal audit function and, specifically: *"(i) Propose the selection, appointment and withdrawal of the officer responsible for internal audit; (ii) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report; (iii) Ensure the independence and effectiveness of the internal audit function; (iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties; (v) Receive periodic information regarding the activities thereof; and (vi) Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports."*

At year-end 2015, internal audit employed 1,059 people, all dedicated exclusively to this service. Of these, 241 were based in the Corporate Centre and 818 in local units situated in the principal geographic areas in which the Group is present, all of whom exclusively work in that location.

Every year, internal audit prepares an audit plan based on a self-assessment exercise on the risks faced by the Group. Internal audit is exclusively responsible for implementing this plan. The audits carried out may result in audit recommendations being made. These are prioritised by their relative importance, and then continuously monitored until fully implemented.

At its meeting of 19 February 2015, the audit committee considered and ratified the proposed audit plan for 2015 for submission to the board of directors. This plan was subsequently approved by the board at its meeting of 23 February 2015.

In 2015, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

In 2015, the audit committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at 11 out of the 13 meetings of the audit committee and 2 of the 21 board meetings. The audit committee assessed whether the work of internal audit was sufficient and the results of its activity and monitored the recommendations made, particularly the most important. It also reviewed the effects of the results of this work on the financial information. Finally, the committee monitored the corrective actions implemented, giving priority to the most important of these.

At its meeting of 20 January 2016, the audit committee reviewed and approved the internal audit plan for this year and favourably assessed the adequacy and effectiveness of the function in implementing its mission. At its meeting of 26 January 2016, the board was informed regarding the internal audit activities conducted in 2015 and the aforementioned audit plan, which it approved.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As stipulated in the Bylaws and the Rules and Regulations of the Board of Directors, the audit committee is officially tasked with overseeing the financial information process and the internal control systems.

The audit committee deals with any possible control deficiencies that might affect the reliability and accuracy of the financial statements. To this end it can call in the various areas of the Group involved to provide the necessary information and clarifications. The committee also takes stock of the potential impact of any flaws detected in the financial information.

Article 16.4.e) of the Rules and Regulations of the Board of Directors defines a duty of the audit committee as being to:

(e) Supervise the financial reporting system and the internal control systems. In particular, the audit committee shall: (…)

(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit."

Moreover, article 16.4.d) of the Rules and Regulations of the Board of Directors establishes that the supervision duties of the audit committee with regard to the internal audit function include, and, in particular, "(*v) receive periodic information regarding the activities thereof; and (vi) verify that senior management and the board take into account the conclusions and recommendations set forth in its reports".*

As part of its supervision work, the audit committee assesses the results of the work of the internal audit division, and can take action as necessary to correct any effects identified on the financial information.

F.6 Other relevant information

F.7 External auditor's report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The information relating to the internal control over financial reporting (ICFR) system (also known internally as Grupo Santander Internal Control Model) provided in this section of the annual corporate governance report is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2015.

The auditor's report on the ICFR system is included as an appendix to this report and the 2015 consolidated financial statements.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections A.10, B.1, B.2, B.5, C.1.23 and C.1.24

Compliant X Explain ☐

In accordance with articles 26.1 (paragraph one) and 35.4 of the Bylaws, there are no bylaw-stipulated limits or restrictions on voting right or on the acquisition or transfer of the Bank's shares.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

See section D.7

Compliant		Partially compliant		Explain		**Not applicable**	**X**

Does not apply as the Bank has no listed subsidiaries in Spain.

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

See section C.1.10

Compliant	**X**	Partially compliant		Explain	

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, which will be the first general shareholders' meeting called since the publication of the new good governance code for listed companies, adopted by a resolution of the board of the CNMV, the executive chairman of the board will verbally inform shareholders of the most relevant aspects regarding the Bank's corporate governance model and, in particular, those mentioned in this recommendation.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

See sections B.7 and C.1.35

Compliant	**X**	Partially compliant		Explain	

Article 31.1 of the Rules and Regulations of the Board states:

“The board of directors shall define and advance a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. The Company shall publicise this policy on its website.

Within the framework of this policy, the lead director shall maintain contact with investors and shareholders in order to gather their insights and thus form an opinion about their concerns, especially in connection with the Company’s corporate governance.

In addition, the Company shall promote the holding of meetings attended by the lead director, other directors and/or such members of senior management as are deemed appropriate for the provision of information on the progress of the Company and its Group to shareholders residing in the most significant locations of Spain and other countries. In no event shall such meetings with shareholders entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.”

Accordingly, article 32.1 of the Rules and Regulations of the Board states that *“within the framework of the policy referred to in article 31.1 above, the board of directors shall also establish appropriate mechanisms for the regular exchange of information with those institutional investors that are holders of shares of the Company and with proxy advisers”, and article 32.2 adds that “in no event shall the relations between the board of directors and such groups entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders..”*

Likewise, article 17.ter 4 (n) of the Rules and Regulations of the Board of Directors entrusts the risk supervision, regulation and compliance committee with the *“supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders”.*

In accordance with that regime, the board of directors established a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. This policy contains the rules and practices that the Company had already been applying with regard to communication with shareholders, investors and proxy advisors, respecting all market abuse regulations and equitable treatment to all shareholders. The treasury share policy is published on the Bank’s corporate website (www.santander.com).

In addition, since 2004 the Bank’s corporate website (www.santander.com) has disclosed, in the “Shareholders and investors” section of the main menu, all information required by applicable regulations in relation to shareholders and investors, as well as other information to facilitate the rights of shareholders to attend, be informed about and participate in the general shareholders’ meeting.

In accordance with article 12.bis of the Rules and Regulations of the Board of Directors, the lead director is especially authorised to maintain contact with investors and shareholders and, for such purpose, in 2015 and 2016 a corporate governance road show aimed at these stakeholders was developed. Other activities facing investors were carried out in 2015, such as Investor Day and the International Banking Conference.

The Bank’s relations with shareholders and investors area also undertook a number of initiatives in 2015, aimed at improving transparency with shareholders and helping them to exercise their rights, both in terms of communication (through the channels chosen by shareholders to inform them of material facts, the general shareholders’ meeting, dividends, the share price, the Group’s results, events; and with the launch of new channels of communication with shareholders based on new technologies -the new corporate and commercial websites, and the Santander shareholders and investors app-), and service (answering emails and telephone queries).

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant	X	Partially compliant		Explain	

In 2015 the board of directors did not submit any proposal to the general shareholders' meeting for the delegation of powers to issue shares or convertible securities without pre-emptive rights for an amount exceeding 20% of capital at the time of such delegation, and it will not do so at the next general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively.

In this regard, the annual general shareholders' meeting of 27 March 2015, delegated to the board the power to carry out certain share capital increases and to exclude, in full or in part, shareholders' pre-emptive rights, but always complying with the limit of 20% of the Bank's share capital at the time of such delegation.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

See sections B.7 and C.2.1, C.2.5

Compliant	X	Partially compliant		Explain	

Report on the auditor's independence

The audit committee's report for 2015 contains its report on the independence of the Bank's external auditor, which was issued at its meeting on 10 February 2016, with its content as envisaged in article 529 quaterdecies.4.f) of the LSC and in article 16.4.c) (iii) of the Rules and Regulations of the Board of Directors, whereby the committee expressed a favourable opinion on the independence of the Bank's external auditor.

The audit committee's report for 2015 is published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Reviews of the operation of the audit, appointments and remuneration committees

Each year the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees issue a report on their operations, which are submitted to the board of directors by the chairmen of these committees, in accordance with articles 16, 17, 17.bis and 17.ter. of the Rules and Regulations of the Board of Directors, respectively, and are published on the Company's website (www.santander.com) of the Rules and Regulations of the Board of Directors, respectively, and are published on the Company's website.

The activity reports of the aforementioned committees for 2015 are published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Audit committee report on related-party transactions

The audit committee's report for 2015 also contains its report on related-party transactions carried out in 2015, which was drawn up at its meeting on 10 February 2016. The committee verified that related-party transactions concluded in the year were compliant with the terms of the board rules and regulations for exemption from authorisation from the governing bodies, or had in fact obtained such authorisation after a favourable report from the committee itself to the effect that it had ascertained that the agreed consideration and rest of terms were at arm's length.

The audit committee's report for 2015 is published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Report on corporate social responsibility policy

At its meeting of 12 February 2016, the board of directors approved the sustainability report for 2015, which was prepared in accordance with the Global Reporting Initiative Sustainability Reporting Guidelines and which includes general aspects relating to the Bank's corporate social responsibility policy. This report is published in the Sustainability section on the Company's website (www.santander.com).

7. The company should broadcast its general meetings live on the corporate website.

See section B.7

Compliant [X]   Explain [ ]

The Company will broadcast live the annual general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively. To promote broader dissemination of its meetings and the resolutions adopted, the media will be given access to the general shareholders' meeting.

Article 6 of the Rules and Regulations of the General Shareholders' Meeting specifies the information available on the corporate website (www.santander.com) from the date of the call notice.

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the

audit committee and the auditors should give a clear account to shareholders of their scope and content.

See sections C.1.31, C.1.32, C.1.38 and C.2.1

Compliant [X] Partially compliant [ ] Explain [ ]

There were no reservations or qualifications in the audit reports of either the individual or consolidated financial statements of the Bank.

This matter is governed by article 62.3 of the Bylaws and article 35.5 of the Rules and Regulations of the Board of Directors. These provisions expressly state that "the board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard*".*

Article 16.4.c), (ii) (1) of the Rules and Regulations of the Board of Directors also stipulates that the audit committee "shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report*".*

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

See sections A.10, B.1, B.2, B.5, B.7 and C.1.23

Compliant [X] Partially compliant [ ] Explain [ ]

The Bank's Bylaws and the Rules and Regulations for the General Shareholders' Meeting establish the requirements and procedures for evidencing ownership of the shares and for exercising the shareholders' voting rights on occasion of the call to and holding of the general shareholders' meeting.

The Bylaws and the Rules and Regulations for the General Shareholders' Meeting are published on the Company's website (www.santander.com). This information facilitates the informed participation of shareholders in the Bank's general meetings and is required, as necessary, from the call notice for the general shareholders' meeting, which is published on the Company's website along with a model attendance, proxy-granting and distance voting card and the rest of the documentation relating to this meeting.

The aforementioned regulations facilitate attendance of the shareholders at the general meeting and the exercise of their rights, and thus ensure equal treatment among shareholders, as stipulated in the following provisions:

a) Article 6 of the Rules and Regulations for the General Shareholders' Meeting states that:

"1. In addition to what is required by provisions of Law or the Bylaws, beginning on the date of

publication of the announcement of the call and until the general shareholders' meeting is held, the Bank shall maintain the following information continuously published on its website:

(…)

(i) the forms of the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If they cannot be published on the website for technical reasons, the Bank shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them.

2. Without prejudice to the provisions of other paragraphs of these Rules and Regulations and the requirements of any legal or bylaw provisions, beginning on the date of the announcement of the call to meeting, such information as is deemed appropriate to facilitate the attendance of the shareholders at the general shareholders' meeting and their participation therein shall also be contained in the Company's website, including:

(ii) Information on where the meeting will be held, describing, if appropriate, how to gain access to the room.

(iii) Description of the mechanisms that may be used for granting proxies and distance voting.

(iv) Information, if appropriate, on systems or procedures to facilitate listening in on the meeting, such as means for simultaneous interpretation, broadcast using audiovisual media, information in other languages, etc."

b) Article 8 of the Rules and Regulations for the General Shareholders' Meeting states that "without prejudice to the provisions of the Bylaws, the right to attend the general shareholders' meeting may be delegated to any individual or legal person*."*

c) Article 9.1 of the Rules and Regulations for the General Shareholders' Meeting states that "shareholders who, pursuant to the provisions of Law and the Bylaws, hold any number of shares registered in their name in the corresponding book-entry registries at least five days prior to the day on which the General Shareholders' Meeting is to be held, are entitled to attend*."*

The Bank also allows shareholders to exercise their attendance, delegation and voting rights through remote communication systems, which facilitates shareholder participation at general meetings.

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Article 5 of the Rules and Regulations for the General Shareholders' Meeting states that "shareholders representing at least three (3%) per cent of the share capital may request the publication of a supplement to the call to meeting including one or more items in the agenda, so long as such new items are accompanied by a rationale or, if appropriate, by a substantiated proposal for a resolution. (...). Such supplement shall be disseminated in the same manner as the original call notice", and section 5 adds that "moreover, shareholders representing at least three (3%) per cent of the share capital may submit, within the same period established in the preceding section, substantiated proposals for resolutions regarding matters that have already been included or must be included in the agenda for the General Shareholders' Meeting called*".*

The last paragraph of article 6.1 (iv) of the Rules and Regulations for the General Shareholders' Meeting states that from the publication of the call notice until the general meeting is held, the Company will continuously publish on its website "…(iv) the full text of the proposed resolutions submitted by the Board of Directors regarding each and every one of the items on the agenda or, with relation to merely informative items, a report prepared by the competent bodies, containing a discussion of such items. As they are received, where applicable, the proposals for resolutions submitted by shareholders will be included…", and that, "furthermore, when there is a supplement to the call to meeting, the Company shall, starting on the date of publication thereof, also publish on its website the text of the proposals and rationales provided to the Company and to which such supplement refers*".*

Article 6.bis of the Rules and Regulations for the General Shareholders' Meeting governing the electronic shareholders' forum, also stipulates that *"both individual shareholders and any voluntary associations that they may create as provided by law will have access, with all due assurances, in order to facilitate their communication prior to the holding of General Shareholders' Meetings. The following may be published in the Forum: proposals sought to be submitted as a supplement to the agenda announced in the call to meeting; requests for adherence to such proposals; initiatives aimed at reaching the percentage sufficient to exercise a minority right contemplated by law, and offers or solicitations of voluntary proxies."*

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal will be submitted to amend article 6 of the Rules and Regulations for the General Shareholders' Meeting, so as to make clear that the attendance, proxy-granting and distance voting card will also be amended in case of a supplement to the call notice or new proposals being submitted, within the terms of these recommendations.

In addition, there will be laid before the shareholders at general meeting a proposal to alter the board regulations to clarify that all validly presented motions must be put to the vote, with the chairman having the power to decide on the order of voting if there are alternative proposals or motions not listed on the agenda; and, secondly, by way of a supplement to the foregoing, it will be the rule that, when such vote is taken, a vote in favour by the shareholders at general meeting for the proposed resolution implies a vote against any alternative proposal that is inconsistent with it.

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant [ ] Partially compliant [ ] Explain [ ] **Not applicable** [X]

The company has no plans to pay for attendance at the general shareholders' meeting and, therefore, it is not necessary to establish a general, long-term policy in this respect.

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

See sections C.1.10, C.2.1, D.1 and E.2

Compliant [X] Partially compliant [ ] Explain [ ]

The Company's board of directors acts in accordance with the principles set out in this recommendation, as envisaged in article 40.1 of the Bylaws and in article 5 of the Rules and Regulations of the Board of Directors. The latter provision expressly states that the board shall perform its duties in furtherance *"of the corporate interest, understood as the achievement of a business that is profitable and sustainable over the long term and that promotes the continuity thereof and the maximisation of the Company's value", and adds that "the board of directors shall also ensure that the Company faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the principles of social responsibility to which it has voluntarily adhered".*

In accordance with article 3.2 (a)(ix) of the Rules and Regulations of the Board of Directors, the board is responsible for approving the corporate social responsibility policy, thereby guaranteeing the board's monitoring and supervision of the Bank's socially responsible behaviour. To this effect, the board is supported by the risk supervision, regulation and compliance committee, which, in accordance with article 17.ter.4 (m) and (n) of the Rules and Regulations of the Board of Directors, *"review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company,* and monitors *"the strategy and practices in this field, evaluating the level of adherence thereto."*

In addition, articles 31, 32, 32.bis, 34 and 35 of the Rules and Regulations of the Board of Directors governs the board of directors relationship with shareholders, institutional investors, proxy advisors, supervisors, markets and the external auditor, respectively.

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

See sections C.1.1 and C.1.2

Compliant [X] Explain [ ]

In 2006, the general shareholders' meeting agreed to modify the Bylaws, reducing the maximum number of directors from 30 to 22. The minimum was kept at 14.

Since 2010, the size of the board has decreased by 25%, from 20 to 15 members at the time of writing.

The board of directors considers its current size to be adequate in terms of the Group's size, complexity and geographical diversity. The board considers that its modus operandi, in full and via its committees, in which it has delegated executive, supervisory, advisory, reporting and proposal-making duties, guarantees the effective and due participation by all its members, and an efficient and participatory board.

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

See sections C.1.5, C.1.6, C.1.6.bis and C.2.1

Compliant [X] Partially compliant [ ] Explain [ ]

The procedures and criteria for selecting directors are included mainly in articles 20, 41, 42, 55 and 56 of the Bylaws and articles 3, 6, 7, 17 and 21 of the Rules and Regulations of the Board of Directors

In accordance with articles 3.2 (m), 6.1 and 17.4.(a) (i) of the Rules and Regulations of the Board of Directors, the committee must ensure that the procedures for selecting board members guarantee the individual and collective training of directors and foster diversity of gender, experience and knowledge on the board. The appointments committee will evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board and prepare the related skills map and the description of duties and qualifications required for each specific appointment.

In accordance with these regulations, in 2015 an external consultant was commissioned to conduct an analysis of the skills and diversity of the members of the board of directors, which was updated each time a director was appointed in 2015, the results of which can be found in a skills map presented to the appointments committee, and which highlights the skills in the board which need improving, and in such a way as to favour diversity of knowledge, experience and gender. These skills were taken into account when selecting the directors appointed in 2015, as explained in the appointments committee's 2015 report, which is published on the Company's website (www.santander.com).

The report of the board of directors and the proposal put forward by the appointments committee supporting the proposal for ratification and re-election of the Bank's directors, which was submitted for approval at the general meeting, evaluating for such purpose the skills, experience and merits of those persons who were proposed for ratification or re-election at the general meeting, were published along with the call this for the general shareholders' meeting held on 27 March 2015.

The appointments committee, at its meeting on 21 October 2014, set a target for representation of women on the board of 25%, and at its meeting on 25 January 2016, this target was raised to 30% of board members. At the date of this document, the percentage of women on the Bank's board was 33.3%, which exceeds the target established by the Bank.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections A.3 and C.1.3

Compliant [X] Partially compliant [ ] Explain [ ]

Article 42.1 of the Bylaws and article 6.1 of the Rules and Regulations of the Board of Directors stipulate that the board of directors should be made up such that external or non-executive directors represent a large majority over executive directors and that a reasonable number of the former are independent directors.

At year-end 2015, the board had a large majority of external directors. Of the 15 directors then sitting on the board of directors, 4 were executive and 11 were external. Of the 11 external directors, 8 were independent, 1 was proprietary and 2 were, in the opinion of the board, neither proprietary nor independent.

The board of directors considers the current number of executive directors to be adequate in terms of the size, complexity and geographical diversity of the Group.

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

b) **In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections A.2, A.3 and C.1.3

Compliant [X] Explain [ ]

The Bank believes that it complies with this recommendation, as the circumstances for relaxing the strict proportional criterion contemplated in the good governance code for listed companies, apply in full.

Banco Santander is a large cap company (EUR 65,792.4 million as listed on the Spanish Stock Exchanges at 31 December 2015) where there are no shareholder interests legally considered significant, but there is a shareholder with a shareholding of a high absolute value.

Since 2002, the criterion that the appointments and remuneration committee[5] and the board of directors at Banco Santander have followed, as a necessary but not sufficient condition, is that the percentage of capital that a shareholder must hold in order to be considered an external proprietary director is 1% of the capital of the Bank. Current article 529.duodecies of the LSC is consistent with this criterion, as it expressly establishes that proprietary directors are *"those holding a shareholding equal to or greater than that legally considered significant, or who have been appointed because they are shareholders, even if their shareholding is below this amount, and the representatives of such shareholders".*

In the case of Banco Santander, there is one director, who in the view of the appointments committee and the board of directors, should be classified as external proprietary, namely Mr. Javier Botín-Sanz de Sautuola y O'Shea, who represents the interests of Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ms. Ana Botín-Sanz de Sautuola y O'Shea Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms. Marta Botín-Sanz de Sautuola Ríos, as well as his own (in total, 1.041% of the Bank's share capital at 31 December 2015).

The new good governance code for listed companies (principle 11), in line with the 2006 Report of the special working group on the good governance of listed companies, specifies that this recommendation is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is out of step with their capital ownership; subsequently Recommendation 16 incorporates an extenuating circumstance for large cap companies. This is consistent with article 529.duodecies of the LSC, which allows directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

The fact that proprietary directors constitute 9.09% of external directors in the Bank at year-end 2015, while representing 1.041% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of this recommendation.

A distortion or slant on the proportional make-up of the board is inevitable if two circumstances are taken into account, which are in both the spirit and the letter of this recommendation, as follows:

i. The minimum overweighting possible is that which allows a significant shareholder to be attributed a proprietary director; and
ii. In the case of a shareholder with a percentage interest of less than 3% but of a high absolute value (in the Company's case the shareholding represented by the proprietary director exceeded EUR 685 million at 31 December 2015) it must be possible, in agreement with the recommendation, for the Company to designate this person as a proprietary director. The recommendation states just this (in large cap companies where

[5] Presently, appointments committee.

few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested).

Given the sums involved, it is undeniable that strict application of this recommendation will always give rise to disproportions of some scale between the different categories of director, although without implying as a result that this goes beyond or exceeds the requirements of strict proportionality provided for in the recommendation, so that it applies in spirit.

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 per cent of capital, independent directors should occupy, at least, a third of board places.

See section C.1.3

Compliant [X] Explain [ ]

At year-end 2015, of the 11 external directors, 8 were independent (72.72%), representing 53.33% of the total board members.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

See sections B.7 and C.1.3.

Compliant [X] Partially compliant [ ] Explain [ ]

In accordance with article 61.1 of the Bylaws and article 34.4 of the Rules and Regulations of the Board of Directors, the Bank publishes and maintains up to date information on directors referred to in this recommendation on the Group's website (www.santander.com).

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 per cent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections A.2, A.3, C.1.3 and C.1.8

Compliant	**X**	Partially compliant		Explain		Not applicable	

In accordance with articles 6.3 and 17.4. (d) of the Roles and Regulations of the Board of Directors, at its meeting of 11 February 2016, the status of each director was verified after its proposal was approved by the board of directors at its meeting of 12 February 2016. Likewise, the board shall specify at the next annual general meeting, which will be held on 17 or 18 March 2016, on first or second call, respectively, the status of the directors whose appointment, re-election or ratification is to be proposed thereat, including the Bank's proprietary directors, the re-election which is submitted at the general shareholders' meeting.

Section C.1.3 of this report describes the criteria followed by the board to appoint an external proprietary director, who represents an ownership interest in the Bank's share capital greater than 1% and less than 3%, which is the percentage corresponding to a significant interest.

The Bank has not received any formal requests for board representation from shareholders whose equity interest is equal to or greater than that of the Bank's proprietary directors.

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

See sections A.2, A.3 and C.1.2

Compliant	**X**	Partially compliant		Explain		Not applicable	

None of the circumstances described in this recommendation arose in 2015 with regard to the sole proprietary director of the Company, Mr. Javier Botín-Sanz de Sautuola y O'Shea.

Article 23.3 of the Rules and Regulations of the Board stipulates that proprietary directors must submit their resignations when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

See sections C.1.2, C.1.9, C.1.19 and C.1.27

Compliant [X] Explain [ ]

The Bank's practice is to maintain directors in position during the period for which they are appointed, except in the event of resignation or unless any of the due causes or other circumstances set forth in applicable legislation arise.

The term of the position and withdrawal of directors is regulated by articles 55 and 56 of the Bylaws and articles 22 and 23 of the Rules and Regulations of the Board of Directors.

The board of directors has not proposed the removal of any independent director before the expiry of their tenure as mandated by the Bylaws. All withdrawals in 2015, were due to voluntary resignations of the respective directors.

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

See section C.1.21, C.1.42 and C.1.43

Compliant [X] Partially compliant [ ] Explain [ ]

The rules subject to this recommendation are included in article 56.2 of the Bylaws and articles 23.2 and 30 of the Rules and Regulations of the Board of Directors.

In 2015 the Company was not informed by any director of any circumstance, nor has it ever been aware of any circumstance, that, in the opinion of the board, would have justified his resignation as a member of the Bank's board of directors.

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

In 2015, no director, or the board secretary, expressed any opposition to any proposal because they considered it might damage the corporate interest. Neither were any resolutions adopted that, in the judgement of the directors or the board secretary, could harm the interests of shareholders lacking board representation, nor have any reservations about any proposals been expressed by any directors or the board secretary.

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

See section C.1.9.

Compliant	X	Partially compliant		Explain		Not applicable	

Article 23.4 of the Rules and Regulations of the Board of Directors establishes that, *"if directors withdraw from office as such due to resignation or for other reasons prior to the end of their term, they shall explain the reasons therefor in a letter that shall be sent to the other members of the board, unless they report thereon at a meeting of the board and such report is recorded in the minutes. Disclosure thereof shall also be made in the annual corporate governance report".*

At the board meeting of 30 June 2015, Mr. Juan Rodríguez Inciarte announced his voluntary resignation as a director for personal reasons, and at the board meeting of 29 July 2015, Ms. Sheila C. Bair also resigned from the board for personal reasons, as a consequence of being appointed president of Washington College.

Being present at the respective meetings and having explained the reasons for their resignations, which were personal, the objective of the recommendation, that the other directors should be aware of the reasons for the resignations, is considered to have been fulfilled.

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of director's regulations should lay down the maximum number of company boards on which directors can serve.

See sections C.1.13 and C.2.1

Compliant	X	Partially compliant		Explain	

Pursuant to article 17.4.g) of the Rules and Regulations of the Board of Directors, at its meeting of 11 February 2016, the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate whether these may detract from the dedication needed for the directors to carry out their duties.

Based on this information, the appointments committee has decided that the other activities of the external directors do not detract from the dedication of their time and efforts needed to fulfil their duty of diligent management, as stated in article 30 of the Rules and Regulations of the Board of Directors.

Among the obligations and duties of the board, article 30 of the Rules and Regulations of the Board of Directors establishes the need to provide information on other professional duties and the maximum number of boards to which they may belong, pursuant to Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

See sections C.1.29 and C.1.41

Compliant	X	Partially compliant		Explain	

The Bank's board of directors meets as often as necessary to effectively perform its duties, holding a minimum of nine meetings per year, and approves the annual calendar of meetings which includes a draft agenda for such meetings.

Article 47 of the Bylaws and articles 19 and 20 of the Rules and Regulations of the Board of Directors govern the operations of the board of directors, whereby articles 19.1, 2 and 3 of the aforementioned Rules and Regulations stipulate the following:

"1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman.

2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed for the board to effectively perform its duties, provided, however, that the board shall meet at least quarterly and shall hold a minimum of nine meetings per year. The calendar shall include the draft agenda proposed for such meetings, which may be subject to changes that shall be notified to each director. In addition, the board shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.
The meetings shall, in all events, be called by the secretary or, in the absence thereof, the vice secretary, in compliance with the instructions received from the chairman; notice of the call to meeting shall be sent 15 days in advance and in writing (which includes notice by fax or by electronic and data telecommunication means).

The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the directors 4 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible and may be made by telephone when necessary for reasons of speed and confidentiality. In such case, neither the time periods nor the formalities set forth in the preceding paragraphs with respect to the meetings contemplated in the annual calendar shall apply.

3. The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board".

The lead director is authorised to call for a meeting of the board of directors or to add new items to the agenda of a meeting that has already been called (article 12.bis.1 (i) of the Rules and Regulations of the Board of Directors).

The board of directors met 21 times in 2015.

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

See sections C.1.28, C.1.29 and C.1.30

Compliant [X] Partially compliant [ ] Explain [ ]

In accordance with article 47.1 of the Bylaws and articles 20.1 and 2 of the Rules and Regulations of the Board of Directors, the directors must seek to reduce absences to a bare minimum, and if absent they must delegate their vote with instructions.

Average attendance in terms of total votes cast in 2015 was 92.83%, as set out in section C.1.30 of this report.

The number of meetings held in 2015 by the board of directors and its committees, and individual (in-person) attendance of directors at these meetings, as well as an estimate of the time dedicated to these meetings in terms of preparation and participation by the directors are detailed in sections C.1.29 and C.1.30 of this report.

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The secretary of the board keeps custody of the documentation of the board of directors, records the proceedings of meetings in minute books and attests to the content thereof and to the resolutions adopted (article 11.2 (a) of the Rules and Regulations of the Board of Directors). The minutes of the board meetings and those of its committees also include statements for which a request has been made to reflect them in the minutes. Directors are independent in exercising their position and the chairman must safeguard their freedom to take positions and express their opinion (article 20.5 of the Rules and Regulations of the Board of Directors).

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

See section C.1.40

Compliant [X] Partially compliant [ ] Explain [ ]

Article 27 of the Rules and Regulations of the Board of Directors recognises the right of the board members and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology and the international committees to employ external advisors to help in fulfilling their duties. A request may be made to the board, through the general secretary, to hire external advisors (legal, accounting, financial and technology experts, recruiting specialists and other experts), at the Bank's cost, to deal with specific issues of special significance or complexity that arise. The board may only reject such requests with good reason.

In addition, the last word directors are authorised to request information on any aspect of the Bank (articles 19.4 and 26 of the Rules and Regulations of the Board of Directors) and to attend meetings of committees of which they are not a member under those cases envisaged in the Bylaws (articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors).

In 2015 the board and certain of its committees were aided by external advisors to carry out, among others, the following activities: (i) develop the board's continuous self-evaluation process, (ii) prepare the remuneration committee's 2015 activities report, (iii) design the Group's remuneration policy, and (iv) prepare the report on the director remuneration policy and the annual remuneration report.

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

See section C.1.20

Compliant [X] Partially compliant [ ] Explain [ ]

The continuous training and updating programme for directors and the induction programmes for new directors are covered by article 21.7 of the Rules and Regulations of the Board of Directors "the board shall establish a programme of information for new directors which gives them quick and sufficient information regarding the Company and its Group, including the governance rules thereof" and that "the board shall also maintain a programme of continuous training and updating directed to the directors".

Within the framework of the ongoing director training programme that was launched in 2005 as a result of the board's self-assessment process, in 2015 nine meetings were held with an average attendance of eight directors, who devoted approximately two hours to each session.

The directors appointed in 2015 participated in an information programme for the Bank's new directors.

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

See section C.1.41

Compliant [X] Partially compliant [ ] Explain [ ]

In accordance with article 19.2 of the Rules and Regulations of the Board of Directors, the board approves an annual calendar of the meetings to be held, which includes a proposed draft agenda and, if any changes are made thereto, each director must be notified. The board also keeps a formal list of matters reserved for discussion by it and formulates a plan for the distribution of such matters between the ordinary meetings contemplated in the calendar approved by the board. The agenda is approved by the board at its meeting, and any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.

The draft agenda for the board meetings will expressly specified whether the items included on the agenda are for information purposes, discussion or approval by the board.

In addition, the draft agenda and the potential inclusion of new items on the agenda is approved by the board at the beginning of the meeting and placed on record in the minutes.

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

See section C.2.1.

Compliant [X] Partially compliant [ ] Explain [ ]

The board and the appropriate committees inform the directors of the following matters, inter alia:(i) distribution of the Bank's share capital, changes in shareholder structure, performance of treasury shares and communications received at the Bank on the acquisition of significant shares of the Company; (ii) actions carried out with shareholders, investors and proxy advisors to inform them of the Bank's performance and other aspects related thereto and to be aware of their points of view for the purpose of forming an opinion about their concerns, such as Investor day, the international banking conference, road shows and the presentations of results made by investors and analysts and (iii) the rating agencies activities, the endogenous and exogenous factors that can impact on ratings classifications and the outlook on the Bank's rating.

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

See sections C.1.10 and C.1.41

Compliant [X] Partially compliant [ ] Explain [ ]

The Bank's chairman of the board of directors exercises all functions contained in this recommendation, which are included in article 4 3.2 of the Bylaws and articles 8.2, 8.3, 8.4 and 19 of the Rules and Regulations of the Board of Directors.

Article 47 of the Bylaws and articles 19 and 20 of the Rules and Regulations of the Board of Directors govern the operations of the board and its committees.

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

See section C.1.10

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The Bank has a lead director, who has been attributed all powers under this recommendation, in accordance with article 49.bis of the Bylaws and article 12.bis of the Rules and Regulations of the Board of Directors. Specifically, article 12.bis of the Rules and Regulations of the Board of Directors states that "*the board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called; (ii) coordinate and organise meetings of non-executive directors and reflect their concerns; (iii) direct the periodic evaluation of the chairman of the board of directors and coordinate the plan for succession thereof; (iv) maintain contact with investors and shareholders as provided by article 31 of these rules and regulations; and (v) replace the chairman in the event of absence thereof as provided by article 9.bis of these rules and regulation".*

At its meeting of 25 November, 2014, the board of directors appointed Mr. Bruce Carnegie-Brown executive vice-chairman and lead director, replacing Mr. Fernando de Asúa Álvarez, the appointment being effective from 12 February 2015. The appointment of the lead director has been made for an indefinite period of time and with the abstention of the executive directors.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

See section C.1.33

Compliant [X] Explain [ ]

Article 45.2.d) of the Bylaws grants the secretary of the board the duty to "ensure observance of the good governance recommendations adopted by the company", and article 11.2.d) of the Rules and Regulations of the Board of Directors stipulates that the secretary must "ensure that the board of directors carries out its activities and adopts its decisions being mindful of the good governance recommendations applicable to the Company". At the annual general shareholders' meeting scheduled for 17 March 2016, on first call, and on 18 March 2016, on second call, a proposal was put forward to amend article 45.2 of the Bylaws for the purpose of bringing its content into line with recommendation 35 of the new code of good governance for listed companies approved by resolution of the Spanish Securities Market Commission on 18 February 2015, which replaces recommendation 17 of the unified good governance code for listed companies approved by resolution of the Spanish Securities Market Commission on 22 May 2006, with reference to the fact that the secretary of the board will strive to ensure that the board of directors' actions and decisions take into account the recommendations on good governance applicable to the company, in line with that already included in article 11 of the Rules and Regulations of the Board of Directors.

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) **The quality and efficiency of the board's operation.**

b) **The performance and membership of its committees.**

c) **The diversity of board membership and competences.**

d) **The performance of the chairman of the board of directors and the company's chief executive.**

e) **The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

See sections C.1.19, C.1.20, C.1.20.bis, C.1.20.ter and C.2.1

Compliant [X] Explain [ ] Not applicable [ ]

Article 19.7 of the Rules and Regulations of the Board of Directors establishes that the operation of the board and of its committees, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year. Such evaluation shall be carried out, at least every three years, with the assistance of an external independent consultant, whose independence shall be assessed by the appointments committee. Based on the results of such evaluation, the board shall prepare, if applicable, an action plan for correction of the deficiencies detected. The results of the evaluation shall be recorded in the minutes of the meeting or shall be included as an attachment thereto.

Likewise, articles 16.4.j) and 17.4.i) of the Rules and Regulations of the Board of Directors stipulate, respectively, that at least once a year the audit committee and the appointments committee will evaluate their operations and the quality of their work. The appointments committee also reports on the board and board members' self-evaluation process and assesses the independence of the external consultant hired pursuant to articles 17.4.j) and 19.7 of the Rules and Regulations of the Board of Directors. In accordance with articles 16.9, 17.8, 17.bis.8, 17.ter.8, 17.quater.5 and 17.quiniquies.5, the audit, the appointments, the remuneration, the risk supervision, regulation compliance, the international and the innovation and technology committees, through their respective chairmen, report their activities to the board. The board considers the activities reports prepared by the committees, when assessing their performance.

In 2015 the ongoing self-evaluation process was carried out for the board and its committees with the assistance of an external consultant, who does not have a business relationship with the Company. The self-evaluation process includes a special section for evaluating the chairman of the board, the chief executive officer and the other directors on an individual basis. The Group executive chairman led the evaluation of the lead director, who in turn led to that of the Group executive chairman. The appointments committee's findings were presented at the board meeting of 29 September 2015.

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Pursuant to article 14.2 of the Rules and Regulations of the Board of Directors, , *“the board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board”.*

The executive committee is a basic instrument in the corporate governance of the Bank and its Group and, given the nature of the executive committee and its delegated powers, the board considers it sufficient to use the efficiency criteria set out in article 14.2. of the Rules and Regulations of the Board of Directors. This committee had executive directors at year-end 2015, without discounting the participation of external directors, and particularly, independent directors, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

The board believes that the composition of the executive committee is well balanced, given that it is made up of the following at year-end 2015: eight directors, four executive and four external or non-executives. Of the external directors, 2 are independent and 2 are neither proprietary nor independent.

In addition, according to the Bylaws (articles 45. 1 and 5) and the Rules and Regulations of the Board of Directors (articles 11. 1 and 11.4) the secretary of the board will be the general secretary and the secretary of all the board committees.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee’s minutes.

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Article 51.5 of the Bylaws expressly states that *the executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board",* ", and, similarly, article 14.8 of the Rules and Regulations of the Board of Directors establishes that *"the executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board".*

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

See sections C.1.3 and C.2.1

Complaint [X] Partially compliant [ ] Explain [ ]

Pursuant to article 20.2.(i), 42.4 and 53.2 of the Bylaws and articles 6.1, 16.2, 17 and 21 of the Rules and Regulations of the Board of Directors, the members of the audit committee were appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management. The chairman of the committee is considered to be a financial expert, in accordance with that stipulated in the Sarbanes Oxley Act.

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal will be submitted to amend article 53.2 of the Bylaws to incorporate the requirement that the members of the audit committee, as a whole, must have the relevant technical knowledge in relation to the activity sector to which the Company belongs, as required in article 529.quaterdecies of the LSC, following the amendment introduced by final provision four of Audit Law 22/2015, of 20 July. The Bank believes that the members of the audit committee taken as a whole are already compliant with that requirement.

At present, all members of the audit committee are independent directors.

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

See sections C.2.1 and F.5.1

Compliant [X] Partially compliant [ ] Not applicable [ ]

Pursuant to article 53 of the Bylaws and article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual internal audit working plan submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report.. On 19 February 2015, the head of the internal audit division submitted to the audit committee the internal audit working plan for 2015, and the board of directors, at its meeting on 23 February 2015, approved the aforementioned plan and was informed of the internal audit division's activities in 2014.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which strives to contribute both to the proper governance of the organisation and to the proper management and control of risks.

The head of internal audit customarily attends audit committee meetings. At the committee meeting of 16 December 2015, it was ratified that the internal audit function acted with complete independence and objectivity when carrying out its activities in 2015.

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Pursuant to article 53 of the Bylaws and article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual internal audit working plan submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report.

On 19 February 2015, the head of the internal audit division submitted to the audit committee the internal audit working plan for 2015, and the board of directors, at its meeting on 23 February 2015, approved the aforementioned plan and was informed of the internal audit division's activities in 2014.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which strives to contribute both to the proper governance of the organisation and to the proper management and control of risks.

Similarly, at its meeting of 20 January 2016, the committee reviewed and approved the annual internal audit working plan for 2016 and assessed the adequacy and effectiveness of the function to carry out its activities. At its meeting of 26 January 2016, the board was informed regarding the internal audit activities conducted in 2015 and said audit plan for 2016.

42. The audit committee should have the following functions over and above those legally assigned:

1. **With respect to internal control and reporting systems:**

   a) **Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.**

   b) **Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes,**

ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) **Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.**

2. **With regard to the external auditor:**

a) **Investigate the issues giving rise to the resignation of the external auditor, should this come about.**

b) **Ensure that the remuneration of the external auditor does not compromise its quality or independence.**

c) **Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**

d) **Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.**

e) **Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

See section C.1.36, C.2.1 and C.2.5

Compliant [X] Partially compliant [ ] Explain [ ]

The audit committee's functions are governed mainly by article 53.1 of the Bylaws and article 16 of the Rules and Regulations of the Board of Directors, including those listed in this recommendation.

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal was submitted to amend article 53 of the Bylaws with the following dual purpose: (i) increase the maximum number of members of the audit committee from seven to a maximum of nine directors , in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time, and (ii) adapt its content to the amendments introduced by article 529.quaterdecies of the LSC by final provision four of Audit Law 22/2015, of 20 July.

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

See section C.2.1

Complaint [X] Explain [ ]

The audit committee's power is included in article 53.5 of the Bylaws, which stipulates that *"the audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any* *member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the external auditor attend such meetings".* Similarly, article 16.7 of the Rules and Regulations of the Board of Directors states that *"any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor."*

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

This function is set forth in article 16.4. (h) of the Rules and Regulations of the Board of Directors, in accordance with which the audit committee is responsible for "receiving information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions."

45. Risk control and management policy should identify at least:

a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.**

b) **The setting of the risk level that the company deems acceptable.**

c) **Measures in place to mitigate the impact of risk events should they occur.**

d) **The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

See section E

Compliant [X] Partially compliant [ ] Explain [ ]

The scope of the risk management system in place at the Bank follows the first option included in Appendix I of CNMV Circular 5/2013, of 12 June, amended by CNMV Circular 7/2015, of 22 December, that is: "the risk management system works in an integrated, continuous and consolidated manner for activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level.”.

The Bank’s risk management and control model ensures that its risk profile remains within the defined risk appetite levels approved by the Bank’s board and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

Adequate management and control of risks arising from the Company's activities is carried out through the following: risk maps; risk appetite and limits structure; scenario analysis; risk identification and assessment (RIA); measurement models, reporting; enterprise risk management (ERM); internal control; risk culture; and recovery and resolution plans.

46. Companies should establish a risk control and management function in the charge of one of the company’s internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

See sections C.2.1 and E.2

Compliant [X] Partially compliant [ ] Explain [ ]

The Company's risk division is attributed the risk management and control functions set forth in this recommendation. The Bank has two non-statutory corporate risk committees: the executive risk committee, as the body in charge of global risk management, and the risk control committee, as the body in charge of global risk supervision and management.

The risk function acts under the supervision of the risk supervision, regulation and compliance committee, without prejudice to this function's direct access to the board of directors. This is a specialised committee of the board with general powers to support and advise the board on the risk supervision and control function and on defining the Group's risk policies (article 54.ter of the Bylaws and article 17.ter.4.(g) of the Rules and Regulations of the Board of Directors).

In 2015, the Bank's risk division reported to the risk supervision, regulation compliance committee on the various aspects related to risk, such as the Group's overall vision of risks, by units and types of risk, risk appetite and other matters and projects relating to risk management and control in the Group.

47. Appointees to the appointments and remuneration committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right

balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

See sections C.1.19 and C.2.1

Compliant	X	Partially compliant		Explain	

Pursuant to article 20.2 (i), 42.4, 54.3 and 54.bis.3 of the Bylaws, and articles 6.1, 17.2 and 17.bis.2 of the Rules and Regulations of the Board of Directors, the members of the appointments and the remuneration committees were appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience and the goals of the committee.

The members of both the appointments and remuneration committees are currently external or non-executive directors, with a majority of independent directors. The chairman of the respective committees is an independent director.

48. Large cap companies should operate separately constituted appointments and remuneration committees.

See section C.2.1

Compliant	X	Explain		Not applicable	

At its meeting of 23 October 2014, the board of directors resolved two separate the appointments and remuneration committee. The appointments committee is entrusted with general proposal-making and reporting powers on matters relating to director appointments and withdrawals under the terms established by law, and is governed mainly by article 54 of the Bylaws and article 17 of the Rules and Regulations of the Board of Directors. The remuneration committee is entrusted with general proposal-making and reporting powers on matters relating to director remuneration under the terms established by law, and is governed mainly by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board of Directors.

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

See sections C.1.19 and C.2.1

Compliant	X	Partially compliant		Explain	

The content of this recommendation forms part of the Bank's consolidated practice and is included in articles 17.4. (a) (ii) and 6 of the Rules and Regulations of the Board of Directors, which state that the appointments committee will "receive for consideration proposals from directors of potential candidates to cover vacancies" and "consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors.".

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) **Propose to the board the standard conditions for senior officer contracts.**

b) **Monitor compliance with the remuneration policy set by the company.**

c) **Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**

d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

e) **Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ]

The remuneration committee exercises its functions with independence. In the performance of its duties, the committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest (article 17.bis.4 of the Rules and Regulations of the Board of Directors). Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, shall attend this committee's meetings, provide their cooperation and make available thereto such information as they may have in their possession, when so required and under such terms as the committee may establish for attendance (article 17.bis.6 of the Rules and Regulations of the Board of Directors). The remuneration committee, through its chairman, shall report to the board of directors on its activities and work (article 17.bis.8 of the Rules and Regulations of the Board of Directors).

Article 17.bis of the Rules and Regulations of the Board of Directors attributes the functions referred to in this recommendation to the remuneration committee Therefore, the following functions, among others, are attributed to the committee: (i) propose to the board the basic terms of the contracts and the remuneration of the members of senior management (article 17.bis.4 (a) (v) of the Rules and Regulations of the Board of Directors), (ii) ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company (article 17.bis.4 (b) of the Rules and Regulations of the Board of Directors), (iii) periodically review the remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management (article 17.bis.4 (c) of the Rules and Regulations of the Board of Directors), (iv) when the remuneration committee engages any external expert, as expressly provided for in article 27 of the Rules and Regulations of the Board of Directors, it will ensure that the independence of their advice is not undermined by any possible conflict of interest (article 17.bis.10 of the Rules and Regulations of the Board of Directors) and (v) ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate (article 17.bis.4 (d) of the Rules and Regulations of the Board of Directors).

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ]

The content of this recommendation also forms part of the Bank's consolidated practice and is included in article 17.bis.5 of the Rules and Regulations of the Board of Directors, which states that "the remuneration committee shall consult with the chairman and the chief executive officer on matters relating to the executive directors and senior officers". This article also states that "the chairman and any director may make suggestions to the remunerations committee with respect to matters that fall within the scope of its powers."

52. The terms of reference of supervision and control committees should be set out in the board of director's regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The Company's board committees with supervisory and control powers are the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees. All of these are mandatory and the rules on the composition and operation of the committees appear in the Rules and Regulations of the Board of Directors, in accordance with applicable legislation and best practices regarding corporate governance included in the recommendations of the new good governance code for listed companies.

In accordance with articles 53, 54, 54.bis and 54.ter of the Bylaws and articles 16, 17, 17.bis, 17.ter and 27 of the Rules and Regulations of the Board of Directors, the aforementioned committees are subject to all rules on the composition and operation thereof contained in this recommendation.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) **Monitor compliance with the company's internal codes of conduct and corporate governance rules.**

b) **Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**

c) **Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**

d) **Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**

e) **Monitor corporate social responsibility strategy and practices and assess compliance in their respect.**

f) **Monitor and evaluate the company's interaction with its stakeholder groups.**

g) **Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**

h) **Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

See section C.2.1

Compliant [X] Partially compliant [ ] Explain [ ]

Article 17.ter.4 of the Rules and Regulations of the Board of Directors attributes all functions contained in this recommendation to the risk supervision, regulation and compliance committee.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) **The goals of its corporate social responsibility policy and the support instruments to be deployed.**

b) **The corporate strategy with regard to sustainability, the environment and social issues.**

c) **Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.**

d) **The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**

e) **The mechanisms for supervising non-financial risk, ethics and business conduct.**

f) **Channels for stakeholder communication, participation and dialogue.**

g) **Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant [X] Partially compliant [ ] Explain [ ]

The Bank has a well-defined governance structure in sustainability matters, both corporate and local, which facilitates the involvement of all business areas and the Bank's support in the various countries in which the Group operates.

The board is responsible for approving its social responsibility policy (article 3.2 (a) (ix) of the Rules and Regulations of the Board of Directors), and the risk supervision, regulation and compliance committee is responsible for reviewing this policy, ensuring that it is focused on creating value for the Company, and for monitoring the strategy and practices in this regard, evaluating their degree of compliance (article 17.ter.4 (m) of the Rules and Regulations of the Board of Directors).

The Bank has a sustainability committee chaired by the chief executive officer and composed of senior executive vice presidents and/or heads of the Bank's various different divisions. This committee proposes the sustainability strategy and general policies and submits them for approval by the board of directors.

The Company's corporate social responsibility policy include the principles and commitments voluntarily assumed by the Bank in relation to its various stakeholders and all aspects mentioned by the recommendation.

The corporate social responsibility policy is published in the "Sustainability" section of the Group's website (www.santander.com), with the rest of policies adopted by the board in this domain.

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

See section B.7

Compliant [X] Explain [ ]

The Bank publishes an annual sustainability report, which is prepared in accordance with the Global Reporting Initiative G4 Sustainability Reporting Guidelines. The report sets out the Bank's corporate social responsibility activities, and can be found in the section on "Sustainability" on the Bank's website (www.santander.com).

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant [X] Explain [ ]

Articles 58.1, 2 and 6 of the Bylaws and articles 28.1, 2 and 6 of the Rules and Regulations of the Board of Directors govern the remuneration of directors acting as such. This remuneration consists of a fixed annual amount determined by the shareholders at the general meeting, although the board may reduce such amount in those years it considers such reduction appropriate. The remuneration consists of two components: an annual emolument and attendance fees.

The board of directors shall determine the remuneration that corresponds to each director acting as such based on the positions held thereby on the board itself, their membership on and attendance at the meetings of the various committees and, where applicable, other objective circumstances valued by the board.

Article 28.6 of the Rules and Regulations of the Board of Directors, states that *"the board shall endeavour to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management. The board shall also endeavour to ensure that the remuneration of external directors is sufficient to compensate them for the dedication, qualifications and responsibility required for the performance of their duties."*

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant [X] Partially compliant [ ] Explain [ ]

In accordance with the Bank's remuneration policy, of the members of the board of directors only executive directors have the right to receive variable remuneration, which includes remuneration systems consisting of the delivery of shares or options on shares or tied to the value of the shares. These criteria may only be amended through a resolution of the general shareholders' meeting.

Section A.3 of this report] describes the Bank's share-based compensation programmes in which executive directors participated at year-end 2015.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

i. Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

ii. Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

iii. Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The director remuneration policy of the Bank includes limits and technical safeguards to ensure that variable remuneration of the directors reflects the professional performance and not simply the general progress of the markets or the company's activity sector.

The essential characteristics of the 2015 director remuneration policy, which was approved by the shareholders at the annual general meeting of 27 March 2015, are as follows:

- Fixed remuneration represented a significant proportion of total compensation.
- Variable remuneration was adjusted to the limit of 200% of fixed remuneration.
- Variable remuneration was composed of short- and long-term incentives, for the purpose of bringing the remuneration more in line with the long-term interests of shareholders.
- Variable remuneration was established based on certain quantitative metrics and qualitative factors, some of which were not financial in nature, which are related to risk management, capital performance, earnings performance, relationship with customers and the degree of satisfaction of customers and employees.
- At least 50% of their remuneration is paid in shares, which may not be transferred until one year has elapsed since delivery, and the accrual of at least 60% of bonuses is deferred over a period of five years.
- Variable remuneration is conditional upon none of the circumstances set forth in malus clauses taking place.
- If the Group's net ordinary profit for 2015 had been negative, the bonus for executive directors would be zero.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 40% of executive directors' variable remuneration to be deferred for a period of no less than between three and five years.

At least 60% of the accrual of bonuses for the Bank's directors for 2015 was deferred for a period of five years. In addition, all shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until one year has elapsed since the delivery thereof.

Directors' variable remuneration for 2016 will be subject to similar rules.

The remuneration committee's report for 2015, which contains the policy applied to executive directors in 2015, is published on the Group's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 September 2016, on first or second call, respectively.

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

No reservations or qualifications have been made to the 2015 individual financial statements of the Bank or its consolidated Group.

If any qualifications arise in the external auditor's report that reduce the Bank's earnings, the committee assessing risks regarding the Bank's remuneration, which is the internal body responsible for assessing the impact on targets associated with variable remuneration in the management of risks, as well as the quality and recurrence of results and the general compliance and control environment, will take into account this circumstance in the process of establishing the remuneration of executive directors, and may propose adjustments to this from remuneration to the appointments committee.

Director remuneration is subject to the following circumstances, among others, not taking place: (i) poor financial performance of the Group; (ii) violation by the beneficiary of internal regulations, particularly those relating to risks; (iii) material restatement of the Group's financial statements, when required by the external auditors.

In addition, the director remuneration policy for 2016, which was prepared by the board at its meeting of 12 February 2016 and which will be submitted at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, expressly envisages the possibility that the variable remuneration of executive directors in 2016 may be adjusted as a result of deficiencies in control or negative results of the evaluations by the Bank's supervisors.

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 50% of executive directors' variable remuneration be paid in the Bank's shares or similar instruments.

Variable remuneration for the Bank's directors in 2015 was made up of a bonus, to be partially received in cash and partially in shares, and a long-term incentive which, if applicable, will be received wholly in shares. Specifically, at least 50% of total variable remuneration for 2015 will be paid in shares.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Variable remuneration for the Bank's executive directors in 2015 consisted of a bonus, to be partially received in cash and partially in shares, and a long-term incentive which, if applicable, will be received wholly in shares. Specifically, at least 50% of total variable remuneration for 2015 will be paid in shares. All shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until one year has elapsed since the delivery thereof.

In addition, at the proposal of the remuneration committee, the board approved a share holding policy aimed at bringing executive directors' commitment into line even more with the long-term interests of shareholders and which reflects the commitment of directors to maintain a significant individual investment in the Bank's shares while carrying out their executive functions in the Group. According to this policy, which enters into force in 2016, each executive director active on 1 January 2016 must hold, for as long as he/she is active, an investment in the Bank's shares equivalent to twice the amount of his/her fixed annual salary, on the terms set out in the recommendation, at the effective date of the policy, or the date of his/her appointment, if it were later. The specific amount of the investment will be determined on an after-tax basis. A period of 5 years has been stipulated for this investment to be made.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant [ ] Partially compliant [X] Explain [ ] Not applicable [ ]

Deferred variable remuneration of executive directors for 2015 becomes payable only if the beneficiary remains an employee of the Group and if (in the opinion of the board of directors, at the proposal of the remuneration committee) none of the following events occur as a result of actions taken in 2015:

(i) Poor financial performance of the Group;

(ii) Violation by the beneficiary of internal regulations, particularly those relating to risks;

(iii) Material restatement of the Group's financial statements, when so considered by the external auditors, except when appropriate pursuant to a change in accounting standards; or

(iv) Significant changes in the financial capital or risk profile of the Group.

The board of directors, at the proposal of the remuneration committee and based on the level of achievement of such conditions, will determine the specific amount of the deferred portion of the variable remuneration.

64. In addition, the Bank has adopted a policy on the application of malus clauses in the field of remuneration. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

The contracts of executive directors are for an indefinite period of time and do not provide for any severance payment other than those that may be required by law.

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.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the code and date of adoption. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 July 2010.

Banco Santander does not file any annual corporate governance report other than as stipulated under the LSC, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June, amended by Circular 7/2015, of 22 December.

Upon the listing of Bank shares on the Warsaw Stock Exchange, a document was disclosed on 3 December 2014, analysing the corporate governance of the Bank from the perspective of the Polish government's good governance recommendations. This document is updated each year upon publication of the Bank's annual corporate governance report ("Statement on corporate governance in relation to the Code of Best Practices for WSE Listed Companies"). These documents can be found on the corporate website www.santander.com.

Since 2010, Banco Santander, S.A. has adhered to the code of good tax practices approved in the Tax Forum of Large Companies, a body in which large Spanish companies and the Spanish tax agency participate, and complies with the contents thereof. As in previous years, and in accordance with its commitments under the aforementioned code, and in application of its compliance programme and the Group's general code of conduct, the head of the tax consultation service has reported to the audit committee on the Group's fiscal policies.

On 3 November 2015, at the plenary session of the Tax Forum of Large Companies, the introduction of an appendix to the Code of Best Tax Practices was agreed to strengthen the cooperation between the Spanish tax agency and those companies that adhere to this instrument of good tax governance, through a series of actions promoting transparency and legal security in compliance with tax obligations..

Likewise, Banco Santander is also signatory to a number of international sustainability initiatives, such as the United Nations Global Compact Principles (since 2002), the Ecuador Principles (since 2009), the Principles for Responsible Investment (since 2008), the Banking Environment Initiative (BEI) (since 2010), the World Business Council for Sustainable Development (since 2015), UNEP Finance Initiative (since 2008) and Carbon Disclosure Project (since 2002).

This Annual corporate governance report was adopted by the company's board of directors at its meeting held on 12 February 2016.

List whether any directors voted against or abstained from voting on the approval of this report.

YES ☐ **NO** ☒

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstained, non-attendance)	Explain the reasons
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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON INDEPENDENT REVIEW OF THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Shareholders of Banco Santander, S.A.,

Scope of the Work

We have examined the information relating to the system of internal control over financial reporting ("ICFR" or "System") of Banco Santander, S.A. ("the Bank") and Subsidiaries ("the Group") contained in Section F of the Annual Corporate Governance Report for the year ended 31 December 2015.

The objective of this System is to contribute to the transactions performed being presented fairly under the aforementioned accounting framework and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements.

The aforementioned System is based on the rules and policies defined by Group management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework (2013)".

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are performed only in accordance with the authorisations established; (iii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, uses or sales of Group assets which could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud may not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

Directors' Responsibility

The Bank's board of directors is responsible for maintaining the system of Internal Control over the Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness.

Our Responsibility

Our responsibility is to express an opinion on the effectiveness of the system of Internal Control over the Financial Reporting (ICFR), based on the work performed by us.

Our work includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the Group's consolidated financial statements as at 31 December 2015, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

Our work was performed in accordance with the requirements established in Standard ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

A reasonable assurance engagement includes understanding the system of ICFR contained in the consolidated financial statements, evaluating the risk of there being material errors therein, performing tests and evaluations of the design and operating effectiveness of the system, and performing such other procedures as we consider appropriate. We consider that our examination provides a reasonable basis for our opinion.

Independence

Our work was performed in accordance with the independence standards required by the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behaviour.

In accordance with International Standard on Quality Control 1 (ISQC1), Deloitte maintains a global system of quality control which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

Conclusion

In our opinion, at 31 December 2015, the Group maintained, in all material respects, an effective system of internal control over the financial reporting contained in its consolidated financial statements, based on the rules and policies defined by Group management in accordance with the guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework (2013)". Also, the disclosures contained in the information relating to the system of ICFR which is included in Section F of the Group's Annual Corporate Governance Report for the year ended 31 December 2015 comply, in all material respects, with the requirements established by the Spanish Limited Liability Companies Law, by Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March, and by Spanish National Securities Market Commission (CNMV) Circular 5/2013, of 12 June 2013.

This examination does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law approved by Legislative Royal Decree 1/2011, of 1 July, and, therefore, we do not express an audit opinion in the terms provided for in the aforementioned legislation. However, we have audited, in accordance with the audit regulations in force in Spain, the consolidated financial statements of Banco Santander, S.A. and Subsidiaries prepared by the Bank's directors in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group, and our report dated 12 February 2016 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.

Ignacio Gutiérrez

12 February 2016

2015

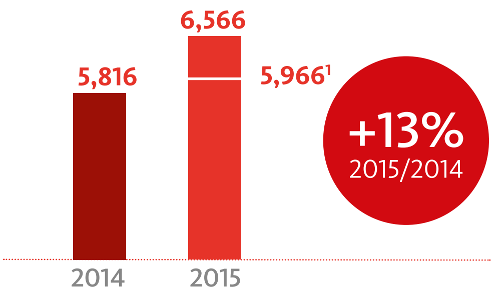
Annual review

We want to help people and businesses prosper

Santander

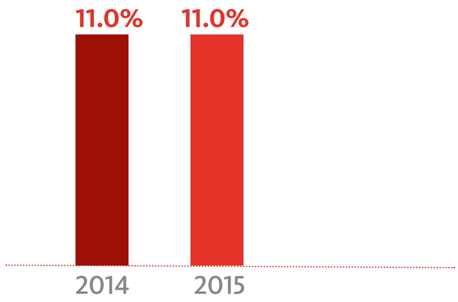
Meeting our commitments with shareholders

Underlying attributable profit
Million euros

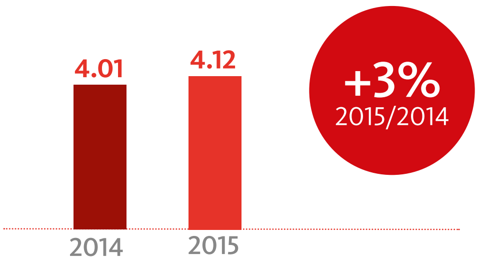


1. Attributable profit, including non-recurring net capital gains and provisions, +3%.

Ordinary RoTE
%

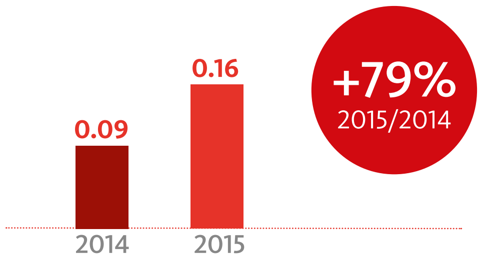


TNAV/share[1]
€



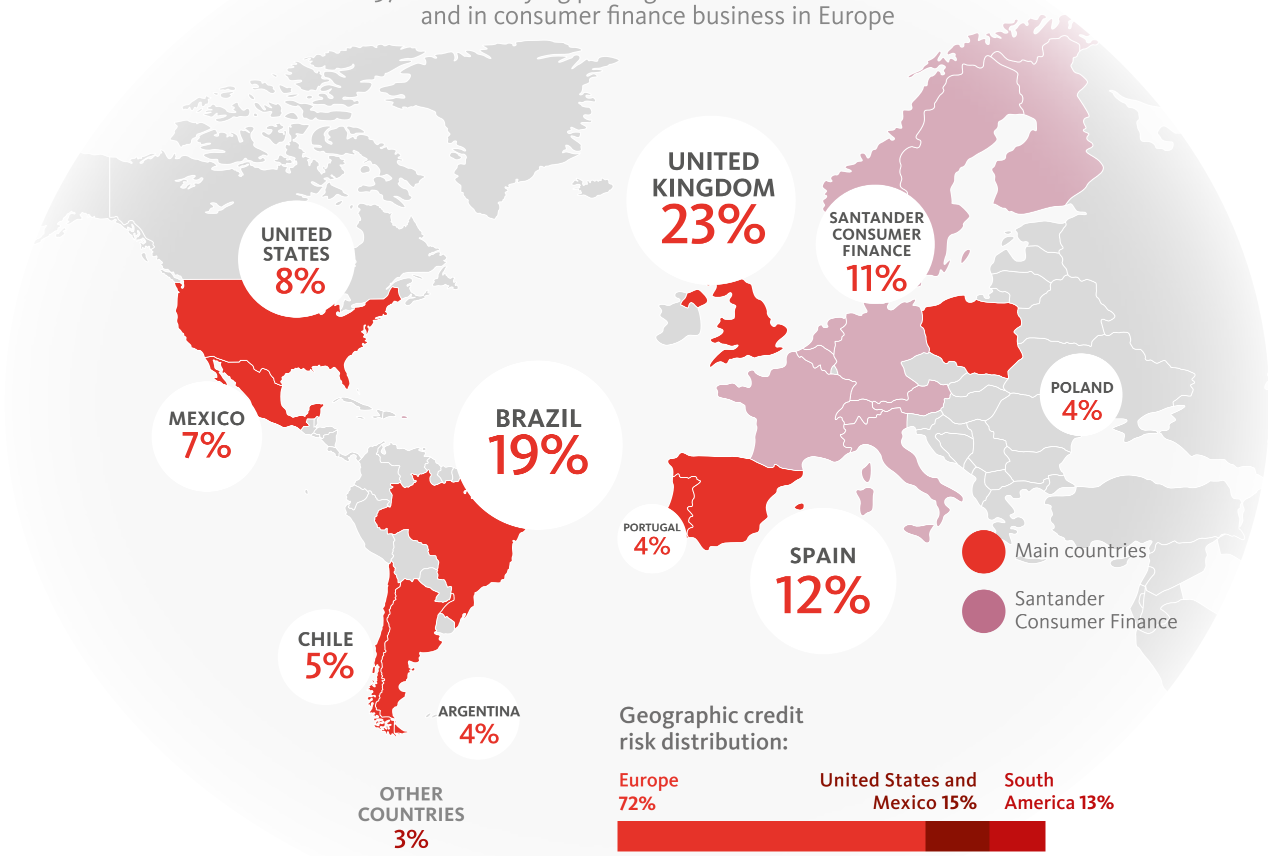
1. Calculated on a like-for-like basis with 2014.

Cash dividend
€/share



Geographic diversification:

97% of underlying profit generated in nine countries and in consumer finance business in Europe



Helping people and businesses prosper in 2015

75%
of employees perceive Banco Santander as Simple, Personal and Fair

82%
of employees are proud to work at Banco Santander

13.8 (+10%)
million loyal customers

16.6 (+17%)
million digital customer

Business growth

+6%
loans

+7%
customer funds

People
193,863
employees

Customers
121
million

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

Communities
1.2
million people helped

Shareholders
3.6
million

35,349
scholarships granted

1,229
agreements with universities and academic institutions in 21 countries

10.05%
fully loaded CET1 ratio

+79%
cash dividend per share

Simple | Personal | Fair

In 2015, we delivered on everything we promised a year ago and delivered in the right way. We increased our earnings and used them to pay a higher cash dividend, to invest in our business and to strengthen our capital base organically. **This success has put us ahead of our strategic plan.**

“The second half of this year's disappointing share price does nothing to undermine **my belief in our diversified structure** which has been built to provide predictable earnings with lower volatility through the cycle. **Our critical mass, our personal relationships with customers and our geographical diversification combine to create the large, deep moat around us.**”

“**We are focused on becoming more efficient and more transparent.** At the corporate centre, we have reduced the number of divisions from 15 to 10 as well as the number of **top executives and executive board directors at the Group level. This has allowed us to reduce the total cost of compensation for those at this level by 23%.**”

Ana Botín
Group Executive Chairman

“From our centre in Spain, we offer products and best practices, ranging from technology systems to control, which enable our subsidiaries to capture significant economies of scale. **The synergies created by this system are worth 3 points of our cost-to-income ratio that remains one of the best in the industry at 47.6%.**”

“**The strong, underlying signal coming from Santander is of steady growth and value-building.** We derive enormous benefits from the way our diverse geographies and retail and commercial banks with critical mass minimize our risks and **even out our revenues.**”

The foundations of our transformation

Corporate governance and team

What do we want?

Strengthen the Bank's corporate governance incorporating the best international practices and complying with the highest standards

What have we done?

- Significant renewal of the board with the appointment of new independent directors. Consolidation of the position of lead director and of the board committees.
- New remuneration policy for executive directors and senior management aligned with our Simple, Personal and Fair culture.
- Changes in the corporate governance of the risk function and a new parent-subsidiary relationship framework.

Configure the executive team for the Bank's new phase

New country heads have been appointed in five of the Group's main local units and leadership in the corporate centre enhanced.

Foster the role of the corporate centre in the creation of value for the Group

Simplified the organisational structure and reduced the number of divisions (from 15 to 10), strengthened the compliance function and improved the transparency and efficiency of the corporate centre.

Capital

What do we want?

Prepare the Bank for stronger organic growth, while comfortably meeting the new regulatory requirements

What have we done?

- €7,500 million capital increase.
- Meeting the fully loaded CET1 capital ratio of more than 10% in 2015, and commitment to the market to raise it to above 11% in 2018.

Offer shareholders an attractive and sustainable return and a dividend that reflects our profits

New dividend policy that increases cash dividend pay-out to 30-40% of profits. Cash dividend per share increased 79% in 2015.

Strategy and culture

What do we want?

Improve the Bank's profitability, grow earnings and dividend per share in a sustainable way

What have we done?

Given a new focus to the strategy to transform us into the best retail and commercial bank for our employees, customers, shareholders and communities:

- 10% growth in loyal customers.
- Enhanced operational excellence.
- Created a new innovation area and developed the Santander Innoventures fund.

Ensure that our more than 190,000 professionals in all countries and businesses have a common purpose and way of doing things

Began to install a new culture throughout the Group, involving senior management and all employees in building an increasingly Simple, Personal and Fair bank.

2015 Annual review

Message from Ana Botín

Dear fellow shareholders,

In 2015, we delivered on everything we promised a year ago and delivered in the right way. We increased our earnings and used them to pay a higher cash dividend, to invest in our business and to strengthen our capital base organically. This success has put us ahead of our strategic plan.

2015 At a Glance

We have increased our number of loyal customers by 1.2 million and improved customer satisfaction so that we are now in the top 3 in 5 of the countries where we operate, which is our aim in all markets. According to our internal surveys, we are all feeling more engaged in our work.

The results of more loyal customers and a more engaged team are a strong operating performance and a net statutory profit in 2015 of €6 billion:

- Customer **loans grew by 6.4%.**
- Customer **revenues grew by 7.6%** to €42 billion.
- **Underlying profit after tax** (excluding PPI and other one-off effects) **grew by 13%.**
- This growth in revenues and profitability has allowed us also to **grow our capital organically by 40 basis points,** to 10.05% (10.15% excluding PPI) and to **grow our cash dividend per share by 79%.**
- Finally, our company is more valuable than 1 year ago, as measured by our **tangible net asset value (TNAV) per share, which grew by €0.11.**

Those of you who acquired shares at the time of our capital raise on January 8 2015 and still hold them, have received a **cash dividend per share of €0.11 and a total dividend per share of €0.40, equivalent to 6% of your investment.**

But since that date our market valuation has fallen by 36%. This is probably related to a different perception of the strength of our capital and the extent of our regulatory capital buffers and to the concern about our presence in certain emerging markets.

The purpose of capital buffers is to protect our customers, shareholders and employees. We take this responsibility extremely seriously.

Our prudential minimum capital requirement today is to maintain a Common Equity Tier1 (CET1) of 9.75%. Our capital adequacy currently stands at 12.55%, a buffer of 280 bps, equivalent to €16 billion.

The reason we have these excess buffers is to get ready for 2019 when we will converge to the regulatory requirements known as Basel III.

As we announced to investors last September, our goal is to have a CET1 capital ratio fully compliant with Basel III criteria of more than 11% by December 2018, when our regulatory requirement will be 10.5%. I am confident that with the uplift we achieved in 2015 and our current growth and capital generation, we will meet our target.

GROWING
CUSTOMER LOANS

Customer loans
+6.4%

GROWING
CUSTOMER REVENUES

Customer revenues
+7.6%
(€42,000 million)

INCREASING
OUR PROFIT

Net profit
€6,000
million (+3%)

AND GROWING
OUR CAPITAL

+40 bps
organic capital growth

Since 2007, our preprovision profit has been on average 2.3 times the provisions we incurred

Our Brazilian team delivered strong recurring profits and made significant one-off positive contributions.

IN BRAZIL

Profit
+33%
(+13% in euros)

RoTE
14%

NPLs
3.2%
Best among private banks

We have set this **goal of above 11% to align with the highest prudential standards for two reasons. First, our required minimum is less because our model is considered less interconnected, and easy to resolve. Second, we need lower management buffers over this minimum because of the relatively low volatility of our earnings and our better relative performance under stress scenarios.**

The key factors in favor of Santander are:

- Our business is less volatile than that of our peers. **We have paid a dividend every year for 50 years.**
- We went through the financial crisis without reporting any quarterly loss. We paid dividends every year and at the lowest point, in 2012, we delivered a net statutory profit of €2.3 billion, as our retail and commercial banking activities continued to be profitable practically in every market.
- Our subsidiaries are autonomous in managing their capital and liquidity. We have more than sufficient capital to operate safely, to satisfy regulators in all of our markets and at the Group level, and to provide the returns expected by our investors.
- Since 2007 we have generated profits before taxes of €93 billion. Our pre-provision profit has been on average 2.3 times the provisions we incurred. We are now transforming our bank to expand our capacity to generate capital. This will make us even more resilient throughout the business cycle.

However, what best explains our market underperformance since our historical high valuation of €100 billion in April last year are concerns about the future of Brazil.

Brazil is going through a challenging period, but our bank performed excellently there this year. **Our team delivered strong recurring profits and made significant one-off positive contributions. Net statutory profit grew by 33% in local currency and by 13% in euros in 2015. Our return on tangible equity (RoTE) in Brazil was a healthy 14%.** Finally, our balance sheet in Brazil –which represents 8% of total Group customer loans- shows the **lowest non-performing loan ratio among the top Brazilian private banks: 3.2%.**

Today in Banco Santander, as our performance in 2015 shows, we have the people, the vision and the resources to deliver for our shareholders.

We will manage the business to deliver on earnings per share (EPS), dividends per share (DPS) and TNAV per share as I laid out in my letter last year and at our Investor Day in September.

The Santander "Moat" is large and deep

In summary, today's market is not considering the full value and strength of our model and our diversification.

Warren Buffett often says that he likes to invest in companies with a "moat", a competitive advantage which protects profits and market share over time.

Our moat is our critical mass in every one of our 9+1 (Santander Consumer Finance Europe) core markets, where we serve a total of 121 million customers. This provides consistent earnings, quarter after quarter and through the cycle.

We have earned the trust of our customers over many years, through hard work and careful stewardship of their financial affairs. Our relationship managers talk to many of these customers every day. They have helped them through difficult times, supporting when others who know them less well might have walked away.

We also operate in a carefully assembled mix of developed and developing markets. When one or two markets are struggling, others are thriving.

Santander Consumer Finance is the top consumer bank in Europe. In Mexico, we are the main bank for small and medium sized enterprises. In Poland, our bank is the most profitable among its peers. We have the second largest private bank and the most profitable one in Portugal. And that doesn't take into account the continued strength of our most important banks in Spain and the UK, which have performed well despite continued low interest rates.

The combined growth of our continental **European business this year has delivered €2.2 billion attributable profit, or 35% growth**; our **UK and US businesses delivered €2.6 billion attributable profit, 10% more**, representing **31% of total attributable profit[1].**

The second half of this year's disappointing share price does nothing to undermine my belief in our diversified structure which has been built to do exactly what it is doing: providing predictable earnings with lower volatility through the cycle.

Our critical mass, our personal relationships with customers and our geographical diversification combine to create the large, deep moat around us.

These are the sources of our unique competitive advantage and what give us confidence that we can deliver earnings at the same time as we adapt our business for the future.

They are the foundations upon which we are building Santander for the next 50 years.

We have scale and financial strength on our side and we are learning how to think and act like a challenger at the same time.

OUR "MOAT":

Critical mass in
9+1
markets

Personal relationships:
121
million customers

Geographical diversification

Consistent earnings through the cycle

1. Excluding the corporate centre and Spain's Real Estate activity.

We have made great strides in helping people and businesses, our customers, prosper

Loyal customers
+1.2MM
(+10%)

We want more of our customers to do more of their banking with us

Digital customers
+2.5MM
(+17%)

Customers

When I wrote to you last year and laid out my vision and plans to transform Santander, I said that the **"measure of our success will be that wherever we operate our customers are the ones who champion our services and bring in new customers."** We have made great strides in helping people and businesses, our customers, prosper. I would like to review in detail what we have achieved in 2015.

Banking is an industry which will look very different very soon because of technology. But it remains at its heart a personal business. It is about satisfying the needs and aspirations of our customers, of families wanting to buy homes and businesses wanting to expand. Our daily work is about serving our 121 million customers today and to anticipate what they will need tomorrow: a loan as well as the latest mobile app to fit seamlessly into their digital lives.

Our focus this year and going forward, will be to earn the loyalty of our customers and encouraging greater use of our digital banking services. In simple terms: **we want more of our customers to do more of their banking with us.** And we are ready for them to do more of their banking digitally.

Progress in 2015

- In the UK, one out of every three new accounts is now opened via our digital channels.
- In Poland, our customers can now apply for a cash loan using their phones and receive a response within 60 seconds.
- In Spain, a new 1|2|3 account is opened every minute through our digital channels.

As a result of these efforts, we have reached our targets and grown our number of loyal customers by 1.2 million and our digital customers by 2.5 million.

In the markets where our number of loyal customers has increased the most, so has our revenue. And this progress is reflected in rising customer satisfaction. In five of the markets we serve, we are ranked among the top three banks for customer satisfaction. We care a lot about these customer satisfaction rankings and loyalty numbers because they set the pulse of our business. If they are strong and healthy, our company is too.

People

Santander built a strong, successful culture over many years. This culture was at the root of our expansion and growth. Now we need to change. This is going to take hard work and time, but we are well on our way.

Internally, we have been undergoing a process of profound cultural change. We are reevaluating every one of our processes to ensure that we can be true to our values, purpose and aim, and be ready to embrace new technology sweeping through financial services.

I want every member of our global team to feel motivated and inspired by these changes, to know that we will do everything we can to support them in their work. I am asking for the same commitment to change from myself, my board and my most senior executives, as I am from those who work in our branches and help our customers every day.

Our latest survey of our global team showed that many more of us believe in this process today than when we started a year ago. We are rethinking how we measure performance and create incentives. Our program of *flexiworking* has been especially popular. We want our teams to guide us, to let us know how they can contribute most to our organization.

During 2015 we have worked to agree on the behaviours that will help us build a bank that is more Simple, Personal and Fair.

There are eight of them: show respect; truly listen; talk straight; keep promises; actively collaborate; bring passion; support people; and embrace change. It is a short list on purpose. It is meant to be achievable.

We value honesty, energy and directness in our families and friends, and we should expect no less from our colleagues at work.

Across the organization, we are focused on becoming more efficient and more transparent. At the corporate centre, we have reduced the number of divisions from 15 to 10 as well as the number of top executives and executive board directors at the Group level.

This has allowed us to reduce the total cost of compensation for those at this level by 23%.

Good governance has taken on fresh importance since the financial crisis, and we are working harder than ever to appoint the best people and create the clearest lines of accountability between all of our operations. Our industry is complex by nature, but our business should never be more complex than necessary.

We are constantly seeking the ideal balance between our corporate centre and our countries. We trust our local teams because they are closest to our customers. But we also want them to take advantage of being part of a global Group.

From our centre in Spain, we offer products and best practices, ranging from technology systems to control, which enable our subsidiaries to capture significant economies of scale. **The synergies created by this system are worth 3 points of our cost-to-income ratio.** Our in-country teams can stay close to their markets while operating more efficiently than their competitors. There are no intermediate levels between our country heads and the Group CEO, because we believe that a lean corporate structure, with the fewest possible layers of management, is the best guarantee of simplicity and transparency, and will deliver for both our customers and our shareholders.

This relationship between the centre and our subsidiaries is essential to continue to improve our cost-to-income ratio, a key measure of efficiency that remains one of the best in the industry at 47.6%. And our simple, geographically ring-fenced subsidiary model results in the lowest Financial Stability Board additional capital recommendation among our peers.

Shareholders

Until the situation in Brazil began to deteriorate in mid year, the relative performance of our share price was comparable to that of our peers and the major indexes.

The long-term story of Brazil is the growth and development of one of the largest emerging economies in the world. We are going to endure the current situation, be patient and be strongly positioned when Brazil resumes its upward journey.

It is important that our shareholders recognize this, and consider the growth in our TNAV per share in 2015. **There is always a lot of noise in finance, but the strong, underlying signal coming from Santander is of steady growth and value-building. I am convinced that our share price will eventually come to reflect this and our shareholders patience will be rewarded.**

Many more of our people believe in cultural change than they did when we started one year ago

Corporate centre value added:
The synergies created by this system are worth 3 points of our cost-to-income ratio

% of Group underlying attributable profit

We derive enormous benefits from the way our diverse geographies and retail and commercial banks with critical mass minimize our risks and even out our revenues.

During 2015, we grew our net profits (in euros) in Spain and SCF by 18%, in the UK by 27%, in Portugal by 63%, in Brazil by 13% and in Mexico by 4%. **These businesses represent 81% of our customer loans and 76% of our Group profits.** Chile reduced its profit by 9%, US by 21% and Poland by 15%. These three businesses represent 16% of our customer loans and 17% of our profits.

THE DIVERSITY OF OUR GEOGRAPHIES WITH CRITICAL MASS (profit growth in euros)

Spain: +18%

SCF: +18%

UK: +27%

Portugal: +63%

Brazil: +13%

Mexico: +4%

We see great potential for us to grow in Poland where we are leaders in digital channels and where loans are growing by 11%. We are working to improve our operations in the USA: we have put in place a new team in recent months, composed of top talent at both the executive and board levels. **We know what we have to do in the USA to succeed on all fronts.**

Our model proved its worth during the financial crisis, throughout which **we never posted a single quarter of losses.** We never required a bail-out in any of the countries where we operate. Though designated a global SIFI (Systemically Important Financial Institution) we have the lowest capital charge among global SIFIs. And for these reasons, we need lower capital buffers, as noted previously, than other international banks with different models.

It was not an easy decision to change our dividend policy, as we did last year. But we have to pay a dividend that reflects the reality of the macro-regulatory situation and our earnings, and is consistent with our strategy. **What is important, is that our model delivers enough profits to reinvest further in: profitable growth; a strengthened capital base; and an increased dividend per share.**

Communities

We continued our support for higher education through our Santander Universities programme which now reaches more than **1,200 universities** around the world. Last year, we awarded around **35,000 scholarships to students** attending these universities, as well as investing in programmes to improve financial inclusion and education.

We have launched the UK Discovery Project, helping people prosper through enhanced education, skills and innovation, which will **support a million people by 2020.**

We also supported around **7,000 entrepreneurs and 500 start-ups** through our community programs to promote job creation.

Our target is to **support 4.5 million people between now and 2018.**

Looking ahead

It is said that strategy rarely survives first contact with adversity. But after eighteen months in charge of Santander, **I am confident that the plan we have in place is the right one.**

We are building from a strong and diverse base. Santander built a reputation over the past three decades as an expansive, acquisitive bank, venturing from Spain to markets across Europe and the Americas. I cannot rule out future bolt-on acquisitions in our 9+1 core markets, provided they make both strategic and financial sense, but **for the immediate future we are focused on growing loyal customers and organic growth.**

We are overhauling our operations and our management to make them more Simple, Personal and Fair. We want our employees to feel happier and prouder than ever to work for Santander. We are building and learning new technologies so that we can revamp our internal processes

and develop better products and services for our customers, whilst remaining best-in-class in efficiency.

And we are lowering our cost of risk with an average target for 2015-2018 of 1.2%.

Our goal is to grow earnings and dividends per share annually, reaching double digit EPS growth by 2018, from a stronger, more resilient capital base with a CET1 above 11%.

Over the coming year, we anticipate different contexts for the developed and developing economies where we operate. In the developed economies, we envisage steady low GDP growth and falling unemployment. Low oil prices and low interest rates will be good for both individual and corporate customers.

Interest rates in the United States seem to be moving upwards, but the return to normality in the credit markets after years of quantitative easing is going to take time. Political uncertainty persists in parts of Europe, and a new president will be elected in the United States in November. Our base case scenario is low and flat yield curves in the developed markets for quite some time.

In the developing economies, we are always braced for greater volatility. But the underlying trends remain hugely promising. **We are well placed in markets with young and growing populations, low banking penetration and low borrowing levels, where we can earn returns on equity far higher than those we earn in the developed markets. As I mentioned above, diversification is our strength.**

Listening to our customers and anticipating what they want from us; fixing things fast when we make mistakes; making their interactions with us Simple, Personal and Fair, each and every time - these are our main goals, today, tomorrow and as far into the future as we can see.

To guide us, we will focus on our purpose: to help people and businesses prosper. This is the Santander Way. It is the foundation for our success. And we have a clear aim: to be the best retail and commercial bank, earning the lasting loyalty of our people, customers, shareholders and communities.

Strong corporate governance is vital to all of our work. Banco Santander's board is fully involved in the Group's oversight. I would like to thank Juan Rodríguez Inciarte and Sheila Bair for their invaluable contribution to the bank.

We have strengthened our boards both centrally and in our regional subsidiaries, drawing on strong independent directors to provide fresh perspectives and advice.

2015 has been a year of tremendous learning and progress for me personally and for Santander. We can see a clear path to the objectives we have set ourselves for 2018. **But we still have to walk that path and turn the unforeseen bumps ahead into opportunities if we want to deliver on our purpose of helping people and businesses prosper.**

We still have to act each day in a way that is more Simple, Personal and Fair. The digital revolution in finance won't happen by itself. We aspire to lead in ensuring that it delivers on its promise for our customers above all.

With the support of our nearly 4 million shareholders, a Board committed to our objectives and an excellent team, I am confident we will succeed.

Ana Botín
Group Executive Chairman

We are well placed in markets with young and growing populations, low banking penetration and low borrowing levels, where we can earn returns on equity far higher than those we earn in the developed markets

2018 TARGETS:

- Increase EPS reaching double digit growth in 2018
- CET1 >11%
- Average cost of credit 2015-2018: 1.2%
- Increase DPS and TNAV per share

Message from José Antonio Álvarez

We are living in a time of significant change. Technology is generating a new way of relating to one another and is increasing the information and decision-making capacity of all economic agents. In the financial sector, other challenges add to these changes, such as new regulations, the entry of new competitors, an environment of low interest rates and uneven growth between mature and emerging economies.

Developed economies continued in 2015 to show signs of recovery but emerging countries, as a whole, grew at a slower pace, because of their internal dynamics as well as the fall in commodity prices and China's slowdown.

The markets were volatile. Emerging currencies depreciated against the dollar and interest rates remained low in mature markets. The Federal Reserve waited until December to announce the first increase in interest rates of only 25 b.p.

This environment continued to put pressure on banks' profitability, added to which were regulatory requirements in two directions. Firstly, greater capital requirements, which have doubled in the last few years. Secondly, regulatory requirements hit income statements as they limited the capacity to generate revenues, required higher costs and investments in technology and personnel, while producing a higher tax charge.

Competition from banks and non-banks was also stronger in various countries and business areas.

Santander is facing these challenges with a business model that has proved its strength in recent years and which we are adapting to the new environment, in order to maximise our profitability goals.

Santander has a business model that has proved its strength in recent years and which we are adapting to the new environment

2015 Group results

2015 was a year of transition in which we posted good results and the Bank advanced in its commercial transformation.

We want to have more loyal customers and make transaction banking the key element. We are analysing which products have opportunities for improvement in each market and we are working on them. We are launching the 1|2|3 strategy, as well as other global Group proposals such as *Santander Advance, International Desk, Santander Passport* and *Santander Trade* for the corporate world.

The number of digital customers reflect the boost provided by the multichannel strategy. Of note were Mexico, Spain, UK and Portugal, which grew at rates of around 20% or more.

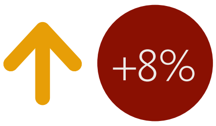
Digitalisation is key for adapting to the new form of customer relationships. Handling big data will provide us with better knowledge on our customers and enable us to respond to their needs. Moreover, it is an effective way to cut costs, enhance efficiency of processes

and simplify our structure. We are making significant progress in this direction and have been recognised in the sector as pioneers in the launch of various apps and services.

This strategy is reflected in increased customer satisfaction and in balanced growth in business volumes.

Lending increased 6%, with gains in market share, mainly in SMEs and companies. Customer funds rose 7%.

These dynamics spurred revenues and enhanced their quality, as the most commercial and recurring income (+8%) increased its percentage of the total:

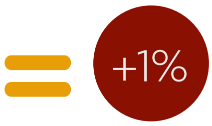


Commercial revenues

- In an environment of very low interest rates in some countries where we operate, **net interest income increased 9%** thanks to commercial and spread management.
- **Fee and commission income rose 4%,** absorbing the negative impact of regulatory requirements. We have improvement plans for the coming years.

In contrast, trading gains fell 16% as they were hit by market volatility. Other income was affected by higher allocations to deposit guarantee and resolution funds, to which the Group assigned close to €800 million in 2015.

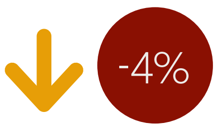
The efficiency plans and discipline in costs enabled **growth in costs to be almost flat in real terms and on a like-for-like basis.** We met the efficiency plan goals (€2,000 million) one year ahead of schedule, thereby making austerity in operating costs compatible with investment in regulatory requirements and in digitalisation and the multichannel strategy.



Costs
(in real terms and on a like-for-like basis)

We are one of the international financial system's most efficient banks, and in order to continue being so, we announced at the Investor Day that we had increased the efficiency plan by €1,000 million to €3,000 million of cost savings for 2018. These will enable us to make investments and improvements while continuing to achieve excellent cost-to-income ratios.

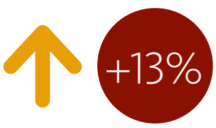
Revenue growth and cost control were accompanied by a **4% decline in loan-loss provisions.** This was made possible by the improvement in credit quality in almost all countries, thanks to an adequate risk management policy. With the launch of the advanced risk management programme (ARM) and strengthening of the risk culture throughout the Group under a common identity (risk pro), we are continuing to advance toward prudent and sustainable risk management.



Loan-loss provisions

These measures also **pushed down the NPL ratio to 4.36% at the end of 2015,** 83 basis points lower than in 2014, while coverage was six percentage points higher at 73%.

Underlying attributable profit increased 13% to €6,566 million.



Underlying attributable profit

In addition, in 2015 we recorded the impact of the net of non-recurring positive and negative results of €600 million. Even after absorbing this impact, profit was 3% higher.

The year's results contributed significantly to the generation of capital, where we have a comfortable position consistent with the stability and recurrence of our business model. In fully loaded terms, the ratio was above the 10% target we set at the start of the year, as optimisation of capital is one of our strategic objectives.

And we combined an increase of 3% in the tangible book value per share with a cash dividend distribution of more than €2,200 million compared to €1,143 million in 2014.

In underlying terms, the RoTE remained at 11% and the RoRWA rose to 1.30%.

In short, we progressed in 2015 toward our main goals, demonstrating our strength and the efforts to earn the lasting loyalty of our employees, customers, shareholders and communities.

I will now devote the rest of my message to the performance by the main units in 2015 and the management priorities for 2016.

>€2,200
million in cash dividend

Performance by business areas in 2015[1]

In **Spain,** we focused on forging long-term relations with our customers. For example, launching the 1|2|3 strategy with which we attained 860,000 accounts. We want to be the bank of choice for companies and so we launched the 1|2|3 account for SMEs, and other programmes with differentiated offers. This increased our market share in the segment, and we are leaders in wholesale banking. We also achieved a significant improvement in customer satisfaction surveys. Lastly, we strengthened the corporate governance model, aligning it with the rest of the Group's subsidiaries.

In an environment of tough competition, attributable profit was 18% higher than in 2014 at €977 million, thanks to lower provisions and control of costs.

In the **United Kingdom,** the positive trend continued in individual customers with the 1|2|3 strategy, as well as in companies where we continued to gain market share. We focused on mobile and online channels, launching a range of solutions that was well received by the market. The number of digital customers rose 22%. We also continued to increase the number of loyal customers. In companies, we gained more market share with sustained growth in a market that as a whole is not growing.

860,000
1|2|3 accounts

Underlying attributable profit was 14% higher at £1,430 million thanks to good commercial dynamics, reflected in revenues and in an improvement in credit quality that led to lower provisions.

In **Brazil,** we continued to improve the bank and carry on the commercial transformation, based on a multichannel approach and growth in digital customers, improving and simplifying processes and in operations such as Getnet and Bonsucesso, with which we increased our fee and commission income. All of this is reflected in a more sustainable business model.

+22%
digital customers

Attributable profit was €1,631 million, up 33%, and driven by commercial revenues, enhanced efficiency and provisions growing at a slower pace than lending.

Although it is not possible to isolate oneself completely from the country's current recession, the improvement in the franchise over the last few years, the better quality of the balance sheet and gains in productivity and efficiency enable us to face the current environment with guarantees.

In the **United States,** we continued to strengthen the governance structure. We bolstered the risk management and control models in order to meet the regulator's expectations. We are creating the holding company that will integrate businesses in the country, which impacted costs. We are investing in improving the banking franchise, in order to enhance the customer relationship and increase profitability.

+33%
attributable profit

The priority at Santander Consumer USA is auto finance, as we are discontinuing the business of personal loans.

All these measures are temporarily impacting results and largely explain the drop in profit to $752 million.

1. All changes in this section are calculated in local currency terms.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander's strategy

Santander Consumer Finance is Europe's consumer credit leader, with a unique business model and excellent credit quality. Geographic and product diversification was strengthened by the latest operations, such as the integration of GE Nordics and development of the agreement with Banque PSA Finance, which is meeting the timetable set. Attributable profit rose 18% to €938 million.

In **Mexico,** we completed the expansion plan begun in 2012, which was reflected in a faster pace of business growth and gains in market share. Pre-tax profit grew 8% thanks to the positive trend in revenues, mainly net interest income.

In **Chile,** the focus was on business growth in companies and in target segments of individual customers, as well as in improving the quality of customer attention. The result was better than expected despite the 13% fall in profit, which was due to lower UF inflation than in 2014 and a higher tax charge.

In **Argentina,** profit grew by more than 20%, thanks to progress in the new commercial strategy and the expansion plan, which produced higher net interest income, and fee and commission income.

In **Poland,** we are the best bank in terms of profitability and continued to be the leader in cards, and mobile and online banking. Profit fell 15% because of the drop in interest rates and the introduction of maximum rates for consumer credit and cards.

In **Portugal,** we gained market share, mainly in companies. We are in a process of normalising profits, which rose 63%. In December, Santander Totta was awarded most of assets and liabilities of Banco Internacional do Funchal (Banif), making us the country's second largest private sector bank.

Business areas priorities for 2016

Looking to 2016, the outlook for the global economy points to a slight and uneven recovery. This improvement will come from advanced economies, which will consolidate their moderate recovery, while emerging economies will struggle to stabilise their growth.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander's strategy. Firstly, because of their higher growth potential, in view of their demographic dynamics, and their more vigorous productive capacity; secondly, the considerable gap they still have to fill in terms of banking penetration, based on the improvement of their levels of development, and the substantial growth in their middle classes; and thirdly, the diversification and stability that these countries provide to our balance sheet and income statement from businesses in economies with different cycles, as shown once again in the extreme conditions of the last few years.

In this context, we will continue to focus on improving customer satisfaction in all the Group's units, on advancing in the digital transformation process and on increasing the number of loyal customers. We will also continue to centre selectively on key businesses in order to gain market share in them. At the same time, setting priorities on the basis of the features and the circumstances of each market:

- In **Spain**, we want to have 2 million 1|2|3 accounts, continue to improve customer satisfaction, reduce the cost of credit and gain market share in SMEs.
- The **UK** will continue to focus on customer satisfaction, the digitization process, increase the range of services and grow again at a faster pace than the market in SMEs.
- In **Brazil,** the improvement in our franchise in the last few years, the enhanced quality of the balance sheet and further gains in productivity and efficiency should enable us to face the year with guarantees. We have management tools to take advantage of the high interest rate environment and we will concentrate on selective business growth, operational efficiency and control of risk.

- **Santander Consumer Finance** will complete the agreement with Banque PSA Finance, strengthen consumer business through Pan-European agreements and step up its presence in digital channels.

- In the **United States**, we will continue to bolster the franchise with differentiated strategies for each entity, while integrating the main units in the country into Santander Holding USA.

- In the rest of units, the priorities are the following. In **Mexico,** we will strengthen our position by consolidating key segments. In **Chile,** we will focus on improving customer attention and on transforming our commercial and retail banking, while renewing our branches. We have a very similar strategy in **Argentina,** where we are also expanding the network and advancing in digitization. Lastly, in **Portugal** we will manage Banif's integration and in **Poland** we will continue to be the reference point bank in innovation and leaders in digital channels, with a clear objective of gaining more market share in companies.

Conclusions

We made progress in 2015 in the main strategic objectives and our financial variables performed well.

We will continue in 2016 to advance in the Group's commercial transformation. We have clear goals for the year, as announced at the Investor Day, both for the whole Group and for countries:

- Raise the number of loyal customers, both individuals and companies, and digital customers.

- Increase market share in SMEs and companies.

- Reduce the cost of credit.

- Grow fee and commission income at a faster pace.

- Maintain the year-end cost-to-income ratio stable.

- Boost dividend and earnings per share.

These objectives are part of **our medium-term priorities: grow in business volumes, increase revenues and improve profitability, with capital levels in line with business needs and regulatory requirements.**

None of this would be possible without the help, work and motivation of Santander Group's highly professional and experienced team. We want to continue to strengthen it through our talent management model that enables us to identify employees' potential and develop a career plan that is individually tailored. In addition, we are implementing new ways of working, with more flexible models that are adapted to current life, in order to consolidate our bank as one of the best companies to work for.

I firmly believe that, with the commitment of our employees and the trust of our customers and shareholders, we can attain our goals and continue to help people and businesses prosper in a Simple, Personal and Fair way.

José Antonio Álvarez
Chief executive officer

We made progress in 2015 in the main strategic objectives and our financial variables performed well. We will continue in 2016 to advance in the Group's commercial transformation

Corporate governance

Santander strengthened its corporate governance, focusing, in particular, on the role and functioning of the board of directors and leadership in the Group's main policies and strategies, as well as the key role it plays in risk management, in accordance with the highest international standards.

Balanced and committed board

- Of the 15 directors, 11 are non-executive and 4 executive.
- A diverse board (33% of women) with international experience.

Equality of shareholders' rights

- The principle of one share, one vote, one dividend.
- The Bylaws do not contain anti take-over measures.
- Encouragement of informed participation at shareholders' meetings.

Maximum **transparency,** particularly in terms of remuneration

- This is key for generating shareholder and investor confidence and security.
- New remuneration policy for executive directors and senior management, aligned with our Simple, Personal and Fair culture.

At the forefront of **international** best **governance practices.** In 2015:

- The position of lead director gains importance and the role of the board's committees is strengthened.
- Enhancement of risk management governance.
- Internal governance framework for relations between the parent bank and subsidiaries.

Board of directors

The board of directors is the Group's highest decision-making body, except for matters reserved for the general shareholders' meeting. Santander has a first-class, highly qualified board; experience, knowledge, dedication and diversity are its main assets.

In line with the Bank's aim and purpose and as part of its general oversight function, the board leads the decisions regarding the Group's main policies, strategy and corporate culture. It defines the Group's structures and promotes the appropriate policies in relation to corporate social responsibility. In particular, in the exercise of its responsibility and involvement in managing all risks, it must approve and monitor the risk appetite and framework and ensure that the "three lines of defence" model (business and risk origination; risk control and compliance and internal audit) are respected.

Its functioning and activities are regulated by the Bank's internal rules, which are governed by the principles of transparency, responsibility, justice, effectiveness and defence of shareholders' interests. The board also ensures compliance with the best international practices and continues to advance in attaining the highest corporate governance standards, for which several changes were made to the board's rules and regulations during 2015.

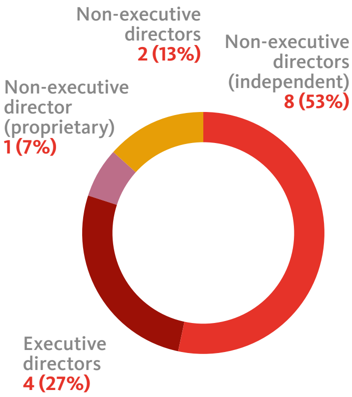
The composition of Banco Santander's board is balanced between executive and non-executive directors. The board was strengthened in 2015 with more non-executive directors (most of them independent) who ensure appropriate control of the business and decision-taking, fostering, furthermore, debate that is more challenging and of higher quality on these issues.

Robust corporate governance is key for guaranteeing a sustainable business model over the long term

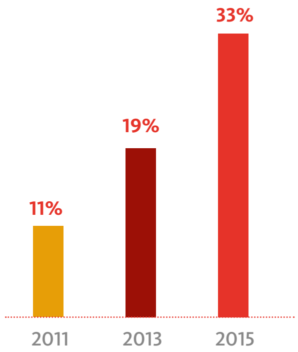
For more information on corporate governance see pages 74 to 111 of Banco Santander's Annual Report

Banco Santander's board

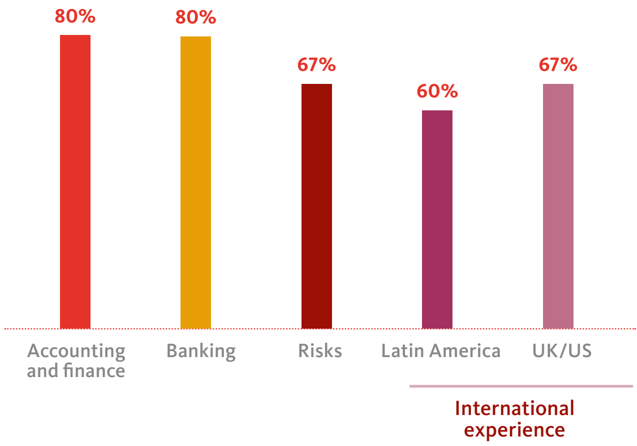
Composition of the board
Number and % of directors



Diversity in the board
% of female directors



Relevant expertise of board members
%



All board members are recognised for their professional capacity, integrity and independence and, individually and collectively meet the conditions, experience and necessary dedication for attaining the goal of turning Santander into the best retail and commercial bank. The non-executive directors' profile includes professionals with extensive financial experience, wide knowledge of the markets where the Group has businesses and of the different sectors and customer service models from top-level executive positions.

At the end of 2014, Santander granted bylaw-stipulated status to the position of lead director and consolidated it further in 2015 through the appointment of Mr Bruce Carnegie-Brown.

Remuneration policy

The Bank's remuneration policy for directors and senior management is based on the following principles:

1. Remuneration must be consistent with rigorous and prudent risk management.

2. Anticipating and adapting to the regulatory changes in remuneration matters. The executive directors' variable remuneration deferred period, as well as that of other executives within the Group's identified category, are consistent with the provisions of the CRD IV.

3. Involvement of the board, as, at the proposal of the remuneration committee, it approves the annual remuneration report for directors and submits it to the general shareholders' meeting on a consultative basis and as a separate item on the agenda.

4. Transparent information.

The board held
21
meetings in 2015.

Changes in the composition of the board

▶ At its meeting on 30 June 2015, the board agreed to appoint Mr Ignacio Benjumea, until then general secretary and secretary of the board, as non-executive director of Banco Santander. At the same date, Mr Jaime Pérez Renovales was appointed as the new general secretary and secretary of the board, and Mr Juan Rodríguez Inciarte tendered his resignation as director.

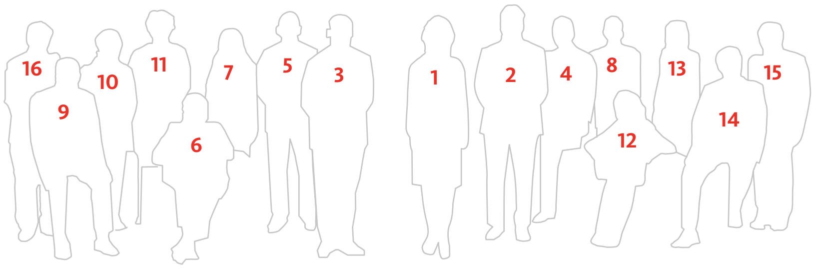
▶ Ms Sheila Bair resigned as director as of October 1 after she was appointed president of Washington College. In order to fill this vacancy, the board, at the proposal of the appointments committee and after obtaining the corresponding regulatory authorisations, agreed to appoint Ms Belén Romana as an independent director.

▶ The appointments of Mr Ignacio Benjumea and Ms Belén Romana will be submitted to the next general shareholders' meeting for ratification.

New auditor

At its meeting of 6 July 2015, the board selected PricewaterhouseCoopers Auditores, S.L. (PwC) to be the external auditor of Banco Santander and its consolidated Group and verify the financial statements for 2016, 2017 and 2018. This decision was adopted in line with the corporate governance recommendations with regard to rotation of the auditor, at the proposal of the audit committee and as a result of a fully transparent selection process. The board submitted this appointment for approval by the ordinary general shareholders' meeting.

Board of directors of Banco Santander



1.
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
Group executive chairman and executive director
● ■ ▲

2.
Mr José Antonio Álvarez Álvarez
Chief executive officer and executive director
● ■ ▲

3.
Mr Bruce Carnegie-Brown
Vice chairman. Non-executive director (independent) and coordinator of the non-executive directors (lead director)
● ● ■ ● ▲

4.
Mr Rodrigo Echenique Gordillo
Vice chairman and executive director
● ■ ▲

Pereda building, Santander Group city, Boadilla del Monte, Madrid, Spain. 22 December 2015.

9.
Mr Juan Miguel Villar Mir
Non-executive director (independent)
▲ ●

10.
Ms Belén Romana García
Non-executive director (independent)
▲

11.
Mr Javier Botín-Sanz de Sautuola y O'Shea
Non-executive director (proprietary)

12.
Ms Esther Giménez-Salinas i Colomer
Non-executive director (independent)
■ ▲

● Executive committee

▲ Audit committee
● Appointments committee
■ Remuneration committee

● Risk supervision, regulation and compliance committee (board risk committee)
■ International committee
▲ Innovation and technology committee

5.
Mr Matías Rodríguez Inciarte
Vice chairman and executive director
● ▲

6.
Mr Guillermo de la Dehesa Romero
Vice chairman and non-executive director
● ● ■ ● ■ ▲

7.
Ms Isabel Tocino Biscarolasaga
Non-executive director (independent)
● ▲ ■ ●

8.
Mr Ignacio Benjumea Cabeza de Vaca
Non-executive director
● ● ■ ● ■ ▲

13.
Ms Sol Daurella Comadrán
Non-executive director (independent)
● ■

14.
Mr Ángel Jado Becerro de Bengoa
Non-executive director (independent)
▲ ● ■ ●

15.
Mr Carlos Fernández González
Non-executive director (independent)
▲ ● ●

16.
Mr Jaime Pérez Renovales
General secretary and secretary of the board

Banco Santander's structure and internal governance

Subsidiary model

Santander Group is structured using a subsidiary model of which the parent is Banco Santander, S.A. Its registered office is in the city of Santander (Cantabria, Spain) and its corporate centre is in Boadilla del Monte (Madrid, Spain).

The Group's subsidiary model is characterised by the following:

- The governing bodies of each subsidiary are responsible for rigorous and prudent management, ensuring economic soundness and overseeing the interests of shareholders and other stakeholders.
- The subsidiaries are managed on the basis of local criteria and by local teams that contribute considerable knowledge and experience of customer relationships in their markets, while benefiting from the synergies and advantages of belonging to Santander Group.
- They are subject to the regulation and supervision of their local authorities, in addition to the supervision performed globally by the European Central Bank on the Group.
- Their deposits are guaranteed by the respective deposit guarantee schemes of the countries where they are located.

The subsidiaries are funded autonomously in terms of capital and liquidity. The Group's capital and liquidity positions are coordinated in the corporate committees. The intragroup exposures are limited, transparent and at market prices. The Group, moreover, has listed subsidiaries in some countries in which it retains a controlling stake.

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

Corporate centre

Banco Santander's subsidiary model is complemented by a corporate centre that has support and control units which carry out functions for the Group in matters of risk, auditing, technology, human resources, legal affairs, communication and marketing, among others. The corporate centre adds value to the Group by:

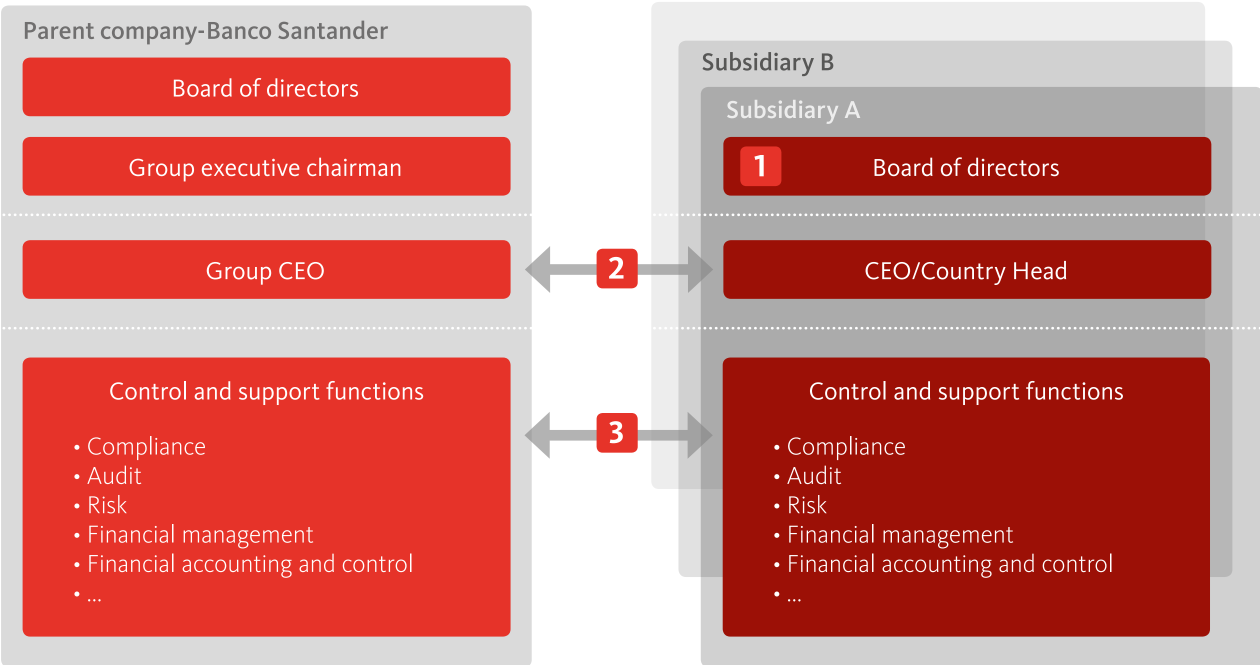
- Making the Group's governance more solid, through global control frameworks and supervision, and taking strategic decisions.
- Making the Group's units more efficient, fostering the exchange of best practices in cost management, economies of scale and a common brand.
- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation, the corporate centre contributes to the Group's revenue growth.

Changes in the boards of the subsidiaries in 2015

▶ Since the end of 2014 there have been changes in the boards of the Group's subsidiaries with the appointment of new non-executive chairmen and new country heads in the US, UK, Brazil, Spain and Mexico. Of note was the creation of the Santander Spain board, which did not involve any corporate change, thereby making its governance structure similar to the subsidiary model used in the Group's other markets. Banco Santander also strengthened its presence and oversight of local units with the appointment of new Group directors to the boards of its main subsidiaries.

Santander Group is structured using a subsidiary model of which the parent is Banco Santander, S.A.

Parent company-subsidiary relations



The board agreed a series of changes during 2015 to simplify the structure of the corporate centre in order to enhance responsiveness to internal customers and reinforce risk control. As a result, the number of divisions at the corporate centre was reduced from 15 to 10.

Santander Group's internal governance

Santander has an internal governance framework that includes a governance model that establishes the principles defining relations between the Group and its subsidiaries, and the interaction that must exist between them, at three levels:

- the subsidiaries' governing bodies, in accordance with the Group's composition, creation and functioning guidelines of the subsidiaries' boards;
- between the chief executive officers and country heads and the Group, as well as;
- between the teams deemed significant with regard to control functions, as well as certain support and business functions, both at the corporate centre and the subsidiaries.

Santander also has an internal governance framework with thematic frameworks, developed as common operating frameworks for those matters considered important, due to their influence on the Group's risk profile-notable among which are risks, capital, liquidity, corporate governance, audit, accounting and information, financial management, technology, marketing of products and services, anti-money laundering, brand and communication - and which specify:

- the way of exercising oversight and control by the Group over the subsidiaries and;
- the Group's participation in certain of the subsidiaries' important decisions.

Both documents, which comprise the governance framework, have been approved by the board of directors of Banco Santander, S.A. for subsequent adoption by the subsidiaries' governing bodies, bearing in mind the local requirements applicable to them.

Governance of the risk function

During 2015, Banco Santander's board agreed significant changes to the way in which governance of the risk function is structured, clearly defining the responsibilities of the various committees and separating the units that take decisions and manage risks from those responsible for control. In this way, governance of the risk function at its highest level in the Group is structured via a board risk committee (the risk supervision, regulation and compliance committee) and two committees, one executive and the other of control.

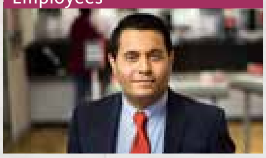
For more information on corporate governance of the risk function, see pages 182 to 193 of Banco Santander's Annual Report

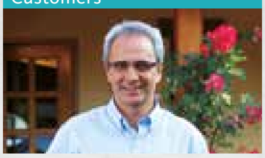

Crecemos
contigo a
cada paso
Bonificación
pagos y recibos

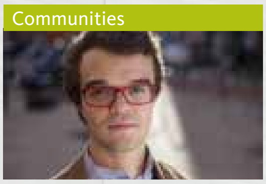
1

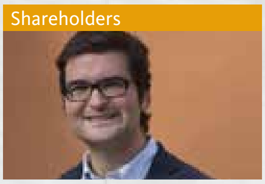
Business model and strategy

We want to earn the lasting loyalty of our people, customers, shareholders and communities.

Employees


Customers


Communities


Shareholders


Purpose and business model

Santander has a customer-focused business model that enables it to fulfil its purpose of helping people and businesses prosper.

A large yet simple bank

1 Geographic diversification, focused on Europe and the Americas

Santander Group's geographic footprint is balanced between mature and emerging markets, with a significant presence in Argentina, Brazil, Chile, Spain, United States, Mexico, Poland, Portugal, United Kingdom and consumer finance business in Europe[1].

As well as local services, Santander has global businesses that develop products that are distributed through the Group's retail networks and provide services to customers worldwide.

Critical mass in 10 core markets

Contribution to attributable profit

1. Santander Consumer Finance develops its business mainly in Germany, France, Italy, the Nordic countries, Poland and other Central and Eastern European countries.

2 Focus on retail and commercial banking

Banco Santander's commercial model is designed to satisfy the needs of all types of customers: individuals with different income levels; companies of any size and different sectors of activity; private companies and public institutions. Earning their lasting loyalty is the Bank's main objective. The Bank has high market shares in retail and commercial banking in its core markets where its principal business is to attract deposits and provide loans. The Bank focuses its wholesale banking offer on providing services to its main customers in local markets.

Retail and commercial banking generates 81% of profits

3 Subsidiary model

Santander Group is structured using a subsidiary model that are autonomous in capital and liquidity terms,and are subject to regulation and supervision by local authorities, as well as that exercised on the consolidated Group by the European Central Bank.

These subsidiaries are managed according to local criteria and by local teams that contribute substantial knowledge and experience with customers in their markets, while also benefiting from the synergies and advantages of belonging to Santander Group. The subsidiaries' autonomy limits contagion between the Group's units and reduces the risk.

A value-adding corporate centre

4 International talent, with a shared culture and a global brand

Santander's employees share a corporate culture focused on fulfilling the Group's purpose and aim.

The Santander brand synthesises the Group's identity and expresses a corporate culture and unique international positioning that is consistent and coherent with a way of doing banking that helps people and businesses prosper in a Simple, Personal and Fair way.

5 A strong balance sheet, prudent risk management and global control frameworks

Santander has a medium-low risk profile and high asset quality, with a risk management culture that strives to improve every day. It has a solid capital base consistent with its business model, balance sheet structure, risk profile and regulatory requirements.

The corporate centre adds value and maximises subsidiaries' competitiveness, helping them to become more efficient, generate revenues and implement the most demanding standards in terms of corporate governance through operating frameworks, corporate policies and global control systems. This enables the Group to obtain better results and contribute greater value than that which would come from the sum of each of the local banks.

47.6%
Cost-to-income ratio

6 Innovation, digital transformation and best practices

Innovation has been one of Santander Group's hallmarks since it was founded. On many occasions the Bank has revolutionised the financial industry with new products and services. The Group's size enables it to identify and quickly and efficiently transfer its best practices between the different markets in which it operates, adapting them to local features.

Santander is carrying out an intense digital transformation which affects not only services provided to customers but also all its operations, both internal and external; how to use data to spur business growth; updating and modernising systems and streamlining processes and the organisation as a whole.

Aim and value creation

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

We have set ambitious targets...

	Strategic priorities	Key indicators
EMPLOYEES	Be the best bank to work for and have a strong internal culture	Number of core markets where the Bank is among the top 3 banks to work for (according to the relevant local rankings)
CUSTOMERS	Earn the lasting loyalty of our individual and corporate customers: improve our franchise	Loyal individual customers (million) Loyal corporate banking customers and SMEs (thousand) Growth in loans and advances to customers (%)
	Operational excellence and digital transformation	Number of countries where the Bank is among the top 3 in customer satisfaction Number of digital customers (million) Growth in fee and commission income (%)
SHAREHOLDERS	Capital strength and risk management	Fully loaded CET1 capital ratio (%) Cost of credit (%)
	Improve profitability	Cost-to-income ratio (%) Growth in earnings per share (%)[4] Return on tangible equity (RoTE, %)[4] Cash dividend pay-out (%)
COMMUNITIES	Santander Universities	Number of scholarships (thousand)
	Support people in the local communities in which the Bank operates	Number of beneficiaries of the Bank's social investment programmes (million)

2014	2015	2018	Pages with more info
3	3	>5	34-37
11.6	12.7	17	38-39
968	1,049	1,646	38-39
5%	6%	> peers	64
5	5	All[2]	43
14.1	16.6	30	40-41
5.4	4.3	c. 10%[1]	18
9.65%	10.05%	>11%	44-64
1.43%	1.25%	1.2%[1]	64
47.0%	47.6%	<45%	63
24.4%	-7.0%	double digit	62
11.0%	11.0%	C. 13%	62
20%	38%	30-40%	45
30	35	130[3]	50-51
—	1.2	4.5[3]	49

1. 2015-2018 average.
2. Except in the US where it will likely be close to competitors.
3. Total amount 2016-2018.
4. Calculated on ordinary profit.

... and we have defined how to attain them.

Simple | Personal | Fair

Simple, Personal and Fair is the essence of the Bank's corporate culture. It reflects how all Santander's teams think and act and what our customers demand of us as a bank. It defines the behaviours that guide our actions and decisions and the way in which we should interact with our employees, customers, shareholders and communities.

Simple

We offer an accessible service for our customers, with simple, easy-to-understand products. We use plain language and improve our processes every day.

Personal

We treat our customers in an individualised and personalised way, offering them the alternatives that best suit their needs. We want each and everyone of our employees and customers to feel unique and valued.

Fair

We treat our employees and customers fairly and equally, are transparent and keep our promises. We establish relations in such a way that the Bank as well as its employees, customers and shareholders obtain benefits. Because we understand that what is good for them is also good for the Bank.

According to the engagement survey carried out in 2015 and which had a response rate of 84%, only eight months after the launch of the new corporate culture 75% of Santander's professionals perceive the Bank as Simple, Personal and Fair.

Employees

In order to be the best retail and commercial bank for our customers, we have to begin with our employees. If they feel proud of belonging to Santander and are more committed, they will be able to earn the lasting loyalty of our customers.

Santander aspires to be one of the top 3 banks to work for in most of the countries where it operates and continue strengthening its corporate culture.

Working differently

New ways of working at Santander were developed during 2015, based on the new corporate culture. We established more flexible corporate behaviour and work systems that allow for a better work-life balance.

- **Corporate behaviours.** Employees in all countries participated in a process to define eight corporate behaviours that will shape the way we work and make Santander an increasingly Simple, Personal and Fair bank. These behaviours have been adapted to the local reality of each country.

Corporate behaviours for a more Simple, Personal and Fair bank

Show respect

"I show respect and I treat others as I would like to be treated, acknowledging and appreciating one another's differences".

Truly listen

"I listen and have empathy, to understand others' needs".

Talk straight

"I talk straight and adapt to others and the specific context, speaking out constructively".

Keep promises

"I keep my promises and I am consistent in everything I do".

Actively collaborate

"I actively encourage co-operation to find the best solution for my customers and colleagues".

Bring passion

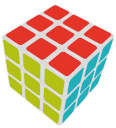
"I bring passion and energy and I give my best to earn the lasting loyalty of my customers and colleagues".

Support people

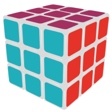
"I give support to people in their development, providing feedback and appreciating their contribution".

Embrace change

"I embrace change, bringing innovative solutions and learning from mistakes".



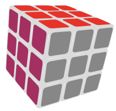
1 Corporate flexibility policy
A framework valid for all countries, adapted and implemented locally.



2 Leadership and culture
Management of people and teams that allows for a work-life balance and improves efficiency.

3 Objectives and planning
A work system planned with clear goals, where working hours no longer mark the way we work.

4 Spaces and collaboration
More open and collaborative workspaces.



5 Technology and resources
Tools for working remotely, at any moment and from anywhere.

6 Processes
Streamlining processes in order to make more productive use of time.

- ***Flexiworking.*** This is a new way of working in the Bank which aims to:

  - Improve the organisation and planning of work, making it more efficient and collaborative, getting more out of technology, eliminating bureaucracy and making better use of meetings and e-mails.

  - Give executives the autonomy to facilitate to their teams flexibility measures that help them to attain a better work-life balance.

  - Acknowledge employees' engagement and dedication.

  The first initiative was the flexibility policy. A total of 939 flexibility plans were formalised in 2015 in the corporate centre, which led to 34,446 measures enjoyed by 93% of employees.

  One of the keys of the success of Flexiworking is the ambassadors, professionals chosen in various divisions and countries to help to drive and implement the new culture.

- **New relationship model between countries and the corporation,** to identify and share the best practices for managing people and take advantage of the Group's diversity. There are three areas of activity: regulation and governance, to ensure compliance with the regulatory requirements in matters of compensation, succession planning, training, etc; policies, to design the basic lines of managing the Group's employees, but with the autonomy to adapt and execute depending on each particular situation; and additional support of the corporation, contributing value-added, for example, ensuring that best practices are shared and promoting global projects.

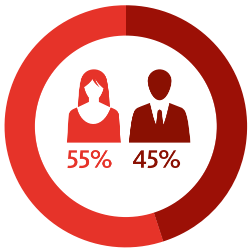
- **Digital transformation.** Digital Days were launched in 2015, held in the corporate centre as well as in almost all countries, with the aim of turning employees into opinion leaders of digital banking.

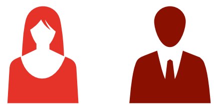
  Mobile phone apps were also launched, such as the app for expenses and problem-solving in the corporate centre, which, respectively, facilitate settlement of expenses and reporting of various types of incidents; and the É Conmigo Santander in Brazil, which also reports incidents.

- **Corporate volunteer policy.** Approved by the board in December in order to organise and highlight the current volunteer initiatives. Education will be the focal point of this policy and there will be two key events: the We are Santander Week in June and the International Volunteer Day in December. Each country also has its own initiatives. Santander had 55,254 volunteers worldwide in 2015.

- **We are Santander Week.** Under the slogan of "A Simple, Personal and Fair Week", the new corporate culture was the central element of the We are Santander Week in 2015. Corporate and local activities were developed to foster commitment among employees, education, listening and pride in belonging to the Group.

193,863
Employees





Average number of years with Santander
9 11

Graduates
55% 45%

Average age (years)
37 39

Town hall meeting of Ana Botín with employees at Santander Group City, June 2015.

Talent management

The following measures were added to talent management in 2015, in order to align it with the transformation that the Group is undergoing.

- **Succession planning policy and process:** to establish the management and monitoring guidelines of possible replacements in key positions of senior management and control functions.
- **Inclusion of customer satisfaction metrics:** to calculate employees' variable remuneration.
- **Open offer policy:** as of April the Group's employees were able to choose the training courses they preferred on the basis of their interests and professional training needs.
- **Employee Relationship Management (ERM):** this tool allows our HR teams to improve its knowledge of the corporate centre's professionals, segmenting them with a customer focus according to their profiles so as to adjust the training and development actions of human resources to their specific needs.
- **Performance appraisal:** 180-degree appraisal for executives, and new corporate behaviours included in this appraisal.

Various projects put into effect during 2014 were also consolidated:

- **Talent Assessment Committees:** bodies that regularly meet and involve senior management. The performance of professionals and their potential is analysed. More than 1,350 executives were assessed during 2015, of which close to 35% have an individual development plan.
- **Global Job Posting:** corporate platform that gives all professionals the possibility of knowing and opting to apply for job openings in the Group. In 2015, 381 offers were made.

Transparent communication

Progress was made in 2015 in the process of listening to and dialoguing with employees.

- **Santander Ideas,** the first internal social network enabling professionals in all countries to share their ideas on strategic issues for the Bank, vote on them and comment.

  Since the platform's launch in 2014, 27,850 users contributed more than 13,000 ideas.

  Santander Ideas received 3,046 ideas in 2015 and held seven challenges in six countries: Argentina, Chile, Portugal, Poland, the corporate centre (Spain) and Germany. Employees made suggestions on how to achieve an increasingly Simple, Personal and Fair bank for them, customers, shareholders and communities.

Annual engagement survey

- The 2015 results were better compared to 2014, particularly in two aspects: work-life balance, which rose from 50% to 72%, thanks to the launch of Flexiworking, and the role of executives as people managers, especially in terms of respect and recognition, which improved from 61% to 72%.
- Moreover, there were still areas of improvement regarding organisational support, such as the speed with which decisions are taken, the simplification of processes and the improvement in the organisation of positions, although in general it increased from 63% to 66%.

84%
participation

75%
engaged employees

82%
of employees feel proud to work for Santander

Of note among the ideas implemented in 2015, in addition to Flexiworking, was Best4us, which puts Group employees in touch with one another so that they can share common interests (language learning, cultural exchanges); Santander Benefits, an online space that promotes offers and services for the Group's professionals in Spain; and ideas related to the Branch of the Future, a new branch model that allows simpler processes, a more intuitive technology and differentiated spaces according to the customers' needs.

- Various **town hall meetings** were held, both in the corporate centre and in countries, led by our Group executive chairman, the Group CEO and country and division heads, in order to enhance the information on of the progress made in executing the strategy and fostering the corporate culture.

Recognitions

Among the recognitions obtained by Banco Santander during 2015 were the following:

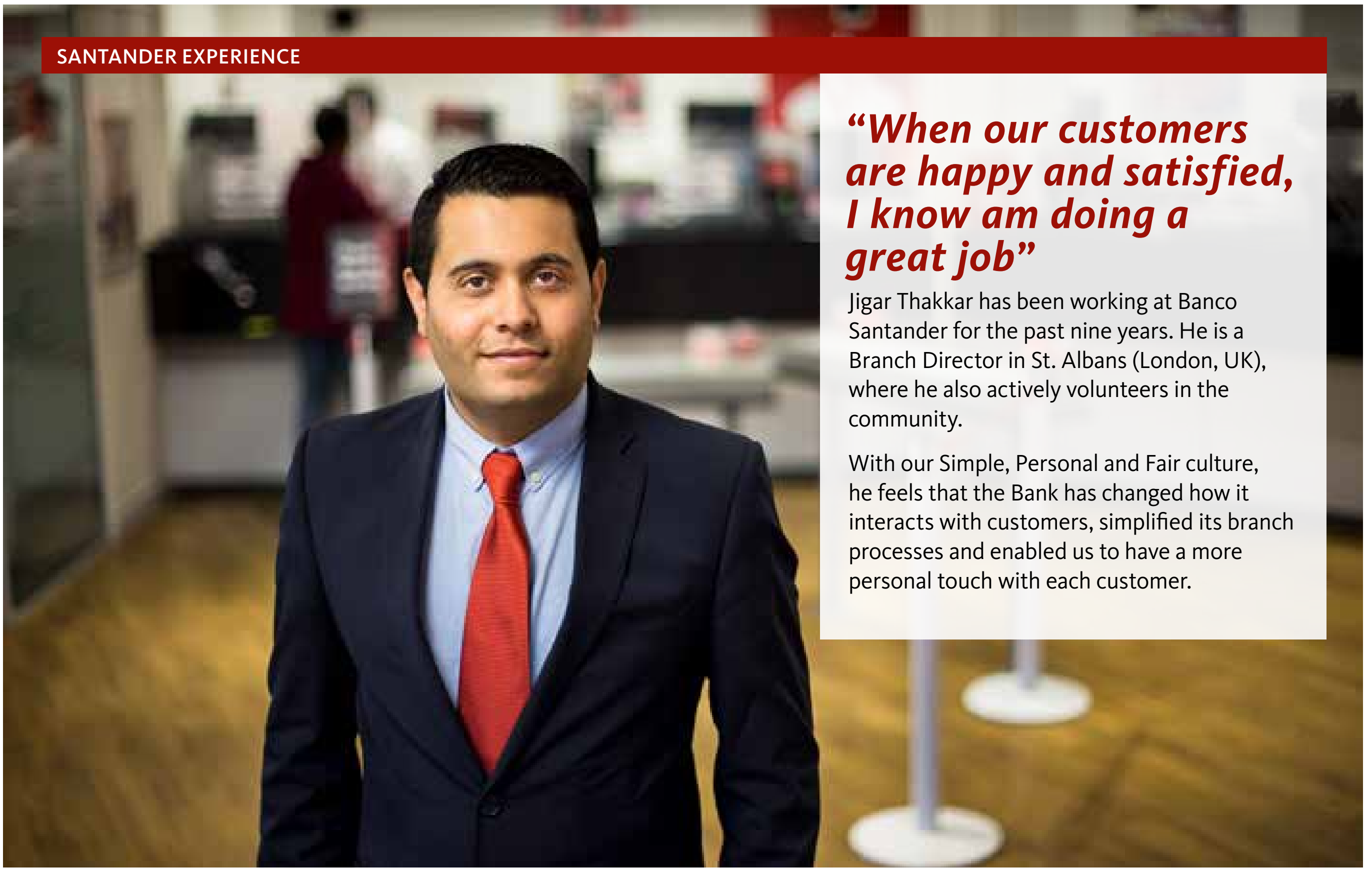
- The annual Most Attractive Employers study carried out by the Swedish consultancy Universum, which gathers the opinions of more than 16,000 Spanish students, places Banco Santander among the four best companies to work for by business students and business schools that also consider it their preferred bank.
- The 2015 Latam ranking of Universum puts Banco Santander as the most preferred bank to work for and the eighth company among business students in Latin America.
- The study by the consultancy Randstad among more than 8,000 potential candidates aged between 18 and 65 recognises Santander as one of the preferred banks to work for in Spain.

SANTANDER ideas:)

27,850
users of the Santander Ideas platform

3,046
ideas received from employees in 2015

SANTANDER EXPERIENCE



"When our customers are happy and satisfied, I know am doing a great job"

Jigar Thakkar has been working at Banco Santander for the past nine years. He is a Branch Director in St. Albans (London, UK), where he also actively volunteers in the community.

With our Simple, Personal and Fair culture, he feels that the Bank has changed how it interacts with customers, simplified its branch processes and enabled us to have a more personal touch with each customer.

Customers

We want to help our customers progress day by day: with simple and tailor-made solutions that increase their loyalty to the Bank; a fair and equal treatment based on trust and excellent service through our branches and digital channels.

Santander continued to make progress in 2015 in transforming its commercial model with three clear priorities:

- **Customer loyalty,** with specific programmes in all countries that enable us to reach our target of 18.6 million loyal customers by 2018.
- **Digital transformation,** with an end-to-end strategy to reach 30 million digital customers by 2018.
- **Operational excellence,** with initiatives that improve customer experience so that Santander is among the top 3 banks in 2018 in customer satisfaction in its core markets.

Customer loyalty

Developing value propositions by customer type and having a long-term strategy is the way to increase customer loyalty in the Group's core markets. Among the main initiatives in 2015 were:

- **1|2|3 World.** In Spain, the 1|2|3 Account for individual customers was launched in May and rewards balances with interest rates of 1%, 2% and 3% up to €15,000 and cashback on household bills. This product has also been adapted and extended to the SME segment, reimburses in cash part of payroll and social security payments, taxes and supplies related to business activity and provides loans on preferential terms.

  In Portugal, 1|2|3 World was launched in March and offers discounts on purchases made with the 1|2|3 card, cashback on household bills and discounts on petrol, among other benefits.

  In the United Kingdom, the 1I2I3 value proposition consolidated as the first choice of customers who decide to switch their bank.

- **Santander Select.** The Group's differentiated value proposal for high income customers is already installed in all countries and has more than 2 million customers. It is a specialised attention model, with a global and exclusive offer tailored to the needs of these customers, which during 2015 was improved and extended. Of note among these practices is Select Expat in Mexico, which exploits the Group's global scale to accompany customers in their internationalisation process; the launch of a range of profiled funds in several countries; and the consolidation of the Débito Global card.

- **Santander Private Banking.** A comprehensive and specialised service model for higher income customers, which during 2015 received important awards, such as those given by *Euromoney* magazine in Argentina, Chile and Portugal; and *Global Finance* in Spain, Mexico and Portugal. The volume of funds managed by the private banking business increased 5% during 2015.

- Santander has specific **programmes for SMEs** which combine a strong financial offer with non-financial solutions that help spur internationalisation, connectivity, training, talent attraction, etc. This programme was extended to Uruguay, Argentina, Brazil and Chile in 2015 and is now in place in eight of the Group's markets. Santander Advance and Breakthrough are the main hallmarks of this programme.

1|2|3 World in figures

UK

4.6
million 1|2|3 customers

1
million new 1|2|3 World customers in 2015

96%
of 1|2|3 current account holders have a primary banking relationship

Spain

860,000
accounts

237,000
payroll accounts captured

Portugal

>110,000
customers

53,920
customers with full 1|2|3 which includes account, card and insurance protection

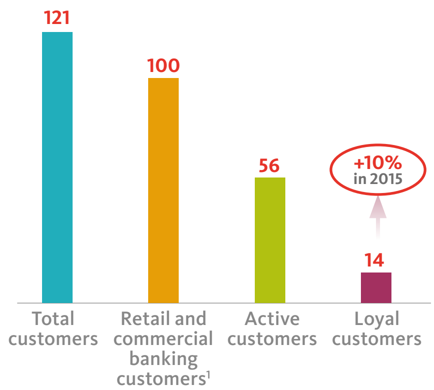
Group customers

Million

Spain	12.7
Portugal	3.8
UK	26.0
Poland	4.3
Germany	6.1
Rest of Europe	10.8
Total Europe	**63.7**
Brazil	32.4
Mexico	12.4
Chile	3.6
Argentina	2.8
Rest of Latin America	0.8
Total Latin America	**52.0**
United States	**5.1**
Total customers	**120.8**

Santander has a significant potential in customer loyalty

Million customers



1. Excluding consumer finance customers.

A loyal customer is much more profitable

x4 retail
x4 SMEs
x5 corporates

Moreover, by harnessing its synergies and international presence, Santander has specific solutions to **support the internationalisation** of its customers. Among the main initiatives are:

- **Santander Passport.** A customer service model with a consistent offer for global companies in all the countries where the Group operates. It has more than 6,000 registered customers and is installed in eight countries. The rest of countries where the Bank has a commercial presence are due to join the model during 2016.

- **Santander Trade.** A portal dedicated to foreign trade that provides information, tools and resources to help companies grow their business abroad. It is already available in 14 countries and has received more than two million visits since its creation and more than 35,000 registered exporters and importers.

  As part of this portal, the Santander Trade Club is an innovative social platform that enables the Bank's customers from various countries to contact one another and expand their international activity. There are currently more than 11,000 members.

- **International Desk.** A service established in 14 countries with over 8,000 registered customers and offering support to companies that want to enter markets where the Bank is operating, thereby facilitating their entry into a new country.

Progress was made in defining trade corridors within the Group (for example, UK-Spain, Mexico-Spain). Its international trade tools, products and services are also being improved in order to offer our customers the best solutions.

Know customers' needs

- In order to deepen knowledge of customers and have a 360º view of their behaviour and preferences with regard to the Bank, the NEO CRM was developed further during 2015. This tool uses business intelligence methodology to compile more than 500 relationship instances with the Bank and learn how customers behaved. On the basis of this knowledge, commercial actions can be launched and customers' opinions collected, thereby improving commercial effectiveness and customer satisfaction.

- NEO CRM was launched in Chile in 2012 and then extended to Spain, Brazil, United States and Uruguay. In 2016, it will be installed in Mexico, Argentina and Poland.

Multichannel customer profile

Our customers increasingly use their mobile phone to bank with Santander.

Digital users:

16.6 million digital users — 17% more than in 2014

6.9 million mobile banking users — 50% more than in 2014

Number of accesses/ month per customer:

Internet
9 accesses/month

Mobile
13 accesses/month

Sales:

15% in digital channels

Monetary transactions
(except cash+direct debit)

58% in digital channels

Digital transformation

The multichannel transformation of the commercial model is one of Santander's strategic priorities. Digital channels offer new opportunities to personalise customer relationships, facilitate greater availability and proximity and contribute to improving satisfaction and loyalty with the Bank.

Santander has **four basic drivers** for this transformation:

1. Incorporate digital channels in the day-to-day commercial activity, without forgetting personal attention.

2. Offer a first-class customer experience, with new and different multichannel relationship models for each segment.

3. Develop new functionalities, in order to have **best-in-class digital channels**, particularly in the area of mobile banking.

4. Foster a **multichannel culture** that involves and engages all teams in our transformation plans.

Our local units have developed specific projects for each of these drivers and all have their own **Multichannel Transformation Plans.**

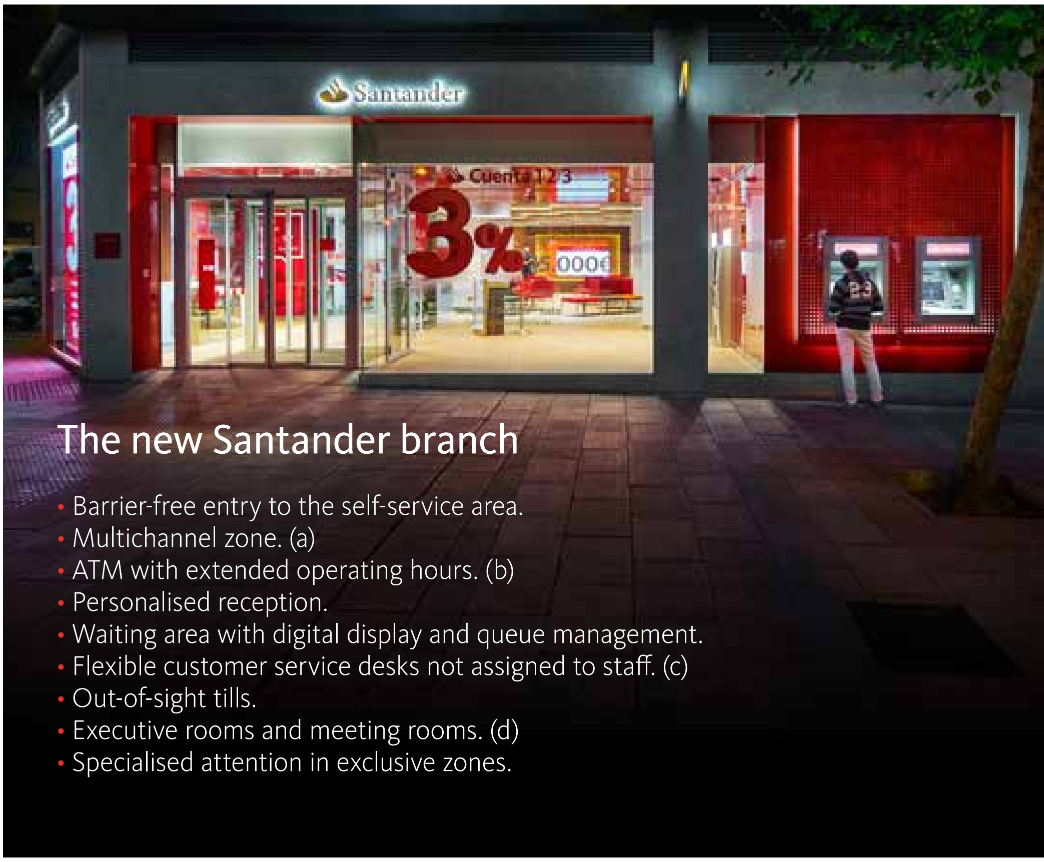
The ***M programme*** was launched during 2015 in order to drive change. This programme has a global-local collaborative approach and is based on the best practices implemented in our local markets to incorporate multichannel services in day-to-day retail and commercial banking.

Among the major developments achieved by our local units during 2015 in our digital transformation agenda were:

- **Santander UK** is participating in the first group of Apple Pay issuers in the UK and has developed new apps such as Cash Kitti, a group money management app, and Spendlytics, a card expenses tracking app.

Digital initiatives

Cash Kitti | Spendlytics | Santander Watch | Mobile Deposit Capture | Apple Pay | App Spain | App Poland | Others



The new Santander branch

- Barrier-free entry to the self-service area.
- Multichannel zone. (a)
- ATM with extended operating hours. (b)
- Personalised reception.
- Waiting area with digital display and queue management.
- Flexible customer service desks not assigned to staff. (c)
- Out-of-sight tills.
- Executive rooms and meeting rooms. (d)
- Specialised attention in exclusive zones.


a


b


c


d

- In **Spain**, Santander renewed its commercial website and launched a new mobile app for SMEs and companies, and Santander Watch, which allows customers to check their accounts and card transactions from smart watches.

- **Brazil** launched a strong plan for digital customers (“Vale a pena ser digital”) in order to inform customers of the Bank’s digital offer. A new version of the Bank’s mobile app was also launched.

- In **Argentina**, *Global Finance* magazine chose Santander Río as the country’s best digital bank for the 16th consecutive year.

- Bank Zachodni WBK’s mobile banking app is considered to be the best in **Poland** and the second in Europe, according to a study by the consulting firm Forrester. The Bank was also awarded the prize by *Global Finance* magazine as the best mobile bank and the best app in Central and Eastern Europe.

- In the **United States**, Santander launched its online bank for SMEs and companies, as well as Mobile Deposit Capture, which enables cheques to be easily and safely processed via a mobile phone.

- **Santander Mexico** carried out a project to simplify credentials, which allows access to various digital channels from a single password.

As a result of these initiatives, the number of digital customers is growing at a brisk pace: 17% since December 2014 to 16.6 million.

The Bank has an **innovation area** whose purpose is to research and anticipate market trends, and design businesses and solutions for customers from a global, disruptive and long-term standpoint. The Group also fosters innovation via **Santander Innoventures,** a corporate $100 million venture capital fund that holds minority stakes in financial sector start-ups, helping

Examples of simplified processes - Customer Journeys

Brazil
Process for opening a current account

BEFORE...
Account: D+8
Card: D+16
Channels: D+22
Access code: D+28

TODAY...
D+1*.

*D+1 = 24H.

Portugal
Process for opening a current account

BEFORE...
The customer was asked **to sign six/eight pages** in the contract to open an account (paper-based process)

TODAY...
Only **two signatures** (digital process on a **tablet**)

United Kingdom
Process for opening a current account

BEFORE...
It took **six days** to complete the process for opening an account

TODAY...
The customer leaves the branch with the account activated and operating from the day it is arranged

Mexico
Requesting a loan (SMEs)

BEFORE...
13 days to complete the process

TODAY...
Digital process: **48 hours** between requesting the loan and receiving it

them to grow and, in turn, learning about the new technologies they develop in order to use them for the Group and its customers. The Retail and Commercial Banking, and Technology and Operations divisions carry out the day-to-day digital transformation, improving the Bank's offer and responding to business needs.

In order to drive the process of change and ensure coordination between all the involved areas of the Bank, a **committee to coordinate digital transformation** was created in 2015. It involves the areas of Strategy and Innovation and the divisions of Retail and Commercial Banking, Technology and Operations and the Group's main local units. This committee reports to the Bank's management and strategy committees.

In addition, while making progress in the digital world, we continued to work to improve customer experience in traditional channels. **Branches are the key channel for maintaining and strengthening long-term relations with our customers**. Our Spanish and Brazilian units launched their new Santander branch model in 2015, which responds to the current form of customer relations with technological developments to simplify processes and make them easier and intuitive, and differentiated spaces that allow the advantages of technology to be combined with the proximity of personal treatment by the Bank's professionals. Argentina inaugurated its first digital branch. Other countries such as Mexico and the UK will soon open their new spaces.

Operational excellence
Santander made progress in the following three key areas:

- Transform the customer experience for the main customer journeys, such as, customer onboarding (opening and activating accounts, applying for loans, etc).
- Improve customer experience and customer satisfaction.
- Create value for customers by reducing costs. The Group aims to generate €3,000 million of cost savings by 2018 through greater efficiency in technology and operations and at its corporate centre, and through the digitalisation of the commercial distribution model.

Transform customer journeys
A best-in-class customer experience is essential to achieve more satisfied and loyal customers. In order to incorporate customers' suggestions and improve their experience in their main processes and interactions with the Bank,

Customer satisfaction

% of active satisfied customers

Bank	2015	2014
Argentina	87.6%	86.8%
Brazil	71.6%	70.6%
Chile	92.6%	88.4%
Spain	87.6%	85.0%
Mexico	94.0%	95.0%
Poland	96.4%	93.5%
Portugal	93.1%	94.1%
UK	95.7%	94.5%
US	81.8%	80.8%
Uruguay	94.3%	90.0%
TOTAL	**86.6%**	**85.3%**

Source: Corporate Benchmark of Customer Experience and Satisfaction of active individual customers. (Figures at the end of 2015, corresponding to the results of surveys in the second half of the year).

Santander strives to continuously improve customer journeys.

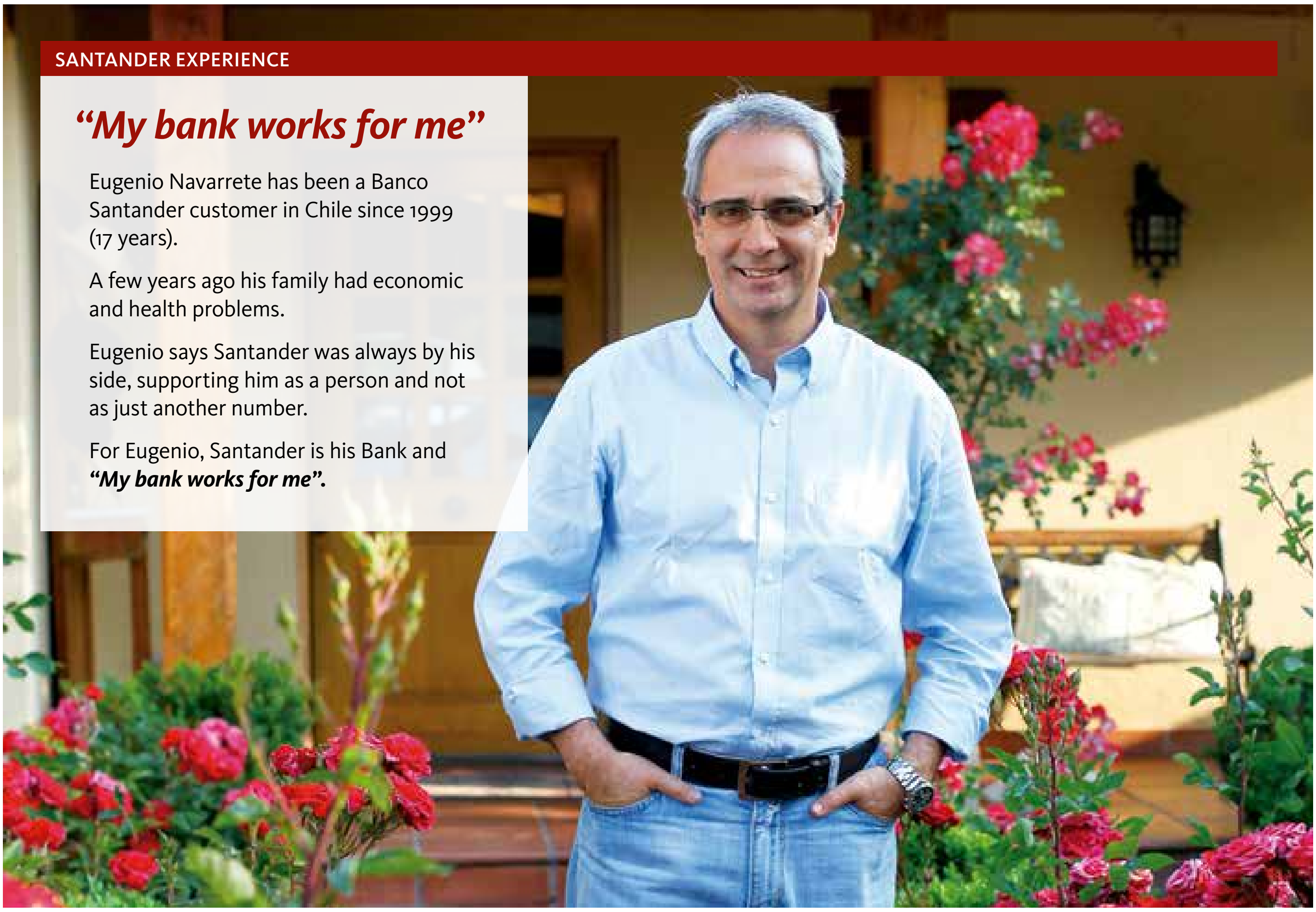
In 2015, all countries made progress in the customer journey transformation programme, a project that involves all the Bank's areas and entails redesigning and streamlining all its processes.

Improve customer experience and customer satisfaction

Santander has several initiatives to measure and monitor customer satisfaction. Every year more than one million surveys are conducted and work continues to incorporate the voice of more customers and at more moments in their relationship with the Bank.

As a result of these initiatives, customer satisfaction improved at Group level in 2015.

In 2015, Spain, UK, Mexico, Argentina and Portugal were among the top 3 in customer satisfaction in their markets, in line with the target set for 2018



SANTANDER EXPERIENCE

"My bank works for me"

Eugenio Navarrete has been a Banco Santander customer in Chile since 1999 (17 years).

A few years ago his family had economic and health problems.

Eugenio says Santander was always by his side, supporting him as a person and not as just another number.

For Eugenio, Santander is his Bank and ***"My bank works for me".***

Shareholders and investors

With more committed employees and more satisfied customers, Banco Santander can offer its shareholders an attractive and sustainable return, and maintain their loyalty in the long term.

Banco Santander has set the following strategic priorities for its shareholders:

- Obtain an attractive and sustainable return.
- Attain high recurring income.
- Maintain prudent risk management.
- Manage capital in a disciplined way.

The Bank made significant progress during 2015 in all of these aspects:

A good return was maintained:

- 13% increase in underlying attributable profit.

- 11.0% ordinary RoTE and 3% improvement in the net tangible book value per share on a like-for-like basis.

Increased remuneration in cash and payment of the four usual dividends maintained:

- The remuneration in cash rose from 20% to 38% of profit, in line with the aim of maintaining a cash pay-out of between 30% and 40% of the recurring profit.

- The total shareholder remuneration out of 2015 profit was €0.20 per share. Three of these dividends have already been paid (€0.05 per share each). The fourth and final dividend is scheduled to be paid in May 2016.

Strengthened its capital position:

- As a result of the organic capital generation and the accelerated book-building process carried out in January. Three scrip dividends were also paid, two of which were charged to 2014´s earnings and one to 2015´s.
- Santander has a comfortable capital position, with a Basel III capital ratio (fully loaded CET1 ratio) of 10.05% at the end of 2015, which will enable it to take advantage of the organic growth opportunities in its core markets. The Santander regulatory capital ratio (12.55%) is 280 basis points above that required by the ECB for 2016 (9.75%).

Improved risk management:

- The NPL ratio dropped by 83 b.p. to 4.36% and the cost of credit stood at 1.25%.

- By implementing Santander Advanced Risk Management, the Bank wants to lay the foundations for having the industry's best comprehensive risk management model.

Established the groundwork for a new commercial model which will enable organic capital growth:

- This model is based on four main drivers: an increase in loyal customers; more digital customers; enhanced customer satisfaction; and a focus on higher growth businesses such as SMEs, consumer finance and private banking.

Increased the number of shareholders:

- The total number of Banco Santander shareholders was 3.6 million from more than 100 countries at the end of 2015.

Santander's goal is to increase its dividend per share every year

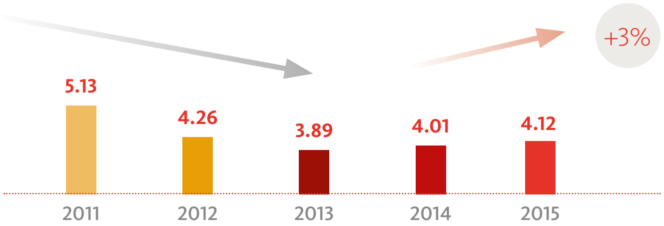
10.05%
fully loaded CET1 ratio

11.0%
Ordinary RoTE

Banco Santander has set the following objectives for the next three years

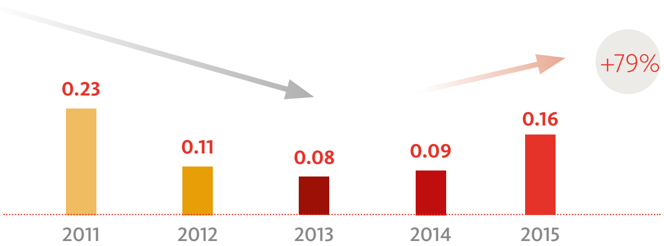
- ▶ Obtain a cost-to-income ratio below 45%, which will mean managing assets even more efficiently.
- ▶ Maintain an average cost of credit of 1.2%.
- ▶ Increase profitability, raising RoTE to around 13%.
- ▶ Continue to generate capital organically, in order to have a fully loaded CET1 ratio of more than 11%, which will increase the dividend and earnings per share.

■ TNAV/share[1]
€



1. Calculated on a like-for-like basis with prior years.

■ Cash dividend
€/share



The Santander share in 2015

Share performance

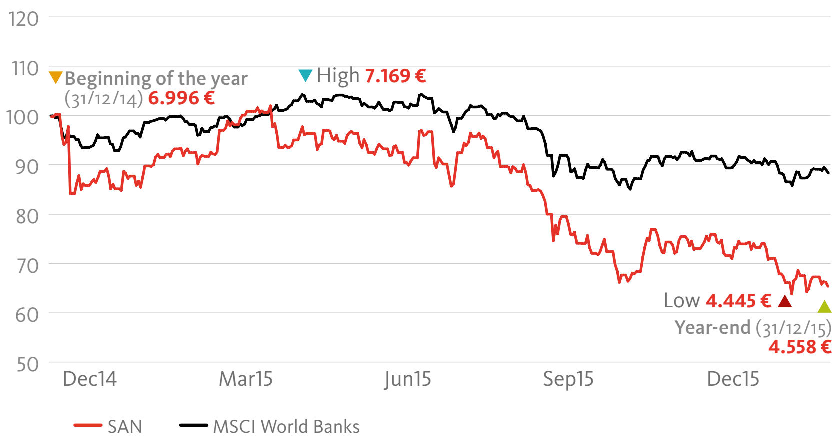
In an environment of volatility marked by the Greek crisis, the slowdown of the Chinese economy, lower expectations in emerging markets (particularly Brazil) and falling oil prices, total shareholder return in 2015, taking into account the change in the share price and the remuneration received (with reinvestment of the dividend) was 31% negative. In the same period, the MSCI World Banks, the main global index for banks, registered a total return that was also negative (9%).

Banco Santander was the largest bank in the euro zone by market capitalisation at the end of 2015 and the 19th in the world, with a value of €65,792 million.

Shareholder base and capital

At the end of 2015, Banco Santander had 3.6 million shareholders in more than 100 countries.

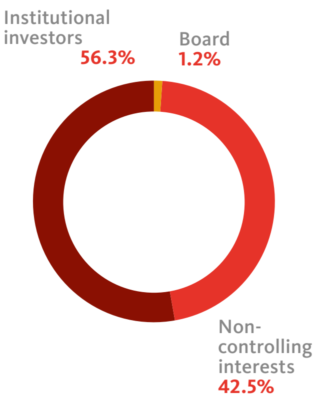
■ Comparative performance of the Santander share
December 2014 vs. December 2015



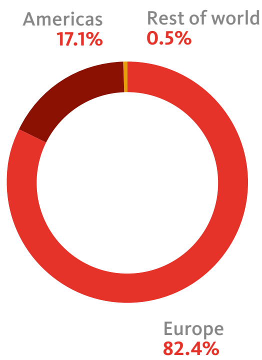
■ Shareholder base and capital
31 December 2015

	Dec 2015	Dec 2014
Shareholders (number)	3,573,277	3,240,395
Outstanding shares (number)	14,434,492,579	12,584,414,659
Average daily trading (number of shares)	103,736,264	77,340,428

■ Distribution of share capital by type of shareholder
31/12/15



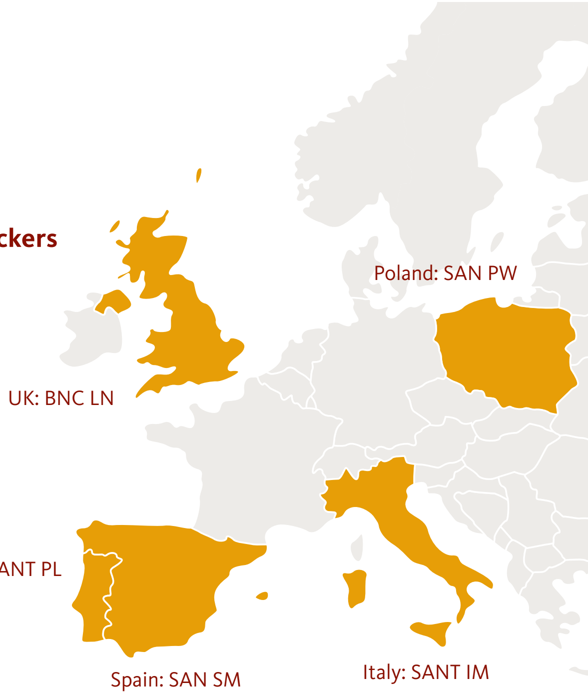
■ Geographic distribution of share capital
31/12/15



The Santander share in the world

The SAN share trades as an ordinary share in Spain, via the continuous market, and in Milan, Lisbon, Buenos Aires, Mexico and Warsaw. In New York, it trades in ADR form, in Sao Pãulo BDR and in London CDI.

Countries where the Santander share trades and its respective tickers



Milestones in 2015

8 January: €7,500 million capital increase

3 February: presentation of 2014 results

February: third interim dividend, 2014

27 March: general shareholders' meeting

28 April: presentation of first quarter 2015 results

May: final dividend, 2014

30 July: presentation of second quarter 2015 results

August: first interim dividend, 2015

23-24 September: *Investor Day*

29 October: presentation of third quarter 2015 results

November: second interim dividend, 2015

Held in London, UK.

+350 analysts and investors attended

59 members of the Bank's senior management gave presentations

More than 150 questions from investors and analysts were answered

Commitment to shareholders via the Shareholder and Investor Relations area

The Shareholder and Investor Relations area implemented initiatives in 2015 to improve transparency with shareholders and facilitate the exercise of their rights. These included:

1 Communications

- **Communications** via channels selected by the shareholders to inform them of material facts, shareholders' meetings, dividends, performance of the share price and the Group, marketing campaigns, promotions and events.
- **Quarterly shareholders' report:** print and online versions in seven countries.
- Sending of **daily and weekly financial newsletters.**
- Launch of communication channels with shareholders based on new technologies: **a new corporate website, a new commercial website and an app for Santander shareholders and investors.**

2 Attention

- 42,805 **e-mails** handled.
- 241,553 **telephone enquiries** received.
- 22,336 **personal formalities.**

3 Exclusive benefits

- Financial products for shareholders.
- Waiver of fees.
- Promotions in products and services via the "Yo Soy Accionista" website.
- Delivery of study scholarships to disabled university students.
- Participation in charity projects worldwide.

4 Shareholders' meeting

- Record participation in the meeting held in March 2015, in terms of both share capital and number of shareholders.

5 Quality studies

- Ongoing assessment of the various services provided. Nine out of ten shareholders would recommend the telephone and Internet helpline services.

SANTANDER EXPERIENCE

"I am a businessman who invests and manages on a long-term basis, which is why I trust in Santander"

Josep Rosàs owns Masia Rosàs in Barcelona and has been a Banco Santander shareholder for more than 12 years.

He invests in Santander because of its three great strengths. First, the attractive geographic diversification of its assets. Second, its permanent focus on the shareholder which makes him feel he is a real owner of the bank. Third, Santander's proven track record throughout its history when measuring risk, while continuing to take courageous decisions.

A bank which, for Josep, has never failed at the most difficult times.

Communities

Santander carries out its business in a responsible and sustainable way while contributing to the economic and social progress of the communities in which it operates, and is particularly committed to fostering higher education.

Banco Santander has a business model and a corporate culture focused on creating long-term value for all its stakeholders: employees, customers, shareholders and communities.

The Bank voluntarily assumes certain ethical, social and environmental commitments which go beyond the related legal obligations, and makes a large social investment mainly via Santander Universities.

Sustainability governance

Santander has a well defined sustainability governance structure, at both corporate and local level, which facilitates the involvement of all the Bank's business and support areas in the Group. The board is the highest governing body in sustainability matters, and is responsible for approving the sustainability strategy and policies.

The sustainability committee, chaired by the CEO and comprising the heads of divisions and/or areas, proposes the strategy and the initiatives in sustainability.

Santander has a working group, chaired by the chief compliance officer, which analyses and assesses the social, environmental and reputational risks of financing operations in sensitive sectors.

Lastly, the board risk committee is responsible for reviewing the sustainability policy ensuring that it is focused on creating value for the Bank; monitoring the related strategy and practices, and assessing its degree of compliance.

There are also local sustainability committees in most of the Bank's local units, chaired by the corresponding country head. This committee proposes and develops, using common corporate frameworks, the sustainability strategy and initiatives adapted to each country's needs and features.

Corporate sustainability policies

In December 2015, the Bank's board approved an update to the social and environmental policy. This policy, now called the **general policy of sustainability**, defines Banco Santander's main lines of action in this area and it is the reference framework in corporate social responsibility and in social and environmental risk management.

The Bank's **climate change** and **human rights** policies were also updated and a new **corporate volunteer** policy drawn up.

The Group also defined **sector-specific environmental policies** which incorporate the criteria for analysing social and environmental risk in sensitive sectors (defence, energy and soft commodities).

Santander fosters ethical behaviour both among its employees, in accordance with the Group's general

Santander is part of the main stock market indices that analyse and value companies' actions in matters of sustainability

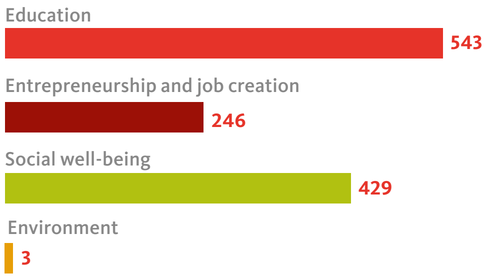
FTSE4Good

Member of Dow Jones Sustainability Indices In Collaboration with RobecoSAM

International initiatives in sustainability to which Banco Santander adheres

- United Nations Global Compact
- Banking Environment Initiative (BEI)
- World Business Council for Sustainable Development (WBCSD)
- UNEP Finance Initiative
- Wolfsberg Group
- Equator Principles
- Round Table on Responsible Soy
- Principles for Responsible Investment (PRI)
- Working Group on Sustainable Livestock
- Carbon Disclosure Project

Beneficiaries of social programmes
Individuals (thousand)




Closing ceremony of the seventh edition of the *Euros from your payroll* social project programme.

code of conduct, and among its suppliers, who are requested to comply with the ten principles of the Global Compact.

Santander, a bank committed to society and its environment

Banco Santander also contributes to the economic and social progress of communities through many social investment programmes in areas such as education, entrepreneurship, social well-being and culture, in a large number of which the participation of the Group's professionals is fostered as a way to promote solidarity and pride in working for Santander.

Education

Banco Santander supports education as a catalyst for developing and growing the communities and countries in which it operates, with a specific focus on higher education via Santander Universities, the Group's hallmark of social investment.

The Bank is also firmly committed to financial literacy and children's education, as it is conscious of the need to promote better knowledge of the basic aspects of finance for the different stages of life.

Entrepreneurship

The creation of social companies, social inclusion and fostering entrepreneurial capacity are some of the Bank's lines of action in this area.

Banco Santander has significant microcredit programmes in Brazil, Chile and El Salvador that enable the most disadvantaged groups to access loans and improve their social inclusion, standard of living and environment.

Social well-being

The Bank has a wide array of programmes that aim to eradicate the social exclusion of the most vulnerable groups, foster research to improve people's health and make life easier for the disabled.

Environment

The Group conducts its activity while preserving the environment, and promoting initiatives and projects that require protection and mitigate the environmental impact. The Bank's environmental initiatives focus on reducing consumption and emissions derived from its activity, developing financial solutions to combat climate change (leadership position in financing renewable energy projects), and integrating social and environmental risks into the process of granting loans.

Art and culture

Santander is very active in protecting, preserving and disseminating art and culture, mainly via the Banco Santander Foundation in Spain and Santander Cultural in Brazil.

1.2
million beneficiaries in 2015[1]

207
million of social investment in communities

7,125
partnerships with NGOs

7,362
megawatts financed in renewable energy projects

1. People who have benefited from the programmes, services and products of Banco Santander, its employees and customers which have a social and/or environmental component in the 10 core countries where the Bank operates. It does not include those who benefit from the Santander Universities Programme or from cultural programmes.

Santander Universities

Investing in higher education is the hallmark of the Bank's social commitment, which is organised and managed through Santander Universities.

Santander cooperates with more than 3,900 projects to improve education, such as programmes to internationalise universities, encourage mobility by academics, provide students with access to the labour market, foster an entrepreneurial culture, research and innovation, and to increase financial literacy.

The main initiatives in 2015 included the following:

- **The largest scholarship programme provided by a private company**. A total of 35,349 were granted in 2015. These include:
  - 15,553 travel scholarships for university students, with programmes such as *Becas Iberoamérica. Jovenes Profesores e Investigadores* and the *Top* programmes.
  - 10,865 Santander internship scholarships in SMEs to facilitate the insertion of students in the labour market. This programme is carried out in Argentina, Spain, UK, Puerto Rico and, for the first time, in Brazil, Chile and Uruguay.
  - 7,536 study scholarships, with initiatives such as the Itaca-Salary Scholarships of the Autonomous University of Barcelona and training scholarships and aid to university entrepreneurs in Babson College.
- **Entrepreneurship** is another of the main lines of action, with programmes such as YUZZ jóvenes con ideas, managed by the Santander International Entrepreneur Centre which, in its sixth edition, supported and trained more than 900 young people who presented 710 business projects in 41 high performance centres throughout Spain. Also of note were the initiatives promoted by RedEmprendia such as the SOLA project (Spin-Off Lean Acceleration), as well as the Santander University prizes for Entrepreneurship in Brazil which in 2015 set a new record of entries: almost 24,000 university projects throughout the country. These awards were also held in Argentina, Chile, Spain, Portugal and UK.
- **Research and innovation** is supported by an annual investment of €24 million and is used to support research groups on cancer, stem cells, biomaterials, protection of endangered species, innovation and digital transformation, protection of human rights, as well as science parks and Chairs of excellence in universities.

  Some of this investment goes to the Santander Universities Prizes for Innovation which are awarded in Brazil, Mexico, US and Puerto Rico; and to the University Scientific Research Prize in Chile, among others. Initiatives such as the ComFuturo Programme (CSIC) are also supported, which helps to retain talent in Spain through grants to highly qualified young scientists.
- The **Universia** network also helps young people to join the labour market with one million jobs created in 2015. It acted as the intermediary through its job community, which includes websites where 17.3 million job applications were registered.

Banco Santander joined the Ibero-American General Secretariat (SEGIB) in 2015 to foster mobility by students, teachers and researchers in Latin American countries via the Alliance for Latin American Academic Mobility. The aim is to boost academia, contribute to sustainable growth and reduce inequality in the region. At least 200,000 Latin American students, teachers and researchers are expected to further their studies and knowledge in other countries of the region by 2020. Santander joins this commitment through international mobility programmes.

This commitment follows the path established by the 2014 Universia Río Declaration, which set out the conclusions of the III International Meeting of Chancellors organised by Universia in Rio de Janeiro in July 2014 was attended by 1,109 university chancellors from 32 countries.

universia

1,401
universities form part of Universia

1
million jobs intermediated

Banco Santander is **the company that invests the most in education in the world**, according to a Varkey Foundation report in cooperation with Unesco

€160 million contributed to universities

35,349 scholarships and grants in 2015

1,229 agreements with universities and academic institutions in 21 countries

Santander Universities. Strategic priorities 2016-2018

- **Innovation and entrepreneurship:** fostering the entrepreneurial culture and university innovation will be key in cooperation with universities.
- **University digitalisation:** encouraging the digitalisation and modernisation of universities will be another priority in Santander's commitment to education, with projects to incorporate new technologies to the teaching process, virtual campuses, and the creation of digital academic university services.
- **Internationalisation:** international mobility scholarships, exchange programmes and driving transversal cooperation projects between the universities of various countries.
- **Employability:** initiatives to help university students access the labour market, with scholarship programmes for internships in cooperation with universities.
- **Objective:** 130,000 scholarships in 2016-2018.

SANTANDER EXPERIENCE

"Santander offered me the gift of getting to know other entrepreneurs who like me are eager to change the world"

Miguel Ruiz Capella was one of 5,000 winners of the Santander Scholarship programme for work practice in SMEs and participated in Universia's 2015 Jumping Talent contest.

He is currently COO and legal advisor of Rivekids Technology, an engineering company that develops child retention systems in cars.

He says the opportunities that Santander makes available to students and those who have recently graduated go well beyond simple practices. "Its firm conviction in allowing talent to prosper, without any conditions, is impressive. Always."

Risk management

Santander Group aims to build the future through forward-looking risk management, protecting the present via a robust control environment.

During its more than 150 years of activity, Santander has combined prudence in risk management with the use of advanced techniques that have proven to be decisive in generating recurring economic results.

Santander Group's risk policy is focused on maintaining a medium-low and predictable risk profile. Its risk management model is a key factor for achieving the Group's strategic objectives.

Risk governance

Responsibility for risk management and control, particularly in setting the Group's risk apetite, lies ultimately with the board of directors, which delegates powers to the committees. The board is supported by the board risk committee, an independent risk control and supervision committee. The Group's executive committee also devotes particular attention to managing the Group's risks.

The following committees form the top level of risk governance.

Independent control bodies

- The purpose of the **board risk committee** is to assist the board in the supervision and control of risk, through defining the group's risk policies, developing relationships with regulatory and supervisory authorities and overseeing the group's management of regulation, compliance, sustainability and corporate governance.

- **The risk control committe** is in charge of the effective control of risks. It ensures that risks are managed in accordance with the risk appetite approved by the board, taking a comprehensive view, at all times, of all the risks included in the general risk framework. This involves the identification and monitoring of current and emerging risks, and their impact on the Group's risk profile.

Pillars of the risk function

Integration of the risk culture and involvement of senior management in managing and taking decisions on risks

A risk function independent of the business functions

Management of all risks with a forward-looking and comprehensive view at all levels

Formulating and monitoring the risk appetite of the Group and its subsidiaries

Best-in-class processes and infrastructure

risk pro

All the Santander team engaged in risk

"Risk pro" risk culture

Responsibility
All units and employees must know the risk they incur and be responsible for identifying, assessing, managing and reporting them.

Resilience
All employees must be prudent, avoid risks they do not know or which exceed the established risk appetite, and be flexible, adapting to new environments and unforeseen scenarios.

Challenge
Promote continuous debate within the Bank on how to manage risk in order to be able to anticipate future challenges.

Simplicity
Clear processes and decisions, easy for employees and customers to understand.

Customer focus
Sound risk management helps people and businesses prosper.

Decision-making bodies

- **The executive risk committee** is the collective body responsible for risk management, in accordance with the powers assigned to it by the board. It is involved with all risks.

  It participates in making decisions on risk assumption at the highest level, ensuring that they are within the limits set in the Group's risk appetite, and it informs the board and its committees of its activity when required.

Lines of defence

Banco Santander follows a risk management and control model based on three lines of defence.

The business or activity functions that assume or generate risk exposure constitute the **first line** of defence. The assumption or generation of risk in this line must be aligned with the pre-defined risk appetite and limits.

The **second line** consists of the risk supervision and control function and the compliance function. It ensures that risks are controlled effectively and are managed in line with the set risk appetite.

Internal audit, as the **third line** of defence and the last layer of control, regularly assesses that the policies, methods and procedures are adequate and tests their effective implementation.

Risk culture

Having a solid risk culture is one of the keys that has enabled Santander Group to respond to the changes in economic cycles, customers' new requirements and to increased competition, and to position itself as a bank in which employees, customers, shareholders and communities can trust.

This culture, called risk pro, is aligned with the general principles of Simple, Personal and Fair, and is the series of behaviours that each employee must develop to proactively manage the risks that arise from daily activity.

1.25%
Cost of credit

4.36%
NPL ratio

Santander Group's risk profile

The risks that Santander faces as a result of its activity are: credit, market, liquidity, structural and capital, operational, conduct, compliance and legal, model, reputational and strategic. We set out below a brief description of the main risks and their evolution in 2015.

	Definition	Risk profile	Evolution in 2015
Credit risk See pages199-229 of Banco Santander's Annual Report	This risk comes from the possibility of losses derived from total or partial failure to perform the financial obligations contracted with the Group by its customers or counterparties. Other credit risk standpoints: • Credit risk from activity in the financial markets. • Concentration risk. • Country risk. • Sovereign risk and that with the rest of public administrations. • Environmental risk.	• More than 80% of Santander Group's credit risk comes from retail and commercial banking activities. • High degree of geographic diversification of risks. • Limited concentrations in customers, business groups, sectors, products and countries. • The exposure to Spain's sovereign risk is maintained at adequate levels from the regulatory and management standpoint. • Very limited cross-border risk exposure, in line with the model of autonomous subsidiaries in terms of capital and liquidity. • High credit quality of the Group's assets.	• Customer credit risk increased 6% to €850,909 million. • The trend toward reducing the cost of credit, which stood at 1.25%, and loan-loss provisions continued. • The NPL ratio reduced to 4.36% and the coverage ratio increased to 73%. • The net exposure to run-off real estate risk in Spain reduced by €1,017 million to €6,303 million. • In Brazil (8% of the Group´s loan portfolio) the NPL ratio remains below the average of private banks.
Liquidity and funding risk See pages250-260 of Banco Santander's Annual Report	Liquidity risk is that incurred from potential losses that could arise as a result of a bank's inability to obtain funding in the market and/or from the higher financial cost of accessing new sources of funding. Management of this risk aims to ensure the availability of the funds needed in adequate time and cost to meet obligations and develop operations.	• Liquidity management and funding is a basic element of the business strategy. • The funding and liquidity model is decentralised and based on autonomous subsidiaries that are responsible for covering their own liquidity needs. • The needs derived from medium and long-term activity must be funded by medium and long-term instruments. • High participation of customer deposits, as a result of an essentially retail and commercial banking balance sheet. • Diversification of wholesale funding sources by: instruments/investors, markets/currencies, and maturities. • Limited recourse to short-term wholesale funding. • Availability of a sufficient liquidity reserve, which includes the discounting capacity in central banks to be used in adverse situations.	• Early compliance with regulatory ratios, with a liquidity coverage ratio (LCR) of 146% at the end of the year. • Net loan-to deposit ratio in the Group at very comfortable levels (116%). • High medium and long-term capturing of wholesale funds (issues and securitisations): €56,609 million via 18 issues in 15 countries and 14 currencies. • High liquidity reserve, strengthened in quantity (€257,740 million) and quality (52% of the total are high quality liquid assets) over 2014.

Market risk

See pages 230-249 of Banco Santander's Annual Report

Definition

Market risk covers those financial activities where equity risk is assumed as a result of a change in market factors. This rise stems from changes in interest rates, the inflation rate, exchange rates, equities, credit spreads, commodity prices and volatility in each of these factors, as well as the liquidity risk of the various products and markets in which the Group operates.

Risk profile

- Santander maintains a moderate exposure to market risk.
- Diversification in terms of both risk factors and geographic distribution.
- Trading activity centred on customer business.
- The average VaR in trading activity remained in a low range, in line with previous years.
- Limited exposure to complex structured assets.

Evolution in 2015

- The VaR of trading activity in markets fluctuated in 2015 between €10 million and €31 million.
- The main fluctuations were due to changes in the exposure to exchange rates and interest rates, as well as market volatility.

Operational risk

See pages 261-269 of Banco Santander's Annual Report

Definition

The risk of losses resulting from defects or failures in internal processes, human resources or systems, or from external circumstances. In general, and unlike other types of risk, it is not a risk associated with products or businesses. It is found in processes and/or assets and is internally generated (people, systems, processes) or as a result of external risks, such as natural disasters.

Risk profile

- Santander expressly assumes that although certain volumes of expected operational losses can occur, severe unexpected losses are not acceptable as a result of failures in controls on activities.
- In operational risk control and management, the Group focuses on identifying, measuring/assessing, monitoring, controlling, mitigating and reporting this risk.
- Organisational model of control and management based on three lines of defence and on an evolution to advanced management standards (AORM programme to be completed in 2016).
- Risk profile aligned with the business model and geographic presence. No significant events in particular at the Bank.

Evolution in 2015

- Improvement in the operational risk management and control model in its evolution toward advanced standards (Advanced Operational Risk Management programme).
- Launch of the project to install a new common application (Heracles) for operational risk functions in general and compliance risks, and documentation of the internal control model.
- Encouragement for operational risk training and culture throughout the Group.
- Promotion of key initiatives for mitigating risk: control of suppliers, information security and cyber risk.

Compliance and conduct risk

See pages 270-276 of Banco Santander's Annual Report

Definition

Compliance risk embraces control and management of the following risks:

- Regulatory compliance risk: understood as that due to failure to meet the legal framework, internal rules or the requirements of regulators and supervisors.
- Product and consumer protection risk: understood as that caused by inadequate practices in the dealings between the Bank and its customers, the treatment and products offered to them and whether they are sufficiently tailored to each particular customer.
- Reputational risk: understood as that derived from damage in the eyes of public opinion, customers, investors or any other stakeholder in the perception of the Bank.

Risk profile

- In formulating its risk appetite in relation to compliance, the Group includes a statement that it does not have any appetite for this type of risk and that it has the clear objective of minimising the occurrence of any economic, regulatory or reputational impact on the Group.
- To this end, the compliance function promotes Santander Group's adherence to rules, supervisory requirements, the principles and values of good conduct, acting as a second line of defence, through setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and society in general.

Evolution in 2015

- With regard to regulatory compliance, 2015 saw an increase in new and complex relations, with a high impact: Volcker, Market Abuse, MiFID II, EMIR, Corporate Defence, etc.
- In the field of governance of products and consumer protection, 2015 witnessed the addition of a new scope for defining conduct, beyond the traditional definition, and new implications of the stress test in this area, as well as regulatory pressure in matters of consumer protection.
- In the prevention of money laundering and terrorist financing, supervisory pressure with global regulations was stepped up in 2015, and there was an increase in the impact of the sanctions regime.
- In reputational risk, 2015 saw the development of a new model with the aim of defining the scope, management and control of this risk, as well as an update to policies to attain the highest standards, in accordance with stakeholders' expectations.

2

2015 results

Santander maintained **a high level of revenues and a strong generation of capital,** while advancing its commercial transformation.

Economic, banking and regulatory environment

Santander developed its activity in 2015 in an environment of uneven growth across the countries in which it operates and increasing regulatory pressure.

International economic environment

The global economy slowed in 2015 (3.1% vs. 3.4% in 2014). The upswing in developed economies could not offset the downturn in emerging economies. The fall in commodity prices and the slowdown of the Chinese economy had a bigger relative impact on emerging economies, although the degree of slowdown varied according to each market's domestic situation.

- The **US** is in a phase of moderate but solid growth. GDP grew 2.5% in 2015 and the unemployment rate continued to fall to levels regarded as full employment (5%). Inflation came down as a result of the fall in oil prices, although the underlying rate (1.3%) remained below the target (2%). The Federal Reserve raised its interest rates in December 2015 to 0.25-0.5%.

- The **United Kingdom** maintained the robust pace of growth (2.2%) of the last few years, accompanied by a decline in the jobless rate close to pre-crisis levels. Inflation was around 0% without signs of salary tensions. The Bank of England held its rate at 0.5%.

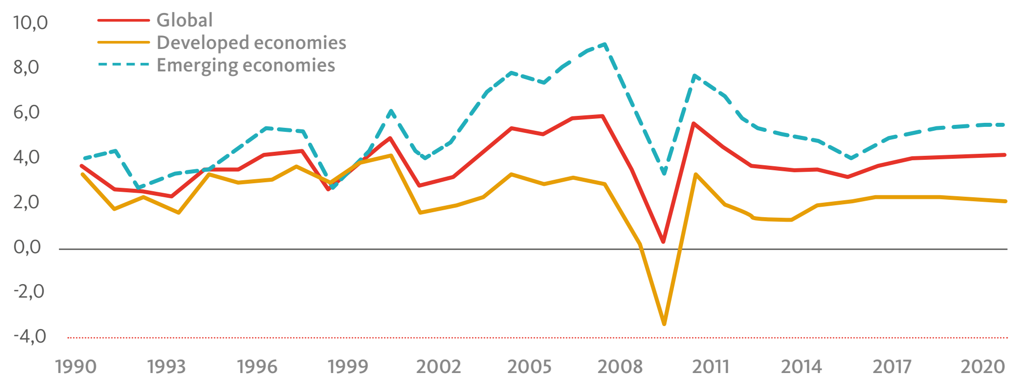
- The **euro zone** economy accelerated. Inflation continued to be close to 0%, which led the European Central Bank to further cut its rates and launch new quantitative easing measures, with an increased programme of purchasing public sector securities.

  - **Spain** grew by around 3.2% with a well diversified base that lowered the unemployment rate to 21% at the end of 2015. The budget deficit continued to decline and the current account remained in surplus. Inflation was negative for most of the year due to the impact of lower oil prices, although the underlying rate remained positive.

  - **Germany** expanded at a faster pace as the year progressed. Domestic demand remained strong and unemployment low.

The global economy slowed in 2015, with an upturn in developed economies and a slowdown in emerging markets

GDP
% change



Source: IMF, World Economic Outlook.

GDP 2015
% change

Source: IMF.

» US consolidated growth, the Fed raised interest rates

» UK maintained solid growth without inflationary pressures

» Euro zone growth accelerated but remained moderate. Spain grew faster than the European average

» Uneven growth in Latin America

- **Poland** grew briskly (3.6%) and inflation (-0.9%) was well below the the target (2.5%) of the National Bank of Poland, which cut interest rates to 1.5% in March.

- **Latin America's** GDP shrank 0.4% after growing 1.2% in 2014, in a complex international environment with the prospect of a rise in US interest rates, the slowdown in international trade and lower growth in China. The evolution of countries varied between recession in some countries and a gradual recovery in others. Inflation increased slightly, mainly due to the impact of the depreciation of Latin American currencies.

  - **Brazil** entered recession, with consumption and private investment falling and the unemployment rate higher. The cut in subsidies and the increase in prices for public services pushed up inflation to 10.7%. The central bank reinforced its commitment to control inflation and raised the Selic rate by 250 b.p. to 14.25%.

  - The **Chilean** economy recovered in 2015, spurred by increased investment and private consumption, which led the central bank to begin to normalise its monetary policy and raise its benchmark rate by 50 b.p. to 3.5%.

  - **Mexico** improved in the second half of the year, fuelled by stronger domestic demand and exports. Although inflation remained low, the central bank decided to raise its key rate in response to the Fed's move, in order to anticipate possible bouts of volatility given the strong trade and financial links with the US.

Financial markets and exchange rates

The performance of the markets in 2015 can be divided into two parts. Stock market indices rose in the first half of the year and risk premiums on sovereign and private debt fell significantly, particularly in developed economies. Access to capital markets was more fluid and lending conditions in developed economies eased.

This performance was supported by central banks' monetary policies, which injected plenty of liquidity, and thus made investors' search for profitability easier. The European Central Bank's quantitative easing contained any contagion effect during the worst moments of Greece's bailout negotiations.

MSCI World Banks index
-9%
total return in 2015

€/$ 1.09
-10%
in 2015

Brent crude oil $37 a barrel
-35%
in 2015

The summer saw an episode of increased volatility in the markets linked to concern over the slowdown in the Chinese economy and in emerging markets. Although the beginning of monetary policy normalisation in the US was put back to December, share prices took a tumble, which eroded a significant part of the year's cumulative gains. The main stock markets, however, rallied slightly in the last part of the year.

Exchange rates fluctuated considerably during 2015. The dollar appreciated significantly against the euro and the main Latin American currencies, reaching a 12-year high in effective terms. Emerging market currencies were affected by the ongoing slide in commodity prices, as well as the outflows of capital into developed economies.

Banking sector environment

The banking environment of the countries where Santander operates continued to feel the impact of regulatory changes and a challenging economic situation, which posed a major management challenge for increasing profitability.

In developed countries, banks continued to bolster their balance sheets and their capital levels. The return on capital improved. According to the European Banking Authority, the profitability of european banks increased from 0% on average at the end of 2014 to 7.3% in mid-2015, thanks to the improvement in net interest income and reduced needs for provisions.

Even so, banks continued to face important challenges to spur profitability. Interest rates remained at extraordinarily low levels; business volumes, despite gradually recovering, were still low; and competition was much tougher in most markets.

Competition was high among banks as well as with new players. Shadow banking continued to gain weight and non-banking financial institutions, which are focusing on niches in sectors such as means of payment, financial advice and credit, carried on growing.

In this context, the restructuring process cannot be considered over. Most banks are embarking on changes to their culture, in order to regain the confidence of society and, in general, all need to adapt to the digital revolution, which is going to mark the way that banks relate to their customers, the level of services provided and the efficiency of processes.

International banks are also facing divergent socio-demographic changes, against a backdrop of ageing in developed economies and a sharp rise in middle classes in emerging economies, which will require differentiated strategies for each market.

Supervisory and regulatory context

The regulatory agenda remained intense in 2015. While progress was made in reviewing the prudential framework and developing crisis management plans, attention increased on issues related to consumer and investor protection. All of these areas will be addressed while at the same time driving economic growth.

With regard to capital, the Basel Committee is reviewing its initial proposals for the standard calculation of capital consumption derived from credit, market and operational risks, scheduled to be completed in 2016. The objective is to ensure simplicity, comparability and sensitivity to risk, while not involving an increase in capital for all players. In 2016, the Basel Committee will also present the final proposal on the regulatory treatment of interest rates in the banking book, and will review the treatment of sovereign debt in the prudential framework. The committee will also review the prudential framework in its entirety, in order to assess the impact of the package of regulatory reforms.

In 2015, the Financial Stability Board finalised the framework needed to address the "too big to fail" issue in the banking industry. The last piece —the **Total Loss Absorbing Capacity (TLAC)** that will be required of global systemically important banks— was finalised in November.

In developed countries, financial institutions continued to strengthen their balance sheets and increase their capital levels in 2015

Milestones of the construction of European Banking Union

November 2014
The European Central Bank takes on the single supervision of banks in the euro zone.

January 2015
The Bank Recovery and Resolution Directive (BRRD) comes into effect.

Third quarter of 2015
The ECB establishes the minimum capital requirements for 2016 as the conclusion of the supervisory review evaluation process.

December 2015
The European Commission presents its single deposit guarantee fund proposal.

January 2016
The European resolution authority fully assumes its functions and the bail-in comes into force as the resolution tool for banks.

Europe continued to progress in implementing the crisis management framework. The **Single Resolution Board (SRB)** was scheduled to be fully operational as of 1 January 2016. The SRB will set this year the Minimum Requirement for own funds and Eligible Liabilities (MREL) for banks.

In order to finalise the establishment of a Banking Union, the European Commission published in November its proposal for the creation of a single deposit guarantee fund, with a gradual framework until 2024. The European Banking Authority (EBA) meanwhile continued to publish standards and guidelines that help to guarantee harmonised implementation in the European Union of the minimum capital requirements and improve the level playing field.

2015 marked a turning point in the European regulatory agenda. The European Commission stated that, after making progress in forging a more robust and solid financial system, its priority now was to finance growth and support the creation of a capital markets union, analyse the evidence for assessing the impact of regulations and conduct a consultation on the impact of the CRD IV capital requirements directive on financing the economy.

In relation to retail financial services, the European Commission presented a green paper for consultation with the aim of increasing transparency in pricing and eliminating trade barriers inside Europe. It backs digitalisation in particular as a means for achieving this. The Commission also unveiled its Digital Agenda initiative in order to address the launch of the single digital market. In 2016, certain complementary regulatory initiatives are planned, such as the cyber security and data protection directives.

Banking supervision via the Single Supervisory Mechanism (SSM)

Since its launch in November 2014, the SSM has enabled the **European Central Bank (ECB)** to assume **comprehensive supervision of banks in the euro zone.** In 2015, the SSM consolidated its functioning and the 129 most important banks came under the ECB's direct supervision.

Each bank has a joint supervisory team formed by ECB staff and those who work for the national authorities of member states. The Joint Supervisory Team for Banco Santander worked intensely and held more than 100 meetings in 2015 with the Bank.

At the end of 2015, the ECB sent to each bank its decision, establishing the prudential minimum capital requirements for the following year. In 2016, at consolidated level, Santander Group must maintain a minimum CET1 phase-in capital ratio of 9.75% (9.5% is required by Pillar 1, Pillar 2 and the capital conservation buffer and 0.25% is the requirement for being a global systemically important financial institution).

The Joint Supervisory Team

Comprising staff from the European Central Bank as well as the Bank of Spain, the Bank of Portugal, the Bank of Italy, the Bundesbank, BaFin and the French Prudential Supervisory Authority, among other national authorities.

Santander Group key data

Balance sheet (million euros)	2015	2014	% 2015/2014	2013
Total assets	**1,340,260**	1,266,296	5.8	1,134,128
Net customer loans	**790,848**	734,711	7.6	684,690
Customer deposits	**683,122**	647,628	5.5	607,836
Managed and marketed customer funds	**1,075,565**	1,023,437	5.1	946,210
Shareholders' equity	**88,040**	80,806	9.0	70,327
Total managed and marketed funds	**1,506,520**	1,428,083	5.5	1,270,042

Underlying income statement[1] (million euros)	2015	2014	% 2015/2014	2013
Net interest income	**32,189**	29,548	8.9	28,419
Gross income	**45,272**	42,612	6.2	41,920
Pre-provision profit (net operating income)	**23,702**	22,574	5.0	21,762
Profit before taxes	**10,939**	9,720	12.5	7,362
Attributable profit to the Group	**6,566**	5,816	12.9	4,175

Underlying EPS, profitability and efficiency[1] (%)	2015	2014	% 2015/2014	2013
EPS[2] (euro)	**0.45**	0.48	(7.0)	0.39
RoE[3]	**7.2**	7.0		5.8
RoTE[3]	**11.0**	11.0		9.6
RoA	**0.6**	0.6		0.4
RoRWA[4]	**1.3**	1.3		–
Efficiency ratio (with amortisations)	**47.6**	47.0		48.1

Solvency and NPL ratios (%)	2015	2014	% 2015/2014	2013
CET1 fully loaded[3 4]	**10.05**	9.65		–
CET1 phase-in[3 4]	**12.55**	12.23		–
NPL ratio	**4.36**	5.19		5.61
Coverage ratio	**73.1**	67.2		64.9

Market capitalisation and shares	2015	2014	% 2015/2014	2013
Shares (million)	**14,434**	12,584	14.7	11,333
Share price (euros)	**4.558**	6.996	(34.8)	6.506
Market capitalisation (EUR million)	**65,792**	88,041	(25,3)	73,735
Book value (euro)	**6.12**	6.42		6.21
Price/Book value (x)	**0.75**	1.09		1.05
P/E ratio (x)	**10.23**	14.59		16.89

Other data	2015	2014	% 2015/2014	2013
Number of shareholders	**3,573,277**	3,240,395	10.3	3,299,026
Number of employees	**193,863**	185,405	4.6	186,540
Number of branches	**13,030**	12,951	0.6	13,781

Information on total profit[5] (euros million)	2015	2014	% 2015/2014	2013
Attributable profit to the group	**5,966**	5,816	2.6	4,175
EPS (euro)[2]	**0.40**	0.48	(15.9)	0.39
RoE[3]	**6.6**	7.0		5.8
RoTE[3]	**10.0**	11.0		9.6
RoA	**0.5**	0.6		0.4
RoRWA[4]	**1.2**	1.3		–
P/E ratio	**11.3**	14.6		16.9

Variations w/o exchange rate: Quarterly: net interest income: +8.0%; Gross income: +5.6%; Pre-provision profit: +4.4%; Attributable profit: +9,4%.
1. Excluding non-recurring capital gains and provisions (2015: -€600 million).
2. EPS: Attributable profit including the AT1 cost recorded in shareholders' equity/average number of shares for the period excluding treasury shares.
3. In 2014, pro-forma taking into account the January 2015 capital increase.
4. Due to applying the new CRD IV directive, the 2013 figure is not included because it is not homogeneous with the other figures.
5. Including net capital gains and provisions.

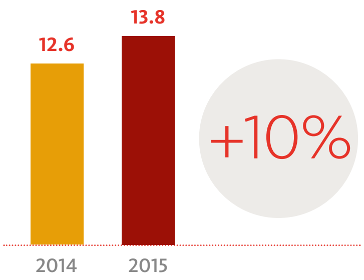
Results

For more information on results, see pages 116-121 of Banco Santander's Annual Report

Customers: more loyal

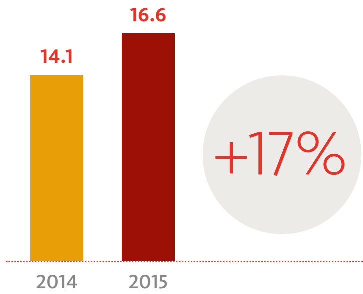
The commercial transformation and multichannel initiatives enable us to achieve significant growth in the number of loyal and digital customers. Of note among these initiatives was the launch of differentiated value propositions for individual customers and companies in various countries; improvements in commercial websites, apps and functionalities for mobile phones; and streamlining of processes.

Loyal customers
Million



Individual customers: +10%
Companies: +8%

Digital customers
Million



31% of active digital customers

Revenues: quality growth

The improvement in customer loyalty and customer satisfaction was reflected in notable growth in commercial revenues: net interest income was up 9% and fee and commission income 4%.

Costs were almost flat (+1% excluding the inflation and perimeter impact). The €2,000 million cost savings plan was met one year ahead of schedule, which enabled the investments in transforming the Bank and regulatory costs to be absorbed.

Loan-loss provisions continued to decline and fell 4% in 2015.

Commercial revenues +8%

Costs +1%

Provisions -4%

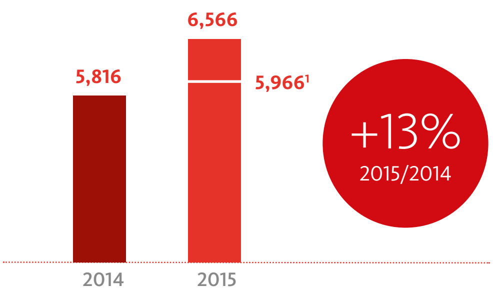
Efficiency ratio 47.6%

Results: profit growth

As a result of all these factors, underlying attributable profit grew 13%.

Discounting non-recurring results, attributable profit rose 3%.

Underlying attributable profit
Million euros



1. Attributable profit, including non-recurring net capital gains and provisions, +3%.

Balance sheet

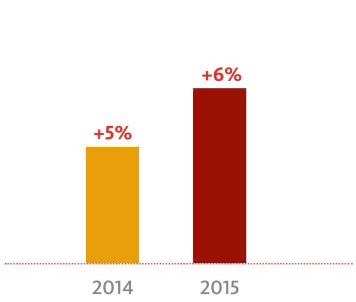
For more information on balance sheet, see pages 122 to 128 of Banco Santander's Annual Report

Commercial activity: robust growth

Santander continued to help its customers prosper, as reflected by the growth in loans to individual customers and companies in most countries.

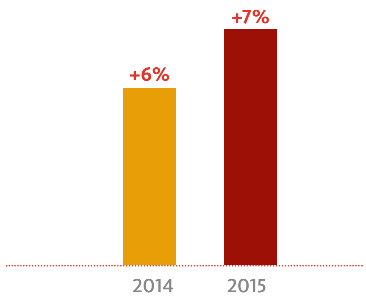
The increased activity pushed up the volume of customer funds managed, spurred by more current accounts and investment funds.

Loans[1]



1. Without repos.

Customer funds[1]



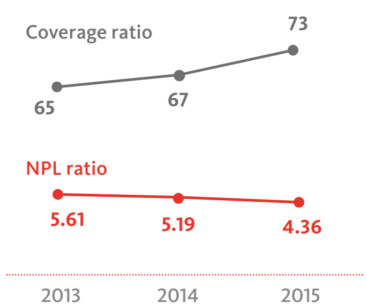
1. Without repos.

Credit quality: further improvement

Enhanced credit quality, with a decline in the NPL ratio in almost all countries and higher coverage. The cost of credit, calculated as loan-loss provisions over the last 12 months/average lending, declined in nine of the Group's ten core units.

NPL and coverage ratios

%



Cost of credit

+1.25%

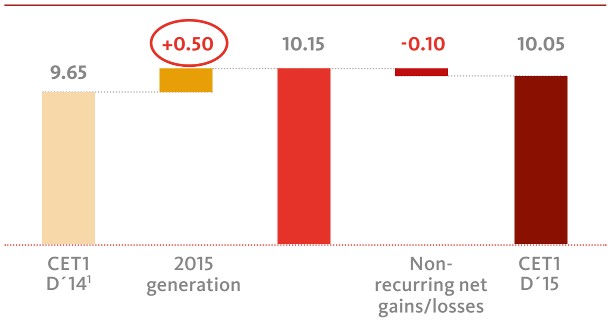
(-18 b.p.)

Capital: 10% goal met

The growth in the Bank's revenues and profitability fuelled strong organic generation of capital, bringing the fully loaded CET1 ratio to 10.05%, meeting the goal set at the start of the year and compatible with an increase in the shareholder return.

Fully loaded CET1 ratio

%



CET1 phase-in 12.55%

Surplus of 280 b.p. over the capital ratio required by the ECB for 2016

1. Pro-forma, incorporating the January 2015 capital increase.

Results by countries and businesses

Spain

Santander Spain operates in retail, commercial and wholesale banking and has market shares of 13.2% in loans and 14.2% in savings.

New Santander branch model in Madrid, Spain.

Employees
24,216

Customers (million)
12.7

Loans[1,2]
155,204 (-3%)

Attributable profit[1]
977 (+18%)

1. Million euros.
2. Change without repos.

Main 2016 objectives

- Reach 2 million 1|2|3 accounts.
- Increase the market share of SMEs from 20% to 22%[1].
- Cost of credit below 0.60%.

1. As main bank.

In 2015, Santander Spain made significant progress in its new strategy which, based on the Simple, Personal and Fair culture, rests on five pillars:

- **Building long-term relations with customers.** To this end, the 1/2/3 accounts for individual customers and SMEs were launched. This strategy proposes a new concept of relationship that rewards loyalty for transactions and enhances customers' relationship with the Bank. The 1|2|3 account had more than 860,000 customers at the end of 2015 and captured 237,000 payroll accounts. The 1|2|3 SME account, which offers cashback on salaries deposited at the Bank and payment of social security contributions, taxes and supplies related to business activity, was opened by more than 50,000 small and medium-sized firms.

- **Be the bank of choice for companies in Spain.** The commercial team specialised in the segment for SMEs and businesses was strengthened. New lending to companies grew 18% and the Bank consolidated its leadership in global corporate banking.

- **Achieve excellence in service quality.** The operational excellence plan aims to increase customer satisfaction through digital transformation, reviewing the processes and improving the customer experience in all channels. Santander Spain also began to implement a new branch model in 2015 which, with an innovative and functional design, integrates digital technology into the branch.

- **Develop advanced risk management** through comprehensive management. The new 1|2|3 strategy facilitates greater knowledge of customers for risk analysis and the possibility of increasing the customer vision from the risk area. The NPL ratio was reduced in 2015 to 6.53%.

- **Maintain a sustainable level of profitability,** based on stable results and a more efficient capital model.

Corporate governance of this Group unit was also strengthened in 2015 with the creation of the Santander Spain board, equating its governance structure to the subsidiary model of the Group's other local units. This board will oversee the actions of Santander Spain in policies and strategies, risk-taking, human resources and senior management appointments.

Poland

Bank Zachodni WBK is one of the largest and most modern Polish banks and the leader in digital banking.

Bank Zachodni WBK branch in Poland.

2015 highlights

- Bank Zachodni WBK aims to maintain a leading position in banking for individual customers and become the best bank for businesses in Poland, through a range of modern products for SMEs, helping customers to internationalise (specifically in the food, agriculture and automotive sectors) and provide comprehensive services for the largest financial projects in Poland.

- BZ WBK is Poland's leader in mobile and online banking and cards.
  - The BZWBK app for mobile phones (666,000 users) is one of the best in Europe, having won several local and international prizes (for example, the 2015 World's Best Digital Bank Awards from *Global Finance* magazine and first place in the Polish *Newsweek* ranking).
  - 2 million customers use electronic banking services. 6.72 million transactions were made in 2015.
  - Card sales amounted to PLN 1.2 million at the end of the year and included 903,700 prepaid cards, 736,800 credit cards and 3.22 million debit cards.
  - The bank also launched innovative card payments using HCE technology. The cloud card is available via the BZ WBK24 mobile application for Android (NFC) phone users.

- Lending in 2015 increased by 11%, driven by strategic segments such as mortgages, direct credit, SMEs and corporates.

- *Euromoney* magazine named Bank Zachodni WBK the Best Bank in Poland in 2015.

Employees
11,474

Customers (Million)
4.3

Loans[1,2]
18,977 (+11%)

Attributable profit[1]
300 (-15%)

1. Million euros, change in local currency.
2. Change without repos.

Portugal

Santander Totta is the bank in Portugal that grew the most in lending to companies and is the leader in terms of attributable profit generated in the country.

Santander Totta branch in Portugal.

2015 highlights

- The Bank's strategy focused on managing lending rates, increasing market shares, particularly in companies, controlling NPLs and enhancing efficiency. From its position of strength and profitability, Santander Totta was able to benefit from the improvement in the economic cycle and so keep on helping people and businesses prosper.

- At the end of the year, the Bank announced its acquistion of Banco Banif, which added 2.5 percentage points to its market share and turned it into the country's second largest private sector bank.

- Santander Totta increased its market share in lending to companies to 9.7% in 2015 (+1 p.p.) and its share of new loans was 15.3%, up from 11.7% in 2014. This performance was in contrast to the sector's shrinkage in this business segment.

- Of note in banking for individual customers was the launch of the 1|2|3 World. Since its launch in March, the number of 1|2|3 accounts has risen to 110,000. In mortgages, Santander Totta grew at a much faster pace than the sector average, gaining 3.2 p.p. in market share of new lending to 17.9%. Deposits amounted to €29,000 million (including Banif), 21% more than in 2014.

- In 2015, Santander Totta was named Best Bank in Portugal by *Euromoney* and *Global Finance*, and Bank of the Year by *The Banker*.

Employees
6,568

Customers (Million)
3.8

Loans[1,2]
28,221 (+26%)

Attributable profit[1]
300 (+63%)

1. Million euros.
2. Change without repos.

Santander Consumer Finance

With a strong position of leadership in Europe's consumer finance market, SCF specialises in auto finance, loans to buy durable goods, personal loans and credit cards.

Santander Consumer Finance branch in Benelux.

Employees
14,533

Customers (Million)
16.8

Loans[1,2]
73,709 (+21%)

Attributable profit[1]
938 (+18.0%)

1. Million euros.
2. Change without repos.

- SCF is among the top three consumer finance providers in the main markets in which it operates. Its geographic diversification is well balanced between countries in north and south Europe.
- It operates through 130,000 associated points-of-sale (car dealers and shops), and has a large number of finance agreements with car and motorcycle manufacturers, as well as major retail distribution groups.
- In an environment of fledgling consumer recovery and car sales (+9% in the footprint), SCF continued to gain market share backed by a business model based on: geographic and product diversification with leadership positions and critical mass in key markets; higher efficiency than that of its competitors; strong analytical capabilities; and management of risks and recoveries that enables it to maintain high credit quality.
- The trend in profits (+18%) reflects revenue growth (+23%) higher than the rise in costs (+21%) and loan-loss provisions that were 1% lower. The cost of credit was 0.77%. **SCF shows a consistent profitability and set a new profit record in 2015 (€938 million).**
- The NPL ratio (3.42%) and coverage (109%) were clearly better than the consumer business standards.
- Of note, by unit, was Germany whose profit was €393 million, the Nordic countries (€234 million) and Spain (€169 million).

The agreements coming into effect in 2015 strengthen SCF's position in its markets:

- More than 60% of the agreement with Banque PSA was completed in 2015, enabling SCF to consolidate its leadership in auto finance.
- The integration of GE Nordics countries increased the weight of direct loans in the product mix, reinforcing profitable and diversified growth in the region. Nordics, which operates in economies with the highest credit ratings, is one of SCF's key units.
- Growth in new lending in the main countries: Germany, Nordic countries and Spain.

Main 2016 objectives

- **Reach 17 million active customers.**
- **Increase lending from €77,000 million to €87,000 million.**
- **Maintain a cost-to-income ratio of 45% despite the integration of PSA.**

United Kingdom

Santander UK aims to deepen customer relationships and continue to improve its service proposition, achieving consistent and growing profitability and a strong balance sheet.

Santander UK headquarters in London.

Employees
25,866

Customers (Million)
26.0

Loans[1,2]
282,673 (+5%)

Attributable profit[1]
1,971 (+14%)

1. Million euros, change in local currency.
2. Change without repos.

- Santander UK wants to grow customer loyalty and market share, deliver operational and digital excellence, and achieve consistent, growing profitability and a strong balance sheet. The Bank continues to deliver a culture that is Simple, Personal and Fair, while supporting the communities in which it operates.

2015 highlights

- 1I2I3 customers increased by one million to 4.6 million in 2015. Retail banking current account balances increased by an average of £1 billion per month in the same period, ending the year at £53.2 billion.
- Santander UK continued to support the UK housing market. Gross mortgage lending amounted to £26.5 billion, of which £4.5 billion related to first time home buyers. Net mortgage lending was £2.7 billion.
- Santander UK continued to support UK companies utilising a broader product suite and expanded footprint. Customer loans increased 10% to £26.4 billion, despite market weakness. New facilities increased 14% and bank account openings grew 4%.
- Customer satisfaction scores improved significantly in 2015 to 62.9%, according to the Financial Research Survey (FRS). The top three bank peers have an average of 62%.
- Santander UK increased net interest income by 5% in local currency, driven by liability margin improvement and increased retail and corporate lending. Banking NIM remained broadly flat at 1.83% versus 2014.
- These results were achieved while maintaining a strong balance sheet and capital position, as well as increased profitability. 2015 RoTE increased to 11.8%.

Main 2016 objectives

- Increase digital customers from 3,7 million to 4,3 million.
- Credit growth to companies 5 p.p. higher than the market.
- CAGR of fee and commission income 5-10%.

Brazil

Santander Brazil is the third largest private sector bank by assets. In a difficult economic context the Bank improved its franchise and results.

Santander Select branch in Sao Paulo, Brazil.

Employees
49,520

Customers (Million)
32.4

Loans[1,2]
60,238 (+9%)

Attributable profit[1]
1,631 (+33%)

1. Million euros, change in local currency.
2. Change without repos.

Main 2016 objectives

- **Increase the number of loyal customers from 3,2 million to 3,6 million.**
- **Maintain control of bad loans with a NPL ratio below the sector's average.**
- **Profits higher than those in 2015 in local currency terms.**

2015 highlights

- Santander Brazil made progress in its main strategic lines to simplify, modernise and improve the customer experience, installing a business model that places the customer at the centre of all decisions and operations.

- *Pacote Boas Vindas*, which enables new individual customers to obtain the number of their current account, debit and credit cards and full access to electronic channels quickly and efficiently in two days from the time of signing off, was launched; and the offer of *Contas Combinadas*, which includes two types of service options, was renewed: the *Conta Básica*, for those who carry out fewer operations with their account and require tailored services and the *Conta Mais*, for customers who use their account more frequently.

- The Bank launched *Santander Negócios & Empresas* for SMEs. This platform is focused on products, services and attention for these companies, adapted to the profile of each entrepreneur. In Global Corporate Banking, the Bank took part in the main business transactions that took place in the year.

- **Santander Brazil is increasing its customer base, seeking to gain customers' loyalty through better levels of service.** The Bank made significant investments such as the acquisition of *Súper*, a digital platform that provides an electronic banking account, a prepayment card and access to simplified financial services. It also entered into a joint venture with Banco Bonsucesso to create Banco Bonsucesso Consignado. Furthermore, it created *Certo*, a new commercial banking and customer relationship management model.

- As part of the Group's digital transformation process, Santander Brazil fostered the use of digital channels among its customers through the *Vale a pena ser digital* campaign. The number of digital customers rose 15% in 2015.

- All these investments had a direct impact on customer satisfaction and on reducing the number of claims (-39%).

- The Bank increased the number of loyal customers in 2015 to 3.2 million, grew lending (9%), rationalised costs and reduced loan-loss provisions and NPLs according to local criteria.

Mexico

Santander consolidated its position as the country's third largest bank by business volume with a 14% market share and a sound and diversified portfolio.

Santander Select branch in Mexico.

Employees
17,847

Customers (Million)
12.4

Loans[1,2]
30,158 (+19%)

Attributable profit[1]
629 (+3%)

1. Million euros, change in local currency.
2. Change without repos.

Main 2016 objectives

- **Exceed one million digital customers from 876,000 in 2015.**
- **Attain more than 3.3 million payroll accounts.**
- **Reach MXN 75 billion in loans to SMEs.**

2015 highlights

- **Santander Mexico wants to be the leader in the Mexican market in terms of profitability and growth.** To this end, it is acquiring new customers with substantial business potential, increasing loyalty among current customers and reducing the churn rate. It is also gaining market share in larger SMEs and mid-market enterprises and increasing its participation in infrastructure projects. The Bank continues to consolidate its leadership in mortgages for medium and high-income customers and is carrying out a thorough transformation of its operational model in technology and infrastructure, talent, quality, processes, marketing and brand.

- In 2015, the Bank completed its most ambitious expansion programme in Mexico in recent years, whereby it increased the number of branches by 200 over the last three years, made progress in multichannel services through mobile banking initiatives and had a network of 5,989 ATMs in place at the end of the year.

- Thanks to its efforts to help customers prosper, Santander Mexico was once again the leading bank in 2015 in loans for SMEs (+22%). Loans to companies grew 25%, also higher than the market. Mortgages rose 13%, consumer credit 31%, more than double the pace of the market, and insurance business 4%.

- In the energy and infrastructure sectors, Santander confirmed its leadership by financing more than 14 projects worth over $88 billion. It also reached an agreement to supply banking services to more than 11,000 petrol stations in Mexico.

- The strong growth in lending was accompanied by a strict process of monitoring and assessing the quality of the portfolio. The NPL rate decreased to 3.38%.

- The magazine *LatinFinance* recognised Santander Mexico in 2015 as the Best Bank in Infrastructure in Mexico, *Global Finance* as the Best Private Bank in Mexico and *International Finance Magazine* as the most socially responsible bank in Mexico.

Chile

Santander is the country's largest bank in terms of assets and customers.

Banco Santander branch in Chile.

2015 highlights

- **The Bank continued to grow in 2015 despite the downturn in the local economy.** In individual customers, progress was made in consolidating the Select model for high-income customers and in developing the new branch model in the traditional network. In SMEs, Santander Advance was launched which is backed by its own CRM system (NEO Advance). The Bank continued to open its new centres for companies, generating more proximity with customers, which produced gains in market shares in loans and deposits.

- Santander Chile has market shares of 19.1% in loans and 18.3% in deposits. Lending grew 14% and deposits 13%.

- Santander Chile received the prize for the Best Bank of the Year in Chile from *The Banker* magazine and the Best Private Bank in Chile from *Euromoney*.

- The four strategic pillars of Santander Chile are:

  - Improve the quality of customer attention and experience.
  - Transform the retail and commercial banking business, particularly with medium and high-income customers and SMEs.
  - Strengthen business with large and medium-sized companies.
  - Foster a new culture focused on the customer and a Simple, Personal and Fair way of doing things.

Employees
12,454

Customers (Million)
3.6

Loans[1,2]
32,338 (11%)

Attributable profit[1]
455 (-13%)

1. Million euros, change in local currency.
2. Change without repos.

Argentina

Santander Río is the country's leading private sector bank by volume of assets and liabilities.

New branch model of Santander Río, Argentina.

2015 highlights

- Santander Río has a market share of 10.0% in loans and 10.3% in deposits. In 2015, the Bank's business posted strong growth, with loans rising 52% and savings 58%. Income increased by 27% in pesos and costs by 43%.

- The Bank has a multichannel network focused on quality of service and customer satisfaction. The branch network increased by 10%, with the opening of 21 new spaces, 82 corners and 125 Select boxes for high-income customers. Four business centres were also opened for SMEs and companies. The project to transform the branch network continued, with the aim of installing a new customer attention model based on automated processes and use of new technology.

- The commercial strategy centred on customer acquisition and loyalty, particularly high-income customers and SMEs. In the medium and long-term, Santander Río will focus on increasing the reach of its distribution network, improving efficiency and service quality, and fostering financial inclusion and banking penetration.

- Santander Río was recognised by *Euromoney* and *The Banker* magazines as the Best Bank in Argentina. It was also awarded the prize for Best Digital Bank and Best Mobile Bank in Latin America by *Global Finance* magazine.

Employees
7,952

Customers (Million)
2.8

Loans[1,2]
6,028 (+52%)

Attributable profit[1]
378 (+22%)

1. Million euros, change in local currency.
2. Change without repos.

United States

Santander carries out retail banking in the northeast of the country as Santander Bank and consumer finance nationwide through Santander Consumer USA.

Santander branch in the United States.

Employees
18,123

Customers (Million)
5.1

Loans[1,2]
84,190 (+7%)

Attributable profit[1]
678 (-34%)

1. Million euros, change in constant currency.
2. Change without repos.

2015 highlights

- Santander Bank increased the number of loyal customers to 266,000, while customers who use the online and mobile channels increased 12% to 617,000. The Bank launched Simply Right, an easy-to-use current account that waives commissions for those who perform at least one financial transaction a month. It also simplified its current accounts by reducing the line of products from 13 to 5 and launched a new, more modern and updated website.

- Santander Consumer USA's (SC's) net income increased 17% to $900 million, driven by disciplined originations and additional fee income from its services for other platforms. To better serve its customers, enhance vendor management oversight and diversify and de-risk its business, SC focused on expanding its servicing capabilities in 2015 as it moves to open new facilities in Mesa (Arizona) and San Juan (Puerto Rico).

- Santander US launched a transformation programme to bolster its capabilities in risk management, finance and technology to manage its business better and be able to comply with the regulator's expectations. This programme includes high investments and strengthening of the franchise. In 2016, all of Santander's main units in the US will be integrated into the Group's holding in the country, Santander Holdings USA, which currently comprises Santander Bank and Santander Consumer USA.

- Santander Bank made contributions to 286 not-for-profit organisations in the territory where it operates. Santander Bank's employees donated 13,696 hours of voluntary service to the communities where they live and work.

- In the years to come, Santander US will focus on acquiring individual customers through the development of a simple and innovative value proposition, while improving its digital capabilities and customer satisfaction. The emphasis in commercial banking will be on its product, sales and risk capabilities. SC USA, meanwhile, will increase services for other businesses, take full advantage of the potential of the agreement with Chrysler and focus on its core businesses.

Main 2016 objectives

- **Increase the number of digital customers from 617,000 to 725,000.**
- **Boost lending to companies to $20,7 bn.**

Global Corporate Banking

SGCB is the global business division mainly focused on corporate clients and institutions which, due to their size or sophistication, require a tailored service or value-added wholesale products.

Treasury room, Torre Santander, Sao Paulo, Brazil.

Loans[1,2]
90,167 (+4%)

Attributable profit[1,3]
1,625 (+2%)

1. Million euros, change in local currency.
2. Change without repos.
3. The results for this global unit are included in the data for each local unit.

- The SGCB business model rests on three pillars: a customer focus, strong global product capabilities and interconnection with local units. All combined with permanent and optimum management of risk, capital and liquidity.

2015 highlights

- Optimisation of capital was one of SGCB's priorities during 2015. In order to make progress in this objective, SGCB created a new area called Asset Rotation and Capital Optimization (ARCO), which incorporates all the capabilities of structuring and sales to improve the Originate to Distribute initiative.
- SGCB attained a leadership position in Latin America in debt capital markets, cash management and emerging Latin American currencies, according to the main rankings and market awards. It is also the leader in Acquisition & Project Finance, Export & Agency Finance and Trade Finance.
- In order to respond adequately to the transformation of international trade finance, SGCB focused on innovation, digitalisation and further development of some of its products.
- SGCB deepened its cooperation with the Retail and Commercial Banking division by developing a wide range of products and services for the customers in this segment.

2018 objectives

SGCB will centre on the following aspects of its value proposals:

- Continue to be an expert in Latin America.
- Maintain unique, differentiated capabilities in relation to origination, structuring and distribution of loans, and its leadership in Acquisition Finance, Structured Credit and Project Finance.
- Spur the commercialisation of a wide range of solutions for retail and commercial banking customers, tailored to their needs and/or risk tolerance.
- Be the customers' bank of choice for access to euro and sterling capital markets.
- Continue to be the leading bank in international trade.
- SGCB will also put into effect measures to reduce the consumption of capital and will continue the gradual change toward a business based more on fee and commission, through an improved offer in advisory services and the Originate to Distribute initiative.

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

Corporate center

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain

General information

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Ombudsman

Mr José Luis Gómez-Dégano,
Apartado de Correos 14019
28080 Madrid
Spain

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MRM Worldwide

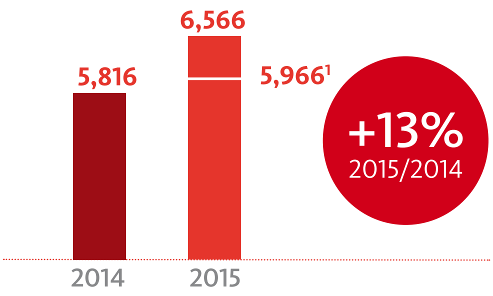
All customers, shareholders and the general public can use Santander's official social network channels in all the countries in which the Bank operates.

Santander

www.santander.com

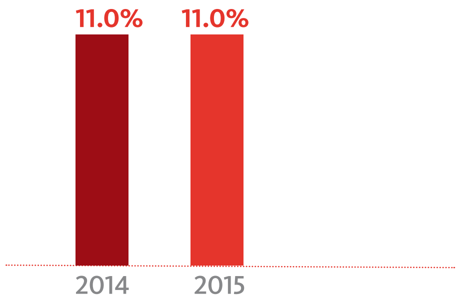
Meeting our commitments with shareholders

Underlying attributable profit
Million euros

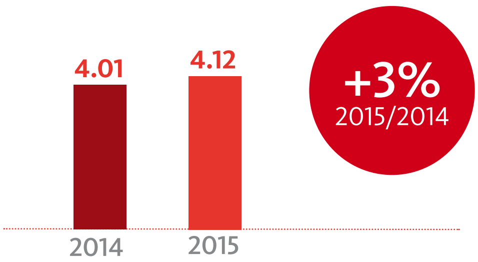


1. Attributable profit, including non-recurring net capital gains and provisions, +3%.

Ordinary RoTE
%

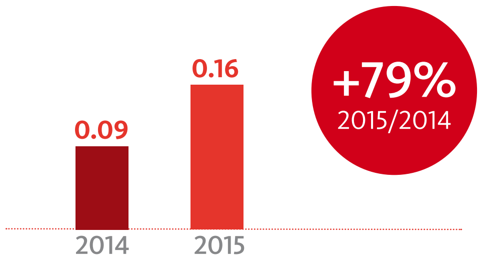


TNAV/share[1]
€

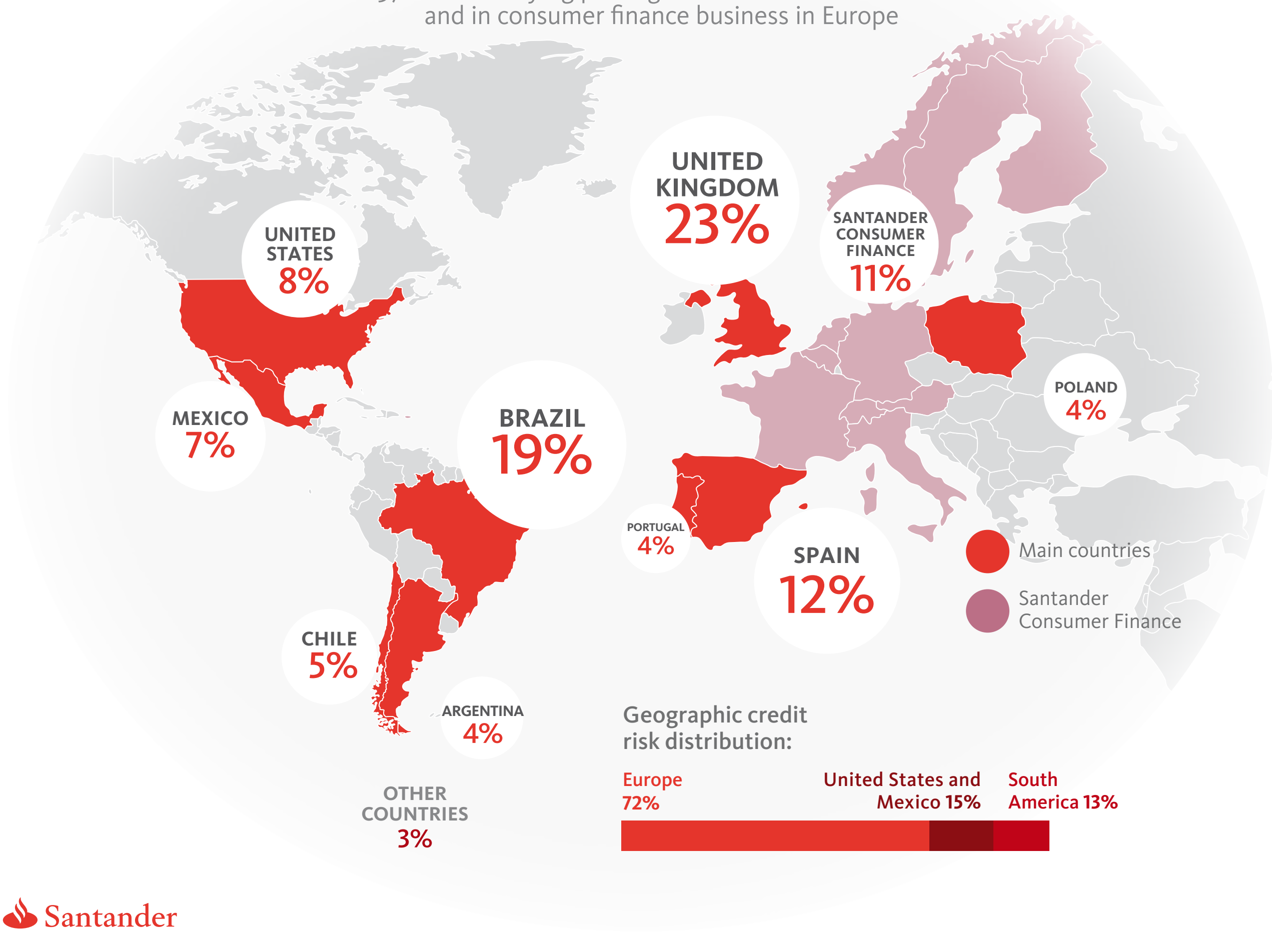


1. Calculated on a like-for-like basis with 2014.

Cash dividend
€/share



Geographic diversification:
97% of underlying profit generated in nine countries and in consumer finance business in Europe



Helping people and businesses prosper in 2015

75%
of employees perceive Banco Santander as Simple, Personal and Fair

82%
of employees are proud to work at Banco Santander

13.8 (+10%)
million loyal customers

16.6 (+17%)
million digital customer

Business growth

+6%
loans

+7%
customer funds

People
193,863
employees

Customers
121
million

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

Communities
1.2
million people helped

Shareholders
3.6
million

35,349
scholarships granted

1,229
agreements with universities and academic institutions in 21 countries

10.05%
fully loaded CET1 ratio

+79%
cash dividend per share

Simple | Personal | Fair

In 2015, we delivered on everything we promised a year ago and delivered in the right way. We increased our earnings and used them to pay a higher cash dividend, to invest in our business and to strengthen our capital base organically. **This success has put us ahead of our strategic plan.**

“The second half of this year's disappointing share price does nothing to undermine **my belief in our diversified structure** which has been built to provide predictable earnings with lower volatility through the cycle. **Our critical mass, our personal relationships with customers and our geographical diversification combine to create the large, deep moat around us.**”

“**We are focused on becoming more efficient and more transparent.** At the corporate centre, we have reduced the number of divisions from 15 to 10 as well as the number of **top executives and executive board directors at the Group level. This has allowed us to reduce the total cost of compensation for those at this level by 23%.**”

Ana Botín
Group Executive Chairman

“From our centre in Spain, we offer products and best practices, ranging from technology systems to control, which enable our subsidiaries to capture significant economies of scale. **The synergies created by this system are worth 3 points of our cost-to-income ratio that remains one of the best in the industry at 47.6%.**”

“**The strong, underlying signal coming from Santander is of steady growth and value-building.** We derive enormous benefits from the way our diverse geographies and retail and commercial banks with critical mass minimize our risks and **even out our revenues.**”

The foundations of our transformation

Corporate governance and team

What do we want?	What have we done?
Strengthen the Bank's corporate governance incorporating the best international practices and complying with the highest standards	• Significant renewal of the board with the appointment of new independent directors. Consolidation of the position of lead director and of the board committees. • New remuneration policy for executive directors and senior management aligned with our Simple, Personal and Fair culture. • Changes in the corporate governance of the risk function and a new parent-subsidiary relationship framework.
Configure the executive team for the Bank's new phase	New country heads have been appointed in five of the Group's main local units and leadership in the corporate centre enhanced.
Foster the role of the corporate centre in the creation of value for the Group	Simplified the organisational structure and reduced the number of divisions (from 15 to 10), strengthened the compliance function and improved the transparency and efficiency of the corporate centre.

Capital

What do we want?	What have we done?
Prepare the Bank for stronger organic growth, while comfortably meeting the new regulatory requirements	• €7,500 million capital increase. • Meeting the fully loaded CET1 capital ratio of more than 10% in 2015, and commitment to the market to raise it to above 11% in 2018.
Offer shareholders an attractive and sustainable return and a dividend that reflects our profits	New dividend policy that increases cash dividend pay-out to 30-40% of profits. Cash dividend per share increased 79% in 2015.

Strategy and culture

What do we want?	What have we done?
Improve the Bank's profitability, grow earnings and dividend per share in a sustainable way	Given a new focus to the strategy to transform us into the best retail and commercial bank for our employees, customers, shareholders and communities: • 10% growth in loyal customers. • Enhanced operational excellence. • Created a new innovation area and developed the Santander Innoventures fund.
Ensure that our more than 190,000 professionals in all countries and businesses have a common purpose and way of doing things	Began to install a new culture throughout the Group, involving senior management and all employees in building an increasingly Simple, Personal and Fair bank.

Message from Ana Botín

Dear fellow shareholders,

In 2015, we delivered on everything we promised a year ago and delivered in the right way. We increased our earnings and used them to pay a higher cash dividend, to invest in our business and to strengthen our capital base organically. This success has put us ahead of our strategic plan.

2015 At a Glance

We have increased our number of loyal customers by 1.2 million and improved customer satisfaction so that we are now in the top 3 in 5 of the countries where we operate, which is our aim in all markets. According to our internal surveys, we are all feeling more engaged in our work.

The results of more loyal customers and a more engaged team are a strong operating performance and a net statutory profit in 2015 of €6 billion:

- Customer **loans grew by 6.4%.**
- Customer **revenues grew by 7.6%** to €42 billion.
- **Underlying profit after tax** (excluding PPI and other one-off effects) **grew by 13%.**
- This growth in revenues and profitability has allowed us also to **grow our capital organically by 40 basis points,** to 10.05% (10.15% excluding PPI) and to **grow our cash dividend per share by 79%.**
- Finally, our company is more valuable than 1 year ago, as measured by our **tangible net asset value (TNAV) per share, which grew by €0.11.**

Those of you who acquired shares at the time of our capital raise on January 8 2015 and still hold them, have received a **cash dividend per share of €0.11 and a total dividend per share of €0.40, equivalent to 6% of your investment.**

But since that date our market valuation has fallen by 36%. This is probably related to a different perception of the strength of our capital and the extent of our regulatory capital buffers and to the concern about our presence in certain emerging markets.

The purpose of capital buffers is to protect our customers, shareholders and employees. We take this responsibility extremely seriously.

Our prudential minimum capital requirement today is to maintain a Common Equity Tier1 (CET1) of 9.75%. Our capital adequacy currently stands at 12.55%, a buffer of 280 bps, equivalent to €16 billion.

The reason we have these excess buffers is to get ready for 2019 when we will converge to the regulatory requirements known as Basel III.

As we announced to investors last September, our goal is to have a CET1 capital ratio fully compliant with Basel III criteria of more than 11% by December 2018, when our regulatory requirement will be 10.5%. I am confident that with the uplift we achieved in 2015 and our current growth and capital generation, we will meet our target.

GROWING CUSTOMER LOANS

Customer loans
+6.4%

GROWING CUSTOMER REVENUES

Customer revenues
+7.6%
(€42,000 million)

INCREASING OUR PROFIT

Net profit
€6,000
million (+3%)

AND GROWING OUR CAPITAL

+40 bps
organic capital growth

Since 2007, our preprovision profit has been on average 2.3 times the provisions we incurred

Our Brazilian team delivered strong recurring profits and made significant one-off positive contributions.

IN BRAZIL

Profit
+33%
(+13% in euros)

RoTE
14%

NPLs
3.2%
Best among private banks

We have set this **goal of above 11% to align with the highest prudential standards for two reasons. First, our required minimum is less because our model is considered less interconnected, and easy to resolve. Second, we need lower management buffers over this minimum because of the relatively low volatility of our earnings and our better relative performance under stress scenarios.**

The key factors in favor of Santander are:

- Our business is less volatile than that of our peers. **We have paid a dividend every year for 50 years.**
- We went through the financial crisis without reporting any quarterly loss. We paid dividends every year and at the lowest point, in 2012, we delivered a net statutory profit of €2.3 billion, as our retail and commercial banking activities continued to be profitable practically in every market.
- Our subsidiaries are autonomous in managing their capital and liquidity. We have more than sufficient capital to operate safely, to satisfy regulators in all of our markets and at the Group level, and to provide the returns expected by our investors.
- Since 2007 we have generated profits before taxes of €93 billion. Our pre-provision profit has been on average 2.3 times the provisions we incurred. We are now transforming our bank to expand our capacity to generate capital. This will make us even more resilient throughout the business cycle.

However, what best explains our market underperformance since our historical high valuation of €100 billion in April last year are concerns about the future of Brazil.

Brazil is going through a challenging period, but our bank performed excellently there this year. **Our team delivered strong recurring profits and made significant one-off positive contributions. Net statutory profit grew by 33% in local currency and by 13% in euros in 2015. Our return on tangible equity (RoTE) in Brazil was a healthy 14%.** Finally, our balance sheet in Brazil –which represents 8% of total Group customer loans- shows the **lowest non-performing loan ratio among the top Brazilian private banks: 3.2%.**

Today in Banco Santander, as our performance in 2015 shows, we have the people, the vision and the resources to deliver for our shareholders.

We will manage the business to deliver on earnings per share (EPS), dividends per share (DPS) and TNAV per share as I laid out in my letter last year and at our Investor Day in September.

The Santander "Moat" is large and deep

In summary, today's market is not considering the full value and strength of our model and our diversification.

Warren Buffett often says that he likes to invest in companies with a "moat", a competitive advantage which protects profits and market share over time.

Our moat is our critical mass in every one of our 9+1 (Santander Consumer Finance Europe) core markets, where we serve a total of 121 million customers. This provides consistent earnings, quarter after quarter and through the cycle.

We have earned the trust of our customers over many years, through hard work and careful stewardship of their financial affairs. Our relationship managers talk to many of these customers every day. They have helped them through difficult times, supporting when others who know them less well might have walked away.

We also operate in a carefully assembled mix of developed and developing markets. When one or two markets are struggling, others are thriving.

Santander Consumer Finance is the top consumer bank in Europe. In Mexico, we are the main bank for small and medium sized enterprises. In Poland, our bank is the most profitable among its peers. We have the second largest private bank and the most profitable one in Portugal. And that doesn't take into account the continued strength of our most important banks in Spain and the UK, which have performed well despite continued low interest rates.

The combined growth of our continental **European business this year has delivered €2.2 billion attributable profit, or 35% growth**; our **UK and US businesses delivered €2.6 billion attributable profit, 10% more**, representing **31% of total attributable profit[1].**

The second half of this year's disappointing share price does nothing to undermine my belief in our diversified structure which has been built to do exactly what it is doing: providing predictable earnings with lower volatility through the cycle.

Our critical mass, our personal relationships with customers and our geographical diversification combine to create the large, deep moat around us.

These are the sources of our unique competitive advantage and what give us confidence that we can deliver earnings at the same time as we adapt our business for the future.

They are the foundations upon which we are building Santander for the next 50 years.

We have scale and financial strength on our side and we are learning how to think and act like a challenger at the same time.

OUR "MOAT":

Critical mass in
9+1
markets

Personal relationships:
121
million customers

Geographical diversification

Consistent earnings through the cycle

1. Excluding the corporate centre and Spain's Real Estate activity.

We have made great strides in helping people and businesses, our customers, prosper

Loyal customers
+1.2MM
(+10%)

We want more of our customers to do more of their banking with us

Digital customers
+2.5MM
(+17%)

Customers

When I wrote to you last year and laid out my vision and plans to transform Santander, I said that the **"measure of our success will be that wherever we operate our customers are the ones who champion our services and bring in new customers."** We have made great strides in helping people and businesses, our customers, prosper. I would like to review in detail what we have achieved in 2015.

Banking is an industry which will look very different very soon because of technology. But it remains at its heart a personal business. It is about satisfying the needs and aspirations of our customers, of families wanting to buy homes and businesses wanting to expand. Our daily work is about serving our 121 million customers today and to anticipate what they will need tomorrow: a loan as well as the latest mobile app to fit seamlessly into their digital lives.

Our focus this year and going forward, will be to earn the loyalty of our customers and encouraging greater use of our digital banking services. In simple terms: **we want more of our customers to do more of their banking with us.** And we are ready for them to do more of their banking digitally.

Progress in 2015

- In the UK, one out of every three new accounts is now opened via our digital channels.
- In Poland, our customers can now apply for a cash loan using their phones and receive a response within 60 seconds.
- In Spain, a new 1|2|3 account is opened every minute through our digital channels.

As a result of these efforts, we have reached our targets and grown our number of loyal customers by 1.2 million and our digital customers by 2.5 million.

In the markets where our number of loyal customers has increased the most, so has our revenue. And this progress is reflected in rising customer satisfaction. In five of the markets we serve, we are ranked among the top three banks for customer satisfaction. We care a lot about these customer satisfaction rankings and loyalty numbers because they set the pulse of our business. If they are strong and healthy, our company is too.

People

Santander built a strong, successful culture over many years. This culture was at the root of our expansion and growth. Now we need to change. This is going to take hard work and time, but we are well on our way.

Internally, we have been undergoing a process of profound cultural change. We are reevaluating every one of our processes to ensure that we can be true to our values, purpose and aim, and be ready to embrace new technology sweeping through financial services.

I want every member of our global team to feel motivated and inspired by these changes, to know that we will do everything we can to support them in their work. I am asking for the same commitment to change from myself, my board and my most senior executives, as I am from those who work in our branches and help our customers every day.

Our latest survey of our global team showed that many more of us believe in this process today than when we started a year ago. We are rethinking how we measure performance and create incentives. Our program of *flexiworking* has been especially popular. We want our teams to guide us, to let us know how they can contribute most to our organization.

During 2015 we have worked to agree on the behaviours that will help us build a bank that is more Simple, Personal and Fair.

There are eight of them: show respect; truly listen; talk straight; keep promises; actively collaborate; bring passion; support people; and embrace change. It is a short list on purpose. It is meant to be achievable.

We value honesty, energy and directness in our families and friends, and we should expect no less from our colleagues at work.

Across the organization, we are focused on becoming more efficient and more transparent. At the corporate centre, we have reduced the number of divisions from 15 to 10 as well as the number of top executives and executive board directors at the Group level.

This has allowed us to reduce the total cost of compensation for those at this level by 23%.

Good governance has taken on fresh importance since the financial crisis, and we are working harder than ever to appoint the best people and create the clearest lines of accountability between all of our operations. Our industry is complex by nature, but our business should never be more complex than necessary.

We are constantly seeking the ideal balance between our corporate centre and our countries. We trust our local teams because they are closest to our customers. But we also want them to take advantage of being part of a global Group.

From our centre in Spain, we offer products and best practices, ranging from technology systems to control, which enable our subsidiaries to capture significant economies of scale. **The synergies created by this system are worth 3 points of our cost-to-income ratio.** Our in-country teams can stay close to their markets while operating more efficiently than their competitors. There are no intermediate levels between our country heads and the Group CEO, because we believe that a lean corporate structure, with the fewest possible layers of management, is the best guarantee of simplicity and transparency, and will deliver for both our customers and our shareholders.

This relationship between the centre and our subsidiaries is essential to continue to improve our cost-to-income ratio, a key measure of efficiency that remains one of the best in the industry at 47.6%. And our simple, geographically ring-fenced subsidiary model results in the lowest Financial Stability Board additional capital recommendation among our peers.

Shareholders

Until the situation in Brazil began to deteriorate in mid year, the relative performance of our share price was comparable to that of our peers and the major indexes.

The long-term story of Brazil is the growth and development of one of the largest emerging economies in the world. We are going to endure the current situation, be patient and be strongly positioned when Brazil resumes its upward journey.

It is important that our shareholders recognize this, and consider the growth in our TNAV per share in 2015. **There is always a lot of noise in finance, but the strong, underlying signal coming from Santander is of steady growth and value-building. I am convinced that our share price will eventually come to reflect this and our shareholders patience will be rewarded.**

Many more of our people believe in cultural change than they did when we started one year ago

Corporate centre value added:
The synergies created by this system are worth 3 points of our cost-to-income ratio

% of Group underlying attributable profit

We derive enormous benefits from the way our diverse geographies and retail and commercial banks with critical mass minimize our risks and even out our revenues.

During 2015, we grew our net profits (in euros) in Spain and SCF by 18%, in the UK by 27%, in Portugal by 63%, in Brazil by 13% and in Mexico by 4%. **These businesses represent 81% of our customer loans and 76% of our Group profits.** Chile reduced its profit by 9%, US by 21% and Poland by 15%. These three businesses represent 16% of our customer loans and 17% of our profits.

THE DIVERSITY OF OUR GEOGRAPHIES WITH CRITICAL MASS
(profit growth in euros)

Spain: +18%

SCF: +18%

UK: +27%

Portugal: +63%

Brazil: +13%

Mexico: +4%

We see great potential for us to grow in Poland where we are leaders in digital channels and where loans are growing by 11%. We are working to improve our operations in the USA: we have put in place a new team in recent months, composed of top talent at both the executive and board levels. **We know what we have to do in the USA to succeed on all fronts.**

Our model proved its worth during the financial crisis, throughout which **we never posted a single quarter of losses.** We never required a bail-out in any of the countries where we operate. Though designated a global SIFI (Systemically Important Financial Institution) we have the lowest capital charge among global SIFIs. And for these reasons, we need lower capital buffers, as noted previously, than other international banks with different models.

It was not an easy decision to change our dividend policy, as we did last year. But we have to pay a dividend that reflects the reality of the macro-regulatory situation and our earnings, and is consistent with our strategy. **What is important, is that our model delivers enough profits to reinvest further in: profitable growth; a strengthened capital base; and an increased dividend per share.**

Communities

We continued our support for higher education through our Santander Universities programme which now reaches more than **1,200 universities** around the world. Last year, we awarded around **35,000 scholarships to students** attending these universities, as well as investing in programmes to improve financial inclusion and education.

We have launched the UK Discovery Project, helping people prosper through enhanced education, skills and innovation, which will **support a million people by 2020.**

We also supported around **7,000 entrepreneurs and 500 start-ups** through our community programs to promote job creation.

Our target is to **support 4.5 million people between now and 2018.**

Looking ahead

It is said that strategy rarely survives first contact with adversity. But after eighteen months in charge of Santander, **I am confident that the plan we have in place is the right one.**

We are building from a strong and diverse base. Santander built a reputation over the past three decades as an expansive, acquisitive bank, venturing from Spain to markets across Europe and the Americas. I cannot rule out future bolt-on acquisitions in our 9+1 core markets, provided they make both strategic and financial sense, but **for the immediate future we are focused on growing loyal customers and organic growth.**

We are overhauling our operations and our management to make them more Simple, Personal and Fair. We want our employees to feel happier and prouder than ever to work for Santander. We are building and learning new technologies so that we can revamp our internal processes

and develop better products and services for our customers, whilst remaining best-in-class in efficiency.

And we are lowering our cost of risk with an average target for 2015-2018 of 1.2%.

Our goal is to grow earnings and dividends per share annually, reaching double digit EPS growth by 2018, from a stronger, more resilient capital base with a CET1 above 11%.

Over the coming year, we anticipate different contexts for the developed and developing economies where we operate. In the developed economies, we envisage steady low GDP growth and falling unemployment. Low oil prices and low interest rates will be good for both individual and corporate customers.

Interest rates in the United States seem to be moving upwards, but the return to normality in the credit markets after years of quantitative easing is going to take time. Political uncertainty persists in parts of Europe, and a new president will be elected in the United States in November. Our base case scenario is low and flat yield curves in the developed markets for quite some time.

In the developing economies, we are always braced for greater volatility. But the underlying trends remain hugely promising. **We are well placed in markets with young and growing populations, low banking penetration and low borrowing levels, where we can earn returns on equity far higher than those we earn in the developed markets. As I mentioned above, diversification is our strength.**

Listening to our customers and anticipating what they want from us; fixing things fast when we make mistakes; making their interactions with us Simple, Personal and Fair, each and every time - these are our main goals, today, tomorrow and as far into the future as we can see.

To guide us, we will focus on our purpose: to help people and businesses prosper. This is the Santander Way. It is the foundation for our success. And we have a clear aim: to be the best retail and commercial bank, earning the lasting loyalty of our people, customers, shareholders and communities.

Strong corporate governance is vital to all of our work. Banco Santander's board is fully involved in the Group's oversight. I would like to thank Juan Rodríguez Inciarte and Sheila Bair for their invaluable contribution to the bank.

We have strengthened our boards both centrally and in our regional subsidiaries, drawing on strong independent directors to provide fresh perspectives and advice.

2015 has been a year of tremendous learning and progress for me personally and for Santander. We can see a clear path to the objectives we have set ourselves for 2018. **But we still have to walk that path and turn the unforeseen bumps ahead into opportunities if we want to deliver on our purpose of helping people and businesses prosper.**

We still have to act each day in a way that is more Simple, Personal and Fair. The digital revolution in finance won't happen by itself. We aspire to lead in ensuring that it delivers on its promise for our customers above all.

With the support of our nearly 4 million shareholders, a Board committed to our objectives and an excellent team, I am confident we will succeed.

Ana Botín
Group Executive Chairman

We are well placed in markets with young and growing populations, low banking penetration and low borrowing levels, where we can earn returns on equity far higher than those we earn in the developed markets

2018 TARGETS:

- Increase EPS reaching double digit growth in 2018
- CET1 >11%
- Average cost of credit 2015-2018: 1.2%
- Increase DPS and TNAV per share

Message from José Antonio Álvarez

We are living in a time of significant change. Technology is generating a new way of relating to one another and is increasing the information and decision-making capacity of all economic agents. In the financial sector, other challenges add to these changes, such as new regulations, the entry of new competitors, an environment of low interest rates and uneven growth between mature and emerging economies.

Developed economies continued in 2015 to show signs of recovery but emerging countries, as a whole, grew at a slower pace, because of their internal dynamics as well as the fall in commodity prices and China's slowdown.

The markets were volatile. Emerging currencies depreciated against the dollar and interest rates remained low in mature markets. The Federal Reserve waited until December to announce the first increase in interest rates of only 25 b.p.

This environment continued to put pressure on banks' profitability, added to which were regulatory requirements in two directions. Firstly, greater capital requirements, which have doubled in the last few years. Secondly, regulatory requirements hit income statements as they limited the capacity to generate revenues, required higher costs and investments in technology and personnel, while producing a higher tax charge.

Competition from banks and non-banks was also stronger in various countries and business areas.

Santander is facing these challenges with a business model that has proved its strength in recent years and which we are adapting to the new environment, in order to maximise our profitability goals.

Santander has a business model that has proved its strength in recent years and which we are adapting to the new environment

2015 Group results

2015 was a year of transition in which we posted good results and the Bank advanced in its commercial transformation.

We want to have more loyal customers and make transaction banking the key element. We are analysing which products have opportunities for improvement in each market and we are working on them. We are launching the 1|2|3 strategy, as well as other global Group proposals such as *Santander Advance, International Desk, Santander Passport* and *Santander Trade* for the corporate world.

The number of digital customers reflect the boost provided by the multichannel strategy. Of note were Mexico, Spain, UK and Portugal, which grew at rates of around 20% or more.

Digitalisation is key for adapting to the new form of customer relationships. Handling big data will provide us with better knowledge on our customers and enable us to respond to their needs. Moreover, it is an effective way to cut costs, enhance efficiency of processes

and simplify our structure. We are making significant progress in this direction and have been recognised in the sector as pioneers in the launch of various apps and services.

This strategy is reflected in increased customer satisfaction and in balanced growth in business volumes.

Lending increased 6%, with gains in market share, mainly in SMEs and companies. Customer funds rose 7%.

These dynamics spurred revenues and enhanced their quality, as the most commercial and recurring income (+8%) increased its percentage of the total:

+8%
Commercial revenues

- In an environment of very low interest rates in some countries where we operate, **net interest income increased 9%** thanks to commercial and spread management.

- **Fee and commission income rose 4%,** absorbing the negative impact of regulatory requirements. We have improvement plans for the coming years.

In contrast, trading gains fell 16% as they were hit by market volatility. Other income was affected by higher allocations to deposit guarantee and resolution funds, to which the Group assigned close to €800 million in 2015.

The efficiency plans and discipline in costs enabled **growth in costs to be almost flat in real terms and on a like-for-like basis.** We met the efficiency plan goals (€2,000 million) one year ahead of schedule, thereby making austerity in operating costs compatible with investment in regulatory requirements and in digitalisation and the multichannel strategy.

+1%
Costs
(in real terms and on a like-for-like basis)

We are one of the international financial system's most efficient banks, and in order to continue being so, we announced at the Investor Day that we had increased the efficiency plan by €1,000 million to €3,000 million of cost savings for 2018. These will enable us to make investments and improvements while continuing to achieve excellent cost-to-income ratios.

Revenue growth and cost control were accompanied by a **4% decline in loan-loss provisions.** This was made possible by the improvement in credit quality in almost all countries, thanks to an adequate risk management policy. With the launch of the advanced risk management programme (ARM) and strengthening of the risk culture throughout the Group under a common identity (risk pro), we are continuing to advance toward prudent and sustainable risk management.

-4%
Loan-loss provisions

These measures also **pushed down the NPL ratio to 4.36% at the end of 2015,** 83 basis points lower than in 2014, while coverage was six percentage points higher at 73%.

Underlying attributable profit increased 13% to €6,566 million.

+13%
Underlying attributable profit

In addition, in 2015 we recorded the impact of the net of non-recurring positive and negative results of €600 million. Even after absorbing this impact, profit was 3% higher.

The year's results contributed significantly to the generation of capital, where we have a comfortable position consistent with the stability and recurrence of our business model. In fully loaded terms, the ratio was above the 10% target we set at the start of the year, as optimisation of capital is one of our strategic objectives.

And we combined an increase of 3% in the tangible book value per share with a cash dividend distribution of more than €2,200 million compared to €1,143 million in 2014.

In underlying terms, the RoTE remained at 11% and the RoRWA rose to 1.30%.

In short, we progressed in 2015 toward our main goals, demonstrating our strength and the efforts to earn the lasting loyalty of our employees, customers, shareholders and communities.

I will now devote the rest of my message to the performance by the main units in 2015 and the management priorities for 2016.

>€2,200
million in cash dividend

Performance by business areas in 2015[1]

In **Spain,** we focused on forging long-term relations with our customers. For example, launching the 1|2|3 strategy with which we attained 860,000 accounts. We want to be the bank of choice for companies and so we launched the 1|2|3 account for SMEs, and other programmes with differentiated offers. This increased our market share in the segment, and we are leaders in wholesale banking. We also achieved a significant improvement in customer satisfaction surveys. Lastly, we strengthened the corporate governance model, aligning it with the rest of the Group's subsidiaries.

In an environment of tough competition, attributable profit was 18% higher than in 2014 at €977 million, thanks to lower provisions and control of costs.

In the **United Kingdom,** the positive trend continued in individual customers with the 1|2|3 strategy, as well as in companies where we continued to gain market share. We focused on mobile and online channels, launching a range of solutions that was well received by the market. The number of digital customers rose 22%. We also continued to increase the number of loyal customers. In companies, we gained more market share with sustained growth in a market that as a whole is not growing.

860,000
1|2|3 accounts

Underlying attributable profit was 14% higher at £1,430 million thanks to good commercial dynamics, reflected in revenues and in an improvement in credit quality that led to lower provisions.

In **Brazil,** we continued to improve the bank and carry on the commercial transformation, based on a multichannel approach and growth in digital customers, improving and simplifying processes and in operations such as Getnet and Bonsucesso, with which we increased our fee and commission income. All of this is reflected in a more sustainable business model.

+22%
digital customers

Attributable profit was €1,631 million, up 33%, and driven by commercial revenues, enhanced efficiency and provisions growing at a slower pace than lending.

Although it is not possible to isolate oneself completely from the country's current recession, the improvement in the franchise over the last few years, the better quality of the balance sheet and gains in productivity and efficiency enable us to face the current environment with guarantees.

In the **United States,** we continued to strengthen the governance structure. We bolstered the risk management and control models in order to meet the regulator's expectations. We are creating the holding company that will integrate businesses in the country, which impacted costs. We are investing in improving the banking franchise, in order to enhance the customer relationship and increase profitability.

+33%
attributable profit

The priority at Santander Consumer USA is auto finance, as we are discontinuing the business of personal loans.

All these measures are temporarily impacting results and largely explain the drop in profit to $752 million.

1. All changes in this section are calculated in local currency terms.

Santander Consumer Finance is Europe's consumer credit leader, with a unique business model and excellent credit quality. Geographic and product diversification was strengthened by the latest operations, such as the integration of GE Nordics and development of the agreement with Banque PSA Finance, which is meeting the timetable set. Attributable profit rose 18% to €938 million.

In **Mexico,** we completed the expansion plan begun in 2012, which was reflected in a faster pace of business growth and gains in market share. Pre-tax profit grew 8% thanks to the positive trend in revenues, mainly net interest income.

In **Chile,** the focus was on business growth in companies and in target segments of individual customers, as well as in improving the quality of customer attention. The result was better than expected despite the 13% fall in profit, which was due to lower UF inflation than in 2014 and a higher tax charge.

In **Argentina,** profit grew by more than 20%, thanks to progress in the new commercial strategy and the expansion plan, which produced higher net interest income, and fee and commission income.

In **Poland,** we are the best bank in terms of profitability and continued to be the leader in cards, and mobile and online banking. Profit fell 15% because of the drop in interest rates and the introduction of maximum rates for consumer credit and cards.

In **Portugal,** we gained market share, mainly in companies. We are in a process of normalising profits, which rose 63%. In December, Santander Totta was awarded most of assets and liabilities of Banco Internacional do Funchal (Banif), making us the country's second largest private sector bank.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander's strategy

Business areas priorities for 2016

Looking to 2016, the outlook for the global economy points to a slight and uneven recovery. This improvement will come from advanced economies, which will consolidate their moderate recovery, while emerging economies will struggle to stabilise their growth.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander's strategy. Firstly, because of their higher growth potential, in view of their demographic dynamics, and their more vigorous productive capacity; secondly, the considerable gap they still have to fill in terms of banking penetration, based on the improvement of their levels of development, and the substantial growth in their middle classes; and thirdly, the diversification and stability that these countries provide to our balance sheet and income statement from businesses in economies with different cycles, as shown once again in the extreme conditions of the last few years.

In this context, we will continue to focus on improving customer satisfaction in all the Group's units, on advancing in the digital transformation process and on increasing the number of loyal customers. We will also continue to centre selectively on key businesses in order to gain market share in them. At the same time, setting priorities on the basis of the features and the circumstances of each market:

- In **Spain**, we want to have 2 million 1|2|3 accounts, continue to improve customer satisfaction, reduce the cost of credit and gain market share in SMEs.
- The **UK** will continue to focus on customer satisfaction, the digitization process, increase the range of services and grow again at a faster pace than the market in SMEs.
- In **Brazil,** the improvement in our franchise in the last few years, the enhanced quality of the balance sheet and further gains in productivity and efficiency should enable us to face the year with guarantees. We have management tools to take advantage of the high interest rate environment and we will concentrate on selective business growth, operational efficiency and control of risk.

- **Santander Consumer Finance** will complete the agreement with Banque PSA Finance, strengthen consumer business through Pan-European agreements and step up its presence in digital channels.

- In the **United States**, we will continue to bolster the franchise with differentiated strategies for each entity, while integrating the main units in the country into Santander Holding USA.

- In the rest of units, the priorities are the following. In **Mexico,** we will strengthen our position by consolidating key segments. In **Chile,** we will focus on improving customer attention and on transforming our commercial and retail banking, while renewing our branches. We have a very similar strategy in **Argentina,** where we are also expanding the network and advancing in digitization. Lastly, in **Portugal** we will manage Banif's integration and in **Poland** we will continue to be the reference point bank in innovation and leaders in digital channels, with a clear objective of gaining more market share in companies.

Conclusions

We made progress in 2015 in the main strategic objectives and our financial variables performed well.

We will continue in 2016 to advance in the Group's commercial transformation. We have clear goals for the year, as announced at the Investor Day, both for the whole Group and for countries:

- Raise the number of loyal customers, both individuals and companies, and digital customers.

- Increase market share in SMEs and companies.

- Reduce the cost of credit.

- Grow fee and commission income at a faster pace.

- Maintain the year-end cost-to-income ratio stable.

- Boost dividend and earnings per share.

These objectives are part of **our medium-term priorities: grow in business volumes, increase revenues and improve profitability, with capital levels in line with business needs and regulatory requirements.**

None of this would be possible without the help, work and motivation of Santander Group's highly professional and experienced team. We want to continue to strengthen it through our talent management model that enables us to identify employees' potential and develop a career plan that is individually tailored. In addition, we are implementing new ways of working, with more flexible models that are adapted to current life, in order to consolidate our bank as one of the best companies to work for.

I firmly believe that, with the commitment of our employees and the trust of our customers and shareholders, we can attain our goals and continue to help people and businesses prosper in a Simple, Personal and Fair way.

José Antonio Álvarez
Chief executive officer

> We made progress in 2015 in the main strategic objectives and our financial variables performed well. We will continue in 2016 to advance in the Group's commercial transformation

"The purpose of the **changes** made to the Bank's **board of directors and management team** is to have the best **prepared and most qualified people** and to provide the Group with **best corporate governance practices** at an **international level**"

Ms Ana Botín, Group executive chairman of Banco Santander
General shareholders' meeting
27 March 2015

3

Corporate governance report

Balanced and committed board.

- Of 15 directors, 11 are non-executive and 4 are executive.

Equality of shareholders' rights.

- Principle of one share, one vote, one dividend.
- No defensive mechanisms in the Bylaws.
- Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indexes.

- Santander has been included in the FTSE4Good and DJSI indexes since 2003 and 2000, respectively.

Banco Santander complies with the **recommendations** and the **highest standards regarding good governance** that are applicable to listed companies and credit institutions

Ms Ana Botín, Group executive chairman of Banco Santander
General shareholders' meeting
27 March 2015

Executive summary

Changes in the composition of the board

The following changes have led to a more qualified, international, independent and diverse board:

- At its meeting on 25 November 2014, at the proposal of the appointments committee, the board of directors approved the following appointments:
  - Mr Bruce Carnegie-Brown, as vice chairman, independent director and lead director.
  - Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors.

  These independent directors filled the vacancies created by the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos as well as by the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan. The appointments, once cleared by the European Central Bank, took effect on 12 February 2015 in the case of Mr Bruce Carnegie-Brown and Mr Carlos Fernández González, and on 18 February in the case of Ms Sol Daurella Comadrán.
- On 25 November 2014, at the proposal of the appointments committee, the board of directors appointed Mr José Antonio Álvarez Álvarez as a member of the board and chief executive officer, replacing Mr Javier Marín Romano. These appointments, once cleared by the European Central Bank and having complied with the related legal requirements, took effect on 13 and 14 January 2015, respectively.
- At its meeting on 16 January 2015, at the proposal of the appointments committee, the board of directors resolved to appoint Mr Rodrigo Echenique Gordillo, vice chairman of the board, executive director of the Bank.
- At its meeting on 30 June 2015, at the proposal of the appointments committee, the board resolved to appoint by co-option Mr Ignacio Benjumea Cabeza de Vaca as a non-executive director following the resignation of Mr Juan Rodríguez Inciarte as member of the board. The appointment took effect on 21 September, once cleared by the European Central Bank.
- Mr Jaime Pérez Renovales was appointed general secretary and secretary of the board and head of the General Secretariat and Human Resources division effective as of 1 September.
- Lastly, following the resignation of Ms Sheila C. Bair from her position as a director of the Bank, the board, at its meeting held on 22 December, at the proposal of the appointments committee, resolved to appoint by co-option Ms Belén Romana García as an independent director, once cleared by the European Central Bank.

Activities of the board

- The board held 21 meetings during 2015. In addition to the report made by the Group executive chairman at each annual meeting, the chief executive officer submitted management reports on the Group and the vice chairman, Mr Matías Rodríguez Inciarte, reported on the Group's risks. As in previous years, the board held one meeting on the Group's global strategy in 2015.
- The Group's external auditors and heads of internal audit participated, respectively, in 12 and 11 of the 13 meetings held by the audit committee in 2015 and reported to the board on two occasions.

Capital increase

- In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November.
  - In the first capital increase, carried out through an accelerated bookbuilding, 1,213,592,234 new shares were issued, representing 9.64% of the Bank's share capital at year-end 2014.
  - In the last three capital increases, carried out within the framework of the Santander Scrip Dividend programme, 262,578,993, 256,046,919 and 117,859,774 new shares were issued, representing 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014.

  All this entailed a total increase in share capital equal to 14.7% in comparison with share capital at year-end 2014.

New dividend policy

- In 2015 the Bank's dividend policy was redirected, effective from the first dividend paid for this year and for the purpose of once again paying most remuneration in cash, announcing the remuneration for 2015 would be EUR 0.20 —three cash dividends and a scrip dividend, in an approximate amount of five cents per share for each of them—.

  The Bank also announced its intent that the cash payout represent between 30% and 40% of its recurring profit in the coming years, instead of the previous 20%, and that payments to shareholders reflect the growth in its profit.

Bylaw-stipulated emoluments

- Bylaw-stipulated emoluments earned by the board amounted to EUR 5.2 million in 2015, which is 13.6% less than the maximum amount approved at the general shareholders' meeting.

Remuneration of executive directors

- At the general shareholders' meeting on 27 March 2015, shareholders also approved the maximum ratio of variable components of remuneration in relation to fixed components for 2015 for a maximum of 1,300 members of the *identified group*, including executive directors.

  Under no circumstances may this maximum ratio exceed 200%. At this general shareholders' meeting of 27 March 2015, shareholders also resolved to amend article 58 (remuneration of directors) and article 59-2 (transparency of the director remuneration system) of the Bylaws, including a new wording to article 59 (approval of the director remuneration policy) and renumbering former article 59 as article 59-2.

  At the general shareholders' meeting of 27 March 2015, shareholders approved, on a binding basis, the director remuneration policy of Banco Santander, S.A. for 2015 and 2016 and submitted the annual report on director remuneration to the consultative vote of shareholders.

  These amendments to the Bylaws, together with other amendments approved by the shareholders at the general meeting of 27 March 2015, were registered with the Cantabria Commercial Registry on 1 July 2015.

Appointment of new country heads in the US, Spain, Mexico and Brazil

- In March 2015, Mr Scott Powell was appointed the new country head and chief executive officer of Santander Holdings USA (SHUSA), the head of all Santander business in the United States. In his career over the last few years, Mr Powell has held positions of responsibility at J.P. Morgan Chase and Citigroup Inc., and until such date was the executive chairman of National Flood Services, an insurance company. He has broad experience in commercial banking, consumer finance and risks.

- On 30 June 2015, the board of directors of Banco Santander resolved to appoint Mr Rami Aboukhair Hurtado, the Bank's senior executive vice president with vast experience in retail banking in Spain and the UK, as the new country head of Santander Spain.

- On 24 August 2015, Mr Marcos Martínez Gavica and Mr Héctor Blas Grisi Checa were appointed as non-executive chairman and chief executive officer of Grupo Financiero Santander México. Both appointments took effect on 1 January 2016 and 1 December 2015, respectively. Mr Grisi joined the Bank as country head in Mexico following a long career in this country's financial system.

- Lastly, in September 2015 Mr Sérgio Rial was appointed country head of the Group in Brazil, an appointment which took effect as of 1 January 2016. Mr Rial joined the Group in March 2015 as chairman of the board of directors of Santander Brazil and since then has collaborated with Mr Jesús María Zabalza Lotina in carrying out this bank's executive duties. He has vast international experience and has had a successful career in banking as well as in other businesses, in addition to having been a member of the board of important Brazilian and other international companies.

Financial information that the Bank publicly discloses periodically

- The board has approved or prepared quarterly, semi-annual financial information, the annual accounts and the management report for 2015, along with other documents such as the annual report, the sustainability report, information of prudential relevance (Pillar III), the annual corporate governance report, the reports of the board committees and the annual report on director compensation.

1. Introduction

In this new phase, we have reinforced our corporate governance, with particular emphasis on the role and operation of the board of directors and its role in risk management, in accordance with the highest international standards in this regard. For Santander, robust governance is a key element in ensuring a sustainable long-term business model.

We have a board of directors that is highly qualified; the experience, knowledge and dedication of the directors and diversity of the board form part of the essential elements to reach the goal of making Santander the best commercial bank in the world.

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

During the last year and a half, the presence of non-executive directors —most of which are independent— has increased, which ensures adequate oversight of the executive management of the business and decision making and is also conducive to an intense and high-quality debate of all matters.

▶ Santander continues to bring its governance system into line with the highest international standards, both at corporate and subsidiary level, through the implementation of the new internal governance model approved by the Group.

2. Ownership structure

Number of shares and significant interests

Number of shares

In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November, with the issuance of 1,213,592,234, 262,578,993, 256,046,919 and 117,859,774 new shares, representing 9.64%, 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014.

The first increase was carried out through an accelerated bookbuilding and the last three within the framework of the Santander Scrip Dividend programme. All this entailed a total increase in share capital equal to 14.70% in comparison with share capital at year-end 2014.

	Number of shares	% of share capital*
9 January	1,213,592,234	9.64
29 January	262,578,993	2.09
29 April	256,046,919	2.03
4 November	117,859,774	0.94
Total	**1,850,077,920**	**14.70**

* Of share capital at year-end 2014.

The Bank's share capital at 31 December 2015 was represented by 14,434,492,579 shares, whose value according to the listing price on the Electronic Spanish Stock Market Interconnection System at such date was EUR 65,792.4 million.

All shares carry the same voting and dividend rights.

Significant interests

No shareholder held significant interests (of more than 3% of the share capital[1] or interests that would permit a significant influence over the Bank) at 31 December 2015.

The interests held by State Street Bank and Trust Company (12.62%); The Bank of New York Mellon Corporation (6.05%); Chase Nominees Limited (4.84%); EC Nominees Limited (3.99%); Societe Generale S.A. (3.81%); Clearstream Banking S.A. (3.50%); and Guaranty Nominees Limited (3.23%), which were the only ones in excess of 3%, were held by them on behalf of their customers. The Bank is not aware of any of them holding individual interests of 3% or more of its share capital.

Bearing in mind the current number of members of the board of directors (15), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) on proportional representation, is 6.67%.

Shareholders' agreements and other significant agreements

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

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

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

On 3 October 2014, Banco Santander notified the CNMV, through a material fact, of a new update to the signatories and the distribution of shares included in the syndication, as well as the change in the chairmanship of the syndicate, which is vested in Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, the current chairman of the board of trustees of the Botín Foundation, supplementing such information through a material fact notification on 6 February 2015.

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

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

1. Limit set by Royal Decree 1362/2007, of 19 October, for defining the concept of significant interest.

Shares included in the syndication

At 31 December 2015, the syndication included a total of 72,933,193 shares of the Bank (0.505% of its share capital), broken down as follows:

Signatories to the shareholders' agreement	Number of sharess
Ms Ana Patricia Botín-Sanz de Sautuola O'Shea[1]	8,294,091
Mr Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola O'Shea[3]	16,290,053
Ms Paloma Botín-Sanz de Sautuola O'Shea[4]	7,835,293
Ms Carmen Botín-Sanz de Sautuola O'Shea	8,636,449
PUENTEPUMAR, S.L.	-
LATIMER INVERSIONES, S.L.	-
CRONJE, S.L., Unipersonal[5]	9,428,319
NUEVA AZIL, S.L.[6]	5,575,279
TOTAL	**72,933,193**

1. 8,074,263 shares indirectly through Bafimar, S.L.
2. 7,800,332 shares indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares indirectly through Inversiones Zulú, S.L. and 6,794,391 shares indirectly through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares indirectly through Bright Sky 2012, S.L.
5. Controlled by Ms Ana Botín-Sanz de Sautuola O'Shea.
6. Controlled by Ms Carolina Botín-Sanz de Sautuola O'Shea.

In all other respects the aforementioned syndication agreement remains unchanged.

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

Treasury shares

Treasury share policy

The sale and purchase of own shares, by the company or by companies controlled thereby, must conform to the provisions of applicable law and the resolutions adopted at the general shareholders' meeting in this regard.

The Bank, by resolution of the board of directors on 23 October 2014, approved the current treasury share policy[2] taking into account the criteria recommended by the CNMV.

Treasury share transactions have the following objectives:

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

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

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

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

Key data

At 31 December 2015, the Bank held 40,291,209 treasury shares, representing 0.279% of its share capital at that date (at year-end 2014, there were 1,465,371 treasury shares, representing 0.012% of the Bank's share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2015 and 2014.

Monthly average percentages of treasury shares[1]
% of the Bank's social capital[2]

	2015	2014
January	0.200	0.154
February	0.218	0.232
March	0.233	0.241
April	0.246	0.136
May	0.181	0.260
June	0.169	0.297
July	0.132	0.284
August	0.187	0.414
September	0.244	0.337
October	0.336	0.156
November	0.336	0.258
December	0.335	0.141

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

The transactions with treasury shares performed in the Group's interest by the consolidated companies in 2015 entailed the acquisition of 537,314,450 shares, equivalent to a par value of EUR 268.7 million (cash amount of EUR 3,224.9 million) and the sale of 498,448,612 shares, with a par value of EUR 249.2 million (cash amount of EUR 3,048.3 million).

2. The treasury share policy is published on the Group's corporate website (www.santander.com).

The average purchase price of the Bank's shares in 2015 was EUR 6.00 per share, and the average sale price of the Bank's shares was EUR 6.12 per share.

The net gain in 2015, net of tax, on transactions involving shares issued by the Bank, amounting to EUR 16,442,887, was recognised in the Group's equity under *Shareholders' equity-Reserves*.

Authorisation

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

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

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

The capital authorised by the shareholders at the annual general meeting held on 27 March 2015, under item Eight of the agenda, amounted to EUR 3,515,146,471.50. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The shareholders gave the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Spanish Corporate Enterprises Act, although this power is limited to capital increases carried out under this authorisation up to EUR 1,406,058,588.50.

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

In addition, the shareholders at the annual general meeting held on 27 March 2015 approved the following resolutions in connection with the content of this section:

1. Two increases in share capital with a charge to reserves for the maximum amounts of EUR 2,300 million and EUR 750 million at market value, respectively, within the shareholder compensation scheme (Santander Scrip Dividend) whereby the Bank has offered shareholders the possibility of receiving shares under a scrip issue for an amount equal to the dividends on the dates on which the final dividend for 2014 and the second interim dividend for 2015 are customarily paid.

The two capital increases were carried out on 29 April and 4 November 2015. A number of shares with a par value of EUR 0.50 each were issued in each case, equal to EUR 128,023,459.50 and EUR 58,929,887, respectively, which corresponds to a total of 2.590% of the Bank's share capital at year-end 2015.

2. Delegation to the board of directors, in accordance with the general rules on issuing debentures and pursuant to the provisions of article 319 of the Commercial Registry Regulations (*Reglamento del Registro Mercantil*), of the power to issue, on one or more occasions, debentures, bonds, preferred shares and other fixed-income securities or debt instruments of a similar nature in any of the forms allowed by law and convertible into and/or exchangeable for shares of the Bank (resolution Ten A). Such delegation also includes warrants or similar securities that may directly or indirectly carry the right to subscribe for or acquire shares of the Bank, whether newly-issued or already outstanding, payable by physical delivery or through set-off. The issuance or issuances of securities carried out pursuant to this delegation come to the aggregate maximum amount of EUR 10,000 million or the equivalent amount in another currency, and the Bank's directors have until 27 March 2020 to implement this resolution.

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

3. Delegation to the board of directors, pursuant to the provisions of article 297.1.a) of the Spanish Corporate Enterprises Act, of the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital, approved by the shareholders, in the amount of EUR 500 million. If the board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

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

3. Banco Santander's board of directors[3]

Ms Ana Botín-Sanz de Sautuola y O'Shea

GROUP EXECUTIVE CHAIRMAN
Executive director

Born in 1960 in Santander, Spain.

Joined the board in 1989.

Graduate in Economics.

Joined the Bank after a period at JP Morgan (1980-1988). She was appointed senior executive vice president of Banco Santander, S.A. in 1992, and subsequently became executive chairman of Banesto from 2002 to 2010 and chief executive officer of Santander UK from 2010 to 2014.

Other significant positions: She is a non-executive director of The Coca-Cola Company. She is also a member of the board of Deusto Business School and of the Financial Services Trade and Investment Board (FSTIB), created by the British Ministry of Economy to promote the financial services industry of the United Kingdom. She is also Dame Commander of the British Empire, Business Ambassador of the government of the United Kingdom and member of the Trilateral Commission and of the advisory board of Saïd Business School (University of Oxford).

Committees of the board of which she is a member
Executive (chairman), international (chairman) and innovation and technology (chairman).

Mr José Antonio Álvarez Álvarez

CHIEF EXECUTIVE OFFICER
Executive director

Born in 1960 in León, Spain.

Joined the board in 2015.

Graduate in Economics and Business Administration. MBA from the University of Chicago.

Joined the Bank in 2002 and was appointed senior executive vice president of the financial management and investor relations division in 2004 (Group chief financial officer).

Other significant positions: He is a member of the board of Banco Santander (Brasil), S.A. and SAM Investments Holdings Limited. He has also served as a director of Santander Consumer Finance, S.A. and Santander Holdings USA, Inc. and a member of the supervisory boards of Santander Consumer AG, Santander Consumer Holding GMBH and Bank of Zachodni WBK, S.A., as well as director of Bolsas y Mercados Españoles (BME).

Committees of the board of which he is a member
Executive, international and innovation and technology.

Mr Bruce Carnegie-Brown

VICE CHAIRMAN
Non-executive director (independent) and lead director

Born in 1959 in Freetown, Sierra Leone.

Joined the board in 2015.

MA degree in English Language and Literature from the University of Oxford.

Other significant positions: He was the non-executive chairman of Aon UK Ltd, founder and managing partner of the quoted private equity division of 3i Group Plc., chairman and chief executive officer of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group Plc (2008-2014) and Catlin Group Ltd (2010-2014). He is currently the non-executive chairman of Moneysupermarket.com Group Plc and a non-executive director of Santander UK Plc.

Committees of the board of which he is a member
Executive, appointments (chairman), remuneration (chairman), risk supervision, regulation and compliance (chairman) and innovation and technology.

Mr Rodrigo Echenique Gordillo

VICE CHAIRMAN
Executive director

Born in 1946 in Madrid, Spain.

Joined the board in 1988.

Graduate in Law and Government Attorney.

Other significant positions: He was the former chief executive officer of Banco Santander, S.A. (1988-1994). He has served on the board of directors of several industrial and financial companies such as Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A. He was the chairman of the advisory board of Accenture, S.A. He also held the position of non-executive chairman of NH Hotels Group, S.A., Vocento, S.A. and Vallehermoso, S.A. He is currently a non-executive director of Inditex, S.A. and the chairman of the board of directors of Metrovacesa, S.A.

Committees of the board of which he is a member
Executive, international and innovation and technology.

3. Unless otherwise specified, the main activity of the members of the board is that carried out at the Bank in their capacity as directors, whether executive or non-executive.

Mr Matías Rodríguez Inciarte

VICE CHAIRMAN
Executive director

Born in 1948 in Oviedo, Spain.

Joined the board in 1988.

Graduate in Economics, and Government Economist. He also carried out business administrations studies at the Massachusetts Institute of Technology (MIT).

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

Committees of the board of which he is a member
Executive and innovation and technology.

Mr Guillermo de la Dehesa Romero

VICE CHAIRMAN
Non-executive director

Born in 1941 in Madrid, Spain.

Joined the board in 2002.

Government Economist and head of office of the Bank of Spain (on leave of absence).

He is an international advisor to Goldman Sachs International.

Other significant positions: He was secretary of state for Economy, secretary general for Trade and chief executive officer of Banco Pastor, S.A. He is currently a non-executive vice chairman of Amadeus IT Holding, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) based in London, a member of the Group of Thirty based in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Grupo Corporativo, S.L. and of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Committees of the board of which he is a member
Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Mr Ignacio Benjumea Cabeza de Vaca

Non-executive director

Born in 1952 in Madrid, Spain.

Joined the board in 2015.

Graduate in Law at the Deusto University, ICADE E-3, and Government Attorney.

He is vice chairman of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

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

Committees of the board of which he is a member
Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive director (proprietary)

Born in 1973 in Santander, Spain

Joined the board in 2004.

Graduate in Law.

He is chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.U.

Other significant positions: In addition to his professional activity in the financial sector, he collaborates with several non-profit organisations. Since 2014 he has been chairman of the Botín Foundation and trustee of the Princess of Girona Foundation and of the Prehistoric Research Institute of Cantabria.

Ms Sol Daurella Comadrán

Non-executive director (independent)

Born in 1966 in Barcelona, Spain.

Joined the board in 2015.

Graduate in Business and MBA in Business Administration.

She is executive chairman of Olive Partners, S.A. and holds several positions in companies of the Cobega Group.

Other significant positions: She has served as a member of the governing board of the Círculo de Economía and an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She is also honorary consul-general for Iceland in Catalonia.

Committees of the board of which she is a member
Appointments and remuneration.

Mr Carlos Fernández González

Non-executive director (independent)

Born in 1966 in Mexico City, Mexico.

Joined the board in 2015.

An industrial engineer, he has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

He is the chairman of the board of directors of Finaccess, S.A.P.I.

Other significant positions: He is currently a member of the advisory board of the Modelo Group.

Committees of the board of which he is a member
Audit, appointments and risk supervision, regulation and compliance.

Ms Esther Giménez-Salinas i Colomer

Non-executive director (independent)

Born in 1949 in Barcelona, Spain.

Joined the board in 2012.

Doctor in Law.

She is Professor Emeritus of Ramon Llull University, director of Unibasq and Aqu (agencies for quality of the Basque and Catalan university system) and of Gawa Capital Partners, S.L., and a member of the advisory board of Endesa-Catalunya.

Other significant positions: She has been rector of Ramon Llull University, a member of the General Council of the Judiciary, a member of the standing committee of the Conference of Rectors of Spanish Universities and executive vice president of the Centre for Legal Studies of the Department of Justice of the Catalonia Government.

Committees of the board of which she is a member
International and innovation and technology.

Mr Ángel Jado Becerro de Bengoa

Non-executive director (independent)

Born in 1945 in Santander, Spain.

Joined the board in 2010.

Graduate in Law and degree in Business Administration.

Other significant positions: He was director of Banco Santander from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. He currently holds various positions in investment trusts.

Committees of the board of which he is a member
Audit, appointments, remuneration and risk supervision, regulation and compliance.

▶ Board membership underwent an important renewal, bringing in new independent and non-executive directors, thereby shoring up diversity on the governing body. A rigorous selection process was carried out with the assistance of an external firm, which selected a plurality of candidates, based on an assessment of the directors' capacities (skills matrix) and the identification of the most suitable profiles for consolidating the Group's strategic objectives. This process, headed by the appointments committee, included a thorough succession procedure for posts on the board, taking the shape of the corresponding succession plans.

Ms Belén Romana García

Non-executive director (independent)

Born in 1965 in Madrid, Spain.

Joined the board in 2015.

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

She is a non-executive director of Aviva Plc, London.

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

Committees of the board of which she is a member
Audit.

Ms Isabel Tocino Biscarolasaga

Non-executive director (independent)

Born in 1949 in Santander, Spain.

Joined the board in 2007.

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

She is a professor at Universidad Complutense de Madrid.

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

Committees of the board of which she is a member
Executive, audit, remuneration and risk supervision, regulation and compliance.

Mr Juan Miguel Villar Mir

Non-executive director (independent)

Born in 1931 in Madrid, Spain.

Joined the board in 2013.

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

He is the chairman of the OHL Group and of the Villar Mir Group, and represents these entities as vice chairman and director of Abertis Infraestructuras, S.A. and Inmobiliaria Colonial, S.A., respectively.

Other significant positions: He was Minister of Finance and vice president of the Government for Economic Affairs from 1975 to 1976, and chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, the COTEC Foundation and of the National College of Civil Engineering. He is also currently Professor of Business Organisation at Universidad Politécnica de Madrid, a full numerary member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumerary of the Royal Academy of Economics and Finance.

Committees of the board of which he is a member
Audit (chairman) and risk supervision, regulation and compliance.

Mr Jaime Pérez Renovales

General secretary and secretary of the board

Born in 1968 in Valladolid, Spain.

Joined the Group in 2003.

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

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

He was director of Patrimonio Nacional, Sociedad Estatal de las Participaciones Industriales, Holding Olímpico, S.A., Autoestradas de Galicia, S.A. and Sociedad Estatal para la Introducción del Euro, S.A., among others . He is a member of the board of trustees and the executive commitee of Fundación Banco Santander.

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

Re-election of directors at the 2016 annual general shareholders' meeting

Pursuant to article 55 of the Bylaws[4] and article 22 of the Rules and Regulations of the Board[4], directors are appointed to three-year terms, such that one-third of the board is renewed each year.

The following directors will be proposed for re-election at the 2016 annual general shareholders' meeting, scheduled for 17 or 18 March on first and second call, respectively, and following the order determined by seniority for annual renewal and for renewal of one-third of the board, Mr Javier Botín-Sanz de Sautuola y O'Shea, Mr Bruce Carnegie-Brown, Mr Ángel Jado Becerro de Bengoa, Ms Sol Daurella Comadrán and Ms Isabel Tocino Biscarolasaga, the first as a proprietary director and the rest as independent directors.

The appointments of Mr Ignacio Benjumea Cabeza de Vaca, as non-executive director (neither proprietary nor independent), and Ms Belén Romana García, as an independent director, will be submitted for ratification by the shareholders at the general meeting.

Their professional profiles, together with the description of their activities, appear on the preceding pages, on the Bank's corporte website (www.santander.com) and in the proposed resolutions of the general shareholders' meeting of 2016.

Each of the re-elections and ratifications will be submitted separately to a vote of the shareholders at the general meeting (article 21.2 of the Rules and Regulations for the General Shareholders' Meeting), a practice in place since 2005, whereby all the current directors were appointed.

Powers and duties

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

The Rules and Regulations of the Board (article 3) reserve thereto the power, which cannot be delegated, to approve general policies and strategies and, in particular, the following: strategic or business plans;

4. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group's corporate website (www.santander.com).

Composition and structure of the board of directors[1]

Board of directors		Executive	Non-executive	Committees: 1. Executive committee	2. Audit committee	3. Appointments committee	4. Remuneration committee	5. Risk supervision, regulation and compliance committee	6. International committee	7. Innovation and technology committee
Group executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	■		C					C	C
Chief executive officer	Mr José Antonio Àlvarez Àlvarez	■		■					■	■
Vice chairmen	Mr Bruce Carnegie-Brown		I	■		C	C	C		■
	Mr Rodrigo Echenique Gordillo	■		■					■	■
	Mr Matías Rodríguez Inciarte	■		■						■
	Mr Guillermo de la Dehesa Romero		N	■		■	■	■	■	■
Members	Mr Ignacio Benjumea Cabeza de Vaca[6]		N	■		■	■	■	■	■
	Mr Javier Botín-Sanz de Sautuola y O'Shea		P							
	Ms Sol Daurella Comadrán		I			■	■			
	Mr Carlos Fernández González		I		■	■		■		
	Ms Esther Giménez-Salinas i Colomer		I						■	■
	Mr Ángel Jado Becerro de Bengoa		I		■	■	■	■		
	Ms Belén Romana García[6]		I		■					
	Ms Isabel Tocino Biscarolasaga		I	■	■		■	■		
	Mr Juan Miguel Villar Mir		I		C			■		
	Total									
General secretary and secretary of the board	Mr Jaime Pérez Renovales			■	■	■	■	■	■	■

1. Data at 31 December 2015.
2. However, and pursuant to the provisions of article 55 of the Bylaws, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.
3. Syndicated shares. See page 80.
4. Effective 13 January 2015.

management objectives and the annual budget; fiscal strategy and capital and liquidity strategy; investment, financing, dividend, treasury share, risk management and control (including fiscal), corporate governance, corporate social responsibility and regulatory compliance policies; policies regarding the internal governance of the Bank and its Group; remuneration policies for employees of the Bank and its Group; and policies for reporting to and notifying shareholders, markets and public opinion.

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

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

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

Shareholding								
Direct	Indirect	Shares represented	**Total**	**% of share capital**	Date of first appointment	Date of last appointment	End date[2]	Date of last proposal of the appointments committee
219,828	17,502,582	-	**17,722,410[3]**	**0.123%**	04/02/1989	28/03/2014	First six months of 2017	17/02/2014
438,930	1,287	-	**440,217**	**0.003%**	25/11/2014[4]	27/03/2015	First six months of 2018	20/02/2015
10,099	-	-	**10,099**	**0.000%**	25/11/2014[5]	27/03/2015	First six months of 2018	11/02/2016
665,153	14,023	-	**679,176**	**0.005%**	07/10/1988	28/03/2014	First six months of 2017	13/02/2014
1,327,697	306,729	205,751	**1,840,177**	**0.013%**	07/10/1988	27/03/2015	First six months of 2018	20/02/2015
143	-	-	**143**	**0.000%**	24/06/2002	27/03/2015	First six months of 2018	20/02/2015
2,926,372	-	-	**2,926,372**	**0.020%**	30/06/2015[7]	30/06/2015	First six months of 2019	11/02/2016
4,793,481	11,496,572	116,250,650	**132,540,703**	**0.918%**	25/07/2004	22/03/2013	First six months of 2016	11/02/2016
949	412,521	-	**413,470**	**0.003%**	25/11/2014[8]	27/03/2015	First six months of 2018	11/02/2016
15,839,714	-	-	**15,839,714**	**0.110%**	25/11/2014[5]	27/03/2015	First six months of 2018	20/02/2015
5,344	-	-	**5,344**	**0.000%**	30/03/2012	28/03/2014	First six months of 2017	17/02/2014
2,200,000	5,100,000	-	**7,300,000**	**0.051%**	11/06/2010	22/03/2013	First six months of 2016	11/02/2016
149	-	-	**149**	**0.000%**	22/12/2015	22/12/2015	First six months of 2019	11/02/2016
207,511	-	-	**207,511**	**0.001%**	26/03/2007	22/03/2013	First six months of 2016	11/02/2016
1,186	-	-	**1,186**	**0.000%**	07/05/2013	27/03/2015	First six months of 2018	20/02/2015
28,636,556	**34,833,714**	**116,456,401**	**179,926,671**	**1.247%**				

5. Effective 12 February 2015.
6. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call.
7. Effective 21 September 2015.
8. Effective 18 February 2015.

C Chairman of the committee
P Proprietary
I Independent
N Non-executive (neither proprietary nor independent)

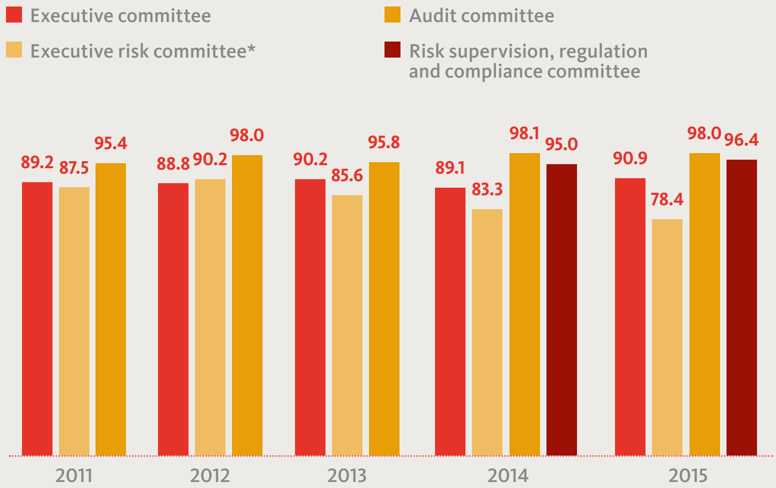
Corporate governance of the risk function

- In line with the Group's goal of strengthening its corporate governance, governance of the risk function was updated and strengthened in 2015 by incorporating best international practices, establishing committees for making decisions and managing risk, with the involvement of the business functions, and independent committees responsible for controlling risk.
- The Bank's risk supervision, regulation and compliance committee was set up in June 2014 with general powers to support and advise the board of directors on risk supervision and control, on determining the Group's risk policies, on relations with supervisory authorities, on regulation and compliance, corporate social responsibility and corporate governance. This committee held 13 meetings in 2015, each of which lasted approximately four hours.
- With regard to the risk function, Mr José María Nus Badía is the Group chief risk officer and reports to Mr Matías Rodríguez Inciarte, the Bank´s executive vice chairman of Banco Santander and chairman of the non-statutory executive risk committee.
- The executive risk committee held 81 meetings in 2015, each of which lasted approximately three hours. The committee was disbanded by resolution of the board on 1 December 2015.
- The executive committee held 59 meetings in 2015 and devoted a very significant amount of its time to discussions on risks.
- The board of directors approved a new risk governance model at its meeting on 29 September 2015. This model entered into force on 1 November and is based on the following principles:
  - Separate decision-making functions from control functions.
  - Strengthen the responsibility of the first line of defence in decision-making.
  - Ensure that all decisions concerning risk follow a formal approval process.
  - Ensure there is an overall vision of all types of risks, including those outside the scope of control of the risk function.
  - Strengthen the role of risk control committees, affording them additional powers.
  - Simplify the committee structure.
- In this context, two internal risk committees, not mandated by the bylaws, were created: the executive risk committee, as the body in charge of global risk management, which replaces the board's delegate risk committee, and the risk control committee, as the body in charge of global risk supervision and management. This organisation model is in line with best practices regarding risk governance.

Banco Santander follows a risk management and control model based on three lines of defence: the first, carried out by the business and support functions; the second, performed by the Risk and Compliance functions; and the third, which is the responsibility of Internal Audit.

Average rate of attendance at meetings of the committees of the board

%

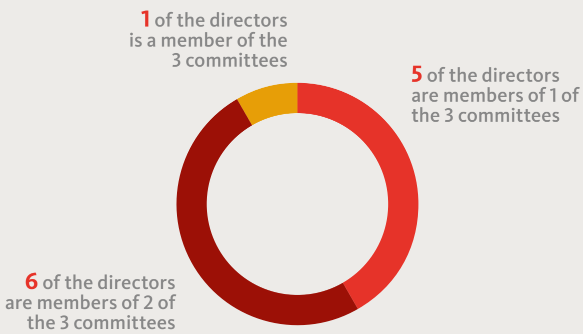


* Disbanded by resolution of the board on 1 December 2015, as a result of the new risk governance model. The executive committee devoted a very significant amount of its time to discussions on risks.

Number of meetings of the executive, executive risk, audit, and risk supervision, regulation and compliance committees

Committees	2011	2012	2013	2014	2015
Executive	59	59	58	65	59
Executive risk	99	98	97	96	81
Audit	12	11	12	13	13
Risk supervision, regulation and compliance	-	-	-	5	13
Total meetings	**170**	**168**	**167**	**179**	**166**

Cross-participation on executive, audit, and risk supervision, regulation and compliance committees



Commitment of the board[5]

Number of shares of the board[6]

179,926,671

1.247% of the share capital

Listed price

EUR 820 million

Share price

EUR 4.558

5. Data at 31 December 2015.

6. Since year-end 2015 various members of the board have made significant investments in shares of Banco Santander, thereby increasing their individual stakes in the Bank's capital.

Size and composition of the board

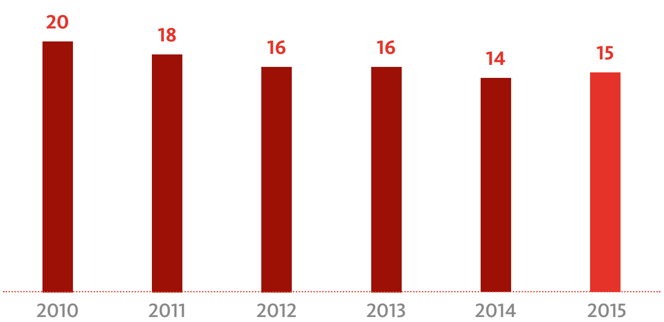
Since the end of 2010, the size of the board has been reduced by 25%, from 20 to 15 members.

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

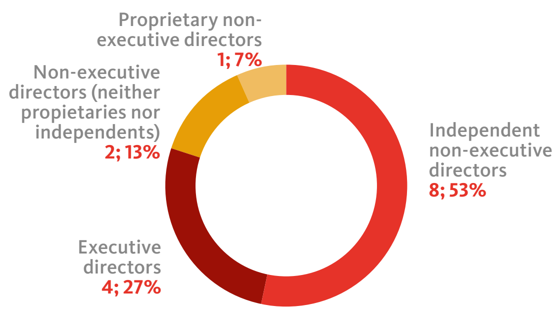
Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments committee verified the status of each director at its meeting on 11 February 2016. Its proposal was submitted to the board and approved thereby at its meeting on 12 February 2016.

Of the 15 members currently sitting on the board, 4 are executive and 11 are non-executive. Of the latter, eight are independent, one is proprietary and the other two, in the opinion of the board, are neither proprietaries nor independents.

Size of the board



Current composition of the board



Executive directors

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

Proprietary non-executive directors

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

Since 2002 the appointments committee and the board of directors have made holding or representing at least 1% of the Bank's share capital 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 consideration the circumstances in question and following a report from the appointments committee, appointed Mr Javier Botín-Sanz de Sautuola y O'Shea as proprietary non-executive director to represent the following shareholders: Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño, S.L.U., Bright Sky 2012, S.L., Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own shareholding.

The voting rights of the aforementioned shareholders corresponded to 1.041% of the Bank's share capital at year-end 2015.

Independent non-executive directors

The Rules and Regulations of the Board (article 6.2.c)) include the legal definition of independent director established in article 529-12.4 of the Spanish Corporate Enterprises Act.

Taking into account the circumstances in each case and following a report from the appointments committee, the board considers the following eight directors to be independent non-executive directors: Mr Bruce Carnegie-Brown (lead independent director), Ms Sol Daurella Comadrán, Mr Carlos Fernández González, Ms Esther Giménez-Salinas i Colomer, Mr Ángel Jado Becerro de Bengoa, Ms Belén Romana García, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.

Given the current number of members of the board (15), independent non-executive directors account for 53% of the board.

Such percentage significantly exceeds the minimum of one-third established by article 6.1 of the Rules and Regulations of the Board and reflects the board's goal for the board to be made up predominantly of non-executive directors, which in turn are predominantly independent, in compliance with best practices in corporate governance.

Other non-executive directors

Mr Guillermo de la Dehesa Romero and Mr Ignacio Benjumea Cabeza de Vaca are non-executives directors that are neither proprietary nor independent. Neither can be classified as a proprietary director as they do not hold shareholdings equal to or greater than that which qualifies as significant under the law and have not been designated as such on account of their status as shareholders. Likewise, neither can be considered an independent director since, in the case of Mr de la Dehesa, he has held the position of director for more than 12 years and, in the case of Mr Benjumea, since 3 years have not yet elapsed since his resignation as a member of the Group's senior management.

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

Diversity on the board

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

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

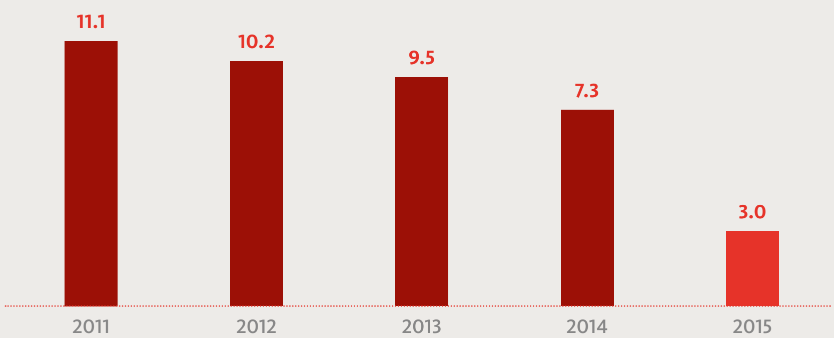
The appointments committee approved raising the target percentage of women serving on the board from the previous minimum of 25% to 30%, in line with good corporate governance recommendations.

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

The percentage of women on the Banco Santander board (33.3%) exceeds the target established by the appointments committee and is clearly higher than the average for large European listed companies. According to a study carried out by the European Commission with data from April 2015 the average percentage of female board members of large listed companies was 21.2% for all 28 countries in the European Union and 16.8% for Spain.

Years of service of independent directors

At the date of this document, the average length of service for independent non-executive directors in the position of board member is three years.



Roles and responsibilities

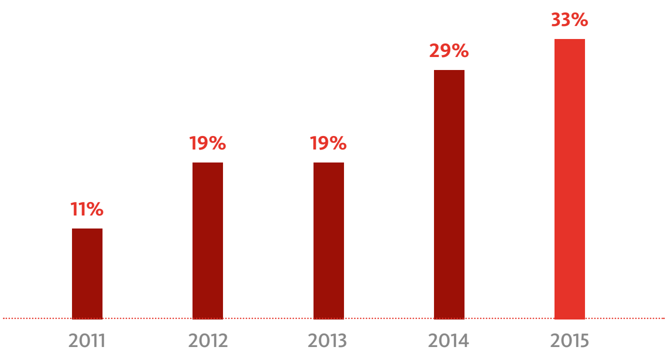
Group executive chairman

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

Chief executive officer

- The chief executive officer is entrusted with the day-to-day management of the business and the highest executive functions (article 49.1 of the Bylaws and article 10.1 of the Rules and Regulations of the Board).
- The board of directors has delegated to the chief executive officer all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- The corporate business and business support divisions, the corporate support functions directly related to ordinary business management and the corporate financial control function report to the chief executive officer.
- The country heads, who are the Group's first representatives in the countries in which the Group operates, and the chief executive officers of the entities headed by the Group in the respective countries report to the Bank's chief executive officer.

Percentage of women on the board



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

	Número de vocales	Número de consejeras	% de consejeras
Board	15	5	33.3%
Executive committee	8	2	25.0%
Audit committee	5	2	40.0%
Appointments committee	6	1	16.7%
Remuneration committee	6	2	33.3%
Risk supervision, regulation and compliance committee	7	1	14.3%
International committee	6	2	33.3%
Innovation and technology committee	8	2	25.0%

Group executive chairman and chief executive officer

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

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.
- The lead independent director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.
- The audit committee is chaired by an independent director.
- The powers delegated to the Group executive chairman and the chief executive officer exclude those that are exclusively reserved for the board itself.
- The Group executive chairman may not simultaneously hold the position of chief executive officer of the Bank.
- The corporate risk, compliance and internal audit functions report to a committee or a member of the board of directors and have direct access thereto.

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

Succession planning for the main directors is a key element of the Bank's good governance, assuring an orderly leadership transition at all times. The process is regulated by article 24 of the Rules and Regulations of the Board, which also provides for the succession plans for the Group's other directors and senior management. The board of directors prepared skills matrix that it must have, together with a succession plan aligned with these skills that, when vacancies arise, it must reinforce. Also, at its meeting of 6 July 2015, it approved the succession planning policy for the Group's senior executives. Plans relating to 95% of these employees were completed.

Rules for interim replacement of the Group executive chairman

Article 44.2 of the Bylaws and article 9-2 of the Rules and Regulations of the Board set out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the Group executive chairman of the board of directors in the absence of the vice chairmen, in the expectation that in such cases she will be substituted by the vice chairman or vice chairmen, using the criterion of the time that they have been on the board. However, if one of the vice chairmen is the lead director, he will be the first in the order of replacement. If there are no vice chairmen, the remaining directors will replace the Group executive chairman in the order established by the board, whereby the lead director should be the first in this order if such director does not hold the position of vice chairman.

Lead director

By resolution of the general shareholders' meeting of 28 March 2014, the figure of lead director, already established in the Rules and Regulations of the Board, has been included in the Bylaws, the responsibilities thereof being defined in article 49-2. Pursuant to that established above and article 12-2 of the Rules and Regulations of the Board, the lead director will be especially empowered to:
(i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board that has already been called; (ii) coordinate and organise meetings of the non-executive directors and voice their concerns; (iii) direct the regular assessment of the chairman of the board of directors and coordinate the succession plan; (iv) contact investors and shareholders to obtain their points of view for the purpose of gathering information on their concerns, in particular, with regard to the Bank's corporate governance; and (v) replace the chairman in the event of absence under the terms envisaged in the Rules and Regulations of the Board.

At its meeting on 25 November 2014, the board of directors appointed Mr Bruce Carnegie-Brown as vice chairman and lead director, replacing Mr Fernando de Asúa Álvarez. This appointment as director was ratified by resolution of the shareholders at the general shareholders' meeting on 27 March 2015.

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

Comparison of number of meetings held*

In a study carried out on the dedication of the directors, the firm Spencer Stuart concluded that the average time dedicated by each of the Bank's director to the tasks of the board and its committees was 379.9 hours, against an average of 95.1 hours for the directors of the main banks in the UK (Lloyds, Barclays, Standard Chartered and HSBC), 113.5 hours for those in the US and Canada (Bank of America, Goldman Sachs, JP Morgan Chase, Citigroup, Morgan Stanley, Wells Fargo and Royal Bank of Canada), and 132.2 hours for a range of international banks (Société Générale, BNP Paribas, BBVA, Credit Suisse, Deutsche Bank, UBS, UniCredit, Intesa SanPaolo and Nordea).

	Santander	US and Canada average	UK average	Europe and other countries average
Board	21	12.9	9.8	14.9
Executive committee	59	1	-	20.0
Executive risk committee**	81	-	-	45.0
Audit committee	13	12.4	8.4	13.8
Appointments committee	12	7.0	4.0	5.9
Remuneration committee	10	8.3	8.6	7.8
Risk supervision, regulation and compliance committee	13	9.9	6.9	7.6

* The data for other banks refers to December 2014, the last period for which comparative information is available.

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

Secretary of the board

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

At the annual general shareholders' meeting scheduled for 17 or 18 March on first and second call, respectively, a proposal was put forward to amend article 45.2 of the Bylaws for the purpose of bringing its content into line with recommendation 35 of the new code of good governance for listed companies approved by resolution of the Spanish Securities Market Commission on 18 February 2015, which replaces recommendation 17 of the unified good governance code for listed companies approved by resolution of the Spanish Securities Market Commission on 22 May 2006, with reference to the fact that the secretary of the board will strive to ensure that the board of directors' actions and decisions take into account the recommendations on good governance applicable to the company, in line with that already included in article 11 of the Rules and Regulations of the Board.

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

Mr Jaime Pérez Renovales was appointed general secretary and secretary of the board and head of the Office of the General Secretary and the Human Resources division effective as of 1 September 2015, having been previously cleared by the Bank of Spain on 30 July 2015.

The Rules and Regulations of the Board (article 17.4.e)) provide that the appointments committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

Proceedings of the board

The board of directors held 21 meetings during 2015.

The board holds its meetings in accordance with an annual calendar and there is list of annual matters to be discussed, without prejudice to any that may arise as a result of the needs of the business. Directors may also propose the inclusion of items on the agenda. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors (article 46.1 of the Bylaws). Additionally, the lead director shall be especially authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called (articles 49-2.1 (i) of the Bylaws and 12-2 of the Rules and Regulations of the Board).

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

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

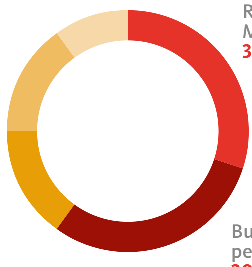
Board meetings shall be validly convened when more than half of its members are present in person or by proxy.

Except in instances in which a greater majority is specifically required pursuant to legal provisions, the Bylaws or the Rules and Regulations of the Board, resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie.

In 2015 the board was kept continuously and fully informed of the performance of the various business areas of the Group through the management reports and risk reports submitted thereto, among others. During the year, the board has also reported on the conclusions of the external and internal audits.

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

Approximate time dedicated to each duty



Dedication to board duties

One of the directors' duties expressly established in the Rules and Regulations of the Board is that of diligent management, which, among other duties, requires that directors dedicate the necessary time and effort to their position. The maximum number of boards of directors to which they may belong is established in article 26 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions. The Bank's directors therefore may not at the same time hold more than: (a) one executive position and two non-executive positions; or (b) four non-executive positions. For such purposes, positions held within the same group will be counted as a single position, and positions held at non-profit organisations or organisations not pursuing commercial ends will not be included. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

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

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

Decision-making process

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

Training of directors and information or induction programme for new directors

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

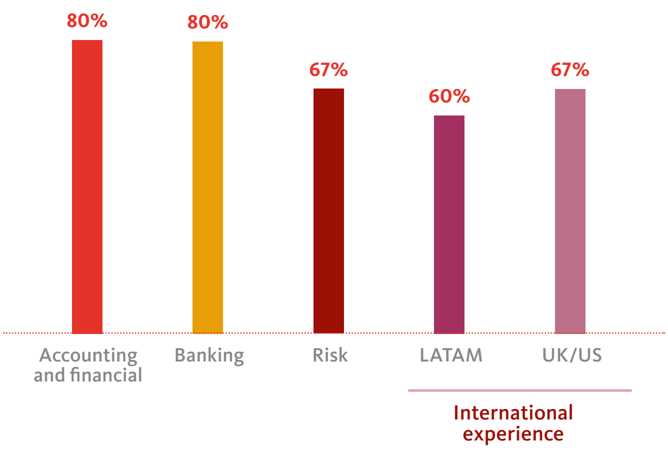
Within the framework of the Bank's ongoing director training programme, nine sessions were held in 2015 with an average attendance of eight directors, who devoted approximately two hours to each session. Various issues were covered in depth at such meetings, including: capital requirements and assessment,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

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

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

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

% Of board members with relevant experience



Self-assessment by the board

In line with the provisions of the Rules and Regulations of the Board, the ongoing self-assessment exercise performed by the board with the support of the firm Spencer Stuart, on the basis of a questionnaire and personal interviews with the directors, includes a special section for the individual assessment of the chairman of the board, the chief executive officer and the other directors, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The Group executive chairman led the assessment of the lead director, who in turn led that of the Group executive chairman and also the process of individual cross-assessments.

This exercise was based on a questionnaire and personal interviews with the directors and on international best corporate governance practices, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The latest self-assessment focused on the following matters: organisation, internal trend and culture, roles and contribution of directors; composition and content of the board and its committees; comparison with other international banks; and open questions regarding the future (strategy and internal and external factors that might affect the Group's performance) and other matters of interest.

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

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

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

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

- A more detailed succession plan for positions on the board, in particular those of the Group executive chairman and chief executive officer, established in the Rules and Regulations of the Board and reflected in the related succession plans.
- Annual board meetings dedicated specifically to the Group's strategy.
- An ongoing director training programme, which has been implemented continuously since it was proposed in the self-assessment process of 2005.
- Directors have immediate access, via electronic devices, to all the information pertaining to the board and committees (calendar, agendas, presentations and minutes).
- Review of the board's composition, incorporating new directors with a more international profile and strengthening diversity.
- The Group executive chairman encourages debate at board meetings, inviting directors to ask questions and present queries.
- Greater involvement of the appointments committee in the process of appointing new directors.
- Review of the Bylaws and the Rules and Regulations of the Board for the purpose of adapting the duties of some committees to applicable regulations and to best corporate governance practices.
- Improvement in board members' relationships outside of meetings, as well as the interaction between these directors and company executives.
- Inclusion of corporate social responsibility in the functions of the risk supervision, regulation and compliance committee.
- The board approved an amendment to the functions of the innovation and technology committee (article 17-5 of the Rules and Regulations of the Board of Directors), with the aim of including functions relating to the new digital environment in which banking business will be developed.

Appointment, re-election and ratification of directors

The proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting and the appointment decisions adopted by the board itself, by virtue of the powers of co-option attributed thereto as permitted by law, must, in turn, be preceded by the corresponding report and proposal of the appointments committee.

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

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

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

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

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

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

Skills obtained as an Executive | Skills obtained as a Non-Executive | Nature | * Data at February 2016

Independent non-executive directors	8
Members of the board	15

Due to the vacancies left on the board by the resignations from their posts and other positions on the board presented by Mr Juan Rodríguez Inciarte and Ms Sheila C. Bair, the appointments committee commenced selection processes for new directors, with the assistance of an external firm, which drew up a list of candidates based on an assessment of the board's capacities (using a skills matrix) to determine the profiles in line with the Group's strategic objectives.

The committee analysed the various candidates on the list, as well as the short-listed candidates' CVs and assessment of their skills and suitability as directors of the Bank, and proposed to the board the appointment of Mr Ignacio Benjumea Cabeza de Vaca, as a non-executive director, and Ms Belén Romana García, as an independent director, whose profiles may be consulted at the beginning of section 3 of this report. In the case of Mr Ignacio Benjumea, his appointment was based essentially on his experience and knowledge of legal and tax matters, compliance, corporate governance and regulatory matters. In assessing Ms Belén Romana's candidacy, her financial and international experience, and the posts she has occupied in both the public and private sectors were taken into account.

The European Central Bank cleared Mr Ignacio Benjumea and Ms Belén Romana to hold the position of director of the Bank by means of the resolutions of 21 September and 19 November, respectively.

Keep remuneration

Remuneration system

At the general shareholders' meeting of 28 March 2014, the shareholders resolved to amend the Bylaws to bring the remuneration system for executive directors into line with the provisions contained in Royal Decree-Law 14/2013 (today Law 10/2014) and in CRD IV, such that the variable components of their remuneration may not exceed 100% of the fixed components, unless the shareholders acting at the general shareholders' meeting approve a higher ratio, which shall in no case exceed 200%.

With relation to the foregoing, the shareholders acting at the general shareholders' meeting of 27 March 2015 approved a maximum ratio between fixed and variable components of executive directors' remuneration of 200% for 2015.

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

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

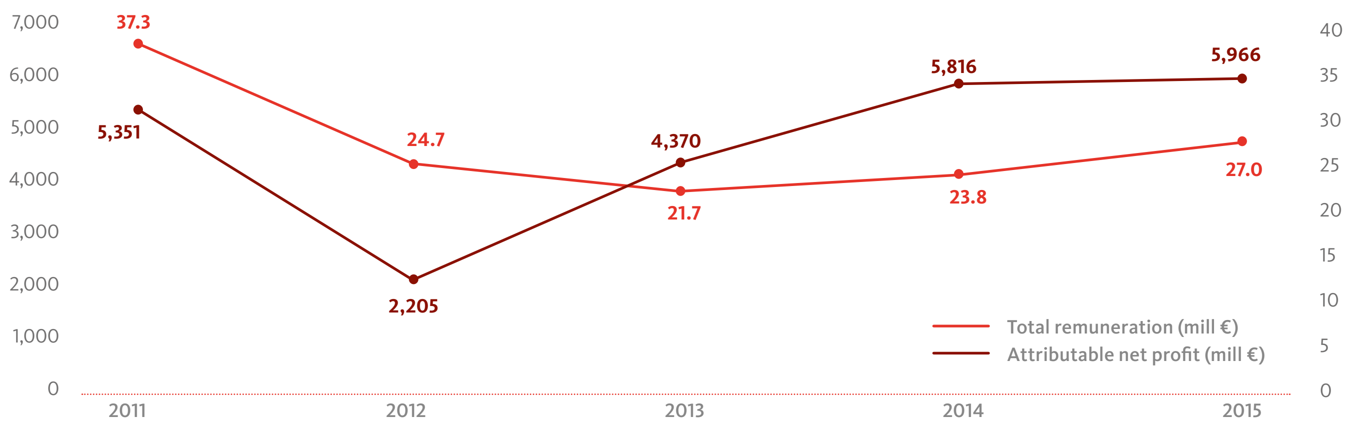
Remuneration of the board in 2015

Bylaw-stipulated emoluments earned by the board amounted to EUR 5.2 million in 2015, which is 13.6% lower than the maximum amount of EUR 6 million approved by the shareholders at the general shareholders' meeting.

All details regarding the director remunaration and the director remuneration policy for 2015 may be consulted in the remuneration committee's report that forms part of the corporate documentation of Banco Santander.

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

Evolution of the remuneration for all items of directors with executives duties against the total return for shareholders*



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

Anticipation of and adjustment to the regulatory framework

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

Director remuneration policy and annual report on director remuneration

As provided in article 541 of the Spanish Corporate Enterprises Act and in the Bylaws (article 59-2.1), the board of directors annually approves an annual report on director remuneration, which sets forth the standards and basis for determining remuneration for the current financial year, as well as an overall summary of the application of the remuneration policy during the financial year ended, and a breakdown of the individual remuneration earned for all items by each of the directors during such year. The report is available to shareholders with the call notice for the annual general shareholders' meeting and is submitted to a consultative vote.

The content of such report is subject to the provisions of article 10 of Order ECC/461/2013 and CNMV Circular 4/2013, of 12 June (amended by Circular 7/2015, of 22 December).

In 2015, the report corresponding to 2014 was submitted to the shareholders at the general shareholders' meeting held on 27 March, as a separate item on the agenda and as a consultative matter, with 92.430% of the votes being in favour of the report.

The director remuneration policy for 2015 and 2016 will also be submitted for approval, on a binding basis, by the shareholders at the annual general shareholders' meeting in accordance with article 529. novodecies of the Spanish Companies Act, having been approved with 91.7% of the votes in favour.

Transparency

Pursuant to the Bylaws (article 59-2.5), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank. All such information is contained in note 5 to the Group's legal report.

Some measures taken by the board

2012: maximum limit for share capital increases without pre-emptive rights

At the proposal of the board, the shareholders for the first time established a maximum limit on the power to exclude pre-emptive rights for share capital increases; pre-emptive rights may only be excluded for up to the equivalent of 20% of the Bank's share capital as of the date of the general shareholders' meeting.

2013: cap on annual remuneration of the directors

The shareholders established a maximum amount of EUR 6 million, which may only be amended by a decision of the shareholders acting at the general shareholders' meeting.

2014: maximum variable remuneration for executive directors

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

2015: changes in the remuneration policies

A series of changes were proposed at the 2016 general shareholders' meeting, with regard to the remuneration policies for executive directors and senior management, that are in line with the new Simple, Personal and Fair Group's culture. The main new developments with regard to the previous policy are as follows:

- Simplification: a new structure more simple for the variable and long term remuneration of executive directors.
- Alignment with the objectives announced at Investor Day held in September 2015: a new set of objectives linked to variable remuneration which includes the four categories on which the Bank's strategy is based: employees, customers, shareholders and society.
- More alignment with the shareholders' interests, by setting a mandatory requirement for senior executives to invest in shares and basing long-term remuneration on earnings per share, total shareholder return, capital targets and profitability.

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

Duties

The duties of the directors are governed by the Rules and Regulations of the Board, which conform to both the provisions of current Spanish law and to the recommendations of the new good governance code for listed companies.

The Rules and Regulations expressly provide for the duties of diligent management, loyalty and inactivity in the event of knowledge of confidential information.

The duty of diligent management includes the directors' duty to adequately inform themselves of the Bank's progress and to dedicate the time and effort needed to effectively carry out their duties, and take the measures necessary for proper management and control of the Entity.

Related-party transactions

In accordance with that stipulated by law, article 53 of the Bylaws and articles 3, 16 and 33 of the Rules and Regulations of the Board, the board of directors will be aware of any transactions that the company or companies 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.

In accordance with applicable legislation, authorisation will not be necessary in the case of transactions with standardised conditions, normal market prices and where the amount does not exceed 1% of the company's annual income.

These transactions will require authorisation from the board, following a favourable report from the audit committee, except in those cases where by law approval is required by the shareholders at the general shareholders' meeting. The directors affected or representing or related to the affected shareholders will refrain from participating in the deliberation and vote on the resolution in question.

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

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

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

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest with the interests of the Bank in which they may be involved, them or persons related thereto. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the audit committee.

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

There were 177 occasions during 2015 in which the directors abstained from participating in and voting on the discussion of matters at the meetings of the board of directors or of its committees.

The breakdown of the 177 cases is as follows: on 56 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and to appoint members of the committees of the board or in Group companies; on 92 occasions the matter under consideration related to remuneration or granting loans or credits; on 20 occasions the matter concerned the discussion of financing proposals or other risk transactions in favour of companies related to various directors; on seven occasions the abstention concerned the annual verification of the status of the directors carried out by the appointments committee, pursuant to article 6.3 of the Rules and Regulations of the Board; and on two occasions, the matter was to approve a related-party transactions.

Committees of the board

General information

The board has set up an executive committee to which general decision-making powers are delegated.

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

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

The board is entrusted with fostering communication between the different committees, and particularly between the risk supervision, regulation and compliance committee and the audit committee, as well as between the former and the remunerations committee.

In 2015 the delegate risk committee was disbanded as a result of the Bank's new risk governance model and the regulations of the innovation and technology committee were amended in accordance with the terms detailed in this section.

At the annual general shareholders' meeting scheduled for 17 or 18 March on first and second call, respectively, a proposal was put forward to amend articles 53, 54, 54-2 and 54-3 in order to increase the maximum number of members of the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for these committees at any given time.

Executive committee

The executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of the board (except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and Regulations of the Board). It reports to the board on the principal matters dealt with and resolutions adopted and provides directors with a copy of the minutes of its meetings. It generally meets once a week and in 2015 it held 59 meetings.

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

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

Audit committee

The audit committee, among other duties, reviews the Group's financial information and its internal control systems, serves as a communication channel between the board and the external auditor, ensuring the independent exercise of the latter's duty, and supervises work regarding the Internal Audit function. It normally meets on a monthly basis and met 13 times in 2015.

As provided in the Bylaws (article 53) and the Rules and Regulations of the Board (article 16), the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

The committee is currently made up of five independent non-executive directors.

Appointments committee

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

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

The committee met on 12 occasions in 2015.

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

Remuneration committee

Among other duties, the remuneration committee proposes the director remuneration policy to the board, drawing up the corresponding report, and proposes the remuneration of the board members, including executive directors, and that of the other members of senior management and the Group's key personnel, also proposing the remuneration policy for the senior management.

The Bylaws (article 54-2) and the Rules and Regulations of the Board (article 17-2) provide that this committee is also to be made up exclusively of non-executive directors and that its chairman and the majority of its members must be independent directors.

The committee met on 10 occasions in 2015.

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

Risk supervision, regulation and compliance committee

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

The committee met on 13 occasions in 2015.

As provided in the Bylaws (article 54-3) and the Rules and Regulations of the Board (article 17-3, the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

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

▶ The role of the committees was strengthened and their functions widened. Plans were made for joint meetings to be held in order to address matters subject to examination by more than one committee.

International committee

Pursuant to article 17-4 of the Rules and Regulations of the Board, the international committee must: (i) monitor the development of the Group's strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions, keeping informed of the commercial initiatives and strategies of the various units within the Group and of the new projects presented thereto; and (ii) review the performance of the financial investments and businesses, as well as the international economic situation in order to make corresponding proposals, where applicable, in order to adjust the risk-country limits, its structure and return and its assignment by businesses and/or units.

This committee is made up of six directors, of whom three are executive and three are non-executive, one of which is independent.

Innovation and technology committee

Given the importance assigned to innovation and technology as a strategic priority for the Group, the regulations of the Innovation and technology committee have been amended to raise to eight the maximum number of members. The committee's duties have also been extended pursuant to board resolutions dated 29 September 2015 and 26 January 2016, respectively. In addition, article 17-5 of the Regulations of the Board of directors has therefore been duly amended. These amendments were entered in the Cantabria Companies' Registry on 13 October and 4 February 2016, respectively.

The innovation and technology committee is responsible, among other functions for: (i) studying and reporting on relevant projects in innovation and technology; (ii) assisting the board in evaluating the quality of the technological service; new business models, technologies, systems and platforms; and (iii) assisting the commission in overseeing risk, regulation and compliance with the monitoring requirements for technological and safety risks, and overseeing the management of cybersecurity.

This committee is made up of eight directors, of whom four are executive and four are non-executive, two of which are independent.

- Improvements were made to the functioning of the board and its committees. These include the use of devices and technological tools in order to make the documents relating to each item on the agenda available to the board members, thereby enhancing their knowledge of the matters to be addressed, the related debates, and their ability to challenge any proposals made by the directors.

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

Additionally, all board members who are not also members of the executive committee may attend its meetings, whatever the chairman's reason is for calling such meeting. In 2015, nine directors not forming part of the executive committee each attended an average of seven meetings thereof.

The audit, appointments, remuneration and risk supervision, regulation and compliance committees have prepared reports on their activities in 2015. The remuneration committee's report also includes the director remuneration policy. All such reports are made available to shareholders as part of the Bank's annual documentation for 2015.

Composition of the committees of the board

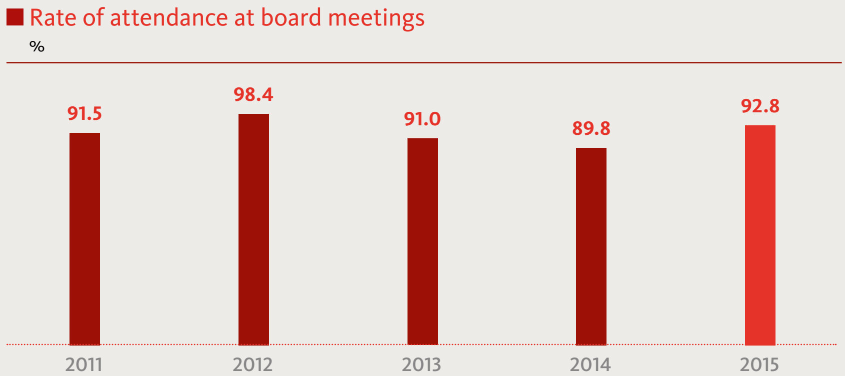
Number of meetings and duration of committees

Committees	No. of meetings	Hours[1]
Executive committee	59	295
Executive risk committee[2]	81	243
Audit committee	13	52
Appointments committee	12	36
Remuneration committee	10	30
Risk supervision, regulation and compliance committee	13	52
International committee	-	-
Innovation and technology committee	-	-

1. Estimated average hours devoted by each director.
2 Disbanded by the resolution of the board of 1 December 2015; the committee held its last meeting on 29 October.

Attendance at meetings of the board of directors and its committees in 2015

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board meetings in 2015 was 92.83%.



Committees

Directors	Board	Decision-making: Executive	Decision-making: Executive risk (b)	Advisory: Audit	Advisory: Appointments	Advisory: Remuneration	Advisory: Risk supervision, regulation and compliance	Reporting (a): Innovation and technology	Reporting (a): International
Average attendance	**92.83%**	**90.89%**	**78.44%**	**97.96%**	**92.86%**	**90.57%**	**96.39%**	**–**	**–**
Individual attendance									
Ms Ana Botín-Sanz de Sautuola y O´Shea	21/21	52/59							
Mr José Antonio Álvarez Álvarez[1]	19/19	52/56	23/67						
Mr Bruce Carnegie-Brown[2]	17/17	40/51			9/9	9/9	12/12		
Mr Rodrigo Echenique Gordillo	20/21	53/59	50/81		2/2	1/1	0/0		
Mr Matías Rodríguez Iniciarte	21/21	57/59	81/81						
Mr Guillermo de la Dehesa Romero	21/21	54/59		4/4	11/12	9/10	11/11		
Mr Ignacio Benjumea Cabeza de Vaca[3]	4/4	16/16	11/11		3/3	4/4	3/3		
Mr Javier Botín-Sanz de Sautuola y O´Shea	14/21								
Ms Sol Daurella Comadrán[4]	15/17				6/8	6/9			
Mr Carlos Fernández González[2]	15/17			11/11	7/8		10/11		
Ms Esther Giménez-Salinas i Colomer	19/21								
Mr Ángel Jado Becerro de Bengoa	21/21		62/67	10/11	8/8	8/9	13/13		
Ms Belén Romana García[5]	1/1			0/0					
Ms Isabel Tocino Biscarolasaga	21/21	57/59	79/81	11/11		10/10	11/11		
Mr Juan Miguel Villar Mir	19/21			10/10			10/11		
Mr Javier Marín Romano[6]	0/2	1/2							
Mr Fernando de Asúa Álvarez[7]	4/4	7/8	11/11	1/1	3/3	1/1	1/1		
Mr Abel Matutes Juan[8]	3/4			1/1	3/3				
Mr Juan Rodríguez Inciarte[9]	15/15		36/51						
Ms Sheila C. Bair[10]	15/18						9/10		

(a) No meetings were held in 2015.

(b) Disbanded by resolution of the board on 1 December 2015 and held its last meeting on 29 October. Against this backdrop, two internal non-statutory committees were created: the executive risk committee (which replaces the delegate risk committee of the board) and the risk control committee. The executive committee devoted a very significant amount of its time to discussions on risks.

1. Director since 13 January 2015.
2. Director since 12 February 2015.
3. Director since 21 September 2015.
4. Director since 18 February 2015.
5. Director since 22 December 2015.
6. Withdrawal from position of director effective 12 January 2015.
7. Withdrawal from position of director effective 12 February 2015.
8. Withdrawal from position of director effective 18 February 2015.
9. Withdrawal from position of director effective 30 June 2015.
10. Withdrawal from position of director effective 1 October 2015.

4. Shareholder rights and the general shareholders' meeting

One share, one vote, one dividend. No control-enhancing mechanisms foreseen in the Bylaws

The Bank's Bylaws do not establish any control-enhancing mechanisms, fully conforming to the principle of one share, one vote, one dividend.

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

There are no non-voting or multiple-voting shares, or preferences in the distribution of dividends, or limitations on the number of votes that may be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

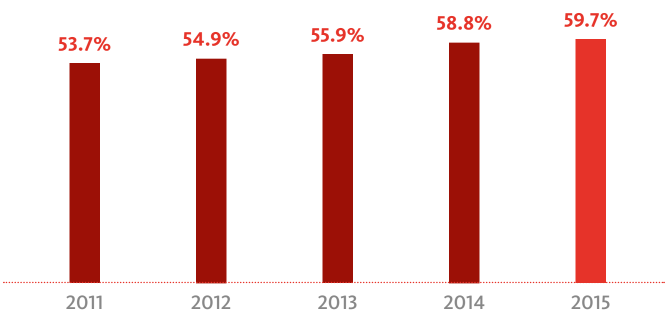
Any person is eligible for the position of director, subject only to the limitations established by law.

Quorum at the annual general shareholders' meeting held in 2015

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

The quorum at the 2015 annual general shareholders' meeting was 59.724%, continuing a trend of improvement in the last years.

Quorum at annual general shareholders' meetings



Encouragement of informed participation of shareholders at general shareholders' meetings

The Bank continues to implement measures designed to encourage the informed participation of shareholders at general shareholders' meetings. Since the annual general meeting held in 2011, shareholders have had access to an electronic shareholders' forum, in compliance with the provisions of the Spanish Corporate Enterprises Act.

Such forum, which the Bank made available on the Group's corporate website (www.santander.com), enables shareholders to post supplementary proposals to the agenda announced in the call notice, requests for support for such proposals, initiatives aimed at reaching the percentage required to exercise minority shareholder rights contemplated by law, such as offers or requests to act as a voluntary proxy.

Furthermore, remote attendance at the shareholders' meetings was made possible, thereby enabling shareholders to exercise their information and voting rights remotely and in real time.

Key points of the 2015 annual general shareholders' meeting

- Shareholders approved the corporate management of the Bank in 2014 with a 95% favourable vote.
- The 2014 annual report on director remuneration received a 92% favourable vote.

Annual general shareholders' meeting held on 27 March 2015

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

A total of 471,628 shareholders attended in person or by proxy, with 8,397,610,313 shares. The quorum was thus 59.724% of the Bank's share capital at the date of the annual general shareholders' meeting.

The shareholders acting at the general shareholders' meeting approved the corporate management of the Bank in 2014 with a 95.024% favourable vote.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 93.712%.

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

Physically present	0.354%[1]
By proxy	43.442%[2]
Absentee votes	15.929%[3]
Total	**59.724%**

1. Of such percentage (0.354%), 0.003% is the percentage of share capital that attended by remote means through the Internet.
2. The percentage of share capital that granted proxies through the Internet was 0.903%.
3. Of such percentage (15.929%), 15.712% corresponds to the votes cast by post, and the rest is the percentage of electronic votes.

At that meeting, nine of the board's fifteen directors at that date exercised, in accordance with article 186 of the Spanish Corporate Enterprises Act, the right to vote on behalf of a total of 5,963,432,540 shares, equivalent to the same number of votes, the breakdown being as follows:

Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	5,829,121,951
Mr José Antonio Álvarez Álvarez	35,865
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	127,872,267
Mr Ángel Jado Becerro de Bengoa	5,100,000
Mr Matías Rodríguez Inciarte	789,693
Mr Juan Miguel Villar Mir	90,549
Ms Isabel Tocino Biscarolasaga	187,862
Mr Guillermo de la Dehesa Romero	225,647
Ms Sol Daurella Comadrán	8,706

Resolutions adopted at the general shareholders' meeting held in 2015

The full texts of the resolutions adopted at the general shareholders' meeting held in 2015 are available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

Information provided to shareholders and communication with them

In 2015 Banco Santander continued to strengthen communication with, service to and its relationship with shareholders and investors.

Channels for shareholder information and service		
Telephone service lines	241,553	queries received
Shareholder's mailbox	42,805	e-mails answered
Personal actions	22,336	actions carried out

During 2015, there were 450 meetings with investors, analysts and rating agencies, which entailed contact with 829 investors/analysts. In addition, the Shareholders Relations area maintained direct contact with the Bank's shareholders throughout the financial year to disseminate information regarding the Group's policies relating to sustainability and governance. The Group's Investor Day was organised in London in September. Over the span of two days senior executives analysed and communicated the outlook, Banco Santander's strategic vision and objectives for 2018 and its main business units to the investors. More than 350 people, including the Group's main analysts and investors, attended these sessions at Investor Day.

Finally, in compliance with the recommendations of the CNMV, both call notices of the meetings with analysts and investors and the documentation to be used thereat are published sufficiently in advance.

Policy for communications and contact with shareholders

The board of directors of the Bank approved a policy for communication and contact with shareholders, institutional investors and proxy advisors, which is published on the Group's corporate website (www.santander.com). In this policy, the general principles governing communication and contacts between the Bank and its shareholders, institutional investors and proxy advisors are laid out. In addition, it defines the main channels and procedures for improving the services provided by the bank to these stakeholders and its relationship with same. In accordance with the principles of transparency, equal treatment and protection of the interests of shareholders and within the framework of the new Simple, Personal and Fair culture, the Bank makes available to its shareholders and investors the information and communication channels detailed in the Shareholder section of this annual report.

Communication between the board and shareholders and investors has been stepped up through the Investors Day and the corporate governance road shows carried out by the lead director.

5. Santander Group management team

"Reaching our goal of becoming the **best commercial bank for our employees and customers**, and continuing with sustainable growth, requires us to **simplify and make our organisation more competitive**"

Ms Ana Botín, Group executive chairman of Banco Santander
Internal communication
30 June 2015

Composition

Group executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea
Chief executive officer	Mr José Antonio Àlvarez Àlvarez
Executive vice chairman	Mr Rodrigo Echenique Gordillo
Executive vice chairman*	Mr Matías Rodríguez Inciarte
Businesses	
Argentina	Mr Enrique Cristofani
Brazil	Mr Sérgio Agapito Lires Rial
Chile	Mr Claudio Melandri Hinojosa
United States	Mr Scott Powell
Spain	Mr Rami Aboukhair Hurtado
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Mexico	Mr Héctor Blas Grisi Checa
Poland	Mr Gerry Byrne
Portugal	Mr Antonio Vieira Monteiro
United Kingdom	Mr Nathan Bostock
Business divisions	
Global Wholesale Banking	Mr Jacques Ripoll
Business support divisions	
Commercial Banking	Mr Ángel Rivera Congosto
Support and control functions	
Group chief risk officer	Mr José María Nus Badía
Group chief financial officer	Mr José García Cantera
General Secretariat and Human Resources	Mr Jaime Pérez Renovales
Group chief compliance officer	Ms Mónica López-Monís Gallego
Group chief audit executive	Mr Juan Guitard Marín
Strategic Alliances in Asset Management and Insurance	Mr Juan Manuel San Román López
Communications, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Innovation	Mr J. Peter Jackson**
Group	Mr José Francisco Doncel Razola
Executive Chairman's Office and Strategy	Mr Víctor Matarranz Sanz de Madrid
Costs	Mr Javier Maldonado Trinchant
Technology and Operations	Mr Andreu Plaza López
Universities	Mr José Antonio Villasante Cerro

* To whom the Group chief risk officer reports.
** This appointment is subject to regulatory authorisation.

Remuneration

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

Related-party transactions

To the Bank's knowledge, no member of senior management who is not a director, no person represented by a member of senior management who is not a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has carried out any unusual or significant transaction therewith during 2015 and through the date of publication of this report.

Conflicts of interest

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

6. Transparency and independence

Santander has been included in the FTSE4Good and DJSI indexes since 2003 and 2000, respectively, and its corporate governance model is recognised by socially responsible investment indexes.

Financial information and other relevant information

Financial information

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

The financial statements are reported on by the audit committee and certified by the head of financial accounting prior to the authorisation for issue thereof by the board.

Other relevant information

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

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

In 2015, the Bank published 100 material facts, which are available on the websites of the Group (www.santander.com) and the CNMV (www.cnmv.es).

Relationship with the auditor

Independence of the auditor

The shareholders at the 2015 annual general shareholders' meeting approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 94.287% of the share capital present in person or by proxy.

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

In addition, the Rules and Regulations of the Board establish limits upon hiring the audit firm for the provisions of services other than audit services that could jeopardise the independence thereof, and impose on the board the duty to make public the overall fees paid by the Bank to the auditor for services other than audit services. The information for 2015 is contained in note 48 to the Group's legal report.

The Rules and Regulations of the Board determine the mechanisms to be used to prepare the accounts such that there is no room for qualifications in the auditor's report. Nevertheless, the Bylaws and the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor issue a report in this regard. The financial statements of the Bank and of the consolidated Group for 2015 are submitted without qualifications.

At its meeting of 10 February 2016, the audit committee received written confirmation from the external auditor of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, in accordance with that provided in legislation governing financial audits.

The committee, at this meeting of 10 February 2015, issued a report expressing a favourable opinion regarding the independence of the external auditors and reporting, among other matters, on the provision of additional services as mentioned in the preceding paragraph.

This report, issued prior to the auditor's report on the financial statements, includes the content required under article 529-14 of the Spanish Corporate Enterprises Act and may be viewed on the Group's website (www.santander.com).

▶ The Bylaws, the Rules and Regulations for the General Shareholders' Meeting and the Rules and Regulations of the Board were amended to bring them into line with both regulatory changes and best practices in corporate governance.

Proposal for a new external auditor

At its meeting on 6 July 2015, the board of directors chose PricewaterhouseCoopers Auditores, S.L. (PwC) as the external auditor of Banco Santander and its consolidated Group to audit the financial statements for 2016, 2017 2018. This decision was taken in accordance with the corporate governance recommendations regarding the rotation of the external auditor, at the proposal of the audit committee and as a result of a selection process conducted with full transparency, independence and objectivity, involving the leading audit firms present in the markets where the Group operates. The audit committee was actively involved in designing and conducting this process and was notified of its progress on a regular basis, as well as the plans to ensure that PwC complied with the regulatory requirements with regard to independence and incompatibility and to ensure a smooth transition between the external auditors with the least possible impact on the Group's daily activities and on the quality of the financial information.

The board will propose this appointment at the annual general shareholders' meeting scheduled for 17 or 18 March on first and second call, respectively.

Intra-group transactions

There were no intra-group transactions in 2015 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the Group companies as regards the purpose and conditions thereof.

Group's corporate Website

Since 2004, the Group's corporate website (www.santander.com) has disclosed, in the *Information for shareholders and investors* Relations section of the main menu, all information required under applicable law (basically, the Spanish Corporate Enterprises Act, Order ECC/461/2013, of 20 March and CNMV Circular 3/2015, of 23 June).

The content of the Group's website, which is presented with specific sections for institutional investors and shareholders and is accessible in Spanish, English and Portuguese, receives approximately 165,000 visits per week.

The information available on such website includes:

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

The call notice for the 2016 annual general shareholders' meeting may be viewed as from the date of publication thereof, together with the information relating thereto, which shall include the proposed resolutions and mechanisms for exercising rights to receive information, to grant proxies and to vote, including an explanation of the mechanisms for exercising such rights by means of data transmission and the rules applicable to the electronic shareholders' forum that the Bank will make available on the Group's corporate website (www.santander.com).

New good governance code for listed companies

Banco Santander follows the recommendations concerning corporate governance in the new good governance code for listed companies.

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

7. Challenges for 2016

The board's goals for 2016 with regard to corporate governance are as follows:

- Promote the culture and corporate values of Simple, Personal and Fair, ensure the entire organisation is aware of these values.
- Consolidate the governance model to strengthen the relationship between the Parent Bank and the subsidiaries, especially with regard to corporate governance, ensuring its gradual implementation throughout the Group's main geographical areas. The board of directors will also be responsible for ensuring there is a clear governance framework that is suitable for the structure, businesses and risks of the Group and the entities that form part thereof, respecting the local legislation of each of the units.
- Improve board members' relationships outside of meetings, especially non-executive directors, as well as the interaction between these directors and company executives.
- Promote communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, as well as between the audit committee and the remuneration committee, and schedule joint meetings whenever necessary.

4

Economic and financial review

Consolidated Financial Report

Grupo Santander 2015 summary

Developed economies continued to show signs of recovery in 2015. Emerging countries, however, grew more moderately because of their internal dynamics as well as lower commodity prices and China's slowdown.

The markets were also very volatile, with share prices plunging in the second half of the year and emerging market currencies depreciating against the euro and particularly against the dollar. This depreciation was very intense in Brazil for several months.

The banking environment is challenging. As well as this evolution, interest rates were extraordinarily low in developed countries, business volumes grew at a slow pace, competition from banks and non-banks was tough and the regulatory environment demanding.

In this context, the Group's performance during 2015 was positive, as we were able to combine the development of the commercial transformation process with achieving the goals we set at the start of the year. We grew in volumes and profit, accumulated capital and increased the cash dividend.

The highlights in 2015 were:

Strong results. Santander faced these challenges with a business model that has proven its strength in the last few years and which we are adapting to the new environment, in order to maximise profitability levels.

The Santander model, which showed its validity during the crisis, has two main pillars:

- **Santander is a big but simple bank**. Our diversification is unique, 97% of our underlying profit is generated in nine countries and in Santander Consumer Finance in Europe. Our management focus is tailored to each market, and our subsidiaries, autonomous in capital and liquidity, have the critical mass to be among the three top players in each market and generate shareholder value.

- **We have a Corporate Centre** that contributes value and enables us to attract talent, share best practices and best-in-class information and control systems. The centre will continue to add value in the future and will do so even more efficiently.

As a result of all this, Grupo Santander posted an underlying attributable profit of €6,566 million, 13% more than in 2014, backed by:

- Consistent and recurring growth in commercial revenues quarter after quarter, enabling us to generate record net interest income and gross income.

- Control of costs and operational excellence. Costs grew by only 1% in real terms and on a like-for-like basis.

- Reduced provisions and a lower cost of credit, reflecting the strategy in growth and an adequate risk management policy.

We also recorded a net charge of €600 million of non-recurring positive and negative results, which left the final attributable profit 3% higher at €5,966 million.

Commercial transformation process. We continued in 2015 to transform our commercial model and make it more Simple, Personal and Fair. The focus is on our individual customers and companies, and our efforts are aimed at developing specialized models, ranges of simple products and global proposals that cover all their needs, anticipating them and gaining their confidence.

There was a significant improvement in customer loyalty and in long-term relationships, strongly supported by differential value offers and their expansion to all countries, sharing the best practices. Examples of this are:

- Launch of the *1|2|3 strategy* in Spain, following its success in the UK and Portugal, and similar products in Poland and Germany. In the high-income segment, we launched products and services such as *Select Premium Portfolios* in Germany and *Select Expat* in Mexico.

- In SMEs and companies, global proposals to reinforce our support of this segment: *Santander Advance* is now installed in eight countries, *Santander Trade* is available in 12 countries with more than 30,000 exporter and importer users, *International Desk, Santander Passport* and the new *1|2|3 pymes* current account in Spain.

We gave a big push to multi channels, particularly the developments in digital channels and the openinf of new branches, which are key for the transformation process. Innovation and technological development constitute a strategic pillar of the Group, in order to respond to the new challenges from the digital revolution and focus on operational excellence and the customer experience.

We improved the commercial websites, as well as launching new apps and developments for mobile phones such as, for example, *Cash KiTTi* and *Spendlytics* in the UK, and the new *Deposit Capture* functionality for mobile phones in the US. Also noteworthy were some initiatives in intelligent watches such as the participation in the UK and Spain in the first group of *Apple Pay* issuers.

Equally important was the simplification of processes and products, implementation of a new commercial front with 360º vision in many of the countries, latest generation ATMs and opening so-called offices of the future.

Branches will continue to be a significant channel for customers and the Bank, and will be more dedicated to selling products of greater complexity and offering advisory services, and more digitally integrated.

These improvements in the commercial transformation process were reflected in increases in customer loyalty and digitisation . The number of loyal customers increased 10% to 13.8 million (+1.2 million) and digital clients rose 17% to 16.6 million (+2.5 million). These improvements are already producing revenue growth.

Business growth. The commercial activity and greater loyalty were reflected in growth in loans and customer funds.

Nine of the 10 main units increased their lending to individual customers as well as to SMEs and big companies. All countries grew in funds, while maintaining the strategy of cutting the funding cost (reflected in growth in demand deposits and mutual funds and reduction in time deposits).

Strengthened solvency. We met the goal set for capital, despite the extraordinary negative impacts. Our CET1 fully loaded ratio was 10.05% at the end of 2015, demonstrating our capacity to generate capital organically (about 10 b.p. per quarter).

Furthermore, in regulatory terms, we ended the year with CET1 of 12.55%, 280 b.p. above the minimum requirement set by the European Central Bank for 2016.

On 3 February 2016, the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil) S.A. The impact of the aforementioned authorisation on the Group's risk-weighted assets (EUR -7,836 million) and, in consequence, on its capital ratios, was not taken into account in the data published on 27 January 2016, which are those presented in this report.

Enhanced credit quality. The year was good in terms of credit quality, as the Group's main indicators improved. The NPL ratio was 83 b.p. lower at 4.36%, coverage rose 6 p.p. to 73% and the cost of credit dropped to 1.25%.

This positive evolution was registered in almost all countries, reflecting the change of mix to lower risk products in some countries, as well as an adequate risk management policy that we are reinforcing with the launch of the Advanced Risk Management (ARM) programme.

Creation of shareholder value. We continue to offer an attractive shareholder return.

On the basis of the underlying profit, the Group's RoTE in 2015 was close to 11.0%, higher than the sector average. We also improved the Group's RoRWA a little to 1.30%.

Tangible book value per share increased 3% on a like-for-like basis, which was compatible with distributing a cash dividend of more than €2,200 million, charged to 2015 results.

The Bank's dividend yield was 4.4% based on the year-end share price.

Exchange rates: 1 euro / currency parity

	2015		2014	
	Period-end	Average	Period-end	Average
US$	1.089	1.109	1.214	1.326
Pound sterling	0.734	0.725	0.779	0.806
Brazilian real	4.312	3.645	3.221	3.118
Mexican peso	18.915	17.568	17.868	17.647
Chilean peso	773.772	724.014	737.323	756.718
Argentine peso	14.140	10.207	10.277	10.747
Polish zloty	4.264	4.182	4.273	4.185

Grupo Santander. Income statement

- **Attributable profit of €5,966 million,** 3% more than in 2014, after absorbing a charge of €600 million (the net between non-recurring positive and negative items).

- **Underlying attributable profit** rose 13% to €6,566 due to:

  - Consistent and recurring growth of commercial revenues quarter after quarter, excluding the exchange rate impact.

  - Costs control and operational excellence. Efficiency ratio of 47.6%, one of the best among our competitors.

  - Lower cost of credit in all units.

- **Underlying RoTE** was 11.0%, +4 b.p. year-on-year.

Income statement

€ Million

	2015	2014	Variation amount	%	% w/o FX	2013
Net interest income	**32,189**	**29,548**	**2,642**	**8.9**	**8.0**	**28,419**
Net fee income	10,033	9,696	337	3.5	4.3	9,622
Gains (losses) on financial transactions	2,386	2,850	(464)	(16.3)	(18.2)	3,496
Other operating income	665	519	146	28.1	24.6	383
Dividends	455	435	20	4.5	5.5	378
Income from equity-accounted method	375	243	132	54.3	72.4	283
Other operating income/expenses	(165)	(159)	(6)	3.8	43.6	(278)
Gross income	**45,272**	**42,612**	**2,660**	**6.2**	**5.6**	**41,920**
Operating expenses	(21,571)	(20,038)	(1,532)	7.6	6.9	(20,158)
General administrative expenses	(19,152)	(17,781)	(1,371)	7.7	6.9	(17,758)
Personnel	*(11,107)*	*(10,213)*	*(894)*	*8.8*	*7.6*	*(10,276)*
Other general administrative expenses	*(8,045)*	*(7,568)*	*(477)*	*6.3*	*6.0*	*(7,482)*
Depreciation and amortisation	(2,419)	(2,257)	(161)	7.1	6.8	(2,400)
Net operating income	**23,702**	**22,574**	**1,128**	**5.0**	**4.4**	**21,762**
Net loan-loss provisions	(10,108)	(10,562)	454	(4.3)	(4.0)	(12,340)
Impairment losses on other assets	(462)	(375)	(87)	23.2	22.7	(524)
Other income	(2,192)	(1,917)	(275)	14.3	17.5	(1,535)
Underlying profit before taxes	**10,939**	**9,720**	**1,219**	**12.5**	**10.3**	**7,362**
Tax on profit	(3,120)	(2,696)	(424)	15.7	13.6	(1,995)
Underlying profit from continuing operations	**7,819**	**7,024**	**795**	**11.3**	**9.0**	**5,367**
Net profit from discontinued operations	—	(26)	26	(100.0)	(100.0)	(15)
Underlying consolidated profit	**7,819**	**6,998**	**822**	**11.7**	**9.4**	**5,352**
Minority interests	1,253	1,182	72	6.1	6.0	1,177
Underlying attributable profit to the Group	**6,566**	**5,816**	**750**	**12.9**	**10.1**	**4,175**
Net capital gains and provisions	(600)	—	(600)	—	—	—
Attributable profit to the Group	**5,966**	**5,816**	**150**	**2.6**	**0.1**	**4,175**
Pro memoria:						
Average total assets	1,345,657	1,203,260	142,397	11.8		1,230,166
Average stockholders' equity*	90,798	82,545	8,253	10.0		71,509

(*).- Stockholders' equity: Sharedholders' equity + Equity adjustments by valuation. In 2014, pro-forma taking into account the January 2015 capital increase.

Grupo Santander posted an **underlying attributable profit of €6,566 million,** 13% more than the €5,816 million generated in 2014.

Moreover, non-recurring results and provisions for a net negative amount of €600 million were recorded in 2015. This amount is listed separately as "Net capital gains and provisions", in order to make the analysis of results derived from business easier. Attributable profit including these items was €5,966 million, 3% more than in 2014.

Before analyzing the income statement, some aspects that affect comparisons between 2014 and 2015 need to be pointed out.

- A macroeconomic environment with slower global growth.
- Interest rates that remained at historic lows in most countries.
- Tough competition in some of the markets where the Group operates.
- A more demanding regulatory environment, with impacts that limited revenues and increased costs.
- A positive perimeter effect from consumer business (mainly the agreements with PSA) and Brazil (agreement with Bonsucesso, GetNet and the acquisition of minority interests in the fourth quarter of 2014).
- The impact of exchange rates of the different currencies in which the Group operates as regards the euro was less than one percentage point positive for the whole Group in revenues and costs. The impacts were as follows: US (+21 p.p.), UK (+12 p.p.), Argentina (+7 p.p.), Chile (+5 p.p.), Brazil (-16 p.p.), while in Mexico and Poland it was less than one point.

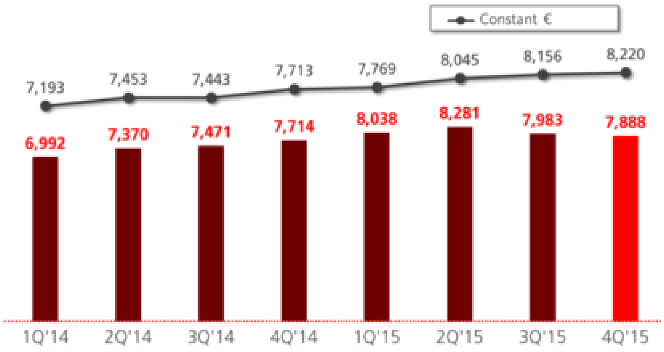
The main developments were as follows:

Quarterly income statement

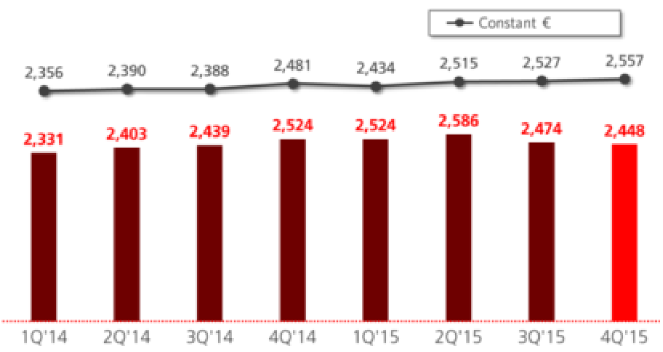
€ Million

	2014				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net interest income	**6,992**	**7,370**	**7,471**	**7,714**	**8,038**	**8,281**	**7,983**	**7,888**
Net fee income	2,331	2,403	2,439	2,524	2,524	2,586	2,474	2,448
Gains (losses) on financial transactions	767	511	952	620	695	372	634	684
Other operating income	34	204	99	182	186	379	225	(126)
Dividends	31	220	72	112	33	239	75	107
Income from equity-accounted method	65	42	72	64	99	101	93	82
Other operating income/expenses	(63)	(58)	(45)	6	53	39	57	(315)
Gross income	**10,124**	**10,488**	**10,961**	**11,040**	**11,444**	**11,618**	**11,316**	**10,894**
Operating expenses	(4,847)	(4,906)	(5,070)	(5,216)	(5,377)	(5,429)	(5,342)	(5,422)
General administrative expenses	(4,256)	(4,360)	(4,509)	(4,656)	(4,785)	(4,826)	(4,731)	(4,810)
Personnel	*(2,455)*	*(2,515)*	*(2,572)*	*(2,670)*	*(2,755)*	*(2,836)*	*(2,717)*	*(2,799)*
Other general administrative expenses	*(1,801)*	*(1,844)*	*(1,937)*	*(1,985)*	*(2,030)*	*(1,989)*	*(2,015)*	*(2,011)*
Depreciation and amortisation	(590)	(546)	(560)	(560)	(592)	(603)	(611)	(612)
Net operating income	**5,277**	**5,582**	**5,891**	**5,824**	**6,067**	**6,189**	**5,974**	**5,472**
Net loan-loss provisions	(2,695)	(2,638)	(2,777)	(2,452)	(2,563)	(2,508)	(2,479)	(2,558)
Impairment losses on other assets	(87)	(71)	(67)	(151)	(60)	(78)	(110)	(215)
Other income	(347)	(438)	(491)	(642)	(454)	(605)	(606)	(526)
Underlying profit before taxes	**2,149**	**2,435**	**2,556**	**2,580**	**2,990**	**2,998**	**2,778**	**2,173**
Tax on profit	(569)	(664)	(649)	(814)	(922)	(939)	(787)	(471)
Underlying profit from continuing operations	**1,579**	**1,771**	**1,908**	**1,766**	**2,067**	**2,059**	**1,991**	**1,702**
Net profit from discontinued operations	(0)	(0)	(7)	(19)	0	0	(0)	—
Underlying consolidated profit	**1,579**	**1,771**	**1,901**	**1,746**	**2,067**	**2,059**	**1,991**	**1,702**
Minority interests	277	318	296	291	350	350	311	242
Underlying attributable profit to the Group	**1,303**	**1,453**	**1,605**	**1,455**	**1,717**	**1,709**	**1,680**	**1,460**
Net capital gains and provisions	—	—	—	—	—	835	—	(1,435)
Attributable profit to the Group	**1,303**	**1,453**	**1,605**	**1,455**	**1,717**	**2,544**	**1,680**	**25**

Net interest income
€ Million



Net fee income
€ Million



Gross income

Gross income increased 6% to a record €45,272 million. Growth was qualitative as it was based on increases in the most commercial revenues (net interest income and fee income), and with gains on financial transactions representing only 5% of the Group's gross income (7% in 2014). As follows:

- **Net interest income** also notched up a new record of €32,189 million (71% of gross income), 9% more than in 2014 (+8% excluding the forex impact), mainly due to growth in lending and a lower cost of funds.

  All countries increased net interest income except for Poland (-6%), due to the fall in interest rates, Spain (-5%), in an environment of low interest rates and strong competition in loans, and Chile (-1%), because of the impact of the lower inflation rate and regulations regarding the policy of maximum rates.

  Of note was the growth at Santander Consumer Finance (+31%), partly because of the perimeter effect, Mexico (+14%), due to the rise in loans, Brazil (+10%), following improvements quarter after quarter during the year, and US (+7%) due to the larger portfolio at Santander Consumer USA and Santander Bank.

- **Net fee income** was 4% higher at €10,033 million. The performance by units was very uneven due to different economic and business cycles. In some cases, moreover, the impact of regulatory changes limited revenues, mainly from insurance and cards.

- **Net interest income plus net fee income** amounted to €42,222 million (+8%) and represented 93% of gross income (92% in 2014).

- **Gains on financial transactions** fell 16%, conditioned by the high ones in 2014 from management of portfolios of interest rate hedging and the global corporate unit.

- **Other operating income** increased by €146 million in net terms. On the one hand, positive impact of income from leasing (mainly in the US) and higher results from companies that are accounted by the equity method. On the other hand, the contribution to the deposit guarantee and resolution funds, also recorded in this line, of more than €750 million for all the Group (up more than 30%), mainly in Poland (where the sector had to make extraordinary contributions because of the collapse of a bank), Spain and Argentina

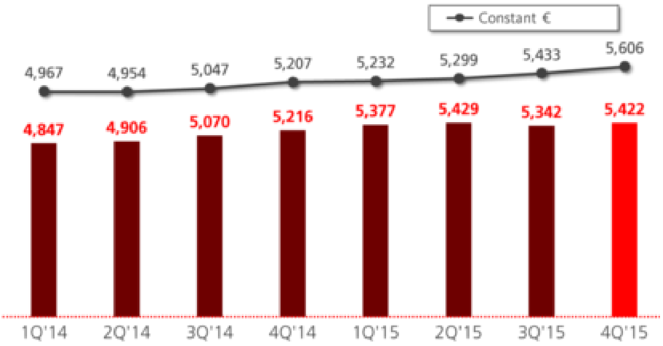
Operating expenses

Operating expenses increased 8% to €21,571 million (+7% excluding the forex impact). This rise was due to several factors: the evolution of inflation in Latin America, investments in programmes for innovation and improvements in future efficiency, the impact of the measures adopted by the Bank as a result of new regulatory requirements (particularly in the US) and the change of perimeter.

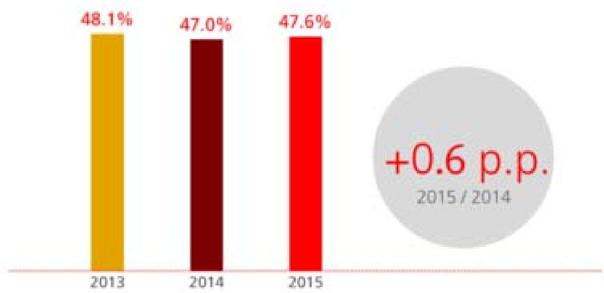
Net fee income
€ Million

	2015	2014	Variation amount	%	2013
Fees from services	6,040	5,827	213	3.7	5,851
Mutual & pension funds	862	913	(50)	(5.5)	831
Securities and custody	905	763	142	18.6	655
Insurance	2,225	2,193	32	1.5	2,284
Net fee income	**10,033**	**9,696**	**337**	**3.5**	**9,622**

Operating expenses
€ Million



Efficiency ratio
%



- Adjusted for the perimeter impact and for the year's average inflation, costs only rose 1%, reflecting the positive effect of the three-year efficiency and productivity plan launched at the end of 2013, which is enabling us to make the higher investments commented on previously, and maintain real growth in costs of close to zero.

- Of note was the fall in real terms in Brazil (-6% on a like-for-like basis), Spain and Portugal (-1% in both).

The efficiency ratio was 47.6% (47.0% in 2014), due to the evolution of gains on financial transactions, as without this the ratio was stable.

Loan-loss provisions

Loan-loss provisions fell 4% to €10,108 million, with significant reductions in the UK (-71%), Spain (-43%), Portugal (-42%) and Real Estate Activity Spain (-26%). They were also lower in Poland and Santander Consumer Finance but higher in Chile (+4%), Brazil (+5%), Mexico (+15%) and the US (+16%), in all of which volumes increased significantly. All these changes are excluding the exchange rate.

- The lower provisions, coupled with higher lending, continued to improve the Group's cost of credit, which dropped from 1.43% in 2014 to 1.25% in 2015. Excluding Santander Consumer USA, which because of the nature of its business has a high level of provisions, the cost of credit fell from 1.15% to 0.90%.

- All the Group's units improved their cost of credit, except for the US. Of note were Spain, Portugal, UK and Brazil. This evolution was due to the improvement in the quality of their portfolios, thanks to active risk management combined with the better macroeconomic environment in some countries.

Net operating income after provisions

Net operating income after provisions increased 13% (+12% excluding the forex impact), spurred by double-digit growth in most units.

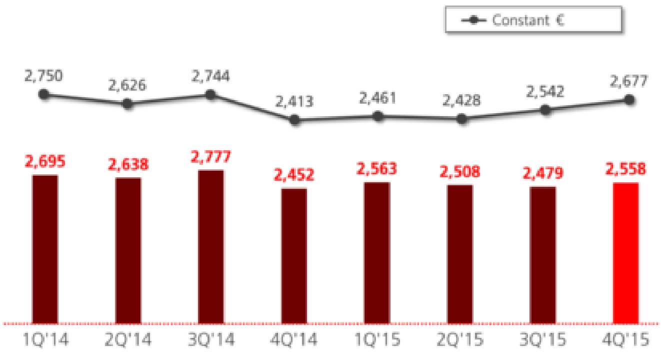
Other income and provisions

Other income and provisions was €2,654 million negative compared to €2,292 million also negative in 2014. These amounts included provisions of different nature, as well as capital gains, capital losses and impairment of financial assets. The increase over 2014 is very diluted by concepts, countries and businesses.

Operating expenses
€ Million

	2015	2014	Variation amount	%	2013
Personnel expenses	11,107	10,213	894	8.8	10,276
General expenses	8,045	7,568	477	6.3	7,482
Information technology	1,039	936	102	10.9	985
Communications	587	489	99	20.2	540
Advertising	705	654	50	7.6	637
Buildings and premises	1,786	1,775	11	0.6	1,815
Printed and office material	157	155	2	1.0	169
Taxes (other than profit tax)	529	460	69	14.9	458
Other expenses	3,243	3,098	144	4.7	2,879
Personnel and general expenses	**19,152**	**17,781**	**1,371**	**7.7**	**17,758**
Depreciation and amortisation	2,419	2,257	161	7.1	2,400
Total operating expenses	**21,571**	**20,038**	**1,532**	**7.6**	**20,158**

Loan-loss provisions
€ Million



Cost of credit
%

Net loan-loss provisions
€ Million

	2015	2014	Variation amount	%	2013
Non performing loans	11,484	11,922	(438)	(3.7)	13,405
Country-risk	(0)	(24)	23	(98.8)	2
Recovery of written-off assets	(1,375)	(1,336)	(39)	2.9	(1,068)
Total	**10,108**	**10,562**	**(454)**	**(4.3)**	**12,340**

Underlying profit

Underlying profit before tax, which reflects the business evolution, rose 13% in current euros (+10% in constant euros).

Taxes increased to a greater extent because of the increased tax pressure in some units, particularly Portugal, Santander Consumer Finance, Mexico, Chile and the US.

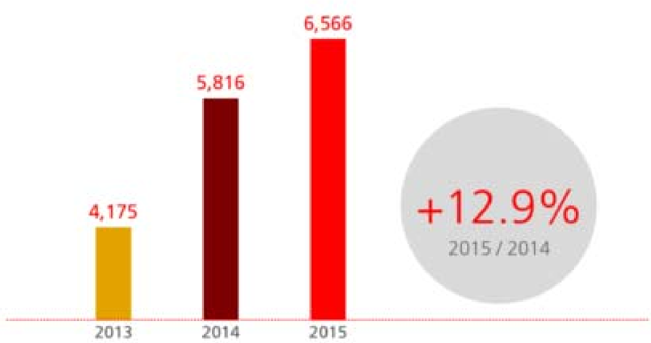
Minority interests increased 6%, as the rises in the US (from the better results of Santander Consumer USA) and Santander Consumer Finance (materialization of the agreements with PSA) were partly offset by the repurchase of the stake in Santander Brazil in the fourth quarter of 2014.

Underlying attributable profit was €6,566 million, up 13% (+10% in constant euros). The largest rises were in Portugal (+63%), Brazil (+33%, partly due to the repurchase of minority interests), SCF (+18%, partly due to the perimeter), Spain (+18%) and the UK (+14%). In all cases, these increases are in the currencies used to manage business.

On the other hand, falls in Poland (mainly because of lower interest rates and the extraordinary charge for the deposit guarantee fund), Chile (reduced UF inflation, whose impact could not be fully offset by the increase in business volumes and higher gains on financial transactions, to which is added a higher tax rate) and the US (where the establishment of the Intermediate Holding Company (IHC), the improvement in the Santander Bank franchise and the discontinuation of personal credits in order to focus more on auto finance is having a temporary impact on revenues and costs).

The underlying RoTE was 11.0% and underlying earnings per share €0.45, 7% lower than in 2014 as it was affected by the increase in the number of shares (January's 2015 capital increase and *Santander Dividendo Elección* scrip programmes), as well as by the higher financial cost due to the new AT1 issues made.

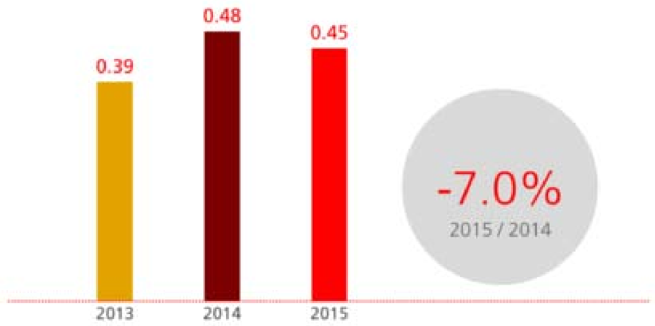
Underlying attributable profit*
€ Million



(*) Attributable profit, including non-recurring capital gains and provisions: €5,966 million; +2.6%

Underlying earning per share*

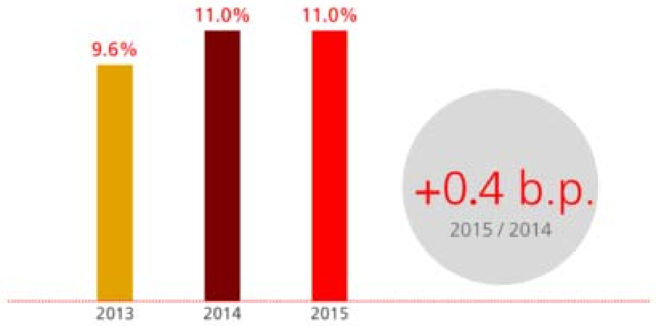
€



(*) Attributable profit, including non-recurring capital gains and provisions: €0.40; -15.9%

Underlying RoTE*

%



(*) RoTE, including non-recurring capital gains and provisions: 10.0%; -1.0 p.p.

The cost of these issues, in accordance with accounting rules, is not recorded in the income statement, but against shareholders' equity, but it is taken into account for calculating earnings per share.

Attributable profit to the Group

As indicated at the beginning, non-recurring capital gains and provisions were recorded in 2015, as follows:

- On the one hand, non-recurring positive items of €1,118 million, which correspond to the net result of the reversal of tax iabilities in Brazil (€835 million) recorded in the second quarter and the generation of €283 million of badwill, as a result of the acquisition of assets and liabilities of Banco Internacional do Funchal (Banif) in Portugal in the fourth quarter.

- On the other, the following charges, all of them in the fourth quarter: €600 million set aside in the UK to cover possible claims related to payment protection insurance (PPI); €683 million for the impairment of intangible assets and €435 million for goodwill and other items. The total amount of these charges was €1,718 million.

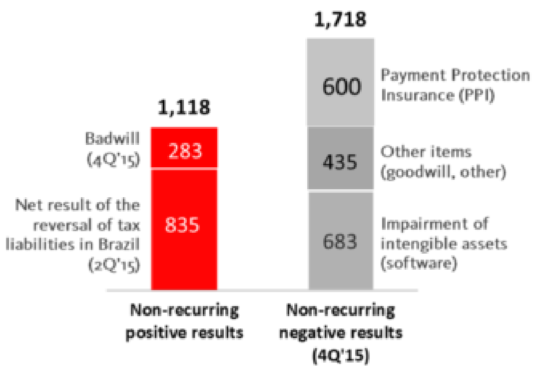
In 2014, €1,589 million of capital gains were recorded by the Altamira operation, the flotation of Santander Consumer USA and changes in UK pension commitments. At the same time, a fund was established for restructuring costs and impairment of intangible assets and other provisions of a similar amount. The net impact of these amounts was zero on the year's profit

After incorporating non-recurring net capital gains and provisions, the Group's attributable profit was €5,966 million (+3%).

The RoTE was 10.0% and earnings per share €0.40, a decline of 16% in the year.

Non-recurring results net of tax

€ Million



Balance sheet

€ Million

Assets	2015	2014	Variation amount	%	2013
Cash on hand and deposits at central banks	81,329	69,428	11,901	17.1	77,103
Trading portfolio	147,287	148,888	(1,601)	(1.1)	115,309
Debt securities	*43,964*	*54,374*	*(10,410)*	*(19.1)*	*40,841*
Customer loans	*6,081*	*2,921*	*3,160*	*108.2*	*5,079*
Equities	*18,225*	*12,920*	*5,305*	*41.1*	*4,967*
Trading derivatives	*76,724*	*76,858*	*(134)*	*(0.2)*	*58,920*
Deposits from credit institutions	*2,293*	*1,815*	*478*	*26.4*	*5,503*
Other financial assets at fair value	45,043	42,673	2,370	5.6	31,441
Customer loans	*14,293*	*8,971*	*5,322*	*59.3*	*13,255*
Other (deposits at credit institutions, debt securities and equities)	*30,750*	*33,702*	*(2,952)*	*(8.8)*	*18,185*
Available-for-sale financial assets	122,036	115,251	6,785	5.9	83,799
Debt securities	*117,187*	*110,249*	*6,938*	*6.3*	*79,844*
Equities	*4,849*	*5,001*	*(152)*	*(3.0)*	*3,955*
Loans	831,637	781,635	50,002	6.4	731,420
Deposits at credit institutions	*50,256*	*51,306*	*(1,050)*	*(2.0)*	*57,178*
Customer loans	*770,474*	*722,819*	*47,655*	*6.6*	*666,356*
Debt securities	*10,907*	*7,510*	*3,397*	*45.2*	*7,886*
Held-to-maturity investments	4,355	—	4,355	—	—
Investments	3,251	3,471	(220)	(6.3)	3,377
Intangible assets and property and equipment	27,790	26,109	1,681	6.4	18,137
Goodwill	26,960	27,548	(588)	(2.1)	24,263
Other	50,572	51,293	(721)	(1.4)	49,279
Total assets	**1,340,260**	**1,266,296**	**73,964**	**5.8**	**1,134,128**

Liabilities and shareholders' equity	2015	2014	Variation amount	%	2013
Trading portfolio	105,218	109,792	(4,574)	(4.2)	94,695
Customer deposits	*9,187*	*5,544*	*3,643*	*65.7*	*8,500*
Marketable debt securities	—	—	—	—	*1*
Trading derivatives	*76,414*	*79,048*	*(2,634)*	*(3.3)*	*58,910*
Other	*19,617*	*25,200*	*(5,583)*	*(22.2)*	*27,285*
Other financial liabilities at fair value	54,768	62,318	(7,550)	(12.1)	42,311
Customer deposits	*26,357*	*33,127*	*(6,770)*	*(20.4)*	*26,484*
Marketable debt securities	*3,373*	*3,830*	*(457)*	*(11.9)*	*4,086*
Due to central banks and credit institutions	*25,038*	*25,360*	*(322)*	*(1.3)*	*11,741*
Financial liabilities at amortized cost	1,039,343	961,053	78,290	8.1	880,115
Due to central banks and credit institutions	*148,079*	*122,437*	*25,642*	*20.9*	*92,390*
Customer deposits	*647,578*	*608,956*	*38,622*	*6.3*	*572,853*
Marketable debt securities	*201,656*	*193,059*	*8,597*	*4.5*	*182,234*
Subordinated debt	*21,153*	*17,132*	*4,021*	*23.5*	*16,139*
Other financial liabilities	*20,877*	*19,468*	*1,409*	*7.2*	*16,499*
Insurance liabilities	627	713	(86)	(12.0)	1,430
Provisions	14,494	15,376	(882)	(5.7)	14,599
Other liability accounts	27,057	27,331	(274)	(1.0)	20,680
Total liabilities	**1,241,507**	**1,176,581**	**64,926**	**5.5**	**1,053,830**
Shareholders' equity	102,402	91,664	10,738	11.7	84,479
Capital stock	*7,217*	*6,292*	*925*	*14.7*	*5,667*
Reserves	*90,765*	*80,026*	*10,739*	*13.4*	*75,044*
Attributable profit to the Group	*5,966*	*5,816*	*150*	*2.6*	*4,175*
Less: dividends	*(1,546)*	*(471)*	*(1,075)*	*228.4*	*(406)*
Equity adjustments by valuation	(14,362)	(10,858)	(3,504)	32.3	(14,153)
Minority interests	10,713	8,909	1,804	20.3	9,972
Total equity	**98,753**	**89,714**	**9,039**	**10.1**	**80,298**
Total liabilities and equity	**1,340,260**	**1,266,296**	**73,964**	**5.8**	**1,134,128**

Grupo Santander. Balance sheet

▶ **Growth in loans (+6%) and customer funds (7%) driven by business activity and greater customer loyalty.**

▶ **Loans increased in nine of the ten core countries, both to individual customers and companies.**

▶ **Funds rose in all countries, backed by the strategy to grow demand deposits and mutual funds.**

▶ **In capital, surplus at the end of the year of 280 b.p. in CET1 over the minimum required by the European Central Bank for 2016.**

▶ **The fully-loaded CET1 was 10.05%, the goal foreseen by the end of 2015.**

▶ **The fully-loaded leverage ratio was 4.7%.**

Total **managed and marketed funds** at the end of 2015 amounted to €1,506,520 million, of which €1,340,260 million were on-balance sheet and the rest mutual and pension funds and managed portfolios.

In the Group as a whole, the impact of exchange rates on the evolution of loans was zero, and just one negative percentage point on customer funds. However, the impact was more significant by units: US (+13 p.p.), UK (+6 p.p.), Chile (-5 p.p.), Mexico (-6 p.p.), Brazil (-28 p.p.) and Argentina (-42 p.p.).

There was a slight positive perimeter effect on loans in year-on-year terms, in the consumer credit area (mainly due to the agreement with Banque PSA Finance) and the incorporation in the last part of December, the assets and liabilities acquired from Banco Internacional do Funchal (Banif) in Portugal.

Gross customer lending (excluding repos)

The Group's gross lending (excluding repos) increased 6% eliminating the exchange rate impact. Detailed by country and in constant euros:

– The main rises were at Santander Consumer Finance (+21%, aided by the change in perimeter), Latin America (Brazil: +9%; Mexico: +19%; Chile: +11%) and Poland (+11%). Growth in Portugal was 26% (-1% on a like-for-like basis).

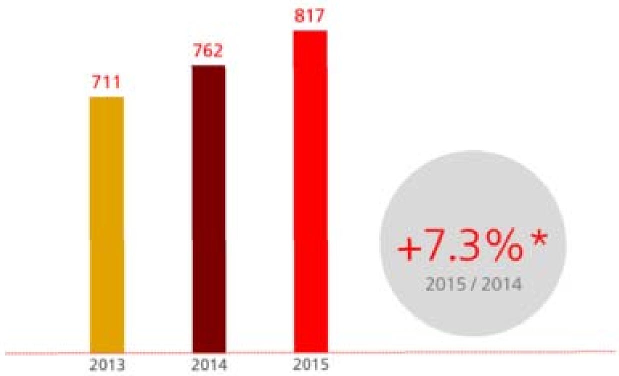
– The rise in the US was 7%, with growth at both Santander Bank and Santander Consumer USA, and in the UK (+5%). Of note in the latter was the good evolution of companies, where we grew at a faster rate than the market, and the increase in mortgages.

Customer loans

€ Million

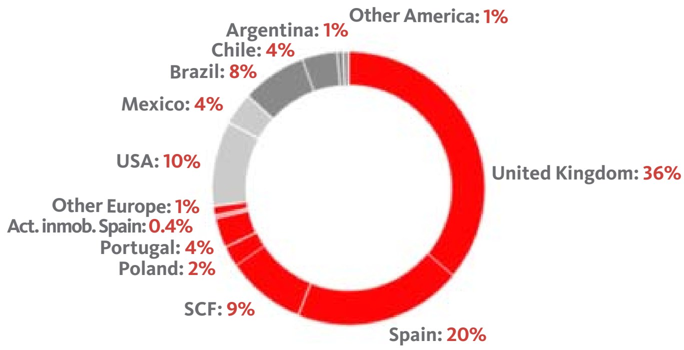
	2015	2014	Variation amount	%	2013
Spanish Public sector	13,993	17,465	(3,472)	(19.9)	13,374
Other residents	153,863	154,905	(1,042)	(0.7)	160,478
Commercial bills	9,037	7,293	1,744	23.9	7,301
Secured loans	92,478	96,426	(3,947)	(4.1)	96,420
Other loans	52,348	51,187	1,161	2.3	56,757
Non-resident sector	649,509	589,557	59,952	10.2	537,587
Secured loans	409,136	369,266	39,870	10.8	320,629
Other loans	240,373	220,291	20,082	9.1	216,958
Gross customer loans	**817,366**	**761,928**	**55,438**	**7.3**	**711,439**
Loan-loss allowances	26,517	27,217	(700)	(2.6)	26,749
Net customer loans	**790,848**	**734,711**	**56,137**	**7.6**	**684,690**
Pro memoria: Doubtful loans	36,133	40,424	(4,292)	(10.6)	41,088
Public sector	145	167	(22)	(13.2)	99
Other residents	16,301	19,951	(3,650)	(18.3)	21,763
Non-resident sector	19,686	20,306	(620)	(3.1)	19,226

Gross loans to customers
€ Billion



(*) Excluding exchange rate impact: +7.4%

Loans to customers
% / operating areas. December 2015



– Spain declined 3% in an environment of strong competition in prices and where the double-digit growth in new lending was still below the pace of maturities. SMEs and companies rose 1%.

– As for Real Estate Activity in Spain, net lending was down 33%, as a result of continuing the deleveraging strategy of recent years.

Credit risk

Net NPL entries in 2015 amounted to €7,705 million after eliminating the perimeter and exchange-rate effects (-20% year-on-year), mainly due to Spain.

Non-performing loans ended the year at €37,094 million, 11% lower (-9% excluding the forex impact). This balance brought the Group's NPL ratio to 4.36%, 83 b.p. lower than in 2014 and on a downward path every quarter of 2015.

Loan-loss allowances amounted to EUR 27,121 million, which provided coverage of 73% (+6 p.p.). In order to properly view this figure, one has to take into account that the UK and Spain ratios are affected by the weight of mortgage balances, which require fewer provisions as these loans have guarantees.

The improved credit quality is reflected in the reduction in loan-loss provisions (-4% over 2014) and in the consequent improvement of the cost of credit, which dropped from 1.43% at the end of 2014 to 1.25%. Excluding Santander Consumer USA, which because of the nature of its business has a high level of provisions and recoveries, the cost of credit was below 1% at the end of 2015 (0.90% compared to 1.15% in 2014).

Credit quality ratios performed well in almost all countries and reflected the appropriate risk management policy, which we are strengthening with the launch of the *Advanced Risk Management (ARM)* programme and boosting the risk culture throughout the Group under a common identity, *risk-pro*.

More information on credit risk, the control and monitoring systems and the internal risk models for calculating provisions can be found in the specific section of the Risk Management Report in this Annual Report.

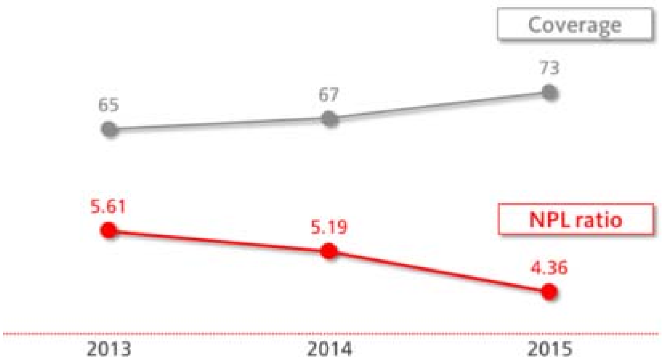
Credit risk management*
€ Million

	2015	2014	Variation amount	%	2013
Non-performing loans	37,094	41,709	(4,615)	(11.1)	42,420
NPL ratio (%)	4.36	5.19	(0.83)		5.61
Loan-loss allowances	27,121	28,046	(925)	(3.3)	27,526
Specific	*17,707*	*21,784*	*(4,077)*	*(18.7)*	*22,433*
Collective	*9,414*	*6,262*	*3,152*	*50.3*	*5,093*
Coverage ratio (%)	73.1	67.2	5.9		64.9
Cost of credit (%) **	1.25	1.43	(0.18)		1.69

(*) Excluding country-risk
(**) 12 months net loan-loss provisions / average lending
Note: NPL ratio: Non-performing loans / computable assets

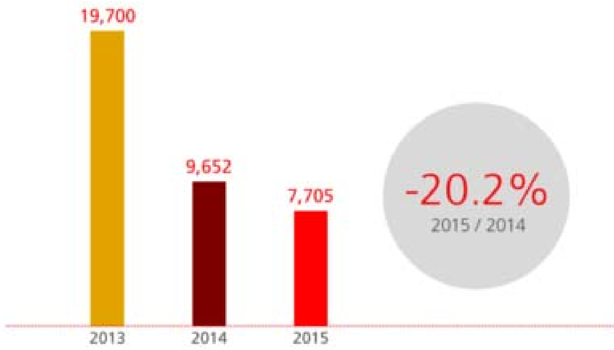
Grupo Santander. NPL and coverage ratios

%



Net NPL entries

€ Million



Managed and marketed customer funds

Total managed funds (deposits excluding repos and mutual funds) rose 6%. At constant exchange rates, customer deposits without repos increased 6% and mutual funds 14%. The combined increase was 7%.

All countries were the Group is present, increased their balance in customer funds, excluding the forex impact, as follows:

– Growth of 12% in Brazil, of or around 10% in the US, Mexico and Chile, while the UK rose 6%, Portugal 5% (excluding the perimeter impact) and Poland 4%.

– Spain increased 1%, more in line with the lending growth rates already mentioned.

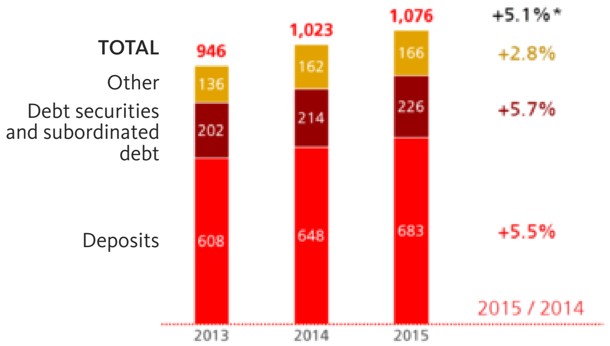
The strategy to grow in demand deposits and mutual funds, with almost all countries increasing in both items, and reduce time deposits continued.

Managed and marketed customer funds

€ Million

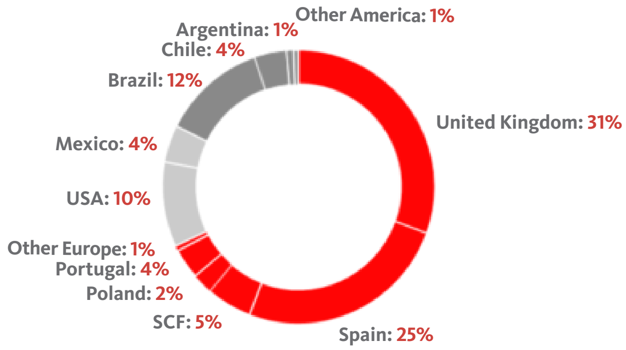
	2015	2014	Variation amount	%	2013
Resident public sector	11,737	9,349	2,388	25.5	7,745
Other residents	157,611	163,340	(5,729)	(3.5)	161,649
Demand deposits	108,410	88,312	20,098	22.8	74,969
Time deposits	47,297	67,495	(20,198)	(29.9)	80,146
Other	1,904	7,532	(5,629)	(74.7)	6,535
Non-resident sector	513,775	474,939	38,836	8.2	438,442
Demand deposits	313,175	273,889	39,286	14.3	230,715
Time deposits	146,317	151,113	(4,796)	(3.2)	161,300
Other	54,283	49,937	4,346	8.7	46,427
Customer deposits	**683,122**	**647,628**	**35,495**	**5.5**	**607,836**
Debt securities	205,029	196,890	8,139	4.1	186,321
Subordinated debt	21,153	17,132	4,021	23.5	16,139
On-balance-sheet customer funds	**909,304**	**861,649**	**47,655**	**5.5**	**810,296**
Mutual funds	129,077	124,708	4,369	3.5	103,967
Pension funds	11,376	11,481	(105)	(0.9)	10,879
Managed portfolios	25,808	25,599	209	0.8	21,068
Other managed and marketed customer funds	**166,260**	**161,788**	**4,473**	**2.8**	**135,914**
Managed and marketed customer funds	**1,075,565**	**1,023,437**	**52,128**	**5.1**	**946,210**

Managed and marketed customer funds
€ Billion



(*) Excluding exchange rate impact: +6.8%

Managed and marketed customer funds
% / operating areas. December 2015



As well capturing customer deposits, Grupo Santander, for strategic reasons, maintains a selective policy of issuing securities in the international fixed income markets and strives to adapt the frequency and volume of its market operations to the structural liquidity needs of each unit, as well as to the receptiveness of each market.

In 2015, various Group units carried out:

- Medium and long-term senior debt issues amounting to €36,986 million, subordinated debt issue of €4,217 million and covered bonds of €3,657 million.

- Securitizations placed in the market (€14,379 million).

Maturities of medium and long-term debt amounted to €36,462 million.

The loan-to-deposit ratio was 116% and the ratio of deposits plus medium- and long-term funding to the Group's loans was 114%, underscoring the comfortable funding structure.

Other items of the balance sheet

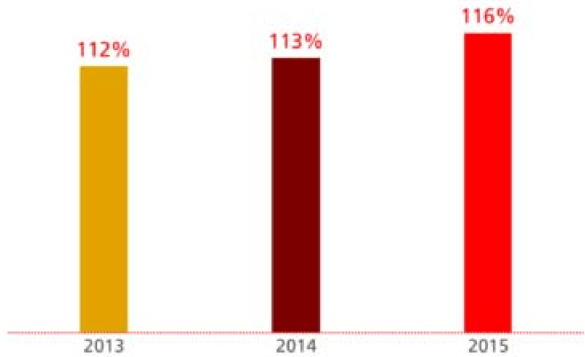
The balance of financial assets available for sale stood at €122,036 million at the end of 2015, €6,785 million more than in 2014 (+6%), due mainly to Spain, US and Mexico.

Held-to-maturity investments was €4,355 million, all of which was generated in 2015 due to the revision of those portfolios included in financial assets available for sale whose economic logic recommended their re-classification to held-to-maturity investments.

Total goodwill was €26,960 million, €588 million less than in 2014, as the increase due to the change in perimeter was fully offset by the evolution of the Brazilian real against the euro.

Lastly, tangible and intangible assets amounted to €27,790 million, €1,681 million more than December 2014. Increase mainly in the US due to the exchange rate and to assets associated with leasing business.

Total Group. Loan-to-deposit ratio
%



Shareholders' equity and solvency ratios

Total shareholders' funds amounted to €88,040 million (+9%). The rise was due to January's €7,500 million capital increase and retained earnings, which was partly reduced by the negative evolution of equity valuation adjustments.

In regulatory terms, phase-in eligible equity was €84,346 million, which gave a total capital ratio of 14.40% and a common equity Tier 1 (CET1) ratio of 12.55%. This ratio was 280 b.p. above the 9.75% minimum that the European Central Bank (under its Supervisory Review and Evaluation Process) established for Grupo Santander in 2016 on a consolidated basis (including the 0.25% derived from being a global systemically important bank).

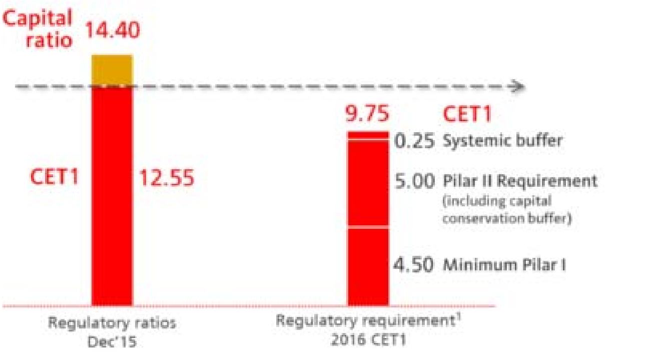
Eligible capital (Phase-in)

€ Million

	2015	2014
CET1	73,478	71,598
Basic capital	73,478	71,598
Eligible capital	**84,346**	**77,854**
Risk-weighted assets	585,609	585,243
CET1 capital ratio	**12.55**	**12.23**
T1 capital ratio	**12.55**	**12.23**
BIS ratio	**14.40**	**13.30**

Capital ratios

%



(1) Minimum prudential requirements established by the ECB, based on the supervisory review and evaluation process (SREP)

Eligible capital (fully loaded)*

€ Million

	2015	2014	Variation amount	%
Capital stock and reserves	98,193	93,748	4,445	4.7
Attributable profit	5,966	5,816	150	2.6
Dividends	(2,268)	(1,014)	(1,254)	123.7
Other retained earnings	(15,448)	(11,468)	(3,980)	34.7
Minority interests	6,148	4,131	2,017	48.8
Goodwill and intangible assets	(28,254)	(29,164)	910	(3.1)
Treasury stock and other deductions	(5,633)	(5,767)	134	(2.3)
Core CET1	**58,705**	**56,282**	**2,423**	**4.3**
Preferred shares and other eligibles T1	5,504	4,728	776	16.4
Tier 1	**64,209**	**61,010**	**3,199**	**5.2**
Generic funds and eligible T2 instruments	11,996	7,561	4,435	58.7
Eligible capital	**76,205**	**68,571**	**7,634**	**11.1**
Risk-weighted assets	583,893	583,366	527	0.1
CET1 capital ratio	**10.05**	**9.65**	**0.40**	
T1 capital ratio	**11.00**	**10.46**	**0.54**	
BIS ratio	**13.05**	**11.75**	**1.30**	

(*).- In 2014, pro-forma data taking into account the January 2015 capital increase

In fully-loaded terms, the CET1 at the end of 2015 was 10.05%, the goal set at the start of the year and an increase of 40 b.p. in the year (excluding the capital increase). The rise was 50 b.p. before non-recurring net capital gains and provisions.

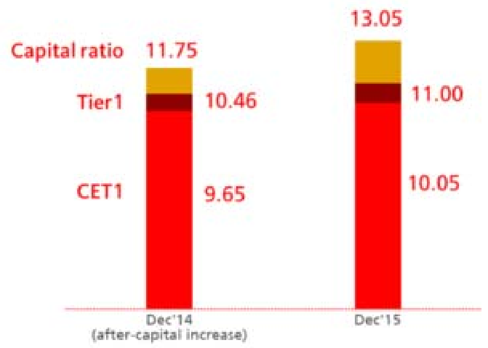
The fully-loaded total capital ratio was 13.05% (+130 b.p. in the year), as to the rise in the CET1 was added the favourable impact from the eligibility of the hybrid issues made.

Qualitatively speaking, the Group has solid and appropriate ratios for its business model, balance sheet structure and risk profile.

The fully-loaded leverage ratio (as established by regulation 2015/621) was 4.7%.

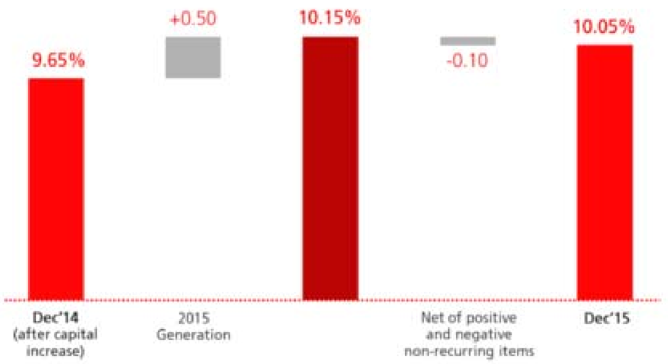
Fully-loaded capital ratio

%



Fully-loaded CET1 performance

%



Rating agencies

The Group's access to the wholesale funding markets, as well as the cost of issues, depends to some extent on the ratings of rating agencies.

Rating agencies regularly review the Group's ratings. The rating depends on a series of internal (solvency, business model, capacity to generate results) and external factors related to the general economic environment, the banking sector's situation and the sovereign risk of the countries in which the Bank operates.

	Long term	Short term	Outlook
DBRS	A	R1 (low)	Stable
Fitch Ratings	A-	F2	Stable
GBB Rating	AA-		Stable
Moody's	A3	P-2	Positive
Standard & Poor´s	A-	A-2	Stable
Scope	A+	S-1	Stable

During 2015:

- Moody's upgraded its rating of Santander's long-term senior debt from Baa1 to A3, and changed the outlook from stable to positive.
- Standard & Poor's upgraded its rating of long-term senior debt from BBB+ to A-.
- Scope also upgraded its rating of long-term senior debt from A to A+.
- GBB upgraded its rating from A+ to AA- with stable outlook.
- DBRS confirmed its ratings with stable outlook.

Description of the business

Some changes were made in the third quarter of 2015 to the criteria applied and to the composition of some units, in order to enhance the Group's transparency, facilitate the analysis of some business units and place value on the activity developed by the Corporation. The criteria changes are:

- In Spain, internal transfer rates (ITR) individualised by transaction were applied to calculate the financial margin, so that the balance sheet was matched in terms of interest rate risk. The counterpart of these results was the Corporate Centre. Following this change, Spain is homogenised with the rest of the Group's countries and units, and all the results of financial management of the balance sheet, including the aforementioned interest rate risk, are reported in this unit.

- The cost of AT1 issued by Brazil and Mexico to replace CET1 was assumed by the Corporate Centre as they were operations to optimise capital in these units. This cost is now recorded by each country.

- The scope of costs charged to units from the Corporate Centre is widened, in accordance with the new structure.

In addition, the Spain Real Estate Activity unit is created, which groups together the former unit of Run-off Real Estate Activity in Spain and other real estate assets, such as the stake in Metrovacesa and those of the former real estate fund previously included in the Corporate Centre.

The Latin America and the US areas were also changed. The units of Banco Santander International and the New York branch, which were in the Latin America area, are now included in the US.

The results of 2014 and those of the first half of 2015 of the business units and of the Corporate Centre have been re-stated in accordance with the new criteria. This mainly affects net interest income, gains on financial transactions and operating expenses.

All these changes do not affect the figures of the consolidated Group, which were unchanged.

The financial statements of each business segment have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the units integrated in each segment, as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

The operating business areas are structured into two levels

Geographic businesses. The activity of the Group's operating units is segmented by geographic areas. This coincides with the Group's first level of management and reflects Santander's positioning in the world's three main currency areas (euro, sterling and dollar). The segments reported on are:

- **Continental Europe.** This covers all businesses in the area. Detailed financial information is provided on Spain, Portugal, Poland and Santander Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith).

- **United Kingdom**. This includes the businesses developed by the various units and branches in the country.

- **Latin America**. This embraces all the Group's financial activities conducted via its banks and subsidiaries in the region. The individual financial statements of Brazil, Mexico and Chile are provided.

- **United States** Includes the holding (SHUSA), the businesses of Santander Bank, Santander Consumer USA and Banco Santander Puerto Rico, the specialised unit of Banco Santander International and the New York branch.

Global businesses. The activity of the operating units is distributed by type of business among Retail Banking, Santander Global Corporate Banking and Spain Real Estate Activity unit.

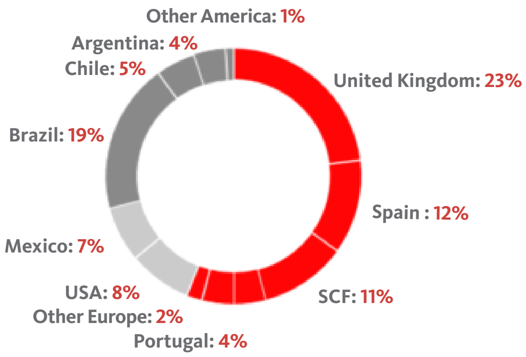
- **Retail Banking**. This covers all customer banking businesses, including those of consumer, but not those of corporate banking which are managed via Santander Global Corporate Banking. The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.
- **Santander Global Corporate Banking (SGCB)**. This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equities business.

As well as these operating units, which report by geographic area and by businesses, the Group continues to maintain the area of **Corporate Centre.** This area incorporates the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of the Group's Assets and Liabilities Committee, as well as management of liquidity and of shareholders' equity through issues.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

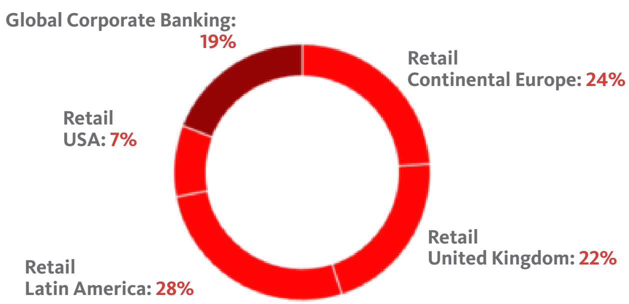
The figures of the Group's various units have been drawn up in accordance with these criteria, and so do not coincide individually with those published by each unit.

Distribution of underlying attributable profit by geographical business*. 2015



(*) Excluding Spain's Real Estate activity and Corporate Centre

Distribution of underlying attributable profit by global business*. 2015



Net operating income

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**6,093**	**6,059**	**34**	**0.6**	**0.5**
o/w: Spain	2,646	3,140	(493)	(15.7)	(15.7)
Santander Consumer Finance	2,192	1,756	436	24.8	24.8
Poland	683	791	(108)	(13.7)	(13.7)
Portugal	522	459	63	13.7	13.7
United Kingdom	**3,025**	**2,622**	**403**	**15.4**	**3.9**
Latin America	**10,851**	**10,706**	**144**	**1.3**	**10.6**
o/w: Brazil	6,689	6,937	(248)	(3.6)	12.7
Mexico	1,947	1,736	211	12.2	11.7
Chile	1,332	1,327	5	0.4	(4.0)
USA	**4,774**	**3,740**	**1,035**	**27.7**	**6.7**
Operating areas	**24,744**	**23,128**	**1,616**	**7.0**	**6.4**
Corporate Centre	(1,042)	(554)	(488)	88.2	88.2
Total Group	**23,702**	**22,574**	**1,128**	**5.0**	**4.4**

Attributable profit to the Group

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**2,218**	**1,648**	**570**	**34.6**	**34.1**
o/w: Spain	977	827	150	18.2	18.2
Santander Consumer Finance	938	795	143	18.0	18.0
Poland	300	355	(55)	(15.4)	(15.4)
Portugal	300	184	116	62.8	62.8
United Kingdom	**1,971**	**1,556**	**415**	**26.6**	**14.0**
Latin America	**3,193**	**2,902**	**291**	**10.0**	**16.6**
o/w: Brazil	1,631	1,437	194	13.5	32.7
Mexico	629	606	22	3.7	3.2
Chile	455	498	(43)	(8.6)	(12.5)
USA	**678**	**861**	**(183)**	**(21.3)**	**(34.2)**
Operating areas	**8,059**	**6,967**	**1,093**	**15.7**	**12.7**
Corporate Centre*	(1,493)	(1,151)	(342)	29.8	29.8
Total Group	**6,566**	**5,816**	**750**	**12.9**	**10.1**
Net capital gains and provisions	(600)	—	(600)	—	—
Total Group	**5,966**	**5,816**	**150**	**2.6**	**0.1**

(*).- Excluding net capital gains and provisions

Customer loans excluding repos

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**298,719**	**283,687**	**15,032**	**5.3**	**5.3**
o/w: Spain	**157,161**	**162,377**	**(5,215)**	**(3.2)**	**(3.2)**
Santander Consumer Finance	76,561	63,509	13,051	20.6	21.7
Poland	19,805	17,807	1,998	11.2	11.0
Portugal	30,564	24,342	6,222	25.6	25.6
United Kingdom	**277,718**	**250,094**	**27,624**	**11.0**	**4.6**
Latin America	**137,331**	**145,863**	**(8,533)**	**(5.8)**	**13.3**
o/w: Brazil	63,636	78,471	(14,835)	(18.9)	8.6
Mexico	29,739	26,509	3,229	12.2	18.8
Chile	33,309	31,505	1,804	5.7	11.0
USA	**88,412**	**73,867**	**14,545**	**19.7**	**7.3**
Operating areas	**802,181**	**753,512**	**48,669**	**6.5**	**6.6**
Total Group	**805,395**	**757,934**	**47,461**	**6.3**	**6.4**

Funds (deposits excluding repos + mutual funds)

€ Million	2015	2014	Variation amount	%	% w/o FX
Continental Europe	**312,482**	**300,434**	**12,047**	**4.0**	**4.0**
o/w: Spain	219,263	217,113	2,150	1.0	1.0
Santander Consumer Finance	32,597	30,849	1,748	5.7	6.2
Poland	24,421	23,537	884	3.8	3.5
Portugal	30,684	25,292	5,393	21.3	21.3
United Kingdom	**231,960**	**206,025**	**25,935**	**12.6**	**6.1**
Latin America	**158,322**	**168,991**	**(10,669)**	**(6.3)**	**13.2**
o/w: Brazil	76,751	91,713	(14,962)	(16.3)	12.0
Mexico	37,499	36,292	1,207	3.3	9.4
Chile	29,680	28,695	984	3.4	8.5
USA	**66,870**	**54,632**	**12,238**	**22.4**	**9.8**
Operating areas	**769,634**	**730,083**	**39,551**	**5.4**	**6.9**
Total Group	**774,819**	**730,918**	**43,902**	**6.0**	**7.5**

Continental Europe

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**8,006**	**7,517**	**489**	**6.5**	**6.6**
Net fee income	3,417	3,500	(83)	(2.4)	(2.7)
Gains (losses) on financial transactions	1,186	1,220	(34)	(2.8)	(2.8)
Other operating income*	220	267	(46)	(17.3)	(17.7)
Gross income	**12,830**	**12,504**	**326**	**2.6**	**2.5**
Operating expenses	(6,736)	(6,444)	(292)	4.5	4.4
General administrative expenses	(6,274)	(5,972)	(302)	5.1	4.9
Personnel	*(3,223)*	*(3,113)*	*(110)*	*3.5*	*3.3*
Other general administrative expenses	*(3,051)*	*(2,859)*	*(192)*	*6.7*	*6.7*
Depreciation and amortisation	(463)	(472)	10	(2.0)	(2.1)
Net operating income	**6,093**	**6,059**	**34**	**0.6**	**0.5**
Net loan-loss provisions	(1,975)	(2,880)	905	(31.4)	(31.3)
Other income	(753)	(693)	(59)	8.6	8.5
Profit before taxes	**3,366**	**2,486**	**880**	**35.4**	**35.0**
Tax on profit	(887)	(639)	(248)	38.9	38.8
Profit from continuing operations	**2,479**	**1,847**	**631**	**34.2**	**33.7**
Net profit from discontinued operations	—	(26)	26	(100.0)	(100.0)
Consolidated profit	**2,479**	**1,821**	**658**	**36.1**	**35.6**
Minority interests	261	173	87	50.4	50.3
Attributable profit to the Group	**2,218**	**1,648**	**570**	**34.6**	**34.1**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	287,252	268,735	18,517	6.9	6.9
Trading portfolio (w/o loans)	60,151	65,863	(5,712)	(8.7)	(8.7)
Available-for-sale financial assets	60,913	56,845	4,068	7.2	7.1
Due from credit institutions**	81,867	66,602	15,265	22.9	22.5
Intangible assets and property and equipment	11,798	11,796	2	0.0	(0.6)
Other assets	36,664	26,757	9,906	37.0	36.9
Total assets/liabilities & shareholders' equity	**538,645**	**496,598**	**42,047**	**8.5**	**8.4**
Customer deposits**	263,462	256,909	6,552	2.6	2.5
Marketable debt securities**	50,934	54,431	(3,497)	(6.4)	(6.1)
Subordinated debt**	170	409	(240)	(58.5)	(58.6)
Insurance liabilities	626	713	(87)	(12.2)	(12.2)
Due to credit institutions**	132,688	90,305	42,382	46.9	46.4
Other liabilities	58,251	64,304	(6,053)	(9.4)	(9.4)
Stockholders' equity ***	32,515	29,526	2,989	10.1	9.6
Other managed and marketed customer funds	**71,389**	**66,825**	**4,563**	**6.8**	**6.5**
Mutual and pension funds	62,669	58,417	4,252	7.3	7.3
Managed portfolios	8,720	8,408	312	3.7	1.6
Managed and marketed customer funds	**385,954**	**378,575**	**7,379**	**1.9**	**1.9**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	7.13	5.82	1.31		
Efficiency ratio (with amortisations)	52.5	51.5	1.0		
NPL ratio	7.27	8.88	(1.61)		
Coverage ratio	64.2	57.2	7.0		
Number of employees	58,049	56,645	1,404	2.5	
Number of branches	5,548	5,482	66	1.2	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Continental Europe

2015 Highlights

- **Growth gathered pace during the year, although it was still moderate and varied from country to country.**
- **Santander's activity grew in all countries where it operates due to the strategy of greater customer loyalty, supporting companies and the transactions of Santander Consumer Finance and Portugal.**
- **Attributable profit rose 34%, spurred by Santander Consumer Finance, Spain and Portugal.**

Economic environment

Euro zone growth as a whole accelerated, but varied from country to country. Spain was one of the countries that expanded the most.

Inflation was around 0% in the zone, resulting in the European Central Bank continuing its expansive monetary policy: interest rates at historic lows and quantitative easing.

Activity

Business continued to be moderate, with some countries still deleveraging. There were some signs, however, of greater activity, particularly in new lending.

Of note was the agreement between Santander Consumer Finance and PSA Finance for joint ventures in some countries, as well as the acquisition of Banco Internacional do Funchal (Banif) in Portugal, which positioned us as the second largest private sector bank in the country.

Under the Group's strategic focus, loyal and digital customers continued to increase, spurred in many cases by the *1|2|3 World* for individuals, as well as the launch of *Advance* for companies.

Lending increased 5% and funds 4% (+10% in demand deposits and mutual funds).

Results

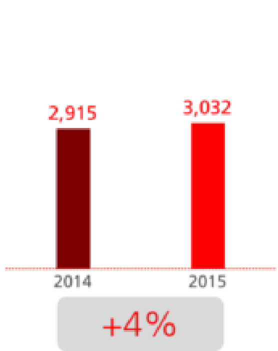
Attributable profit was 34% higher at €2,218 million, driven by Santander Consumer Finance, Spain and Portugal.

This improvement was largely due to the 31% drop in loan-loss provisions, something seen in all units and which reflects the improvement in NPL ratios and the cost of credit.

Strict control of costs (-0.4% on a like-for-like basis) was another positive factor.

Lastly, moderate growth in gross income (+3%) in an environment of tough competition that impacted credit spreads, interest rates at historic lows and higher charges related to deposit guarantee fund and resolution fund.

Loyal customers
Thousands



Digital customers
Thousands

Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +34.6%

Spain

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**3,430**	**3,627**	**(197)**	**(5.4)**
Net fee income	1,688	1,793	(105)	(5.9)
Gains (losses) on financial transactions	784	1,034	(250)	(24.2)
Other operating income*	178	182	(3)	(1.9)
Gross income	**6,080**	**6,636**	**(556)**	**(8.4)**
Operating expenses	(3,434)	(3,496)	63	(1.8)
General administrative expenses	(3,244)	(3,319)	75	(2.3)
Personnel	*(1,670)*	*(1,761)*	*90*	*(5.1)*
Other general administrative expenses	*(1,573)*	*(1,558)*	*(15)*	*1.0*
Depreciation and amortisation	(190)	(177)	(13)	7.1
Net operating income	**2,646**	**3,140**	**(493)**	**(15.7)**
Net loan-loss provisions	(992)	(1,745)	754	(43.2)
Other income	(263)	(212)	(51)	24.0
Profit before taxes	**1,392**	**1,183**	**209**	**17.7**
Tax on profit	(393)	(350)	(44)	12.5
Profit from continuing operations	**999**	**833**	**166**	**19.9**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**999**	**833**	**166**	**19.9**
Minority interests	22	6	16	244.3
Attributable profit to the Group	**977**	**827**	**150**	**18.2**

Balance sheet	2015	2014	Variation amount	%
Customer loans**	155,204	157,047	(1,843)	(1.2)
Trading portfolio (w/o loans)	57,401	62,470	(5,069)	(8.1)
Available-for-sale financial assets	44,057	42,337	1,719	4.1
Due from credit institutions**	56,680	48,838	7,842	16.1
Intangible assets and property and equipment	2,874	3,423	(549)	(16.0)
Other assets	10,822	9,541	1,281	13.4
Total assets/liabilities & shareholders' equity	**327,039**	**323,657**	**3,381**	**1.0**
Customer deposits**	174,828	178,446	(3,618)	(2.0)
Marketable debt securities**	22,265	35,700	(13,435)	(37.6)
Subordinated debt**	(0)	6	(6)	—
Insurance liabilities	536	539	(2)	(0.5)
Due to credit institutions**	68,995	42,585	26,409	62.0
Other liabilities	47,502	54,911	(7,409)	(13.5)
Stockholders' equity ***	12,913	11,470	1,442	12.6
Other managed and marketed customer funds	**63,931**	**58,554**	**5,377**	**9.2**
Mutual and pension funds	57,017	52,605	4,412	8.4
Managed portfolios	6,914	5,949	965	16.2
Managed and marketed customer funds	**261,024**	**272,706**	**(11,683)**	**(4.3)**

Ratios (%) and operating means	2015	2014	Variation amount	%
ROE	8.14	7.41	0.74	
Efficiency ratio (with amortisations)	56.5	52.7	3.8	
NPL ratio	6.53	7.38	(0.85)	
Coverage ratio	48.1	45.5	2.6	
Number of employees	24,216	24,840	(624)	(2.5)
Number of branches	3,467	3,511	(44)	(1.3)

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Spain

2015 Highlights

- **Long-term customer loyalty strategy via the *1|2|3 Account*: 860,000 accounts opened since it was launched.**
- **Substantial improvement in customer satisfaction, according to an independent report.**
- **We continued to support the financing of companies and individuals (+9% and +27%, respectively, in loans).**
- **Attributable profit of €977 million, 18% more than in 2014, spurred by a significant improvement in provisions and the good performance in costs.**

Economic environment

The economy grew 3.2%, higher than the euro zone average.

The main engine of growth was domestic demand, but exports also played a key role and partially offset the rise in imports. The unemployment rate came down to around 21%.

This cycle is showing some features that point to sustained growth: on the one hand, the jobless rate is falling while the current account surplus is improving and, on the other, the gains in competitiveness persist. The budget deficit is lower and the public debt/GDP ratio has almost stabilized.

Strategy

In this environment, Santander Spain is well positioned to accelerate its growth and build long-term relations with customers, as well as foster business with SMEs and companies, and maintain leadership in large companies.

Santander Spain wants to lead a new way of doing banking, based on a strategy of five pillars:

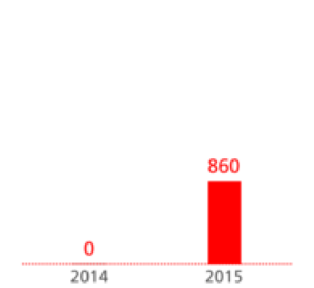
1. Build long term relationships with our customers.

- We launched the *1|2|3 Account,* a new concept that rewards loyalty and intensifies the relationship with the Bank, where customers can became shareholders.
- At the end of the year, there were more than 860,000 individual and SME accounts, 237,000 of whom were switchers, and increased loyalty. We also focused on the value-added segments (*Select* and private banking), taking advantage of our specialised model and retail network density.

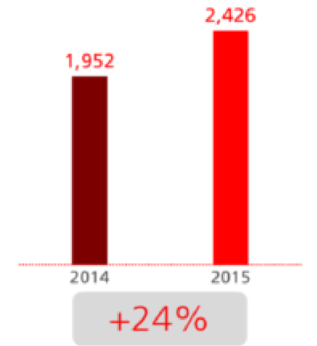
2. Be the reference bank for companies. We continued to support the financing of companies (+9% growth in loans). Some steps taken during 2015 were:

- Creation of a segmented management model, divided into SMEs, large companies, institutions and global corporate banking (GCB), which enables us to adjust the value proposition to customers' needs.
- Launch of the *1|2|3 Account* for SMEs and businesses in order to lead this market.
- Our retail network became more specialised in this segment and we improved the range of high value-added products (international business, factoring, confirming, brokerage, leasing and renting).
- We remained the leader in global corporate banking (market share of more than 20%), participating in almost all the stock market listings in 2015.

1|2|3 customers
Thousands



Digital customers
Thousands

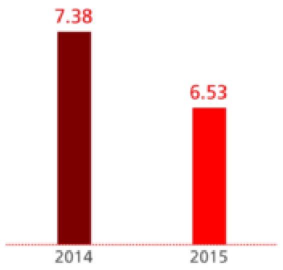


Activity
% var. 2015 / 2014

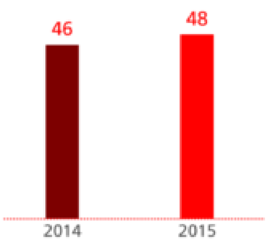
(*) Customer deposits + mutual funds

Attributable profit
€ Million

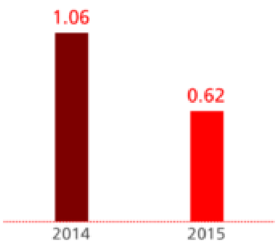
NPL ratio
%



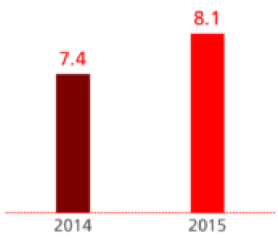
Coverage ratio
%



Cost of credit
%



RoTE
%



3. Achieving excellence in the quality of service.

- According to the independent Stiga report, there was a substantial improvement in customer satisfaction and all the customer-focused processes are being reviewed.

- We began to transform the branch network into a new model and boost the digital transformation, a key area of our strategy. Of note was the launch of an app for the *Apple Watch*, the app for digitalizing ID cards and the marketing of more than 25% of consumer loans by remote channels. The number of digital customers increased 24% in the year.

4. Develop an advanced risk management system to improve the integral vision of risk based on the customer.

5. Generate sustainable profitability based on stable results thanks to the model of *"payment by value"* and the monetization of our long-term strategy with customers.

The corporate governance model was also strengthened in 2015, with the creation of the Santander Spain Board whose governance structure is the same as that of the subsidiaries in the rest of the Group's countries.

Activity

Lending to SMEs and micro companies amounted to €13,148 million (+18%) and the pace of growth of new loans to individuals (+27%) was maintained, while that to large companies was virtually stable. This was still not reflected in the stock (-3% over 2014) because of lower loans to institutions and maturity of mortgages. SMEs, on the other hand, rose 1%.

Funds increased 1%, with demand deposits up 9% and mutual funds 11% and time deposits down 20%.

The cost of deposits was 0.59% in 2015, down from 1.02% a year ago, following the launch of the *1|2|3 Account*, and remained constant for the last few quarters.

Results

Attributable profit was 18% higher at €977 million, backed by the good performance of provisions and operational excellence.

- Gross income declined 8% in an environment of interest rates at historic lows and strong competition in loans, a regulatory environment that hit fee income. Also, reduced revenue from financial activity and higher charges for the Deposit Guarantee Fund and resolution fund.

- Operating expenses declined 2%, thanks to the synergies achieved in the optimization plans.

- Loan-loss provisions were 43% lower than in 2014, as the process of normalization in a more favourable economic cycle continued. The NPL ratio was 6.53% (-85 b.p.). The coverage ratio was 3 p.p. higher at 48%.

- The cost of credit fell from 1.06% in 2014 to 0.62%, keeping up its good trend.

Strategy in 2016

- Continue the strategy of forging long-term customer relations, with the goal of 2 million 1|2|3 accounts by the end of the year.
- Improve customer satisfaction and be one of the Top 3 in this sphere.
- Increase our market share in SMEs and companies via the 1|2|3 SMEs Account and enhance the range of value-added products.
- Continue to reduce the cost of credit.
- Make further progress in the digital transformation process.

Santander Consumer Finance

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**3,096**	**2,368**	**728**	**30.7**
Net fee income	876	841	36	4.2
Gains (losses) on financial transactions	(11)	3	(14)	—
Other operating income*	4	12	(9)	(69.4)
Gross income	**3,965**	**3,224**	**742**	**23.0**
Operating expenses	(1,774)	(1,468)	(306)	20.8
General administrative expenses	(1,602)	(1,293)	(309)	23.9
Personnel	*(746)*	*(588)*	*(158)*	*26.9*
Other general administrative expenses	*(855)*	*(705)*	*(151)*	*21.4*
Depreciation and amortisation	(172)	(175)	3	(1.6)
Net operating income	**2,192**	**1,756**	**436**	**24.8**
Net loan-loss provisions	(537)	(544)	7	(1.2)
Other income	(152)	(37)	(115)	312.7
Profit before taxes	**1,502**	**1,175**	**327**	**27.8**
Tax on profit	(426)	(315)	(111)	35.2
Profit from continuing operations	**1,076**	**860**	**216**	**25.1**
Net profit from discontinued operations	—	(26)	26	(100.0)
Consolidated profit	**1,076**	**834**	**242**	**29.0**
Minority interests	137	39	99	254.4
Attributable profit to the Group	**938**	**795**	**143**	**18.0**

Balance sheet				
Customer loans**	73,709	60,448	13,261	21.9
Trading portfolio (w/o loans)	94	87	7	8.2
Available-for-sale financial assets	3,654	988	2,666	269.8
Due from credit institutions**	4,252	5,476	(1,225)	(22.4)
Intangible assets and property and equipment	692	786	(94)	(12.0)
Other assets	6,133	3,734	2,399	64.3
Total assets/liabilities & shareholders' equity	**88,534**	**71,520**	**17,014**	**23.8**
Customer deposits**	32,595	30,847	1,748	5.7
Marketable debt securities**	23,277	15,646	7,632	48.8
Subordinated debt**	70	66	4	5.5
Insurance liabilities	—	—	—	—
Due to credit institutions**	20,314	14,266	6,048	42.4
Other liabilities	4,325	3,343	982	29.4
Stockholders' equity ***	7,953	7,351	602	8.2
Other managed and marketed customer funds	**7**	**7**	**0**	**1.6**
Mutual and pension funds	7	7	0	1.6
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**55,950**	**46,566**	**9,383**	**20.2**

Ratios (%) and operating means				
ROE	12.03	11.05	0.99	
Efficiency ratio (with amortisations)	44.7	45.5	(0.8)	
NPL ratio	3.42	4.82	(1.40)	
Coverage ratio	109.1	100.1	9.0	
Number of employees	14,533	13,138	1,395	10.6
Number of branches	588	579	9	1.6

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Santander Consumer Finance

2015 Highlights

- **The agreement with PSA Finance and the integrations in Nordic countries strengthened SCF's position in its markets and improved business diversification. It also increased the potential for future growth.**
- **Higher new lending in the core countries: Spain, Germany and Nordic countries.**
- **Attributable profit of €938 million, 18% more than in 2014.**
- **Profit growth due to higher revenues as well as improved efficiency and cost of credit.**

Economic environment

The main European markets where business is conducted grew at between 1.7% and 3.5% in 2015.

Santander Consumer Finance's units in continental Europe carried out their business in an environment of fledgling recovery in both consumer business and new car sales (+9% year-on-year in the countries where we operate).

Strategy

SCF offers financing and services via 130,000 associated points of sales (car dealers and shops). It also has a significant number of agreements with car and motorcycle manufacturers and retail distribution groups.

In 2015, SCF continued to gain market share, backed by a business model that was strengthened during the crisis thanks to high geographic and product diversification, with leadership positions and critical mass in core markets, better efficiency than our competitors and a common risk control and recoveries system that keeps credit quality high.

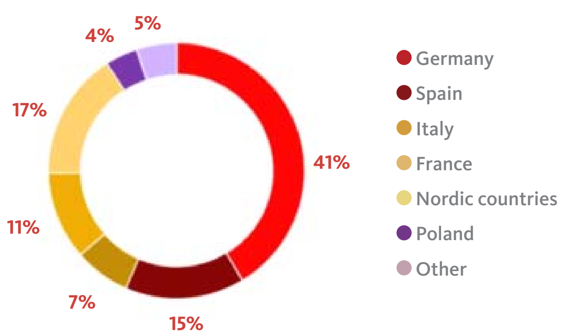
The management focus centred on:

- Integrating the businesses of GE Nordics acquired in the second half of 2014.
- Developing agreements with Banque PSA Finance.
- Fostering new loans and cross-selling in accordance with the situation of each market and backed by brand agreements.
- Exploiting competitive advantages in the European consumer finance market.

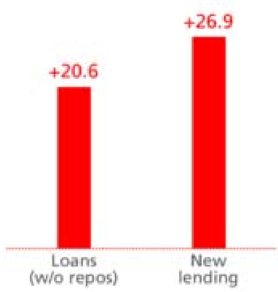
The integration of GE Nordics was done in an optimum way and enabled us to increase the area's weight of direct business, strengthening profitable and diversified growth.

The agreement with Banque PSA Finance began to be developed in 2015 and will consolidate our auto finance leadership. At the end of the year, transactions had been carried out in Spain, Portugal, UK, France and Switzerland. The latter two are new markets where SCF

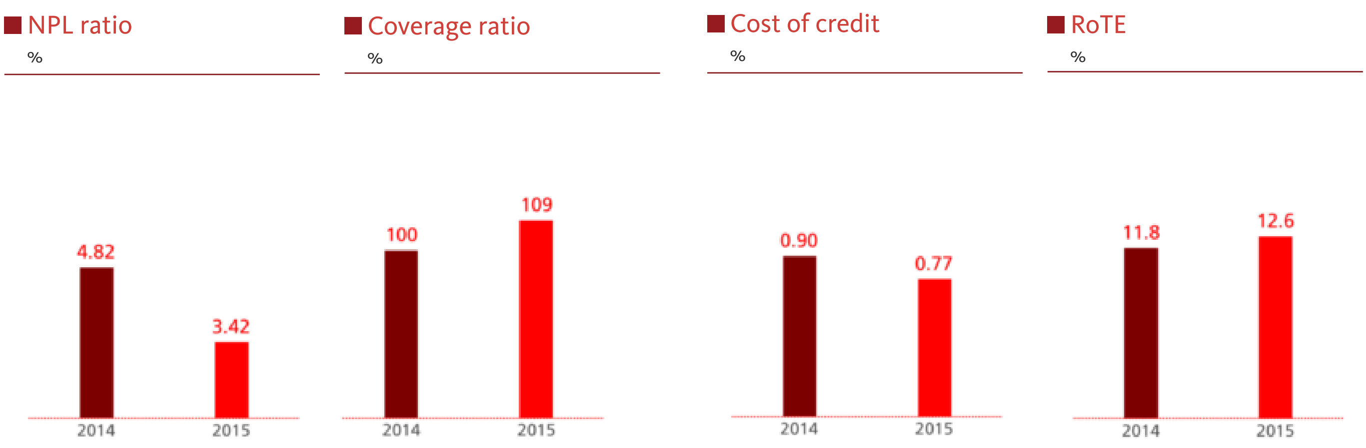
Customer loans by geography
2015



Activity
% var. 2015 / 2014



Attributable profit
€ Million



had no presence. These incorporations contributed around €11,500 million of loans, plus €3,700 million in the UK. The rest of countries (Germany, Italy, Holland, Belgium, Poland and Austria) will be integrated in 2016.

SCF also focused in 2015 on consumer business via pan European agreements and increased its presence in digital channels.

Activity

New lending increased 27% in 2015 favoured by the larger perimeter and strongly backed by direct credit and cards (+20%) and auto finance (+35%). Of note in the peripheral countries was the growth in new business in Spain (+32%) and the Nordic countries (+30% in constant currency). Germany grew 7%.

Of note on the funding side were stable customer deposits (around €32.000 million, mostly in Germany), something that distinguishes us from our competitors. The area is also increasing its recourse to wholesale funding in order to optimize its funding structure (€9,522 million issued in 2015, via senior issues and securitizations).

Deposits plus medium and long-term issues and securitisations placed in the market covered 70% of net lending.

Results

Attributable profit was €938 million, 18% more than in 2014 (+€143 million).

This growth benefited from the impact of incorporated units, which is reflected in gross income growing faster than costs and provisions.

Gross income rose 23% (net interest income up 31%), higher than costs (+21%), as a result of which the efficiency ratio improved to 44.7%, 0.8 percentage points less than in 2014.

Loan-loss provisions declined 1%, thanks to the exceptional performance of credit quality. The cost of credit dropped to 0.77% from 0.90% in 2014. The NPL ratio was 3.42% (-140 b.p.) and coverage 109% (+9 p.p.).

In short, an excellent performance of all the credit quality ratios.

The three largest profit makers were Germany (€393 million), Nordic countries (€234 million) and Spain (€169 million).

Strategy in 2016

- Complete the integration of the Banque PSA Finance agreement, which covers 11 countries and a portfolio of more than €20,000 million.
- Increase and maximize auto finance business through brand agreements, with greater penetration of markets and customer loyalty.
- Step up consumer finance business, extending the agreements with the main dealers and strengthening the presence in digital channels.

Poland

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**782**	**834**	**(52)**	**(6.2)**	**(6.3)**
Net fee income	422	435	(13)	(3.0)	(3.0)
Gains (losses) on financial transactions	112	79	33	41.9	41.8
Other operating income*	(40)	28	(67)	—	—
Gross income	**1,276**	**1,376**	**(99)**	**(7.2)**	**(7.3)**
Operating expenses	(594)	(585)	(9)	1.5	1.5
General administrative expenses	(550)	(537)	(12)	2.3	2.2
Personnel	*(324)*	*(310)*	*(14)*	*4.4*	*4.3*
Other general administrative expenses	*(226)*	*(227)*	*1*	*(0.6)*	*(0.6)*
Depreciation and amortisation	(44)	(48)	3	(7.1)	(7.1)
Net operating income	**683**	**791**	**(108)**	**(13.7)**	**(13.7)**
Net loan-loss provisions	(167)	(186)	18	(9.7)	(9.8)
Other income	(4)	11	(15)	—	—
Profit before taxes	**511**	**616**	**(105)**	**(17.0)**	**(17.1)**
Tax on profit	(101)	(134)	33	(24.6)	(24.6)
Profit from continuing operations	**410**	**482**	**(72)**	**(14.9)**	**(14.9)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**410**	**482**	**(72)**	**(14.9)**	**(14.9)**
Minority interests	110	127	(17)	(13.5)	(13.6)
Attributable profit to the Group	**300**	**355**	**(55)**	**(15.4)**	**(15.4)**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	18,977	16,976	2,002	11.8	11.5
Trading portfolio (w/o loans)	894	1,166	(272)	(23.3)	(23.5)
Available-for-sale financial assets	5,305	5,816	(510)	(8.8)	(9.0)
Due from credit institutions**	1,247	1,061	186	17.5	17.3
Intangible assets and property and equipment	260	236	24	10.1	9.9
Other assets	2,429	2,540	(111)	(4.4)	(4.6)
Total assets/liabilities & shareholders' equity	**29,112**	**27,794**	**1,318**	**4.7**	**4.5**
Customer deposits**	21,460	20,144	1,316	6.5	6.3
Marketable debt securities**	398	230	168	73.1	72.7
Subordinated debt**	100	337	(237)	(70.3)	(70.4)
Insurance liabilities	—	77	(77)	(100.0)	(100.0)
Due to credit institutions**	1,152	1,264	(113)	(8.9)	(9.1)
Other liabilities	3,515	3,467	48	1.4	1.2
Stockholders' equity ***	2,487	2,274	213	9.4	9.1
Other managed and marketed customer funds	**3,209**	**3,515**	**(305)**	**(8.7)**	**(8.9)**
Mutual and pension funds	3,106	3,430	(323)	(9.4)	(9.6)
Managed portfolios	103	85	18	21.1	20.8
Managed and marketed customer funds	**25,168**	**24,226**	**942**	**3.9**	**3.7**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	12.53	16.04	(3.51)		
Efficiency ratio (with amortisations)	46.5	42.5	4.0		
NPL ratio	6.30	7.42	(1.12)		
Coverage ratio	64.0	60.3	3.7		
Number of employees	11,474	12,010	(536)	(4.5)	
Number of branches	723	788	(65)	(8.2)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Poland (changes in local currency))

2015 Highlights

- **Santander continued to be the leader in cards, mobile and online banking. The strategy was focused on mortgages, SMEs, leasing and corporates.**
- **In deposits, the strategy centred on managing spreads following the policy of strong growth in 2014.**
- **Attributable profit of €300 million, 15% lower than in 2014, affected by lower interest rates and the extraordinary contribution to the Deposit Guarantee Fund.**
- **These impacts were partly offset by the strategy of hedging interest rates, control of costs and improving the cost of credit.**

Economic environment

The economy grew a little faster in 2015 (3.6% in 2015 compared to 3.4% for 2014). Activity was fuelled by domestic demand (private consumption and fixed investment) as well as exports.

The most positive element was the significant improvement in the labour market, with the fall in the unemployment rate to 7.1% in the third quarter (the lowest level since 2008).

Inflation was negative throughout the year (-1% on average in the first 11 months) although the underlying rate remained slightly positive. The very low inflation rate (far from the Bank of Poland's central target of 2.5%) led the monetary policy committee to lower the benchmark rate in March to 1.5%.

The zloty ended the year against the euro at almost the same position as at the start. In the first part of 2015 the currency appreciated to PLN 4/€ and in the second it depreciated. Against the dollar, the zloty depreciated by 10%, pulled down by the euro depreciation against the dollar.

Strategy

Santander (BZ WBK) is Poland's third largest bank by loans and deposits (market shares of 9.8% and 10.0%, respectively).

The bank won Euromoney's Best Bank in Poland prize in the magazine's awards for excellence. It continued the strategic *Next Generation Bank* programme to develop at all levels. The main objective is to be the bank of first choice for customers.

We remain leaders in cards, mobile and online banking, marketing various products and initiatives that make us a reference in innovation and electronic security.

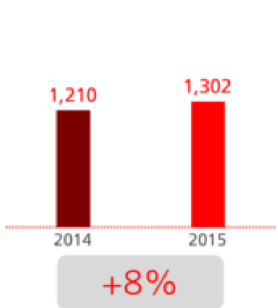
In September, we launched a payment card with HCE technology. The *in-cloud card* is available via the mobile app *BZWBK24*. This app is one of the best in Europe and has won various prizes in international rankings: first prize from Global Finance in the 2015 World's Best Digital Bank Awards and second prize from Forrester Research. In Poland, it won first prize in the prestigious Newsweek ranking. More than 1.8 million customers use the BZWBK mobile app.

2015 was a good year for growth in retail bank loans. Of note was the evolution of mortgages and cash loans, and a record was set in new lending.

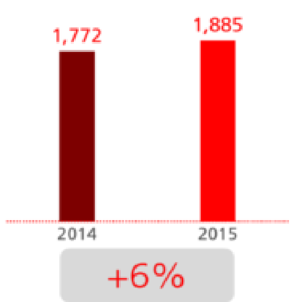
In companies, the focus remained on the SMEs segment, leasing and factoring. Various promotion campaigns were launched to facilitate credit and provide alternative forms of financing businesses development, including a strong focus on Polish exporters.

In Global Corporate Banking, which provides financial services to BZ WBK's main customers and offers services to Santander's global customers, the number of companies increased by close to 170, including 40 large groups with Polish capital.

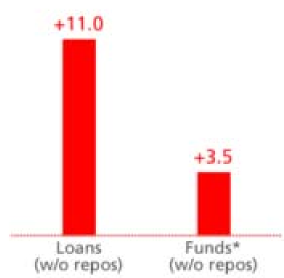
Loyal customers
Thousands



Digital customers
Thousands



Activity
% var. 2015 / 2014 (w/o FX)

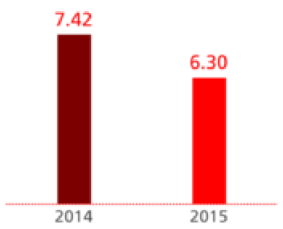


(*) Customer deposits + mutual funds

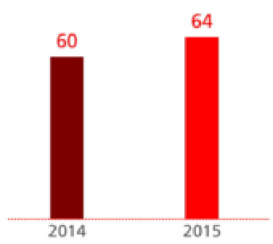
Attributable profit
Constant € million

(*) In euros: -15.4%

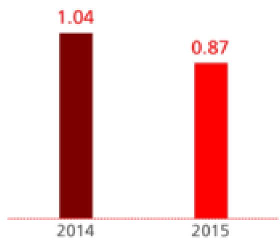
NPL ratio
%



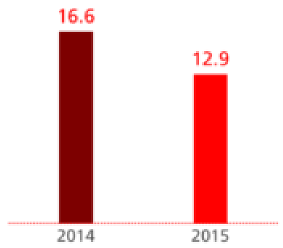
Coverage ratio
%



Cost of credit
%



RoTE
%



Activity

Net loans at the end of 2015 amounted to € 18,977 million and customer deposits € 21,460 million. The solid funding structure was underscored by a net loan-to-deposit ratio of 88%. Gross lending grew 11% and deposits 6%.

New mortgages increased 48% and total mortgages 11%. New cash loans surpassed €7,200 million (+17%). Meanwhile, the *BZWBK24* line is gaining increasing importance (+14% in sales, compared to +10% in 2014).

The number of credit cards rose by 15,000 (+2%), while outstanding balances increased 19% and spending 17%.

Of note in companies were loans in factoring (+26% in balances) and decline in new lending (-13%), placing us with the third highest market share (13%). The performance in leasing was similar (+20% in balances and +25% in new business), improving the positioning in the market to the Top 3 Polish leasing companies.

Results

The attributable profit did not reflect the good business performance, largely due to the fall of interest rates and the extraordinary contribution to the deposit guarantee fund. Attributable profit was 15% lower than in 2014, at €300 million.

Gross income fell 7% because of the net effect of the following impacts:

- Fall in net interest income and in fee income. The first was due to lower interest rates that particularly affected consumer business rates because of the maximum limit, set by the Lombard rate. The second was due to greater regulation that mainly affected card business.

- Also impacted by the one-off charge to the Deposit Guarantee Fund, due to the collapse of SK Wolomin Bank.

This fall was partly offset by control of costs and provisions that were 10% lower (lending was higher). This was reflected in the NPL ratio of 6.30% (-112 b.p. over 2014).

Our Bank in Poland, on the basis of the latest available published figures, continued to have better quality results than its peers, backed by the success of the commercial strategy and the increase in productivity.

Strategy in 2016

- Global objective to gain market share, improve credit quality and be the leader in profitability terms.
- Continue the strategy to boost the loyalty of retail customers, with positive impact on revenues.
- Keep on growing in companies through a renewed value proposition and enhancement of the quality of service, while improving the mix of risks in this segment.
- Digital transformation throughout the distribution network in order to remain the leaders in digital channels.

Portugal

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**555**	**546**	**9**	**1.6**
Net fee income	263	280	(17)	(6.0)
Gains (losses) on financial transactions	164	88	77	87.4
Other operating income*	33	42	(9)	(22.3)
Gross income	**1,016**	**956**	**60**	**6.2**
Operating expenses	(494)	(498)	3	(0.7)
General administrative expenses	(458)	(447)	(11)	2.5
Personnel	*(291)*	*(290)*	*(1)*	*0.4*
Other general administrative expenses	*(167)*	*(158)*	*(10)*	*6.3*
Depreciation and amortisation	(36)	(50)	14	(28.6)
Net operating income	**522**	**459**	**63**	**13.7**
Net loan-loss provisions	(72)	(124)	52	(42.1)
Other income	(31)	(99)	68	(68.4)
Profit before taxes	**419**	**236**	**182**	**77.3**
Tax on profit	(118)	(56)	(62)	111.6
Profit from continuing operations	**301**	**181**	**120**	**66.7**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**301**	**181**	**120**	**66.7**
Minority interests	1	(4)	5	—
Attributable profit to the Group	**300**	**184**	**116**	**62.8**

Balance sheet				
Customer loans**	28,221	23,180	5,041	21.7
Trading portfolio (w/o loans)	1,678	2,082	(404)	(19.4)
Available-for-sale financial assets	6,799	7,011	(212)	(3.0)
Due from credit institutions**	2,465	2,163	302	14.0
Intangible assets and property and equipment	720	729	(9)	(1.2)
Other assets	9,684	6,450	3,234	50.1
Total assets/liabilities & shareholders' equity	**49,568**	**41,616**	**7,952**	**19.1**
Customer deposits**	29,173	24,016	5,157	21.5
Marketable debt securities**	4,994	2,855	2,138	74.9
Subordinated debt**	(0)	0	(0)	—
Insurance liabilities	20	27	(8)	(28.6)
Due to credit institutions**	11,307	11,543	(235)	(2.0)
Other liabilities	1,351	787	564	71.7
Stockholders' equity ***	2,724	2,388	336	14.1
Other managed and marketed customer funds	**2,842**	**2,501**	**341**	**13.7**
Mutual and pension funds	2,426	2,187	239	11.0
Managed portfolios	416	314	102	32.5
Managed and marketed customer funds	**37,009**	**29,372**	**7,636**	**26.0**

Ratios (%) and operating means				
ROE	12.37	7.91	4.46	
Efficiency ratio (with amortisations)	48.7	52.0	(3.4)	
NPL ratio	7.46	8.89	(1.43)	
Coverage ratio	99.0	51.8	47.2	
Number of employees	6,568	5,448	1,120	20.6
Number of branches	752	594	158	26.6

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Portugal

2015 Highlights

- **Commercial actions to capture individual and corporate customers, reflected in the gain in market share.**
- **Attributable profit rose 63% due to higher revenues, control of costs and reduced needs for provisions.**
- **The acquisition of the assets and liabilities of Banco Internacional do Funchal (Banif) at the end of the year, strengthened the presence in the country and made Santander Totta the second largest private sector bank in Portugal.**

Economic environment

The economy continued to recover in 2015. GDP growth accelerated from 0.9% in 2014 to an estimated 1.4%. The upturn benefited from the European Central Bank's expansive monetary policy and its positive impact on spreads and the euro's exchange rate. Economic fundamentals further improved, the unemployment rate has fallen over the last three years and the current account remained in surplus.

Domestic demand remained positive, with faster growth in consumption and investment. Exports also grew more strongly, maintaining the good performance of the last few years. But the rise in imports, due to the increase in domestic demand, made the contribution of net external demand to GDP growth negative.

Inflation was no longer negative in 2015 (average rate estimated at 0.3%).

Strategy

The strategy was very focused on managing interest rates for loans and deposits, gaining market share, particularly in companies, controlling non-performing loans and improving efficiency.

Among the main commercial actions was the launch of the *1|2|3 World* in order to grow in the medium segment. Since its launch on 2 March, the number of *1|2|3* accounts reached more than 110,000, and it has played an important role in attracting and engaging customers.

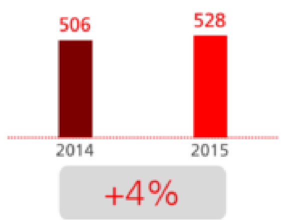
The Bank uses *Santander's Advance* programme, which has become a key tool, to attract new corporate customers. Since its launch at the end of 2014, shops and SMEs have opened some 12,000 accounts.

This strategy increased the number of loyal customers (+14% companies and +4% individuals). Digital customers grew 20% in the year.

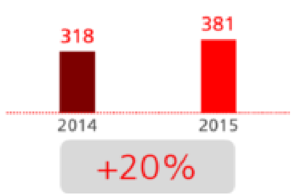
As well as organic growth, on 21 December Banco de Portugal awarded most of the assets and liabilities of Banco Internacional de Funchal (Banif) to Santander Totta for €150 million. This operation underscored Santander's commitment to development of the Portuguese economy and made us the second largest private sector bank in the country (market share gain of about 2.5 percentage points), with market shares of around 14% in loans and deposits.

The operation had virtually no impact on Grupo Santander's capital and is slightly positive on profits as of the first year.

Loyal customers*
Thousands

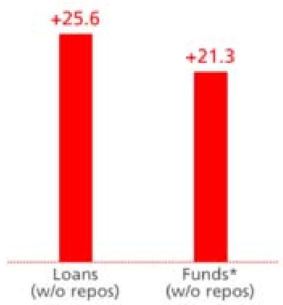


Digital customers*
Thousands



(*).- Excluding Banco Internacional do Funchal (Banif)

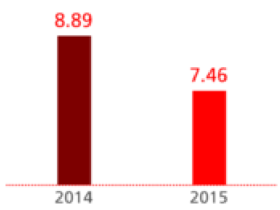
Activity
% var. 2015 / 2014



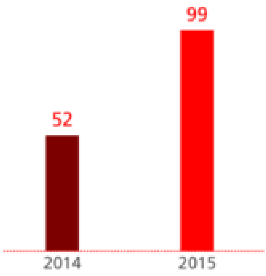
(*) Customer deposits + mutual funds

Attributable profit
€ Million

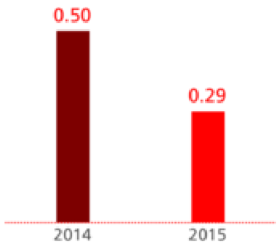
■ NPL ratio
%



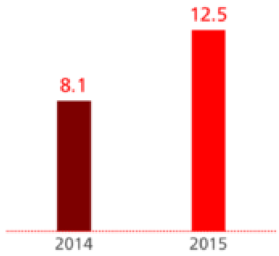
■ Coverage ratio
%



■ Cost of credit
%



■ RoTE
%



Activity (excluding perimeter impact)

Excluding the entry of Banif, the pace of decline in total lending slowed in 2015 (-1% compared to -5% in 2014) and growth in loans to companies rose (+5%) compared to a fall in the market. Of note were the market shares in new lending to companies (15.3%) and in mortgages (17.9%).

Funds increased 5%, under the strategy of boosting demand deposits (+37%) and mutual funds (+18%), while time deposits fell 7%. The result was a further improvement in the cost of deposits.

The acquisition of Banif's assets and liabilities boosted these increases in business (+€6,613 million in loans and +€4,430 million in deposits). A significant part of the loans acquired are in the segment of companies, where Santander Totta has a special interest.

Results

Attributable profit was €300 million, 63% more than in 2014, due to the good performance of the main income statement lines.

Gross income grew 6% (rise in net interest income and improved cost of funding) and gains on financial transactions increased (sale of public debt and of the stake in Banca Caixa Geral Totta Angola).

Operating expenses fell 1% due to the optimisation of the commercial network in accordance with the business environment.

Loan-loss provisions declined 42% because of reduced net NPL entries and the cost of credit improved from 0.50% in 2014 to 0.29% in 2015.

The NPL ratio was 7.46% and coverage 99% (8.89% and 52%, respectively, in 2014). In local criteria, the NPL and coverage ratios continued to be better than the system's averages.

Strategy in 2016

- Manage the integration of customers from Banif.
- Continue to increase the number of loyal and digital customers.
- Improve efficiency.
- Maintain the normalisation process of the cost of funding and the cost of credit.

United Kingdom

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**4,942**	**4,234**	**708**	**16.7**	**5.1**
Net fee income	1,091	1,028	63	6.2	(4.4)
Gains (losses) on financial transactions	302	241	61	25.2	12.7
Other operating income*	47	37	9	24.3	11.9
Gross income	**6,382**	**5,541**	**841**	**15.2**	**3.7**
Operating expenses	(3,356)	(2,918)	(438)	15.0	3.5
General administrative expenses	(3,009)	(2,595)	(414)	16.0	4.4
Personnel	*(1,592)*	*(1,558)*	*(35)*	*2.2*	*(8.0)*
Other general administrative expenses	*(1,417)*	*(1,037)*	*(379)*	*36.6*	*23.0*
Depreciation and amortisation	(347)	(323)	(24)	7.4	(3.3)
Net operating income	**3,025**	**2,622**	**403**	**15.4**	**3.9**
Net loan-loss provisions	(107)	(332)	225	(67.7)	(70.9)
Other income	(354)	(318)	(36)	11.3	0.3
Profit before taxes	**2,564**	**1,973**	**592**	**30.0**	**17.0**
Tax on profit	(556)	(416)	(140)	33.5	20.2
Profit from continuing operations	**2,008**	**1,556**	**452**	**29.1**	**16.2**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**2,008**	**1,556**	**452**	**29.1**	**16.2**
Minority interests	37	—	37	—	—
Attributable profit to the Group	**1,971**	**1,556**	**415**	**26.6**	**14.0**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	282,673	251,191	31,482	12.5	6.0
Trading portfolio (w/o loans)	40,138	39,360	778	2.0	(3.9)
Available-for-sale financial assets	12,279	11,197	1,082	9.7	3.3
Due from credit institutions**	15,459	14,093	1,366	9.7	3.4
Intangible assets and property and equipment	3,025	2,700	325	12.1	5.6
Other assets	29,581	35,695	(6,113)	(17.1)	(21.9)
Total assets/liabilities & shareholders' equity	**383,155**	**354,235**	**28,920**	**8.2**	**1.9**
Customer deposits**	231,947	202,328	29,619	14.6	8.0
Marketable debt securities**	70,133	69,581	552	0.8	(5.0)
Subordinated debt**	4,127	5,376	(1,250)	(23.2)	(27.7)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	23,610	26,720	(3,110)	(11.6)	(16.7)
Other liabilities	36,162	34,887	1,276	3.7	(2.3)
Stockholders' equity ***	17,176	15,342	1,834	12.0	5.5
Other managed and marketed customer funds	**9,703**	**9,667**	**36**	**0.4**	**(5.4)**
Mutual and pension funds	9,564	9,524	40	0.4	(5.4)
Managed portfolios	139	143	(4)	(2.8)	(8.4)
Managed and marketed customer funds	**315,910**	**286,953**	**28,957**	**10.1**	**3.7**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	11.50	11.07	0.43		
Efficiency ratio (with amortisations)	52.6	52.7	(0.1)		
NPL ratio	1.52	1.79	(0.27)		
Coverage ratio	38.2	41.9	(3.7)		
Number of employees	25,866	25,678	188	0.7	
Number of branches	858	929	(71)	(7.6)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

United Kingdom (changes in sterling)

2015 Highlights

- **The 1|2|3 World customers continued to grow, transforming customer loyalty, activity levels and risk profile.**
- **Strong flows in both retail and corporates, with growth in current accounts and mortgages as well as corporate lending.**
- **Ongoing investment in business growth and in digital channels.**
- **Attributable profit rose 14%, backed by higher net interest income and lower loan loss provisions.**

Economic environment

The UK economy continued to grow at 2.2%, registering another year of steady growth. The main driver was domestic demand (particularly private consumption, robust labour market, improved consumer confidence and favourable financial conditions) and a recovery in investment.

The unemployment rate fell in the year to 5.2%, in part due to a large increase in self-employment. This pushed the number of people in employment to a record high.

Inflation was around 0%, mainly due to lower oil and commodity prices and the consolidation of sterling's appreciation registered since mid-2013. Based on this, the Bank of England kept interest rates unchanged in 2015.

Strategy

There have been significant changes recently, in terms of regulation, tax and public policy as well as a significant advance in the use of technology in banking, especially mobile. The new entrants and existing competitors who have renewed focus on the UK market opportunities.

We continued to drive an evolution of our strategy to advance and extend the customer franchise. The strategic direction has been fine-tuned, to align with the economic, regulatory and market environment changes.

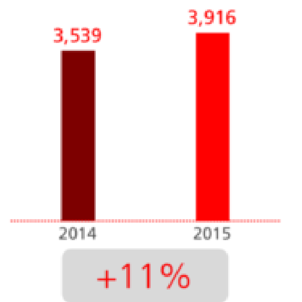
We are expanding the focus of our drive for increased customer loyalty and deeper relationships with retail as well as corporate businesses. 1|2|3 World customers increased to 4.6 million, up more than one million in the last 12 months and 96% of *1|2|3* current account customers having their primary bank account with us. Santander UK remained first choice for current account switchers since September 2013. One-in-four UK current accounts have moved to us since the introduction of the current account switch service.

In corporate business, 2015 saw the end of the investment in renewed capacity (opening of regional centres and increase in relationship managers). This addition, coupled with unique platforms and services such as *Breakthrough, Santander Passport, Santander Trade and Santander Connect,* will grow further loyalty of these customers in the future.

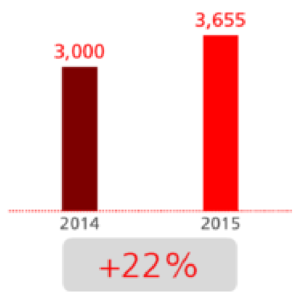
We have introduced a new strategic priority to focus on driving operational and digital excellence. In 2015 we launched several digital solutions that were well received by the market, such as *Apple Pay*, *KiTTi, Spendlytics* and the *Go Smart* programme. Focus was given to continue to attract digital customers, already at 3.7 million, +22% versus 2014.

We will continue to digitally transform the business through simplification to improve customer service and efficiency gains. Operation and technological advances will support the delivery of leading customer experience.

Loyal customers
Thousands



Digital customers
Thousands



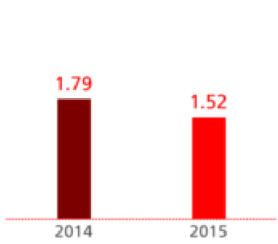
Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

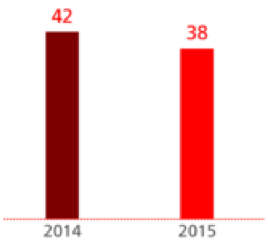
Attributable profit
Constant € million

(*) In euros: +26.6%

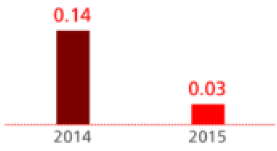
NPL ratio
%



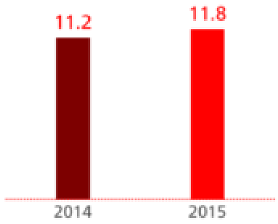
Coverage ratio
%



Cost of credit
%



RoTE
%



All these measures have enabled significant improvement in customer satisfaction, both retail and corporate, placing Santander among the top of its peers on a 12M rolling basis.

We have also maintained focus on profitability and balance sheet strength and are well advanced in establishing a target ring-fencing structure to meet the distinct needs of the different segments of our retail, corporate and institutional customer base.

Activity

The success of the developed strategies was reflected in faster volume growth than in 2014. Lending increased 5% compared to December 2014, largely due to corporate lending (+10%), mortgages (+2%) and unsecured consumer and vehicle finance lending (+42%), which was impacted by the PSA Finance UK limited joint venture commencement in February 2015.

Support for UK businesses continued despite a contracting market for the majority of 2015, with lending to corporates up 10%. This performance is backed by the broader product suite and extended footprint now in place.

New gross mortgage lending was £26,500 million, including £4,500 million to first time buyers.

On the liabilities side, strong growth in customer deposits (+7% year-on-year) was driven by increased Retail Banking current account balances which have grown 29% over December 2014. Corporate customer deposits also rose by 18%.

Results

Attributable profit in the year of £1,430 million (+14%), was supported by strong business flows, net interest income growth and lower loan loss provisions.

Net interest income rose 5%, mainly driven by higher volumes. Net interest income / average customer assets (Banking NIM) remained broadly flat at 1.83% in 2015.

Operating expenses were tightly managed, despite investment in business growth, higher regulatory costs and the continued enhancements to our digital channels. These strategic investments underpin future efficiency improvements.

Loan-loss provisions fell 71%, with improved credit quality across the loan portfolios, conservative loan-to-value criteria, and supported by a benign economic environment.

Strategy in 2016

- On the assets side, commercial lending above the market and mortgage lending in line with market growth
- On the liabilities side, continue to increase primacy through a differentiated proposition, leading technology and analytics, and a full service offering for UK companies.
- Improvement in operational efficiency by optimising our simplified and innovative product range, digitalisation benefits, and the broader footprint that we now have in place.
- Sustained good credit quality across all portfolios and a relentless focus on maintaining capital and balance sheet strength.

Latin America

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**13,752**	**13,620**	**132**	**1.0**	**10.3**
Net fee income	4,452	4,372	81	1.8	11.2
Gains (losses) on financial transactions	517	484	32	6.7	6.5
Other operating income*	36	81	(46)	(56.2)	(45.0)
Gross income	**18,757**	**18,557**	**200**	**1.1**	**10.2**
Operating expenses	(7,906)	(7,851)	(55)	0.7	9.6
General administrative expenses	(7,230)	(7,130)	(100)	1.4	10.2
Personnel	*(3,955)*	*(3,798)*	*(158)*	*4.1*	*13.1*
Other general administrative expenses	*(3,274)*	*(3,332)*	*58*	*(1.7)*	*6.9*
Depreciation and amortisation	(676)	(720)	44	(6.2)	3.5
Net operating income	**10,851**	**10,706**	**144**	**1.3**	**10.6**
Net loan-loss provisions	(4,950)	(5,119)	170	(3.3)	7.1
Other income	(893)	(842)	(51)	6.0	22.7
Profit before taxes	**5,008**	**4,745**	**263**	**5.5**	**12.3**
Tax on profit	(1,219)	(1,053)	(166)	15.8	25.4
Profit from continuing operations	**3,789**	**3,692**	**97**	**2.6**	**8.7**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**3,789**	**3,692**	**97**	**2.6**	**8.7**
Minority interests	596	790	(194)	(24.5)	(20.3)
Attributable profit to the Group	**3,193**	**2,902**	**291**	**10.0**	**16.6**

Balance sheet					
Customer loans**	133,138	139,955	(6,817)	(4.9)	14.3
Trading portfolio (w/o loans)	33,670	31,766	1,904	6.0	27.6
Available-for-sale financial assets	25,926	31,174	(5,248)	(16.8)	5.1
Due from credit institutions**	21,923	22,104	(180)	(0.8)	16.5
Intangible assets and property and equipment	3,522	3,912	(390)	(10.0)	14.4
Other assets	49,706	39,577	10,128	25.6	58.1
Total assets/liabilities & shareholders' equity	**267,885**	**268,487**	**(603)**	**(0.2)**	**21.3**
Customer deposits**	122,413	131,826	(9,413)	(7.1)	11.8
Marketable debt securities**	33,172	31,920	1,252	3.9	28.3
Subordinated debt**	6,355	6,443	(87)	(1.4)	21.5
Insurance liabilities	1	—	1	—	—
Due to credit institutions**	42,393	35,978	6,415	17.8	45.3
Other liabilities	43,872	39,945	3,928	9.8	34.2
Stockholders' equity ***	19,678	22,376	(2,698)	(12.1)	7.3
Other managed and marketed customer funds	**65,690**	**69,567**	**(3,876)**	**(5.6)**	**17.9**
Mutual and pension funds	61,096	64,627	(3,530)	(5.5)	18.2
Managed portfolios	4,594	4,940	(346)	(7.0)	13.8
Managed and marketed customer funds	**227,631**	**239,755**	**(12,125)**	**(5.1)**	**15.9**

Ratios (%) and operating means					
ROE	14.70	14.33	0.37		
Efficiency ratio (with amortisations)	42.1	42.3	(0.2)		
NPL ratio	4.96	4.79	0.17		
Coverage ratio	79.0	84.5	(5.5)		
Number of employees	89,819	84,336	5,483	6.5	
Number of branches	5,841	5,729	112	2.0	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Latin America (changes in constant currency)

2015 Highlights

- The region's GDP shrank 0.4% in a complex international environment for emerging markets.
- Santander continued to grow volumes in all markets and attain gains in market share in target products and segments.
- Attributable profit, excluding the exchange-rate impact, was 17% higher and fuelled by Brazil's good performance.

Economic environment

In a complex international environment, the economy was affected in 2015 by various external factors such as the outlook for US interest rate rises, the price of commodities and the slowing of the Chinese economy.

In general, the environment was not propitious for business, mainly due to the widespread depreciation of currencies and Brazil's recession.

Activity

In this environment, the Group kept significant business growth rates. Lending and deposits rose 13%, with the focus on strategic segments for the Group.

The main focus was still on deepening customer relations, improving their experience and enhancing satisfaction.

The 1|2|3 World was launched in the core countries to capture and engage individual customers, as well as *Advance* to strengthen our positioning with companies.

All countries registered growth in customers. The region's main countries grew 11% in loyal customers and 16% in digital ones.

Results

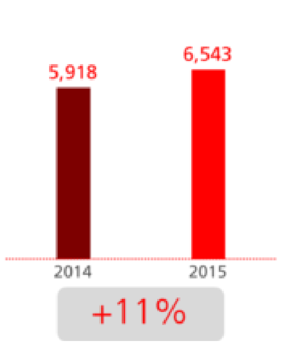
Attributable profit was €3,193 million, affected by exchange rates (+17% in constant euros and +10% in current euros).

Gross income increased 10% (without the forex impact), spurred by the strength of business which fed through to net interest income and fee income.

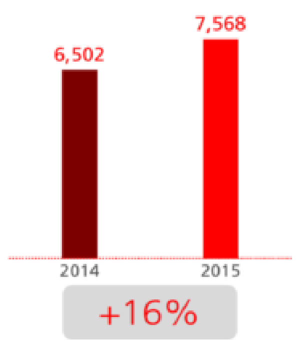
Operating expenses rose 10% due to salary agreements, in an environment of high inflation in countries such as Brazil, Argentina and Uruguay, dollar-indexed expenses and investments in the development of the retail network and digital channels. Growth was moderate when measured in real terms.

In 2015, we continued to change the mix of lending toward low risk premium products. As a result, provisions increased by only 7% (a slower pace of growth than lending).

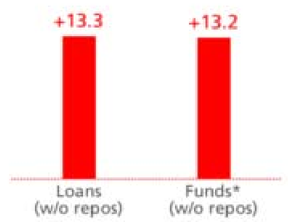
Loyal customers
Thousands



Digital customers
Thousands



Activity
% var. 2015 / 2014 (w/o FX)



(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +10.0%

Brazil

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**8,320**	**8,849**	**(530)**	**(6.0)**	**9.9**
Net fee income	2,643	2,831	(188)	(6.6)	9.1
Gains (losses) on financial transactions	42	82	(40)	(48.7)	(40.1)
Other operating income*	135	117	18	15.8	35.4
Gross income	**11,140**	**11,879**	**(739)**	**(6.2)**	**9.6**
Operating expenses	(4,452)	(4,942)	491	(9.9)	5.3
General administrative expenses	(4,040)	(4,437)	397	(8.9)	6.4
Personnel	*(2,205)*	*(2,353)*	*148*	*(6.3)*	*9.5*
Other general administrative expenses	*(1,835)*	*(2,084)*	*249*	*(11.9)*	*2.9*
Depreciation and amortisation	(411)	(505)	94	(18.5)	(4.8)
Net operating income	**6,689**	**6,937**	**(248)**	**(3.6)**	**12.7**
Net loan-loss provisions	(3,297)	(3,682)	385	(10.5)	4.7
Other income	(878)	(805)	(73)	9.1	27.5
Profit before taxes	**2,513**	**2,449**	**64**	**2.6**	**19.9**
Tax on profit	(689)	(644)	(45)	7.0	25.0
Profit from continuing operations	**1,824**	**1,806**	**19**	**1.0**	**18.1**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,824**	**1,806**	**19**	**1.0**	**18.1**
Minority interests	193	368	(175)	(47.5)	(38.7)
Attributable profit to the Group	**1,631**	**1,437**	**194**	**13.5**	**32.7**

Balance sheet					
Customer loans**	60,238	74,373	(14,135)	(19.0)	8.4
Trading portfolio (w/o loans)	13,360	18,256	(4,896)	(26.8)	(2.0)
Available-for-sale financial assets	15,814	22,939	(7,125)	(31.1)	(7.7)
Due from credit institutions**	10,592	10,276	316	3.1	38.0
Intangible assets and property and equipment	2,280	2,640	(359)	(13.6)	15.7
Other assets	36,250	27,803	8,447	30.4	74.5
Total assets/liabilities & shareholders' equity	**138,534**	**156,287**	**(17,753)**	**(11.4)**	**18.7**
Customer deposits**	56,636	68,539	(11,903)	(17.4)	10.6
Marketable debt securities**	21,984	21,903	81	0.4	34.4
Subordinated debt**	4,188	4,368	(180)	(4.1)	28.4
Insurance liabilities	1	—	1	—	—
Due to credit institutions**	21,600	24,108	(2,507)	(10.4)	20.0
Other liabilities	24,085	24,386	(301)	(1.2)	32.2
Stockholders' equity ***	10,040	12,983	(2,943)	(22.7)	3.5
Other managed and marketed customer funds	**45,607**	**49,806**	**(4,199)**	**(8.4)**	**22.6**
Mutual and pension funds	42,961	46,559	(3,597)	(7.7)	23.5
Managed portfolios	2,646	3,248	(602)	(18.5)	9.1
Managed and marketed customer funds	**128,414**	**144,616**	**(16,202)**	**(11.2)**	**18.9**

Ratios (%) and operating means					
ROE	13.64	12.32	1.33		
Efficiency ratio (with amortisations)	40.0	41.6	(1.6)		
NPL ratio	5.98	5.05	0.93		
Coverage ratio	83.7	95.4	(11.7)		
Number of employees	49,520	46,532	2,988	6.4	
Number of branches	3,443	3,411	32	0.9	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Brazil (changes in local currency)

2015 Highlights

- **Develop a more sustainable business model, via greater customer loyalty, higher revenue recurrence and lower risk profile.**
- **Positive trend in revenues, mainly commercial ones, which rose in every quarter of 2015.**
- **Profit up 33% due to higher gross income, control of costs, lower cost of credit and reduced minority interests.**

Economic environment

Brazil went into recession in 2015 when GDP shrank to an estimated 3.8% after growth of 0.1% in 2014. This was due to weak domestic demand, with falls in consumption and investment, while external demand made a positive contribution to growth.

Inflation rose to 10.7% in December 2015, reflecting the rise in public tariffs after several years of no increases and the impact of the real's depreciation. The expectations are for moderation in 2016. In order to strengthen control of inflation and promote a convergence of expectations toward its goal, the central bank raised its key rate by 250 b.p. to 14.25%.

The real depreciated 33% against the dollar and 25% against the euro, although in the fourth quarter the currency was more stable, appreciating 1% against the dollar and 4% against the euro.

Strategy

In this difficult environment, Santander performed well, with more loyal and digital customers, larger volumes, increased commercial revenues, improved efficiency and better credit quality than that of the other private sector banks in Brazil.

This was possible thanks to the strength which comes from being the country's third largest private sector bank and the only international bank with a significant presence in Brazil, and from the strategy developed over the last few years to boost the efficiency and productivity of our commercial network, the quality of service and moving toward a lower credit risk model and more recurring revenues.

Under this strategy, the Bank progressed in its transformation process in order to simplify, modernise and improve the customer experience, while reaching agreements to increase the most transactional part of our revenues.

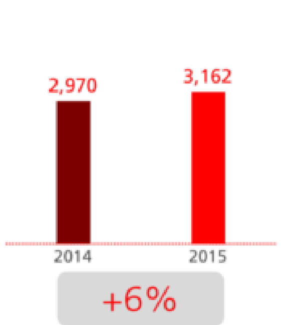
The main actions taken within the transformation process included:

- Installing the *CERTO* model to increase productivity and allow more time for contact with customers.
- Simplify the capturing and activation of new customers (account opening, delivery of cards and PIN the same day).
- Big campaign to digitalise customers *(Vale a Pena Ser Digital)* together with the offer of new, simpler and more accessible digital channels. The new mobile banking for individual customers, with a more intuitive visual and simplified access, produced a 59% rise in use of it.
- Launch of the new segment *Santander Negócios e Empresas* in order to create a closer relationship aimed at developing SMEs. Improvements were also made to online banking for companies and cash management.

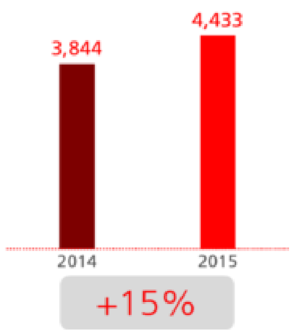
In addition, and as part of the most commercial actions:

- The *Van Gogh* segment (mass affluent) was relaunched, with specialised products, services and attention via remote managers.

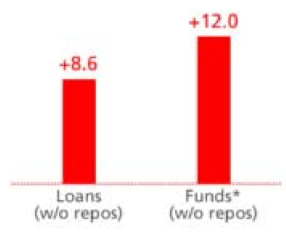
Loyal customers
Thousands



Digital customers
Thousands



Activity
% var. 2015 / 2014 (w/o FX)

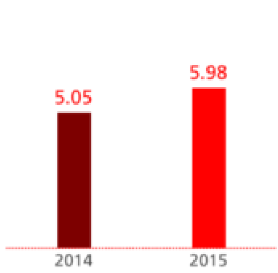


(*) Customer deposits + mutual funds

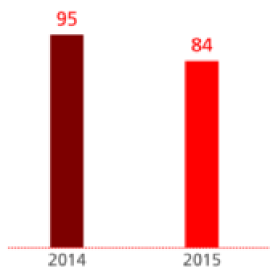
Attributable profit
Constant € million

(*) In euros: +13.5%

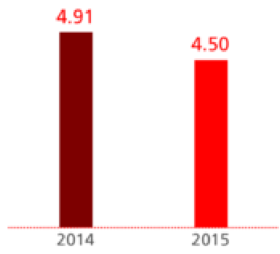
NPL ratio
%



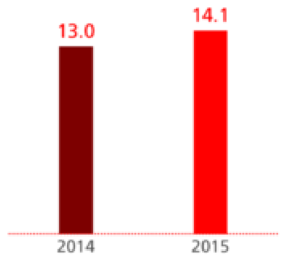
Coverage ratio
%



Cost of credit
%



RoTE
%



– Launch of *Autocompara*, a platform that enables the insurance policies of different companies to be quoted at the same time.

– Strengthen acquiring activity via the operation with Getnet.

– Promote payroll business following the association with Banco Bonsucesso.

– Increase business after the acquisition of *Super*, a digital platform that offers an electronic banking account, a prepaid card and access to simplified financial services.

These strategies increased the number of digital customers by 15% to 4.4 million, and loyal companies rose 12%. The better service made customers more satisfied (39% fall in complaints).

Activity

Lending rose 9% in local currency terms, partly due to the forex impact on dollar portfolios, to which is added the entry of Bonsucesso. The change of the business mix toward lower risk products continued in 2015.

The increase was mainly in lending to companies and large companies (+11%, partly reflecting the impact of balances in dollars) and mortgages for individuals (+21%). Loans to SMEs rose 4%. Although moderate this growth marked a change of trend over 2014 and reflected the success of the aforementioned initiatives.

Funds grew 12%, where mutual funds registered the best performance (+24%), as deposits remained virtually unchanged.

Results

Attributable profit was €1,631 million (+33%). The results confirmed the progress, particularly in net interest income and fee income.

Gross income increased 10%. Net interest income (+10%) rose for the fifth consecutive quarter and fee income increased 9%. Of note was income from cards, foreign trade, cash and insurance. Gains on financial transactions were lower because of more volatile markets.

Operating expenses were up 5% (half of inflation of more than 10%). In real terms and on a like-for-like basis, they fell 6%, reflecting the efforts made in previous years to improve efficiency and productivity.

Credit quality variables performed well against a backdrop of a rise in NPLs. The change of business mix over the last two years to less profitable but lower risk products was reflected in:

- NPLs performed better than private sector banks as a whole. The rise in NPLs was mainly in companies, as the ratio among.

- Loan-loss provisions increased 5%, which resulted in the reduction of the cost of credit by 41 b.p.

Profit also reflected reduced minority interests.

Strategy in 2016

- Continue to increase our base of loyal customers, with greater focus on digital customers, backed by a simple offer of products and services via our multi channel platform.

- Further streamlining of processes, improving the quality and relationship with customers.

- Keep on strictly managing the whole risk cycle, from admission to recovery.

Mexico

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**2,451**	**2,138**	**313**	**14.6**	**14.1**
Net fee income	800	764	36	4.7	4.2
Gains (losses) on financial transactions	138	160	(22)	(13.9)	(14.3)
Other operating income*	(72)	(45)	(28)	61.9	61.2
Gross income	**3,317**	**3,019**	**298**	**9.9**	**9.4**
Operating expenses	(1,370)	(1,282)	(87)	6.8	6.3
General administrative expenses	(1,257)	(1,180)	(77)	6.5	6.1
Personnel	*(662)*	*(593)*	*(69)*	*11.6*	*11.1*
Other general administrative expenses	*(595)*	*(587)*	*(8)*	*1.4*	*0.9*
Depreciation and amortisation	(113)	(103)	(10)	9.9	9.5
Net operating income	**1,947**	**1,736**	**211**	**12.2**	**11.7**
Net loan-loss provisions	(877)	(756)	(120)	15.9	15.4
Other income	(4)	2	(5)	—	—
Profit before taxes	**1,067**	**982**	**85**	**8.7**	**8.2**
Tax on profit	(236)	(184)	(51)	27.8	27.3
Profit from continuing operations	**831**	**797**	**34**	**4.2**	**3.8**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**831**	**797**	**34**	**4.2**	**3.8**
Minority interests	202	191	11	6.0	5.5
Attributable profit to the Group	**629**	**606**	**22**	**3.7**	**3.2**

Balance sheet					
Customer loans**	30,158	25,873	4,286	16.6	23.4
Trading portfolio (w/o loans)	16,949	10,185	6,764	66.4	76.2
Available-for-sale financial assets	5,972	4,624	1,348	29.1	36.7
Due from credit institutions**	5,467	7,058	(1,591)	(22.5)	(18.0)
Intangible assets and property and equipment	396	440	(44)	(10.1)	(4.8)
Other assets	5,785	5,545	240	4.3	10.4
Total assets/liabilities & shareholders' equity	**64,728**	**53,726**	**11,002**	**20.5**	**27.5**
Customer deposits**	28,274	28,627	(352)	(1.2)	4.6
Marketable debt securities**	4,578	3,266	1,313	40.2	48.4
Subordinated debt**	1,205	1,088	116	10.7	17.2
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	12,884	6,206	6,678	107.6	119.8
Other liabilities	12,829	9,796	3,033	31.0	38.6
Stockholders' equity ***	4,957	4,744	213	4.5	10.6
Other managed and marketed customer funds	**11,477**	**11,523**	**(46)**	**(0.4)**	**5.4**
Mutual and pension funds	11,477	11,523	(46)	(0.4)	5.4
Managed portfolios	—	—	—	—	—
Managed and marketed customer funds	**45,535**	**44,504**	**1,031**	**2.3**	**8.3**

Ratios (%) and operating means					
ROE	12.88	13.16	(0.28)		
Efficiency ratio (with amortisations)	41.3	42.5	(1.2)		
NPL ratio	3.38	3.84	(0.46)		
Coverage ratio	90.6	86.1	4.5		
Number of employees	17,847	16,956	891	5.3	
Number of branches	1,377	1,347	30	2.2	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Mexico (changes in local currency)

2015 Highlights

- **Strategy centred on being the bank of first choice for customers, increasing long-term transaction engagement.**
- **Focus on consolidating our positioning in the most profitable segments (Select, SMEs, Companies) and on quality of service.**
- **The commercial strategy was reflected in double-digit growth in business volumes and market share gains.**
- **Pre-tax profit rose 8%, mainly due to commercial revenues.**

Economic environment

The economy registered an improved trend throughout 2015, fuelled by the recovery of domestic demand and exports. Growth was estimated at 2.5% for the whole year (2.2% in 2014). The strong growth in private consumption and exports, particularly automoviles, offset the negative impact of lower oil prices. Industrial construction was also reactivated during the year.

Inflation fell to an historic low of 2.1% in December, thanks to the reduction in telecommunication and energy prices, following the implementation of structural reforms. Despite the low inflation, the central bank raised its key rate in December, in response to the Fed's rise in order to anticipate possible bouts of volatility given the strong links with the US.

The peso depreciated 15% against the dollar and 6% against the euro, although in the fourth quarter its evolution was more stable (2.5% depreciation against the dollar but 0.3% appreciation against the euro).

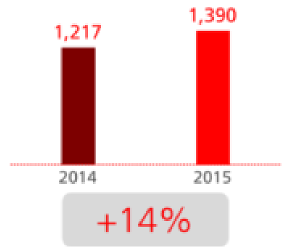
Strategy

The Group maintained its objective of being the leader in profitability and growth in the market, via the capturing of new customers and stronger loyalty of current ones, while promoting multi channels and transforming its operational model with enhanced technology and infrastructure, talent, quality, processes and innovation.

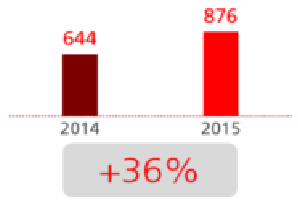
The main actions were:

- The branch expansion plan was completed in 2015 (200 branches were opened in three years). The increased in the installed capacity, combined with improvements in customer segmentation and in sales platforms.
- Multi channels continued to be expanded (461 new ATMs in 2015; mobile and online banking initiatives) and consolidating strategic alliances with correspondent banks, enabling us to expand our basic banking services via a network of more than 17,000 shops.
- Further strengthening of the most profitable businesses of individual customers. Consumer credit, cards and mortgages grew at faster rates than the market's. We continued to work to improve the customer experience, incorporating personalised risk models to the credit offers. In means of payment, we consolidated the payback alliance to keep on propelling the loyalty of our customers. In the high-income segment, strategies were centred on making optimum use of the portfolio of funds.
- In SMEs, simple credit offers were launched and campaigns to replace lines to spur placement and in companies and institutions

Loyal customers
Thousands



Digital customers
Thousands



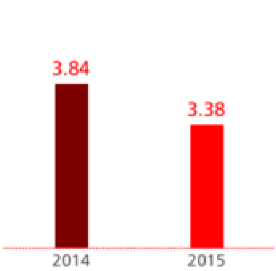
Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

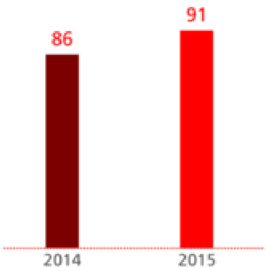
Attributable profit
Constant € million

(*) In euros: +3.7%

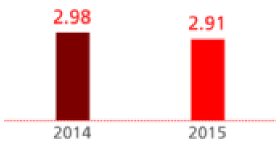
NPL ratio
%



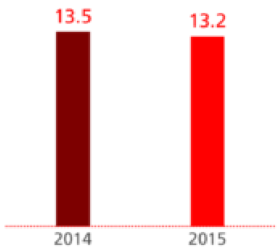
Coverage ratio
%



Cost of credit
%



RoTE
%



new commercial initiatives continued to be worked on whose focus is the attraction and penetration of the car sector and the confirming product.

All these actions produced a 14% rise in the number of loyal customers and digital ones exceed 850,000 (+36%).

Activity

Loans rose 19% and deposits excluding repos 11%. Growth benefited from the greater installed capacity, combined with improvements in customer segmentation and sales platforms.

Lending to companies rose over 18%, (SMEs: +22%). Loans to individuals increased 16%, as follows: mortgages rose 13%, consumer credit 31% and credit cards 13%, within a market that is not growing, after accelerating in previous quarters. We continued to consolidate our leadership in mortgages for medium and high-income clients.

In short, these strategies were reflected in all segments.

In deposits we combined growth with improved composition. Demand deposits from individuals grew 18%, within a policy of lowering their cost, and mutual funds increased 5%.

Results

Pre-tax profit was 8% higher and attributable profit 3% more at €629 million, after deducting a tax charge that was higher at 22% (+19% in 2014) and minority interests.

Profit growth was fuelled by gross income (+9%), mainly net interest income (+14%), due to the growth in loans. Fee income rose 4%, particularly from transaction banking, insurance and investment banking.

Operating expenses were 6% higher due to the greater installed capacity and new commercial projects to increase attraction and penetration in the customer base.

Loan-loss provisions increased 15%, mainly due to greater lending. The cost of credit was 7 b.p. lower than in 2014.

The NPL ratio was 3.38% (-46 b.p.) and coverage 91%.

Strategy in 2016

- Attract high potential customers, increasing the number of loyal and digital customers.
- Transform us into the bank of first choice for our customers, increasing their loyalty, reducing the number of switchers and generating long-term transaction engagement.
- Consolidate our positioning in key markets: SMEs, companies and mortgages.
- Drive innovation and multi channels, through development of digital platforms.

Chile

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**1,791**	**1,734**	**57**	**3.3**	**(1.2)**
Net fee income	360	328	32	9.8	5.0
Gains (losses) on financial transactions	173	115	59	51.0	44.5
Other operating income*	12	18	(6)	(33.6)	(36.5)
Gross income	**2,336**	**2,194**	**142**	**6.5**	**1.9**
Operating expenses	(1,004)	(866)	(137)	15.8	10.8
General administrative expenses	(926)	(804)	(123)	15.2	10.3
Personnel	*(568)*	*(477)*	*(91)*	*19.1*	*14.0*
Other general administrative expenses	*(358)*	*(327)*	*(31)*	*9.6*	*4.9*
Depreciation and amortisation	(77)	(63)	(15)	23.4	18.1
Net operating income	**1,332**	**1,327**	**5**	**0.4**	**(4.0)**
Net loan-loss provisions	(567)	(521)	(46)	8.9	4.2
Other income	3	(24)	27	—	—
Profit before taxes	**768**	**783**	**(14)**	**(1.8)**	**(6.1)**
Tax on profit	(114)	(54)	(59)	109.0	99.9
Profit from continuing operations	**655**	**728**	**(74)**	**(10.1)**	**(14.0)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**655**	**728**	**(74)**	**(10.1)**	**(14.0)**
Minority interests	199	230	(31)	(13.4)	(17.1)
Attributable profit to the Group	**455**	**498**	**(43)**	**(8.6)**	**(12.5)**

Balance sheet	2015	2014	Variation amount	%	% w/o FX
Customer loans**	32,338	30,550	1,788	5.9	11.1
Trading portfolio (w/o loans)	3,144	3,075	69	2.2	7.3
Available-for-sale financial assets	2,668	2,274	394	17.3	23.1
Due from credit institutions**	4,579	3,837	742	19.3	25.2
Intangible assets and property and equipment	355	347	8	2.4	7.5
Other assets	2,876	2,680	196	7.3	12.6
Total assets/liabilities & shareholders' equity	**45,960**	**42,763**	**3,197**	**7.5**	**12.8**
Customer deposits**	24,347	23,352	995	4.3	9.4
Marketable debt securities**	6,504	6,650	(146)	(2.2)	2.6
Subordinated debt**	963	985	(22)	(2.2)	2.6
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	5,886	4,393	1,493	34.0	40.6
Other liabilities	5,280	4,437	843	19.0	24.9
Stockholders' equity ***	2,980	2,946	33	1.1	6.1
Other managed and marketed customer funds	**7,370**	**7,256**	**114**	**1.6**	**6.6**
Mutual and pension funds	5,422	5,564	(142)	(2.5)	2.3
Managed portfolios	1,948	1,693	256	15.1	20.8
Managed and marketed customer funds	**39,184**	**38,242**	**942**	**2.5**	**7.5**

Ratios (%) and operating means	2015	2014	Variation amount	%	% w/o FX
ROE	15.32	19.50	(4.19)		
Efficiency ratio (with amortisations)	43.0	39.5	3.5		
NPL ratio	5.62	5.97	(0.35)		
Coverage ratio	53.9	52.4	1.5		
Number of employees	12,454	12,123	331	2.7	
Number of branches	472	475	(3)	(0.6)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

Chile (changes in local currency)

2015 Highlights

- **The commercial transformation is reflected in greater activity in the target segments of loans and funds.**
- **Sharp rise in the number of loyal companies and digital clients, with improved customer service quality.**
- **Attributable profit of €455 million. Of note the positive evolution of revenues (excluding UF inflation impact) and the lower cost of credit.**

Economic environment

The economy grew 2% in 2015, spurred by private consumption and investment.

Inflation was 4.4%, above the central bank's target range (2%-4%), impacted by the peso's depreciation, which was partly offset by lower oil prices.

The peso depreciated 15% against the dollar and 5% against the euro. The currency was more stable in the fourth quarter, depreciating 1% against the dollar and appreciating by a similar amount against the euro.

In order to strengthen the convergence of inflation expectations, the central bank began to normalise its monetary policy, with two rises of 25 b.p. in the fourth quarter, which brought the key rate to 3.50%.

Strategy

The Group maintained its strategy of improving long-term profitability against a backdrop of reduced spreads and greater regulation. Management was focused on improving the quality of customer service and experience, transforming retail banking business, particularly for high and medium-high clients and SMEs, and strengthening business with large and medium sized companies.

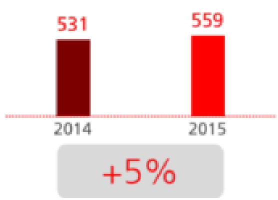
In the segment of individual customers, *NEO CRM* supported this strategy and better and new capacities were installed in remote and digital attention channels (VOX and Internet). Of note in the latter was the recent launch of *Neo CLICK*, which converts the *NEO CRM* platform from one focused solely on customer relations to one centred on transactions as well, enabling executives to offer, formalise and manage the Bank's products online and notably reduce management time.

More branches were opened and exclusive *Select* spaces (high income, which rose 23%). Also, branches and *Advance* spaces for SMEs (18 overall), while the traditional network was refurbished into the new model of branches.

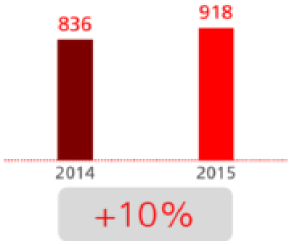
The *Advance* strategy was launched for the SMEs segment. This is a methodology of work that seeks to manage customers integrally, accompanying them in the different phases of their life cycle, be close to them and improve the quality of service responding to their particular needs. *Neo Advance,* the *CRM* of SMEs, supports it.

Banca de Empresas e Instituciones advanced in its objective of becoming the best bank for companies. The new corporate centres generated greater proximity with clients, particularly in the regions, which increased the market share of the segment in loans and deposits.

Loyal customers
Thousands



Digital customers
Thousands

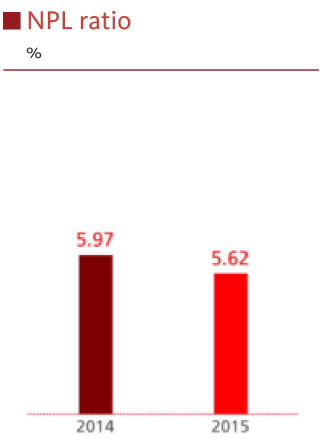


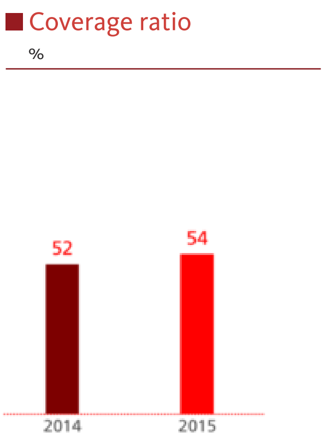
Activity
% var. 2015 / 2014 (w/o FX)

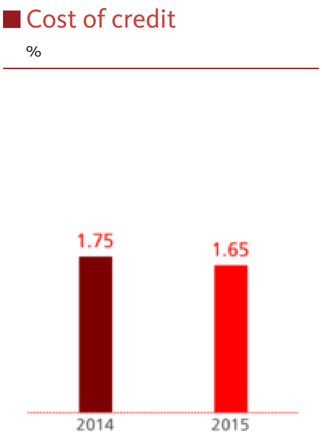
(*) Customer deposits + mutual funds

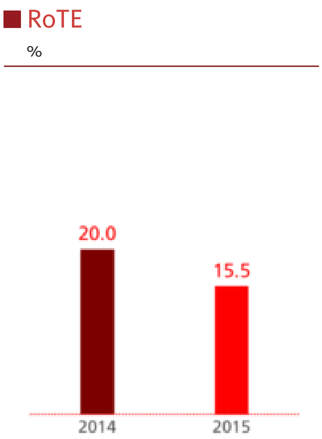
Attributable profit
Constant € million

(*) In euros: -8.6%









The quality of customer attention and satisfaction continued to improve, closing gaps with competitors significantly.

These achievements were reflected in many recognitions in 2015, including Bank of the Year by The Banker magazine, while the *Sanodelucas* programme received the award for the best financial education initiative in Latin America in the IDB's Beyond Banking awards. Also, for the third year running the bank received the best private bank award from Euromoney.

Activity

The total number of clients grew 2% (high income: +8%). Loyal customers also rose (companies: +11% and high income individuals: +10%). Digital customers increased to more than 900,000.

Lending grew 11%, with advances in the target segments. Of note was 17% growth in high income and 9% in companies.

Deposits rose 10% (demand deposits: +12%).

Results

Attributable profit was 13% lower at €455 million, mainly due to lower inflation-indexed UF, some regulatory impact, higher technology costs and higher tax pressure.

- Gross income increased 2%, which should be viewed positively as 2014 was a year when it was exceptionally high because of the favourable impact of the high inflation-indexed UF.

  The rise came from fee income (+5%) and higher gains on financial transactions. Net interest income was down by only 1%, as lending was higher and the cost of funding was lower, the impact of the lower UF rate (4.1% compared to 5.7% in 2014) and the regulation on maximum rates.

- Operating expenses increased 11% due to rises in inflation-indexed rentals and salaries, the impact of the exchange rate on technology service contracts indexed to the dollar and the euro, as well as the higher investment in technological developments.

- The cost of credit dropped from 1.75% to 1.65% as the rise in provisions (+4%) was well below the growth in lending. This was reflected in better credit quality ratios; the NPL ratio was 35 b.p. lower at 5.62%.

- Pre-tax profit fell 6%. Attributable profit was down 13% because of the higher tax charge resulting from the 2014 tax reform.

Strategy in 2016

- Increase the number of loyal customers (individuals, SMEs and companies), focusing on those using digital channels.
- Continue improving the quality of customer service and satisfaction.
- Promote the new culture centred on the customer and the Simple, Personal and Fair style.
- Adequate business profitability, underpinned by proactive risk management.

Argentina (changes in local currency)

2015 Highlights

- **The strategy focused on increasing our market penetration through expanding the branch network, moving to a more digital bank and increasing the loyalty of high income and SMEs clients.**
- **Attributable profit was 22% higher at €378 million, driven by higher revenues and a lower cost of credit.**
- **Commercial revenues grew due to more business and transactions (collections, means of payment, etc).**

Economic environment

The economy was still weak in 2015 and inflation was one of the highest in the region. The new government announced in the middle of December the liberalisation of capital movements and the Argentine peso began to float freely.

The peso depreciated 52% against the dollar in 2015 and 37% against the euro. Before the liberalisation, the central bank announced an interest rate rise, via an increase in the rates of the securities issued to drain liquidity. The aim was to send a signal that monetary policy will be restrictive so that the impact of the depreciation on inflation and inflation expectations is limited.

Strategy

The Group's strategy centred on increasing our penetration in the market through expanding the branch network, moving to a more digital bank focused on efficiency and customer experience and increasing the loyalty of high income and SMEs clients.

A total of 40 new branches were opened in 2015 and 157 were totally transformed (about 40% of the network).

As the leading digital bank in Argentina, we inaugurated the first completely digital office, focused on self-management, speedy operations and immediate access to products.

The Santander *Río mobile* app is used by 346,000 customers, 85% more than in 2014 and 16% of active customers.

The Bank was recognised as the country's best digital bank and having the best mobile banking app in Latin America (Global Finance magazine). Also awarded best bank in Argentina by The Banker and Euromoney.

The *Select* products were strengthened for the high-income segment and new specialised spaces and corners were opened. Santander Río *Advance* was launched for SMEs, which offers international protection for their businesses, among other services.

Activity

The strategic measures are reflected in strong rises in lending and funds. Loans increased 52%, with similar growth rates in companies and consumer business. Deposits rose 58%, spurred by time deposits that jumped 86%. Mutual funds grew 73%.

Results

Attributable profit was €378 million (+22%). The commercial strategy helped to push up gross income by 27% (net interest income: +29% and fee income: +39%).

Operating expenses rose 43% because of the opening of new branches, the transformation and technology projects and the review of the salary agreement. Loan-loss provisions increased 16%, below the growth in lending. Credit quality remained among the best in the market: the cost of credit was 2.15%, the NPL ratio was 1.15% and coverage 194%, all of which were better than in 2014.

Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +28.6%

Strategy in 2016

- Grow in intermediation volumes, with companies and households that have low debt levels.
- Continue to open more branches and reach 500 in 2018, and capture the benefits of greater "bankarisation."
- Develop digital banking, offering new and better solutions for customers, increasing the number of loyal and digital clients and global satisfaction.

Uruguay (changes in local currency)

2015 Highlights

- **Acquisition in July of Créditos de la Casa, the fourth largest finance company, consolidating our market share of this segment at 28% and 25% of the consumer credit of the private financial system.**
- **Double-digit growth in lending and deposits, ranking first in the customer satisfaction.**
- **Attributable profit rose 38%. On a like-for-like basis, growth was 28% due to gross income (mainly commercial revenues).**

Economic environment

The economy grew by around 1.2% in 2015 (3.5% in 2014). GDP growth in the third quarter was 0.6% year-on-year after shrinking 0.3% in the second quarter.

Inflation was 9.4%, well above the central bank's target of (+3%-7%). The key rate remained high in order to converge toward this goal. The Uruguayan peso depreciated 20% against the dollar and 10% against the euro.

Strategy

The Group continued to be the country's leading private sector bank, focusing on growing in retail banking and improving efficiency and the quality of service.

Value-added products and services were launched in 2015 and other measures taken to contribute to the country's development:

- Launch of the *Advance* programme for SMEs.
- Initiatives were also launched to reduce waiting times in branches (a new version of the app with an innovative information service on the nearest branch and occupancy levels) and deadlines for resolving complaints.

All of this was reflected in the evolution of the number of customers: individual loyal customers almost doubled, following the acquisition of *Créditos de la Casa* (+22% excluding it) and companies increased 10%. The number of digital clients rose 32%. Of note was being placed first in the customer satisfaction survey, up from fourth place in 2014.

Activity

Lending rose 21%, particularly consumer finance, cards (+18%); SMEs: (+34%) and deposits 32%.

Santander's credit cards are classified as the best in the market, according to quality surveys. The EMV chip was launched in 2015 to improve security.

In line with the enhancement of value added products and to contribute to the country's development, the following actions were implemented in 2015:

- Structuring and issuance of the bond to finance the first project to be developed in Uruguay under the private public participation law. We also structured the first thermosolar project in Uruguay.
- Santander was the placement agent for issuing $1.2 billion of Uruguay's sovereign bonds.

Results

Attributable profit was 38% higher at €70 million, fuelled by net operating income (+49%) benefiting from the efficiency plan measures.

Loan-loss provisions increased 46%, albeit from a low base, and credit quality remained excellent (NPL ratio at 1.27% and coverage 205%).

Excluding the incorporation of Créditos de la Casa (€5 million profit), attributable profit was 28%.

Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +41.1%

Strategy in 2016

- Continue to grow in retail business, keeping excellent levels of quality of service.
- Attain leadership in the segments for individuals and SMEs, as well as in products such as consumer credit, means of payment and liabilities in pesos.
- Continue to improve the efficiency ratio.

Peru (changes in local currency)

2015 Highlights

- **Both lending and deposits continued to grow strongly.**
- **Pre-tax profit increased 52%, mainly due to gross income and improved efficiency.**
- **Strategy focused on the corporate and large companies segment, as well as infrastructure businesses.**

Economic environment

Growth slowed in 2015 to 2.7%, a similar growth rate to that of domestic demand. Inflation was 4.4% and the central bank reduced the cash reserve requirements and raised the key rate from 3.25% to 3.75%.

Public debt was 21% of GDP, one of the lowest in the region and the country has $61 billion of international reserves (more than 30% of GDP). The Peruvian nuevo sol depreciated 12% against the dollar.

Strategy

In this environment, business focused on corporate banking and the Group's global customers.

A closer relationship with customers and quality of service were priorities, taking advantage of synergies with other Group units. Our specialised auto finance company, created with an international partner with long experience in Latin America, participated in infrastructure projects as adviser and financial structurer and continued to consolidate its activity.

Activity

Lending rose 24% and deposits 18%, complemented by stable medium-term growth in funding.

Results

Pre-tax profit was €43 million (+52%), spurred by net operating income (+56%), which, in turn, was due to the improvement in efficiency (gross income: +46%; costs: +27%).

Loan-loss provisions increased 25%, with cost of credit of 0.69%.

The NPL ratio was 0.52% and coverage very high at 402%.

The rise in pre-tax profit did not fully feed through to attributable profit (+37%) due to higher taxes.

Activity
% var. 2015 / 2014 (w/o FX)

(*) Customer deposits + mutual funds

Attributable profit
Constant € million

(*) In euros: +46.1%

Strategy in 2016

- Continue to increase lending to the corporate segment, global customers and large companies.
- Promote investment banking, offering advice for public infrastructure works via public and private sector link ups.

Colombia

- Banco Santander de Negocios Colombia began to operate in January 2014. The new bank has capital of $100 million and specializes in the corporate and business market, with a special emphasis on global customers, clients of the Group's International Desk and those local clients becoming more international.
- Its products are focused on investment banking and capital markets, transaction banking, treasury and risk coverage, foreign trade financing and working capital financing products in local currency, such as confirming.
- The Bank reached a point of equilibrium in 2015.

United States

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**6,116**	**4,789**	**1,327**	**27.7**	**6.8**
Net fee income	1,086	830	256	30.9	9.4
Gains (losses) on financial transactions	231	205	26	12.6	(5.9)
Other operating income*	367	156	211	135.6	97.0
Gross income	**7,799**	**5,979**	**1,820**	**30.4**	**9.0**
Operating expenses	(3,025)	(2,239)	(785)	35.1	12.9
General administrative expenses	(2,761)	(2,040)	(722)	35.4	13.2
Personnel	*(1,543)*	*(1,141)*	*(401)*	*35.1*	*13.0*
Other general administrative expenses	*(1,219)*	*(898)*	*(320)*	*35.7*	*13.4*
Depreciation and amortisation	(264)	(200)	(64)	32.0	10.3
Net operating income	**4,774**	**3,740**	**1,035**	**27.7**	**6.7**
Net loan-loss provisions	(3,103)	(2,233)	(870)	39.0	16.2
Other income	(148)	13	(161)	—	—
Profit before taxes	**1,523**	**1,520**	**3**	**0.2**	**(16.2)**
Tax on profit	(516)	(440)	(77)	17.4	(1.8)
Profit from continuing operations	**1,007**	**1,081**	**(73)**	**(6.8)**	**(22.1)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,007**	**1,081**	**(73)**	**(6.8)**	**(22.1)**
Minority interests	329	219	110	50.1	25.5
Attributable profit to the Group	**678**	**861**	**(183)**	**(21.3)**	**(34.2)**

Balance sheet					
Customer loans**	84,190	70,420	13,771	19.6	7.2
Trading portfolio (w/o loans)	2,299	5,043	(2,743)	(54.4)	(59.1)
Available-for-sale financial assets	19,145	12,737	6,408	50.3	34.8
Due from credit institutions**	3,901	3,460	441	12.7	1.1
Intangible assets and property and equipment	9,156	6,905	2,251	32.6	18.9
Other assets	11,892	9,469	2,423	25.6	12.6
Total assets/liabilities & shareholders' equity	**130,584**	**108,034**	**22,551**	**20.9**	**8.4**
Customer deposits**	60,115	51,304	8,811	17.2	5.1
Marketable debt securities**	23,000	16,000	7,000	43.8	28.9
Subordinated debt**	906	796	109	13.7	2.0
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	26,169	17,760	8,410	47.4	32.1
Other liabilities	9,073	10,543	(1,469)	(13.9)	(22.8)
Stockholders' equity ***	11,321	11,632	(310)	(2.7)	(12.7)
Other managed and marketed customer funds	**19,478**	**15,729**	**3,750**	**23.8**	**11.0**
Mutual and pension funds	7,123	3,621	3,502	96.7	76.4
Managed portfolios	12,355	12,107	248	2.0	(8.5)
Managed and marketed customer funds	**103,499**	**83,828**	**19,670**	**23.5**	**10.7**

Ratios (%) and operating means					
ROE	6.05	7.82	(1.77)		
Efficiency ratio (with amortisations)	38.8	37.5	1.3		
NPL ratio	2.13	2.42	(0.29)		
Coverage ratio	225.0	193.6	31.4		
Number of employees	18,123	16,687	1,436	8.6	
Number of branches	783	811	(28)	(3.5)	

(*).- Including dividends. income from equity-accounted method and other operating income/expenses
(**).- Including all on-balance sheet balances for this item
(***).- Capital + reserves + profit + valuation adjustments

United States (changes in dollars)

2015 Highlights

- **Continued investment to improve commercial activity and comply with regulatory requirements.**
- **Creating Intermediate Holding Company (IHC) and strengthening risk, capital and liquidity management.**
- **Santander Consumer USA kept up a strong pace in new lending and servicing. Focus will be in auto finance.**
- **All these actions have a temporary effect on revenues and costs, and largely justify the lower profit (-34%; -21% in euros).**
- **Good performance of loans, funds and revenues.**

Economic environment

The US economy grew a modest but solid pace (2.5%). Thanks to the improving economy, the unemployment rate fell on a sustained basis to 5% at the end of the year, a level regarded as full employment.

Inflation, however, remained low (1.3%) and at some distance from the Federal Reserve's target (set in terms of the underlying deflator of private consumption), which is 2%.

In this context, the Fed raised its interest rates at the end of the year, accompanied by a message indicating the interest rate profile outlook would be moderate.

Strategy

Santander in the US includes the holding company (SHUSA), Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International (BSI), Santander Investment Securities (SIS) and the Spanish Branch of Santander in New York.

Santander US continues to focus on several strategic priorities aimed at improving the Group's position and diversification in the US, including:

- A multiannual project to comply with regulatory requirements.
- Improve the governance structure, including the creation of Intermediate Holding Company (IHC).
- Create a local executive team with wide experience in managing financial institutions in the US.
- Improve the profitability of Santander Bank NA.
- Optimise the auto finance business of Santander Consumer USA.

During 2015 Santander US continued to strengthen its governance structure and executive teams and improve the risk management and control systems. This is part of the multiannual project to improve the bank and meet the regulatory requirements, including management of capital and stress tests in the US.

Santander Bank has focused on improving customer experience in order to boost number of clients and cross selling. Additionally, it launched initiatives in checking accounts and enhanced its digital capabilities, which led to 12% year-on-year in digital customers.

Loyal customers
Thousands

(*) Santander Bank

Digital customers
Thousands

(*) Santander Bank

Activity
% var. 2015 / 2014 (w/o FX)

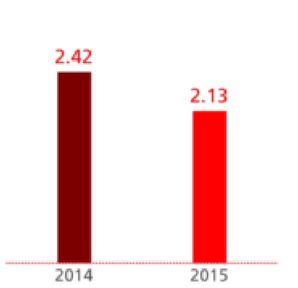
(*) Customer deposits + mutual funds

Attributable profit
Constant € million

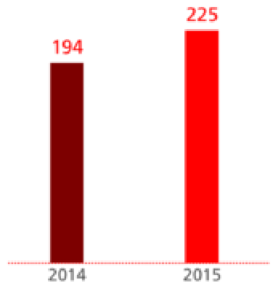
(*) In euros: -21.3%

Note. The annual growth includes a change in the loyal customers measurement methodology

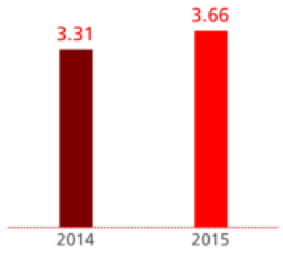
NPL ratio
%



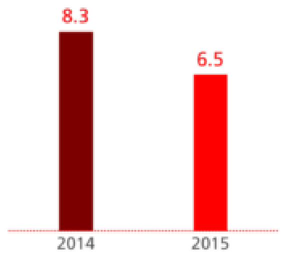
Coverage ratio
%



Cost of credit
%



RoTE
%



Santander Consumer USA was among the five largest retail auto finance companies. Its strategy centred on optimising the mix of assets retained versus sold, increasing servicing to third parties as a way to lift revenues through fee income, while materialising the value of the relationship with Chrysler.

The strategy in Puerto Rico focused on the customer relationship, with initiatives to digitise, simplify and personalise.

Activity

Santander Bank's lending rose 6% and its deposits 7%.

Most of the growth in lending came from credit to companies, both in the commercial and industrial segment, as well as in global corporate banking.

Funds growth was driven by core deposits, which is reflected in the cost of funding. Mutual funds rose 9%.

Santander Consumer's loans rose 11% and new lending 10%.

Results

Revenues performed well, with gross income up 9% due to Santander Consumer USA, as a result of a larger volume of new lending, which fuelled net interest income, as well as fee income from servicing. Santander Bank's net interest income was under pressure from lower than expected interest rates, which was offset by gains on financial transactions.

This performance, however, did not feed through to profits which were 34% lower at $752 million.

The fall was due to higher operating expenses derived from the growth of the servicing platform, regulatory requirements and one-off restructuring charges.

Loan-loss provisions also increased, mainly due to greater lending and loan retentions in Santander Consumer USA, which accounts for more than 95% of the country's provisions.

Lastly, the higher tax charge also dragged down profits.

Strategy in 2016

- Improve the customer experience and loyalty with knowledgeable and effective salesforce at Santander Bank through an easy to use product suite and multchannel capability.
- Santander Consumer USA focuses on auto finance activity to optimise the mix between retained and sold assetsand serviced for others, as well as realising the full value of the Chrysler Capital relatiionship.
- Continue to strengthen risk, capital and liquidity risk management in meeting regulatory requirements.

Corporate Centre

€ Million

Income statement	2015	2014	Variation amount	%
Net interest income	**(627)**	**(612)**	**(15)**	**2.5**
Net fee income	(13)	(33)	20	(60.2)
Gains (losses) on financial transactions	150	700	(549)	(78.5)
Other operating income	(5)	(22)	17	(78.0)
Dividends	72	30	42	138.7
Income from equity-accounted method	(43)	(28)	(15)	55.2
Other operating income/expenses	(34)	(25)	(9)	38.2
Gross income	**(495)**	**32**	**(527)**	**—**
Operating expenses	(547)	(586)	39	(6.6)
Net operating income	**(1,042)**	**(554)**	**(488)**	**88.2**
Net loan-loss provisions	27	2	25	—
Other income	(507)	(453)	(55)	12.1
Underlying profit before taxes	**(1,523)**	**(1,004)**	**(518)**	**51.6**
Tax on profit	59	(148)	207	—
Underlying profit from continuing operations	**(1,464)**	**(1,152)**	**(312)**	**27.0**
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	**(1,464)**	**(1,152)**	**(312)**	**27.0**
Minority interests	30	(1)	31	—
Underlying attributable profit to the Group	**(1,493)**	**(1,151)**	**(342)**	**29.8**
Net capital gains and provisions	(600)	—	(600)	—
Attributable profit to the Group	**(2,093)**	**(1,151)**	**(942)**	**81.9**

Balance				
Trading portfolio (w/o loans)	2,656	2,916	(260)	(8.9)
Available-for-sale financial assets	3,773	3,299	475	14.4
Goodwill	26,960	27,547	(587)	(2.1)
Capital assigned to Group areas	77,163	75,030	2,133	2.8
Other assets	37,583	32,585	4,998	15.3
Total assets/liabilities & shareholders' equity	**148,136**	**141,377**	**6,759**	**4.8**
Customer deposits*	5,185	5,261	(75)	(1.4)
Marketable debt securities*	27,791	24,958	2,833	11.4
Subordinated debt*	9,596	4,107	5,489	133.6
Other liabilities	21,049	30,091	(9,041)	(30.0)
Stockholders' equity **	84,515	76,961	7,554	9.8
Other managed and marketed customer funds	**—**	**—**	**—**	**—**
Mutual and pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**42,572**	**34,325**	**8,246**	**24.0**

Operating means				
Number of employees	2,006	2,059	(53)	(2.6)

(*). Including all on-balance sheet balances for this item
(**).- Capital + reserves + profit + valuation adjustments

Corporate Centre

2015 Highlights

- **We have a Corporate Centre whose objective is to improve efficiency and contribute value-added for the operating units. It also carries out functions related to financial and capital management.**
- **In year-on-year terms, higher losses because of lower revenues from centralized management of the various risks (mainly interest rate risk).**
- **It includes the impact of the net of non-recurring positive and negative results of €600 million.**

Strategy and functions

Banco Santander subsidiaries' model is complemented by a corporate centre that has support and control units which carry out funtions for the Group in matters of risk, auditing, technology, human resources, legal affairs, communication and marketing, among others.

This centre contributes value to the Group in various ways:

- It makes the Group's governance more solid, through frameworks of control and global supervision, and taking strategic decisions.
- It makes the Group's units more efficient, fostering the exchange of best practices in management of costs and economies of scale. This enables us to be among the most efficent in the sector.
- By sharing best commercial practices, launching global commercial initiatives and driving digitization, the centre contributes to the Group's revenue growth.

It also develops functions related to financial and capital management:

- Functions developed by Financial Management:
  - Structural management of liquidity risk associated with funding the Group's recurring activity, stakes of a financial nature and management of net liquidity related to the needs of some business units.
  - This activity is carried out through diversifying the various sources of funding (issues and others), always maintaining an adequate profile (volumes, maturities and costs). The price at which these operations are conducted with other units of the Group is the market rate (euribor or swap) plus the premium which, in concept of liquidity, the Group supports by immobilizing funds during the term of the operation.
  - Also active management of interest rate risk to soften the impact of interest rate changes on net interest income, conducted via derivatives of high quality, high liquidity and low consumption of capital.
  - Strategic management of the exposure to exchange rates on equity and dynamic on the countervalue of the units' results in euros for the next 12 months. Net investments in equity are currently covered by €20,349 million (mainly Brazil, UK, Mexico, Chile, US, Poland and Norway) with different instruments (spot, fx, forwards).
  - Total management of capital and reserves: assigning capital to each of the units.

Lastly, and marginally, the corporate centre reflects the stakes of a financial nature that the Group makes under its policy of optimizing investments.

Results

We reformulated the centre's role in the Group, in order to improve the transparency and visibility of both the centre's accounts and the Group's, as well as the responsibility of the operating units. The centre generated 23% of the Group's profits in 2015, close to our target of 25%.

In year-on-year terms:

- Lower revenues due to reduced results from centralized management of the different risks (mainly interest rate risk).
- Costs were 7% lower, and were due to the streamlining of the corporation.
- Other results and provisions recorded losses of €507 million, up from €437 million in 2014. These amounts included provisions of different nature, as well as capital gains, capital losses and impairment of financial assets.
- The losses in 2015 were €1,493 million compared to €1,151 million in 2014. After including the impact of the net of non-recurring positive and negative results of €600 million, the total loss was €2,093 million.

Retail Banking

2015 Highlights

- **The retail banking model continued to be transformed into an increasingly Simple, Personal and Fair model.**
- **Customer vision, developing specialised models, range of simple products and global offers.**
- **Further development of the multi-channel model, centred on digital channels.**
- **Progress in achieving our goals: 13.8 loyal customers and 16.6 digital customers.**

Strategy and activity

Santander continued to make **significant progress during 2015 in its programme to transform its retail banking model.** The main elements are to improve the knowledge of our customers and their relations with the Bank, specialised management of each segment, develop more efficient distribution models, focused on digital channels, and capture the opportunities provided by the Group's international positioning. All of this under a Simple, Personal and Fair culture of service, aimed at excellence in customer satisfaction.

In order to deepen customer knowledge, we improved our analytical capacities. **A new commercial front was developed** in order to enhance business productivity and customer satisfaction. This tool, based on a best practice in Chile, was installed in Uruguay in 2015 and continued to be developed in the US with a mobility project

Levers for our commercial transformation

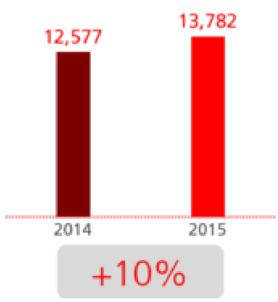
Retail Banking

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**30,029**	**27,699**	**2,330**	**8.4**	**7.2**
Net fee income	8,620	8,337	283	3.4	4.4
Gains (losses) on financial transactions	1,345	1,395	(50)	(3.6)	(6.2)
Other operating income*	365	258	107	41.5	31.5
Gross income	**40,359**	**37,689**	**2,670**	**7.1**	**6.2**
Operating expenses	(18,730)	(17,382)	(1,348)	7.8	7.1
Net operating income	**21,629**	**20,307**	**1,322**	**6.5**	**5.5**
Net loan-loss provisions	(9,249)	(9,740)	490	(5.0)	(4.9)
Other income	(1,751)	(1,386)	(365)	26.3	34.3
Profit before taxes	**10,629**	**9,181**	**1,448**	**15.8**	**12.2**
Tax on profit	(2,663)	(2,129)	(534)	25.1	21.1
Profit from continuing operations	**7,966**	**7,052**	**914**	**13.0**	**9.6**
Net profit from discontinued operations	—	(26)	26	(100.0)	(100.0)
Consolidated profit	**7,966**	**7,026**	**940**	**13.4**	**10.0**
Minority interests	1,112	1,032	80	7.7	6.9
Attributable profit to the Group	**6,854**	**5,994**	**860**	**14.4**	**10.5**

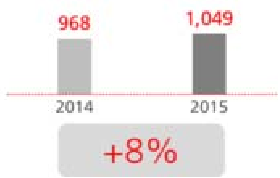
(*).- Including dividends. income from equity-accounted method and other operating income/expenses

Loyal customers
Thousands

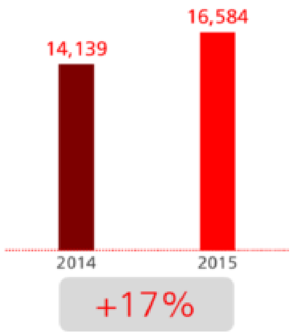


Retail loyal customers
Thousands

SMEs & corporate loyal customers. Thousands



Digital customers
Thousands



(tablet and transactional business), in Chile with the launch of *Neo Inversiones* and commercial planner, and in Brazil, with new functionalities offering continuous improvement. The tool will gradually be extended to other units during 2016.

In order to improve customer loyalty and long-term relations, different value propositions were launched and consolidated, among which were:

- ***The 1|2|3 World:*** following the success of the initiative in the UK, similar propositions were launched in 2015 in other countries and well received, such as in Portugal and Spain, which already has more than 800,000 accounts.

- **Integral offers launched in Chile** with propositions such as Planes Santander *LANPASS,* which rewards transactions and improves the benefits for customers, or in **Brazil**, the *Contas Combinadas,* which offer new solutions that simplify the value offer for individual customers and make choosing accounts easier:

- **Expansion of the *Select* model** for high-income clients. It is now installed in all countries and provides service to more than two million customers. The value propositions were improved and increased during 2015.

- **Strengthening private banking business,** with the Euromoney award for best private banking in 2015 in Argentina, Chile and Portugal, best private bank in Spain, Mexico and Portugal (Global Finance) and best private bank in Latin America and Portugal (The Banker).

- **Rolling out of the programme for SMEs** to make us the reference partner, combining a very attractive financial offer with non-financial solutions (connectivity, internationalisation, training, etc). The programme was extended to Uruguay, Argentina, Brazil and Chile in 2015, bringing the number of countries to eight.

We continued to advance in developing our distribution models *focused on digital channels*, which produced significant improvements in various channels. Some examples:

– New app for mobile phones in Spain (aimed at SMEs and companies), Portugal, Uruguay and Poland (chosen by Forrester as the country's best app and the second in Europe).

– New developments and functionalities for mobile phones in the UK such as *Cash KiTTi* (which lets people create and manage collective pots of money) and *Spendlytics* (which gives customers better control over their card expenses).

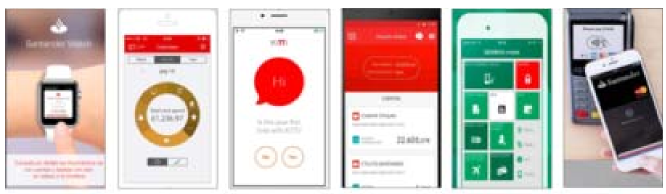
– *Deposit Capture* in the US, which enables cheques to be easily and safely processed by mobile phone.

– *Santander Watch* in Spain, which lets customers consult their accounts and cards from smart watches.

– Santander UK among the first group of banks participating in *Apple Pay* in the UK.

– Simplification of credentials in Mexico, which allows access to various digital channels from a single password.

Digital initiatives


Santander Watch | Spendlytics | Cash Kitti | App España | App Polonia | Apple Pay

Futur branche

– New office model in Spain and Brazil, which offers simpler processes, more intuitive technology and differentiated spaces.

In recognition of our digital channel proposal, the magazine Global Finance awarded our bank in Chile the prize for the best Latin American website for financial products and payment of accounts, while Santander Rio was awarded the prize for the best online bank in Argentina.

We continued to support the internationalisation of our corporate customers, taking advantage of the Group's synergies and international capacities, via a coordinated plan of initiatives focused on two elements:

1. Ensuring a consistent and homogenous relationship with our customers via all our local units:

– *International Desk,* now in 12 countries and with more than 8,000 registered customers, which provides services to companies that want to enter markets where we operate.

– *Santander Passport,* specialised attention model for companies with multinational activity, which offers global management and the same attention in all the countries where the Group operates. It already has more than 6,000 registered customers and is installed in eight countries.

2. Connecting up our customers and capturing international commercial flows:

– *Santander Trade Portal,* which provides information, tools and resources to help companies grow their business abroad. It is already available in 12 countries and has registered more than 35,000 exporter and importer users.

– *Santander Trade Club,* innovative platform that lets customers from different countries get in touch with one another and start commercial relations. There are already more than 10,000 members.

Lastly, we continued to improve the customer experience, focusing on the most common processes when relating to the Bank. Of note were the improvements in *Onboarding* (opening and activating accounts): in Brazil and the UK, with immediate activation in electronic channels, in Portugal, with the incorporation of the digital signature and in Poland, with the complete process of opening done remotely.

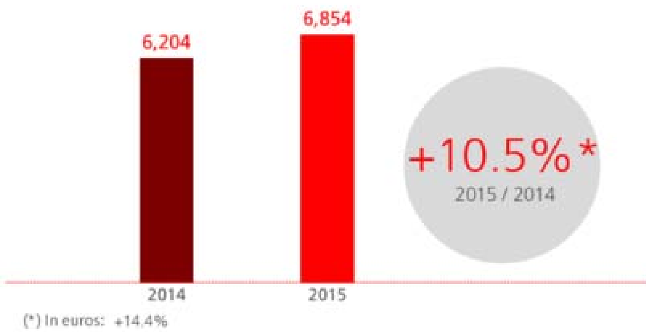
Results (in constant euros)

Ordinary attributable profit was €6,854 million (+10%).

This evolution was spurred by the good performance of gross income (+6% year-on-year, driven by net interest income). Operating expenses were 7% higher (+1% excluding perimeter and in real terms) and loan-loss provisions were 5% lower.

Attributable profit

Constant € million



Strategy in 2016

- Continue to improve processes and the customer experience and satisfaction.
- Develop more efficient distribution models: digital banking, new branch model, remote manager.
- Consolidate specialised attention to each type of customer.
- Place value on our connectivity.
- Expand our culture of service: Simple|Personal|Fair.

Global Corporate Banking

2015 Highlights

- **Customer-focused strategy, underpinned by the division's global capacities and its interconnection with local units.**
- **Reference positions in export finance, corporate loans, project finance and issues, among others, in Europe and Latin America.**
- **Attributable profit of €1,625 million, 2% more in constant euros.**
- **Positive evolution in revenues and higher provisions and costs due to investments to develop the franchise.**

Strategy

SGCB maintained in 2015 the key pillars of its business model, focused on the customer, the division's global capacities and its interconnection with local units, while actively managing risk, capital and liquidity.

The main lines of action were:

- In optimisation of capital, SGCB has well-defined objectives in capital and return on capital at the division level, and by countries, products and clients. The return on capital is one of the main criteria for approving operations. In addition, improvements were made during the year to the capital models and the quality of data of operations was reviewed.
- The creation of a new area to promote the model of origination for distribution. Asset Rotation and Capital Optimisation (ARCO) is a global structure that provides service to various countries in order to improve the profitability of our business through optimisation of capital and rotation of the balance sheet, thereby strengthening a model lighter in capital.
- The strengthening of our leadership position in Latin America, mainly in equity capital markets, debt capital markets, cash management and Latin American currencies.
- Greater cooperation with Retail Banking, developing a wide range of products adapted to the needs of various segments and facilitating greater connectivity between its clients and the Group's banks (participation in chain of supply operations, financing suppliers, payroll, etc).

Global Corporate Banking

€ Million

Income statement	2015	2014	Variation amount	%	% w/o FX
Net interest income	**2,830**	**2,481**	**348**	**14.0**	**17.1**
Net fee income	1,425	1,392	33	2.4	2.5
Gains (losses) on financial transactions	739	747	(9)	(1.2)	(4.9)
Other operating income*	277	302	(25)	(8.3)	(8.2)
Gross income	**5,271**	**4,923**	**348**	**7.1**	**7.9**
Operating expenses	(2,058)	(1,841)	(218)	11.8	10.0
Net operating income	**3,212**	**3,082**	**130**	**4.2**	**6.5**
Net loan-loss provisions	(679)	(543)	(136)	25.0	28.8
Other income	(93)	(102)	9	(9.2)	(10.0)
Profit before taxes	**2,441**	**2,437**	**4**	**0.2**	**2.3**
Tax on profit	(695)	(667)	(29)	4.3	7.2
Profit from continuing operations	**1,746**	**1,771**	**(25)**	**(1.4)**	**0.5**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,746**	**1,771**	**(25)**	**(1.4)**	**0.5**
Minority interests	121	146	(25)	(17.1)	(12.8)
Attributable profit to the Group	**1,625**	**1,625**	**0**	**0.0**	**1.7**

(*).- Including dividends. income from equity-accounted method and other operating income/expenses

Activity

Of note, among others, were:

- In **trade finance,** substantial progress in export finance which positioned Santander as the second best bank in the business, with strong growth in the last few years both in our main countries as well as in new markets.

  Strong positioning and growth in trade business, as confirmed by specialised media (Best Trade Finance Bank in Latin America, Best Trade Finance in Spain, Portugal, Chile and Mexico).

- **Cash management** business continued to increase in all countries and particularly in Latin America, where Santander is the reference bank.

- In **syndicated corporate loans,** we maintained a reference position in Europe and Latin America, accompanying our clients in the development of their businesses and expansion plans.

  Of particular note was Santander's participation in the acquisition of SAB Miller by AB Inveb, the largest such operation in corporate history ($107,000 million).

- In **corporate finance,** strong rise in activity in Spain and Portugal in equity capital markets, including Santander's participation in the listing of AENA and Ferrari and the capital increases of Telefónica in Brazil, Vesta in Mexico, Compañía Sudamericana de Vapores in Chile and Credit Suisse.

- In **debt capital markets,** Santander is the leader in Latin America with the fullest range of products and covering both local and cross-border needs.

  In Europe, success in liability management and hybrid capital transactions, Santander's key role in Iberdrola (global coordinator and tender agent) and in LafargeHolcim (largest operation of European issuers with $2,250 million).

  Of note in hybrid capital was participation in transactions of RBS, Barclays and HSBC, among others.

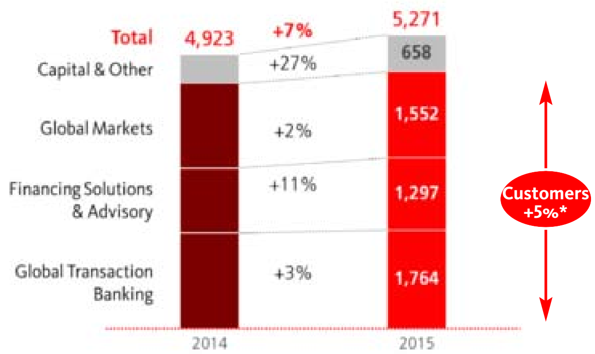
- In **project finance,** Santander was at the top of the world league tables in both the number of transactions as well as in volumes of financing, financial advisory services and issues of project bonds. It led transactions such as Line 2 of the Lima Metro, which was the largest placement of debt in the international markets to finance a project in Peru ($1,155 million). Santander was the financial advisor to the consortium, global coordinator and financial advisor for the placement of the project bonds.

- **Asset & capital structuring** continued to support its clients in developing their international projects in asset finance operations for ships and aircraft in various countries: Spain, Asia and the Middle East. Of note was the operating lease of aircraft for Singapore Airlines and All Nippon Airways, as well as financial leasing operations of ships for clients such as Tristar, Shell Singapore, Elcano and Voestalpine.

- As regards **markets'** activity, good results with positive evolution of income from sales business, especially in the corporate segment with strong growth in the Americas, particularly Brazil, and the UK. Lower contribution, on the other hand, from management of books.

Gross income breakdown

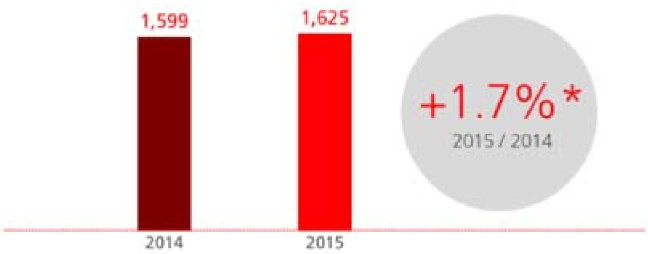
€ Million



(*) Excluding exchange rate impact: total revenues: +8%; customers: +5%

Attributable profit

Constant € million



(*) In euros: 0.0%

Results (in constant euros)

SGCB's results were fuelled by the strength and diversification of customer revenues (88% of the total).

The area accounted for 12% of gross income and 19% of the attributable profit of the Group's operating areas.

Gross income grew 8% in 2015, with growth in all products. Global Transaction Banking increased 5% against a backdrop of containment of spreads and low interest rates, financing solutions and advisory 9%, reflecting the soundness of the various businesses, and global markets 1% (good performance in the Americas, Spain and Portugal).

Operating expenses rose due to the investments in high potential markets, particularly the UK and Poland, and loan-loss provisions increased, mainly in Brazil.

Ranking in 2015

	Activity	Area	Country / region	Source
Award	Equity Follow-On of the Year: Telefonica Brazil BRL16,1 bn	CIB	America	Latin Finance
Award	European Infrastructure Deal of the Year: Thames Tideway	FS&A	Europe	PFI
Award	Europe Loan: Imperial Tobacco	FS&A	Europe	The Banker
Award	Americas Deal of the Year: Lima metro Line 2	FS&A	America	PFI
Award	Corporate High Yield Bond: Cemex	FS&A	America	Latin Finance
Award	Best Infrastructure Bank in Mexico	FS&A	Mexico	Latin Finance
Award	Best Overall Trade Bank in Latam	GTB	Latam	Trade Finance
Award	Best Export Finance Arranger in Latam	GTB	Latam	Trade Finance
Award	Best Commodity Finance Bank in Latam	GTB	Latam	Trade Finance
Award	Best Supply Chain Finance Bank in Latam	GTB	Latam	Trade Finance
Award	Best Trade Advisor in Latam	GTB	Latam	Trade Finance
Award	Best Trade Bank in Latam	GTB	Latam	TFR
Award	Best Trade Bank in Latam	GTB	Latam	GTR
Award	Best Bank for Emerging Latam	Global Markets	Latam	FX Week
Award	Top quartile for Pan-European product	Global Markets	Europe	Institut, Investor survey
N1.	Best Broker Spain and Portugal: Sales. Research. Trading & Execution. Company & Expert Meetings	Global Markets	Iberia	Extel Survey
N1.	Equity House of Equity Derivatives in Spain	Global Markets	Spain	Risk

(*).- Ranking according to survey selection criteria

(GTB) **Global Transaction Banking:** includes the business of cash management. trade finance. basic financing and custody.

(FS&A) **Financing Solutions & Advisory:** includes the units of origination and distribution of corporate loans and structured financings. bond and securitisation origination teams. corporate finance units (mergers and acquisitions. primary markets of equities. investment solutions for corporate clients via derivatives). and asset & capital structuring.

(GM) **Global Markets:** includes the sale and distribution of fixed income and equity derivatives. interest rates and inflation; the trading and hedging of exchange rates. and short-term money markets for the Group»s wholesale and retail clients; management of books associated with distribution; and brokerage of equities. and derivatives for investment and hedging solutions.

Strategy in 2016

- In 2016, SGCB will keep on focusing its strategy on the six pillars of its value proposal: maintain its capacity of origination, structuring and credit distribution; leadership in aquisition finance, structured credit and project finance; be the reference bank in access to capital markets in euros and sterling: maintain its presence as international trade finance bank; knowledge of Latin American markets and contribute solutions and product distribution for Retail Banking.
- Efficient use of capital will continue to be one of the key elements of business, both from the standpoint of optimisation initiatives as well as the gradual change toward a business model lighter in capital.
- Promote accompanying our clients in their international expansion, in cooperation with the commercial banking division (Connectivity Project). This project includes various initiatives to improve our strength as an international bank with a large network of local banks.
- Innovation to adapt to the needs of our customers and face the new non-banking players who are seeking to position themselves in part of the value chain.

5

Risk Management Report

Executive summary

Pillars of the risk function

páginas de 180 a 181

Grupo Santander is focused on building the future through forward-looking management of all risks, protecting the present through a robust control environment.

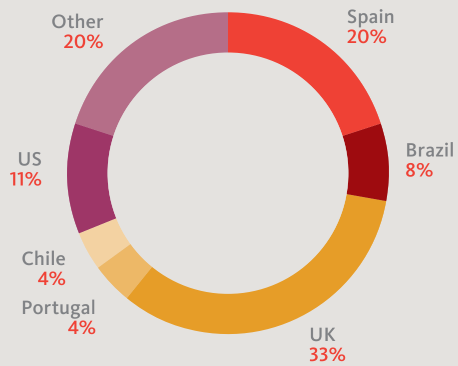
- Integration of the risks culture and involvement of senior management in risk decisions and management.
- Management of all risks with a forward-looking and comprehensive vision at all levels of the organisation.
- Separation of risk functions from business functions.
- Formulation and monitoring of the risk appetite, use of scenario analysis with advanced models and metrics, establishing a control, reporting and escalation framework for identifying risks.
- Best in class for processes and infrastructure.

On-going improvement in credit risk profile

páginas de 199 a 229

Customer credit risk by country

%

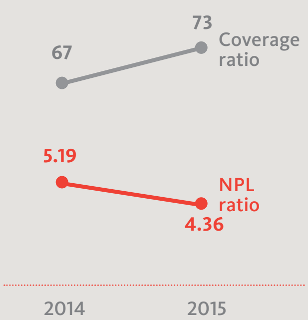


- Over 80% of risk relates to retail banking.
- Significant geographic and sector diversification.
- Continuing improvement in main credit quality indicators, which at December 2015 stood at:
  - Group NPL ratio 4.36%, down 83 b.p. on the previous year, with noteworthy reductions in Spain, Poland, SCF and Brazil.
  - Coverage ratio of 73%, up 6 p.p. on year-end 2014.
  - Provisions of EUR 10,108 million, with main reductions in the UK, Spain, Portugal and Poland.
  - Falling cost of credit, down to 1.25%. A fall of 41 b.p in Brazil to 4.50%, supported by the strategy of changing the mix and launch of the Defence Plan.

Main figures

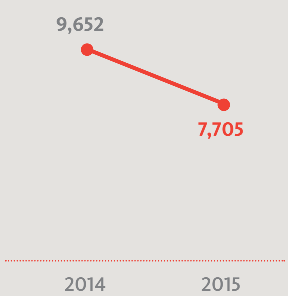
NPL and coverage ratio

%



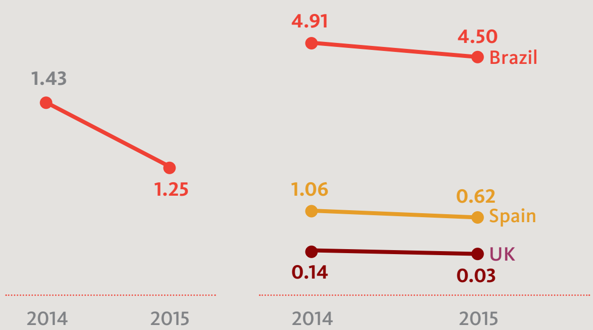
Net inflows

Million euros



Cost of credit[1]

%



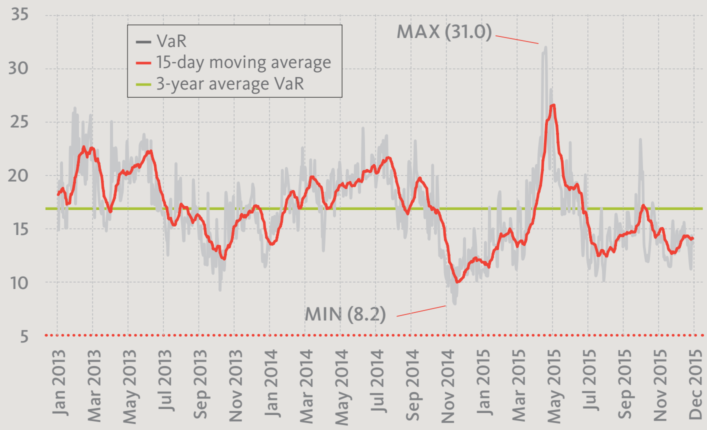
1. Cost of credit = loan-loss provisions twelve months / average lending.

Trading market risk and structural risks

pages 230 to 249

VaR 2013-2015: change over time

Million euros. VaR at 99% confidence interval over a one day horizon

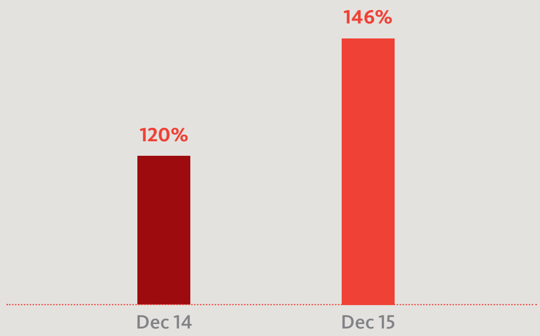


- The average VaR on SGCB trading activity remained low, due to our focus on customer service and geographic diversification.
- An appropriate balance sheet structure ensures that the impact of changes in interest rates on net interest income and equity value are contained.
- Coverage levels for the core capital ratio stand at around 100% for changes in interest rates.

Liquidity risk and funding

pages 250 to 260

Short-term liquidity coverage ratio (LCR)



- Santander has a comfortable liquidity position, based on its commercial strength and model of autonomous subsidiaries, and substantial customer deposits.
- Compliance with regulatory requirements (LCR 146%) ahead of schedule, with a further increase in the Group's liquidity reserve to EUR 258,000 million.
- The loan-to-deposit ratio remains at very comfortable levels (116%).
- More favourable market scenario, with abundant liquidity at lower costs and increased recourse to medium and long-term wholesale finance in 2015: 18 issuing units in 15 countries and 14 currencies.

Non-financial risks

pages 261 to 276

Operational risk

- Transformation project for the advanced measurement approach to risk.
- Fostering measures against cyber-risk (Santander Cyber-Security Program) and fraud and to bolster information security.
- Fostering awareness and knowledge of operational risk at all levels of the organisation.

Compliance and conduct risk

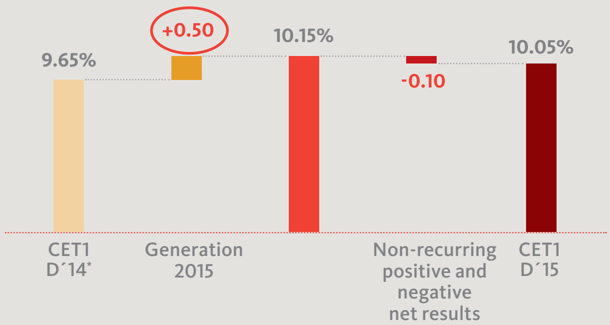
- Increasing supervisory pressure, particularly for conduct.
- New scope for the definition of conduct, and new implications in the context of stress testing.
- New customer protection supervisors in various countries.
- Updating social and environmental policies, laying out the principles and criteria for action in financing to certain customer segments in the Group

Regulatory capital

pages 281 to 289

Evolution of fully loaded CET1

%



* The 2014 proforma figure includes January 2015 capital increase.

- The CET1 ratio stands at 10.05%, in line with the Group´s outlook for organic growth, and above the ECB's required level for 2016 of 9.75%.

This report contains extensive information on the risks faced by the Group, how it manages and controls these, and the way they affect its activity and results. The report also provides details of the actions taken by the entity to minimise the occurrence of such risks and mitigate their severity.

Following best practice in the market, the following navigation map helps to follow the main issues dealt with in this risk management report through the various documents the Group publishes: the annual report, the audit report, the annual financial statements and the prudential relevance report (PRI or Pillar III). To further foster transparency, the PRI also includes a glossary of the basic risk terminology used in this section and the PRI itself.

The appendix at the end of the risk report includes a table detailing the location of the EDTF recommendations (Enhanced*Disclosure Task Force,* promoted by the Financial Stability Board) in the information published by Grupo Santander.

Map for navigating Grupo Santader's documents with risk management and control information

Block	Points	Annual Report	Audit Report & Annual accounts	IPR (Pillar III)
Risk function pillars	Risk function pillars	Page 180	Note 54.a	Section 5
Risk control and management model	Map of risks	Page 182	Note 54.b	Section 5
	Risk governance	Page 183		
	Lines of defence	Page 183		
	Risk committees structure	Page 183		
	Structural organisation of the risk function	Page 184		
	The Group's relationship with subsidiaries in risk management	Page 185		
	Management processes and tools	Page 185		
	Risk appetite and structure of limits	Page 186		
	Risk Identification Assessment (RIA)	Page 188		
	Analysis of scenarios	Page 189		
	Recovery and resolution plans	Page 190		
	Risk Data Agreggation and Risk Reporting Framework (RDA & RRF)	Page 191		
	Risk culture	Page 192		
Background and upcoming challenges	Background and upcoming challenges	Page 194		Sections 2 and 5
Credit risk	Introduction to the treatment of credit risk	Page 199	Note 54.c and other notes and related information	Section 6
	Main magnitudes and evolution (risk map, evolution, conciliation, geographic distribution and segmentation, management metrics)	Page 200		
	Detail of main markets: UK, Spain, Brazil	Page 208		
	Other risk credit risk optics (credit risk by activities in financial markets, concentration risk, country risk, sovereign risk and social and environmental risk)	Page 216		
	Credit risk cycle (pre-sale, sale and post sale)	Page 224		
	Risk study and process of credit rating, and planning and setting of limits (analysis of scenarios)	Page 224		
	Decision on operations (mitigation techniques of credit risk)	Page 226		
	Monitoring, measurement and control	Page 227		
	Recovery management	Page 228		
Trading market risk and structural risk	Activities subject to market risk and types of market risk	Page 230	Note 54.d and other notes and related information	Section 8
	Trading market risks	Page 232		
	Main magnitudes and evolution	Page 232		
	Methodologies	Page 241		
	System for controlling limits	Page 243		
	Structural risk balance sheet	Page 244		
	Main magnitudes and evolution	Page 244		
	Methodologies	Page 247		
	System of control of limits	Page 248		
	Pension and actuarial risks	Page 248		
Liquidity risk and funding	Introduction to the treatment of liquidity and funding risk	Page 250	Note 54.e and other notes and related information	Section 9
	Liquidity management (organisational model and governance, balance sheet analysis and measurement of liquidity risk, Management adapted to business needs)	Page 250		
	Financing strategy and evolution of liquidity in 2015	Page 254		
	Funding outlook for 2016	Page 260		
Operational risk	Definition and objectives.	Page 261	Note 54.f and other notes and related information	Section 10
	Risk management model and control of operational risk (management cycle, identification model, measurement and risk assessment, implementation of the model, reporting system)	Page 261		
	Evolution of the main metrics. Mitigation measures. Business continuity plan	Page 265		
	Other aspects of control and monitoring of operational risk	Page 268		
Compliance and conduct risk	Mission, scope, definitions and purpose	Page 270	Note 54.g and other notes and related information	Section 11
	Compliance risk control and supervision	Page 270		
	Governance and the organisational model	Page 271		
	Regulatory compliance	Page 272		
	Governance of products and consumer protection	Page 274		
	Anti-money laundering and terrorist financing	Page 275		
	Reputational risk	Page 275		
	Regulatory risk assessment model and risk appetite and exercise	Page 276		
Model risk	Model risk	Page 277	Note 54.h	
Strategic risk	Strategic risk	Page 280	Note 54.i	
Capital risk	Regulatory framework	Page 282	Note 54.j and other notes and related information	Section 4
	Regulatory capital	Page 283		
	Economic capital	Page 286		
	Planning of capital and stress test exercices	Page 287		
Appendix: EDTF transparency	EDTF table of recommendations	Page 290		Section 3

A. Pillars of the risk function

Grupo Santander has set itself the target of achieving excellence in risk management. Throughout its 150 year history, risk management has always been a priority for the Group. In 2015, major progress has been made to anticipate and to meet the big challenges faced against a constantly shifting economic, social and regulatory background.

This means that the risk function is now more crucial than ever for Grupo Santander, as it enables it to be a solid, secure and sustainable bank.

Grupo Santander is focused on building the future through a forward-looking management of all risks, while safeguarding the present through a robust control environment. Thus, its policy is that the risks function is based on the following pillars, which are aligned with the Santander Group's strategy and business model, that take on board the recommendations of supervisory bodies, regulators and best market practices:

1. The business strategy is defined by the risk appetite. The board of Grupo Santander determines the quantity and type of risk it considers reasonable to assume in the execution of its business strategy and to create targets that are objective, comparable and consistent with the risk appetite for each key activity.

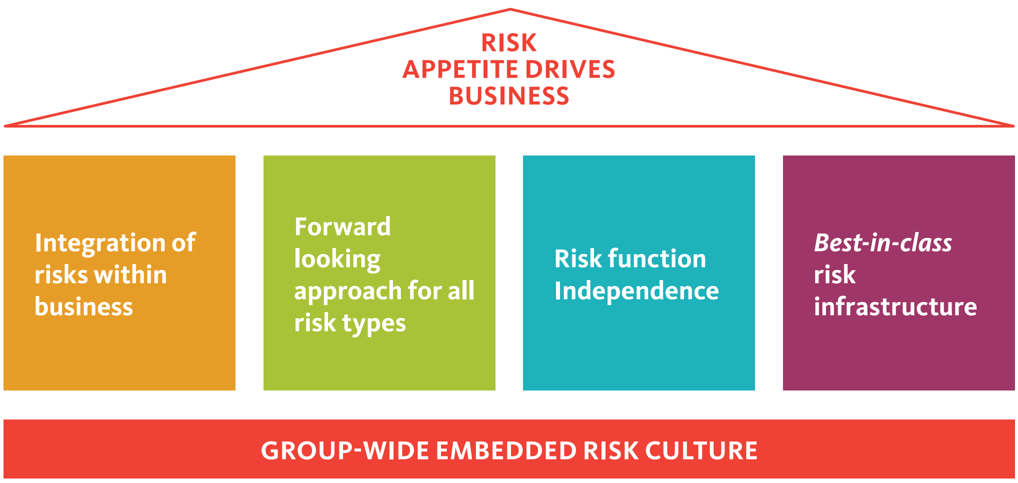
2. All risks have to be managed by the units which generate them using advanced models and tools and integrated in the different businesses. Grupo Santander is promoting advanced risk management using models and innovative metrics, and also a control, reporting and escalation framework in order to pinpoint and manage risks from different standpoints.

3. The forward-looking approach for all risk types must be part of the risk identification, assessment and management processes.

4. The independence of the risk function encompasses all risks and provides an appropriate separation between the risk generating units and units responsible for controlling these risks. It implies that the risk function should also have sufficient authority and direct access to management and governance bodies which are responsible for establishing and overseeing risk strategy and policies.

5. Risk management has to have the best processes and infrastructures. Grupo Santander aims to be a benchmark model in developing risk management support infrastructure and processes.

6. A risk culture which is integrated throughout the organisation, composed of a series of attitudes, values, skills and guidelines for action to cope with all risks. Grupo Santander believes that advanced risk management cannot be achieved without a strong and steadfast risk culture which is found in each and every one of its activities.



B. Risk control and management model - *Advanced Risk Management*

The model of managing and controlling risks ensures the risk profile is maintained within the levels set by the risk appetite and the other limits. It also incorporates the adoption of the necessary corrective and mitigation measures to maintain risk levels in line with the defined objectives.

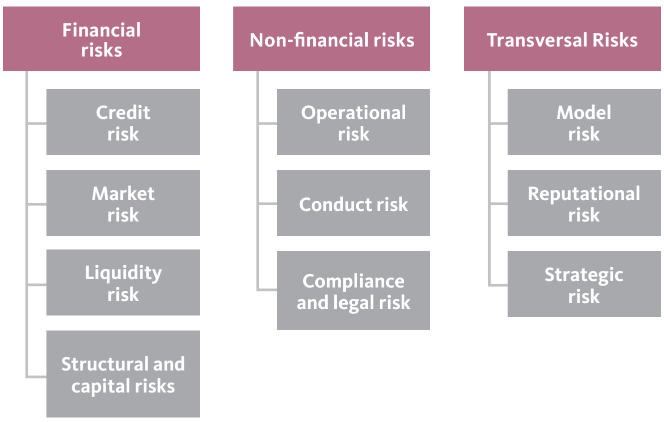
In 2014, the Group launched the **Advanced Risk Management (ARM) programme**, which is mainly aimed at helping to the Group's shift towards advanced management, laying down the foundations to have the best enterprise wide risk management model in the financial industry.

Through the roll-out of ARM in 2015 in all the Group units, progress has been made in strategic projects already under way such as the Risk Data Aggregation/Risk Reporting Framework (RDA/RRF), evolving the risk appetite, bolstering the control environment through governance of the risk function, and in developing new initiatives such as model risk management or Advanced Operational Risk Management (AORM), inter alia. The programme is also helping to reinforce the risk culture which is still one of the Group's hallmarks.

The elements enabling adequate management and control of all these risks derived from Grupo Santander's activity are set out below.

B.1. Map of risks

Identifying and evaluating all risks is a corner stone for controlling and managing risks. The risks map covers the main risk categories in which Grupo Santander has its most significant exposures, current and/or potential, facilitating this identification.



The first level includes the following risks

Financial risks

- **Credit risk:** risk of loss derived from non-compliance with contractual obligations agreed in financial transactions.
- **Market risk:** that incurred as a result of the possibility of changes in market factors that affect the value of positions in the trading book.
- **Liquidity risk:** risk of not complying with payment obligations on time or doing so with an excessive cost.
- **Structural and capital risks:** risk occasioned in the management of the various balance sheet items, including those concerning sufficient equity levels and those resulting from insurance and pension activities.

Non-financial risks

- **Operational risk:** risk of losses resulting from inadequate or failed processes, people and internal systems, or from external events.
- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered and their adequacy for each specific customer.
- **Compliance and legal risk:** risk owing to the breach of the legal framework, norms or regulators' and supervisors' requirements.

Transversal risks

- **Model risk:** consists of losses arising from decisions mainly based on results of models, due to errors in the design, application or usage of such models.
- **Reputational risk:** risk of damages to the way the bank is perceived by public opinion, but its clients, investors or any other interested party.
- **Strategic risk:** risk that results are significantly removed from the entity's strategy or business plan due to changes in the general rules of business and risks associated to strategic decisions. It includes the risk of badly implementing decisions or the lack of response capacity to changes in the business environment.

All risk should be referenced to the basic risk categories established in the Risk Map, in order to organise its management, control and related information.

B.2. Risk governance

In 2015, governance of the risk function was updated and reinforced, by including the best international practices, in order to strengthen the Group's corporate governance. The responsibilities of the different committees have been defined more clearly, separating risk decision-making and management units which take part in business functions from those responsible for risk control.

The governance of the risk function should safeguard adequate and efficient decision-taking and the effective control of risks, and ensure that they are managed in accordance with the risk appetite defined by the Group's Top Management and by the units, if applicable.

For this purpose, the following principles are established:

- Segregation between risk decision-taking and control.
- Stepping up the responsibility of risk generating functions in the decision making process.
- Ensuring that all risks decisions have a formal approval process.
- Ensuring an aggregate overview of all risk types.
- Bolstering the risk control committees.
- Maintaining a simple committees structure.

B.2.1. Lines of defence

Banco Santander's management and control model is based on three lines of defence.

The business functions or activities that create exposure to a risk are the first line of defence. The acceptance or generation of risk in the first line of defence should be adjusted to appetite and the limits defined. In order to tend to this function, the first line of defence must have the resources to identify, measure, manage and report the risks assumed.

The second line of defence consists of the risk control and oversight function and by the compliance function. This line vouches for effective control of the risks and ensures they are managed in accordance with the level of risk appetite defined.

Internal audit is the third line of defence and as the last layer of control in the Group regularly assesses the policies, methods and procedures to ensure they are adequate and are being implemented effectively.

There is a sufficient degree of segregation between the risk control function, the compliance function and the internal audit function, and also between them and other functions which control or supervise them, to ensure that their functions are performed and that they have access to the board of directors and/or its committees through their heads.

B.2.2. Risk committees structure

Ultimately, the board of directors is responsible for risk control and management, and, in particularly, for setting the risk appetite for the Group, and it can delegate its powers to committees. The board uses the risk supervision, regulation and compliance committee (Board Risk Committee, BRC), as an independent risk control and oversight committee. The executive committee of the Group also pays special attention to managing the Group's risks.

The following bodies form the highest level of risk governance.

Bodies for independent control

Board Risk Committee:

The purpose of this committee is to assist the board in the sphere of risk supervision and control, define the Group's risk policies, relations with the supervisory authorities and matters of regulation and compliance, sustainability and corporate governance.

It is made up of external non-executive directors (mostly independent ones) and is chaired by an independent director.

The functions of the board risk committee are:

- Support and advise the board in defining and assessing the risk policies that affect the Group and in determining the risk propensity and risk strategy.
- Provide assistance to the board for overseeing implementation of the risk strategy and its alignment with strategic commercial plans.
- Systematically review the exposures with the main clients, economic sectors, geographic areas and types of risk.
- Know about and assess management tools, ideas for improvement, the progress in projects and any other relevant activity relating to risk control over the course of time, including the internal risk model policy and its internal validation.
- Support and advise the board as regards supervisors and regulators in the various countries where the Group operates.
- Oversee compliance with the general code of conduct, of the anti-money laundering and combating terrorism financing manuals and procedures, and, in general, for the rules of governance and the Company's compliance programme, and make proposals necessary for improvement. In particular, it is the committee's responsibility to receive information and, where necessary, issue reports on the disciplinary measures for senior management.
- Supervise the Group's policy and rules of governance and compliance and, in particular, adopt the actions and measures that results from the reports or the inspection measures of the administrative authorities of supervision and control.
- Monitor and assess the proposed regulations and regulatory developments that result from their implementation and the possible consequences for the Group.

Risk control committee (RCC):

This collegiate body is responsible for the effective control of risks, ensuring they are managed in accordance with the level of risk appetite approved by the board, permanently adopting an all-inclusive overview of all the risks included in the general risk framework. This duty implies identifying and tracking both current and emerging risks, and gauging their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) of the Group and is made up of Bank senior management. The risk function, which chairs the committee, and the compliance, financial accounting and control and risk control are represented, at least. The CROs of local entities will take part in the committee meetings on a regular basis in order to report on the risk profile of the different interiorised, as well as other tasks.

The risk control committee reports to the board risk committee and assists it in its function of supporting the board.

Decision making bodies

Executive risk committee (ERC):

This collegiate body is responsible for risk management, due to the powers assigned to it by the board of directors, and, within its field of action and decision making, it addresses all matters relating to risks.

It takes part in risk decision making at the highest level, ensuring that risk decisions are within the limits set out in the Group's risk appetite, and it reports its activity to the board or its committees whenever it is required to do so.

This committee is chaired by an executive vice president of the board, and includes the chief executive officer, executive directors, and other directors of the entity. The risk function, financial function and compliance function, inter alia, are represented. The CRO of the Group has a right to veto the decisions taken by this committee.

B.2.3. Structural organisation of the risk function

The Group Chief Risk Officer (GCRO) is responsible for the risk function and reports to the Bank's executive vice-chairman, who is a member of the board of directors and chairman of the executive risk committee.

The GCRO advises and challenges the executive line and also reports independently in the risk, regulatory and compliance committee and to the board.

Advanced risk management has a holistic and forward-looking approach to risks, based on intensive use of models, designed to build up a solid control environment while also complying with the regulator's and supervisor's requirements.

The **risk management and control model is structured** on the following pillars:

- Coordination of the relationship between the local units and the Corporation, assessing the effective deployment of the risk management and control framework in each unit and ensuring they are aligned to achieve strategic risk targets.
- Enterprise Wide Risk Management (EWRM) provides a consolidated oversight of all risks to the senior management and the Group's governance bodies, and the development of the risk appetite and the risk identification and assessment exercise. It also develops risks relations with supervisors and regulators.
- Control of financial, non-financial and transversal risks (see the map of risks in section B.1. Map of risks), verifying that management and exposure by type of risk is in line with what senior management establishes.

- Development within the scope of risk of the policy, methodologies, scenario analyses, stress tests and data infrastructure, and robust risk governance.

B.2.4. The Group's relationship with subsidiaries in risk management

Regarding the alignment of units with the corporation
The management and control model shares, in all the Group's units, basic principles via corporate frameworks. These frameworks are established by the Group, and the local units adhere to them through their respective boards of directors, shaping the relations between the subsidiaries and the Group, including the role played by the latter in taking important decisions by validating them.

Over and above these principles and basics, each unit adapts its risk management to its local reality, in accordance with corporate frameworks and reference documents provided by the Corporation, so creating a recognisable risk management model in Grupo Santander.

One of the strengths of this model is the adoption of the best practices developed in each of the units and markets in which the Group operates. The corporate risk divisions act as centralisers and conveyors of these practices.

Furthermore, the Santander Group-Subsidiary Governance Model and good governance practices establishes regular interaction and functional reporting by each local CRO to the GCRO, and also stipulates that the Group must take part in the process of appointing, setting targets, assessment and remuneration of those local CRO, all in order to ensure risks are adequately managed in the Group.

Regarding the structure of committees
The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommends that each subsidiary should have a statutory risk committee and also an executive risk committee, chaired by the CEO, in keeping with the best corporate governance practices, and homogeneous to those already in place in the Group.

The governance bodies of the subsidiary entities are structured in accordance with the local regulatory and legal requirements and the dimension and complexity of each subsidiary, being coherent with those of the parent company, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

The administration bodies of the subsidiaries, in accordance with the internal governance framework established in the Group, will define their own model of risk powers (quantitative and qualitative). These local models of assigning powers must follow the principles contained in the reference models and frameworks developed at the corporate level.

Given its capacity of comprehensive (enterprise wide) and aggregated vision of all risks, the Corporation will exercise a role of validation and questioning of the operations and management policies in the various units, insofar as they affect the Group's risk profile.

B.3. Management processes and tools

Risk appetite

- **Significant improvement in metrics** with the greatest granularity and inclusion of new capital, liquidity, and structural and operational risk metrics
- Significant **extension** of the **risk appetite culture** and **governance**

Risk identification and Assessment (RIA)

- More **robust** and **systematic risk profile assessment**
- Approach based on:
  - risk performance
  - assessment of the control environment
  - identification of potential risks

Recovery and resolution plans

- **Adaptation** to new **international guidelines**
- **New crisis management model**

Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

- **Compliance** with the **principles** of **BCBS239*** for effective risk data aggregation and risk reporting
- **Structural** and **operational improvements** to enhance reporting of **all risks** at **all levels**

Analysis of scenarios

- Make strategic planning more robust by **challenging** the **model**
- Draw up **improvement plans for processes** and **procedures,** backed by **self-assessment exercises**

* Basel Committee on Banking Supervision.

B.3.1. Risk appetite and structure of limits

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. Severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring consistency between both of them. The risk appetite is set for the whole of the Group as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

In the 2015 year, the risk appetite local implementation process was completed, and it was bolstered by all units signing up to the corporate risk appetite Framework. This framework sets out common requirements across the entire organisation in processes, metrics, governance bodies, controls and corporate standards for integration in risk appetite management, and it is also cascaded down in an effective and traceable way to management policies and limits.

In 2015, the Group also moved ahead in aligning strategic planning with risk appetite. The business plans for the next three years were approved while also analysing their consistency with local appetites and the Group appetite in all units. Likewise, crisis management plans in 2015 were directly linked to risk appetite metrics and limits.

The scope of the metrics has also been broadened, improving coverage of operational, liquidity and structural risk, and with a greater focus on losses and capital stress metrics.

In 2016, the Group will make further efforts towards ongoing improvement and deeper analysis of risk appetite within the Advanced Risk Management (ARM) programme. It will seek to reinforce the treatment of non-financial risks, defining specific plans for management and treatment of risk appetite, inter alia.

Banking business model and fundamentals of the risk appetite
The definition and establishment of the risk appetite in Grupo Santander is consistent with its risk culture and banking business model from the risk perspective. The main elements that define this business model and which are behind the risk appetite are:

- A general medium-low and predictable risk profile based on a diversified business model, focused on retail and commercial banking and with an internationally diversified presence and with important market shares, and a wholesale banking business model that gives priority to relations with clients in the Group's main markets.

- A stable and regular earnings and shareholder remuneration policy, underpinned by a sound base of capital and liquidity and an effective diversification strategy in terms of sources and terms.

- An organisational structure based on subsidiaries that are autonomous and self-sufficient in capital and liquidity, minimising the use of non-operational or shell companies, and ensuring that no subsidiary has a risk profile that jeopardises the Group's solvency.

- An independent risk function with very active involvement of senior management that guarantees a strong risk culture focused on protecting and ensuring an adequate return on capital.

- A management model that ensures a global and inter-related view of all risks, through an environment of control and robust monitoring of risks, with global scope responsibilities: all risk, all businesses, all countries.

- Focus in the business model on those products that the Group knows sufficiently well and has the management capacity (systems, processes and resources).

- The development of its activity on the basis of a conduct model that oversees the interests of clients and shareholders.

- Adequate and sufficient availability of staff, systems and the tools that guarantee maintaining a risk profile compatible with the established risk appetite, both at the global and local levels.

- A remuneration policy that has the necessary incentives to ensure that the individual interests of employees and executives are aligned with the corporate framework of risk appetite and that these are consistent with the evolution of the Bank's long-term results.

Corporate risk appetite principles
The following principles govern Grupo Santander's risk appetite in all its units:

- **Responsibility of the board and of senior management.** The board is the maximum body responsible for setting the risk appetite and supporting regulations, as well as supervising compliance.

- **Enterprise Wide Risk, backtesting and questioning risk profile.** The risk appetite must consider all significant risks to which the Bank is exposed, facilitating an aggregate vision of the risk profile through the use of quantitative metrics and qualitative indicators. This enables the board and senior management to question and assimilate the current risk profile and that envisaged in business and strategic plans and its coherence with the maximum risk limits.

- **Forward-looking view.** The risk appetite must consider the desirable risk profile for the current moment as well as in the medium term, taking into account both the most probable circumstances as well as stress scenarios.

- **Linkage with strategic and business plans, and integration in management.** The risk appetite is a benchmark in strategic and business planning and is integrated into management through a bottom-up and top-down focus:

- top-down vision: the board must lead the setting of the risk appetite, vouching for the disaggregation, distribution and transfer of the aggregated limits to the management limits set at the portfolio level, unit or business line.

- bottom-up vision: the risk appetite must emanate from the board's effective interaction with senior management, the risk function and those responsible for the business lines and units. The risk profile contrasted with the risk appetite limits will be determined by aggregation of the measurements at the portfolio, unit and business line level.

- **Coherence in the risk appetite of the various units and common risk language throughout the organisation.** The risk appetite of each unit of the Group must be coherent with that defined in the remaining units and that defined for the Group as a whole.

- **Regular review, continuous backtesting and adapting to the best practices and regulatory requirements.** Assessing the risk profile and backtesting it against the limits set for the risk appetite must be an iterative process. Adequate mechanisms must be established for monitoring and control that ensure the risk profile is maintained within the levels set, as well as taking corrective and mitigating measures that are necessary in the event of non-compliance.

Limits structure, monitoring and control

The risk appetite is formulated every year and includes a series of metrics and limits on these metric (statements) which express in quantitative and qualitative terms the maximum risk exposure that each unit of the Group or the Group as a whole is prepared to assume.

Fulfilling the risk appetite limits is continuously monitored. The specialised control functions report at least every quarter to the board and its risk committee on the adequacy of the risk profile with the risk appetite authorised.

The excesses and non-compliance with the risk appetite are reported by the risk control function to the relevant governance bodies. The presentation is accompanied by an analysis of the causes that provoke it, an estimation of the time they will remain this way as well as the proposed actions to correct the excess when the corresponding governance body deems it opportune.

Linkage of the risk appetite limits with the limits used to manage the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

The management policies and structure of the limits used to manage the different types and categories of risk, which are described in greater detail in sections D.1.5.2. Planning (Strategic Commercial Plan), D.2.2.3. and D.2.3.3. Systems for controlling limits in this Report, have a direct and traceable relation with the principles and limits defined in the risk appetite.

In this way, the changes in the risk appetite are transferred to changes in the limits and controls used in Santander's risk management and each one of the business and risk areas is responsible for verifying that the limits and controls used in their daily management are set in such a way that they cannot fail to comply with the risk appetite limits. The risk control and supervision function will then validate this assessment, ensuring the adequacy of the management limits to the risk appetite.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio, segment and business line, both in current and stressed conditions. These metrics and risk appetite limits are articulated in five large areas that define the positioning that Santander's senior management wants to adopt or maintain in the development of its business model:

- **The volatility in the income statement** that the Group is willing to accept.

- The **solvency** position that the Group wants to maintain.

- The minimum **liquidity** position that the Group wants to have.

- The maximum levels of **concentration** that the Group considers reasonable to admit.

- **Qualitative** aspects and supplementary **metrics.**

Core areas of appetite and key metrics

Volatility of results	Solvency	Liquidity	Concentration	Complementary aspects

• Maximum loss the Group is prepared to accept under a scenario of acute tension
• Maximum technological and operational risk (RTO)
• Sensitivity of net interest margin to changes in interest rates
	• The minimum capital position the Group is prepared to accept under a scenario of acute tension
	• Impact in CET1 ratios in specific tension exercises for its main types of risks
		• Minimum structural liquidity position
		• Minimum liquidity horizon position that the Group is prepared to accept under a scenario of acute tension
			• Concentration by individual customer
			• Concentration by top-N
			• Concentration in non-*investment grade* counterparties
			• Sector concentration
			• Concentration in high-volatility portfolios
				• Qualitative operational risk indicators:
				  • Fraud
				  • Technological
				  • Cyber risk and security
				  • Litigation
				  • Other...
				• Qualitative restrictions

Volatility of results
Its object is to limit the potential negative volatility of the results projected in the strategic and business plan in the event of stress conditions.

This axis contains metrics which measure the behaviour and evolution of real or potential losses in the business.

Stress tests included at this level measure the maximum level in the fall in results, under adverse conditions, in the main types of risk to which the Bank is exposed, with a feasible probability of occurring and similar by risk type (so that they can be aggregated).

Solvency
The object of this axis is to ensure that risk appetite adequately considers the maintenance and upkeep of the entity's equity, keeping capital higher than the levels marked by regulatory requirements and market demand.

Its purpose is to determine the minimum level of capital which the entity considers it needs to maintain to cope with potential losses under both normal and stressed conditions and arising from its activity and from its business and strategic plans.

This capital focus included in the risk appetite framework is supplementary and consistent with the Group's capital objective approved within the capital planning process implemented in the Group and which extends to a period of three years (further details are provided in chapter D.8 Capital risk of this report and the Prudential Relevance Report -Pillar III-).

Liquidity position
Grupo Santander has developed a funding model based on autonomous subsidiaries that are responsible for covering their own liquidity needs. On this basis, liquidity management is conducted by each subsidiary within a corporate framework of management that develops its basic principles (decentralisation, equilibrium in the medium and long term of sources-applications, high weight of customer deposits, diversification of wholesale sources, reduced recourse to short-term funds, sufficient reserve of liquidity) and revolves around three main pillars (governance model, balance sheet analysis and measurement of liquidity risk, with management adapted to business needs). D.3 Liquidity risk and funding of this Report has more information on the corporate framework Liquidity risk and funding of this Report.

Santander's liquidity risk appetite establishes demanding objectives of position and time frames for systemic stress scenarios (local and global) and idiosyncratic. In addition, a limit is set on a structural funding ratio that relates customer deposits, equity and medium and long term issues to structural funding needs.

Concentration
Santander wants to maintain a widely diversified risk profile from the standpoint of its exposure to large risks, certain markets and specific products. In the first instance, this is achieved by virtue of Santander's retail and commercial banking focus with a high degree of international diversification.

This level includes individual maximum exposure limits with customers, aggregated maximum exposure with major counterparties, maximum exposure by activity sectors, in Commercial Real Estate and in portfolios with a high risk profile. Customers with an internal rating lower than investment grade or equivalent or which are in excess of a certain degree of exposure are also monitored.

Qualitative aspects and other complementary metrics
This seeks to delimit risk exposures in a complementary way to the previous pillars.

Risk limits expressed both qualitatively (for example, the ban on operating with complex market products) as well as expressed in other quantitative metrics (for example, operational risk indicators) are studied so that relevant risks not considered in the other categories can be controlled. A qualitative indicator on the state of management is incorporated in operational risk, based on the results of indicators on other issues including governance and management, budgetary compliance, quality of the data bases of events, and corporate self-assessment questionnaires on the control environment. An indicator of compliance and reputational risk is also incorporated from an assessment matrix created for the purpose.

B.3.2. Risk identification and assessment (RIA)

Banco Santander, as part of its routine management, **identifies and assesses** the risks to which it is exposed in the countries in which it operates, and which are inherent in its activity.

In late 2014 the Group launched a corporate **Risk identification & assessment** exercise with the aim of making the Group's risk profile assessment more **robust** and systematic. In 2015, the risk profile of the Group, its units and the most important risk types have been assessed, and a high degree of correlation was obtained between the sensitivity to risk factor results in the Risk identification and assessment (RIA) exercise and the corporate ICAAP stress scenarios.

The Group has also made headway in the methodological development of the corporate Risk Identification and Assessment exercise, underlining the importance of the identification and assessment of potential risk factors for the Group, greater stringency in assessing the control environment, extending the scope of the exercise and a more robust link with generating idiosyncratic scenarios in capital planning.

Risk identification & assessment is one of the initiatives which form part of the **ARM** (Advanced Risk Management) programme which pursues the goal of **advanced risk management** in order to ensure Santander is a **solid and sustainable bank** in the long term.

It also complies with **regulatory requirements** concerning a more in-depth understanding of the Group's risk profile and the importance attached to pinpointing, assessing and evaluating the entity's top risks, the associated control environment and any potential factors which could jeopardise the success of the Group's strategic plan.

According to the methodology used in the RIA exercise, three factors are taken into account in determining the Group's risk profile:

- **Risk performance,** indicating the profile by risk type and business activity.
- **Control environment** to objectively establish a self-assessment regarding the effectiveness of risk management and control in accordance with pre-established targets and a defined control model.
- **Top Risks** to identify the material risks which could jeopardise strategic and business targets, and setting up action plans, which are then monitored.

One of the most important points for the RIA exercise is to develop a methodology to identify current **material risks** which senior management considers to be an area of attention. Such risks are considered to be risks which could alone, or in combination with other risks, have a significant impact on the Bank's results, on its financial position and its capacity to maintain appropriate capital levels.

It is also used to identify what are known as **emerging risks,** in other words risks which could potentially have an adverse impact on the Group's future performance, although their result and horizontal time frame are uncertain and difficult to predict (for further details see section 'Emerging risks' from chapter C. Background and upcoming challenges).

Looking towards 2016, the Group has its sights set on reinforcing the identification and assessment exercise, including all risks and extending the scope to all entities in which the Group has a presence.

B.3.3. Analysis of scenarios

Banco Santander conducts advanced management of risks by analysing the impact that different scenarios could provoke on the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables as well as other variables that affect management.

Analysis of scenarios is a very useful tool for senior management as it enables the Bank's resistance to stressed environments or scenarios to be tested, as well as put into effect measures to reduce the Bank's risk profile to these scenarios. The objective is to maximise the stability of the income statement and the levels of capital and liquidity.

This forward looking vision has helped Santander to remain among the select group of international banks that throughout the crisis generated profits and maintained its dividend policy.

The robustness and consistency of the exercises of scenario analysis are based on three pillars:

- Developing mathematical models that estimate the future evolution of metrics (for example, credit losses), based on both historic information (internal of the Bank and external of the market), as well as simulation models.
- Including the expert judgement and know-how of portfolios, questioning and backtesting the result of the models.
- The backtesting of the result of the models against the observed data, ensuring that the results are adequate.

Uses of analysis of scenarios

- **Regulatory uses:** scenario stress tests are performed using the guidelines set by the European regulator or each one of the national regulators who oversee the Bank's activity.
- **Internal exercises** of self-assessment of capital (ICAAP) or liquidity (ILAAP) in which while the regulator can impose certain requirements, the Bank develops its own methodology to assess its capital and liquidity levels in the face of different stress scenarios. These tools enable capital and liquidity management to be planned.
- **Risk appetite.** Contains stressed metrics on which maximum levels of losses (or minimum of liquidity) are established that the Bank does not want to exceed. These exercises are related to capital and liquidity exercises, although they have different frequencies and present different granularity levels. The Bank continues to work to improve the use of analysis of scenarios in risk appetite and ensure an adequate relation of these metrics with those used in daily risk management. For more detail see sections B.3.1. Risk appetite and structure of limits and D.3. Liquidity risk and funding of this Report.
- **Daily risk management.** Analysis of scenarios is used in processes for budgeting processes and strategic planning, in the generation of commercial policies of risk admission, in the global analysis of risks by senior management or in specific analysis on the profile of activities or portfolios. Further details are provided in the sections on credit risk (section D.1.5.2. Planning (Strategic commercial plan), market risk (D.2.2.1.6. and D.2.2.2.3. Analysis of scenarios) and liquidity risk (D.3.2.2. Balance sheet analysis and measurement of liquidity risk).

Scenario analysis project in the Advanced Risk Management programme
The scenario analysis project has been added to the other initiatives which form part of the Advanced Risk Management (ARM) programme, with the aim of improving management through metrics and advanced models. This project is divided into four core areas:

- **Tool for analysing scenarios:** installation of an advanced tool for estimating losses with greater soundness and computerisation of information handling, with the capacity to aggregate various types of risk and with an environment of multi user execution.

- **Governance:** review of the framework of governance of the exercises of scenario analysis in order to adjust to their growing importance, greater regulatory pressure and best market practices.

- **Methodology:** preparing plans to develop statistical stress models which have sufficient precision and granularity to meet requirements, not only of current regulation and supervision, but also to improve predictive risk capacity in accordance with advanced management.

- **Processes and procedures:** continuous self-assessment exercises and improvement plans to evolve processes in the context of advanced scenario analysis management.

B.3.4. Recovery and resolution plans

In 2015, the Bank prepared the sixth version of its corporate recovery plan, the most important part of which envisages the measures available to emerge on its own from a very severe crisis. This plan was initially prepared at the behest of the European Central Bank, which has become the main supervisor of Grupo Santander (mandate assigned under the Single Supervisory Mechanism, which came into force on 4 November, 2014), on the basis of regulations applicable in the European Union[1]. The Plan also considers the non-binding recommendations made in this area by international bodies such as the Financial Stability Board - FSB[2]).

As with the previous versions from 2010 to 2014, the Group presented the plan to the relevant authorities (for the first time, to the ECB in December, unlike in other years when it was submitted to the Bank of Spain) for it to be assessed in the first half of 2016.

This plan comprises of the corporate plan (covering to Banco Santander) and the individual plans for the main local units (United Kingdom, Brazil, Mexico, US, Germany, Argentina, Chile, Poland and Portugal), thereby meeting the commitment made by the Bank with the authorities in 2010. It is important to note the cases of the countries referred to above belonging to the European Union, where, apart from the fact that they are mandatory as the form part of the corporate plan, they also need to be completely developed due to regulatory initiatives arising from the transposition of Directive 2014/59/EU (European Union Crisis Management Directive) to their local legislations.

During 2015, the Group has adapted the plan structure and content to the new international guidelines, taking advantage to introduce improvements concerning potential crisis situation in the governance chapters (these improvements largely concern the indicators structure and the general crisis situation governance) and in strategic analysis.

The Group's senior management is fully involved in preparing and regularly monitoring the content of the plans, through specific committees of a technical nature, as well as monitoring at the institutional level which guarantee that the content and structure of the documents are adapted to local and international regulations in crisis management, which have been in continuous development for the last years.

The board of directors is responsible for approving the corporate plan, once the plan's content and data have been previously submitted and discussed in the bank's main management and control committees (executive committee, board risk committee, executive risk committee, capital committee). The individual plans are approved by the local bodies and always in coordination with the Group, as these plans must be part of the corporate plan.

During 2016, the Group will continue to introduce improvements in the recovery plans, seeking to adopt developments in this domain which are observed in the market, as well as those necessary to fully adapt the local plans structure to the new European corporate framework, taking into account any restrictions arising from local authorities.

Regarding resolution plans, the authorities which take part in the Crisis Management Group (CMG) have adopted a common approach on the strategy to follow for the Group's resolution plan that, given the legal and business structure with which Santander operates, corresponds to the so called multiple point of entry (MPE); they have signed the cooperation agreement on resolution (COAG); and have developed the first resolution plans. The corporate plan was analysed in a meeting of the Crisis Management Group held on 3 December. The Group continues to cooperate with the competent authorities in the preparation of resolution plans, providing all the information that the authorities might require.

As a case apart, in the US resolution plans are the responsibility of the banks themselves. The Group has presented the third version of the local resolution plans (one for all of the Group's activities in the US, in line with the Federal Reserve's regulations, and the other only covering Santander Bank, as the deposit-taking institution subject to the regulations of the Federal Deposit Insurance Corporation (FDIC).

1. Fundamentally, Directive 2014/59/UE (the 'European Union Crisis Management Directive'); recovery regulatory implementations by the EBA in force (EBA/RTS/2014/11; EBA/GL/2014/06; EBA/GL/2015/02); EBA technical recommendation to the Commission regarding the identification of core business lines and critical functions (EBA/op/2015/05); EBA regulatory developments pending approval (EBA/CP/2015/01 on ITS resolution item templates); EBA regulatory developments which do not directly concern recovery but with important implications (EBA/GL/2015/03 on early warning triggers); local regulation of Spain: Credit entities and investment service firms recovery and resolution Act 11/2015.
2. *FSB Key Attributes of Effective Resolution Regimes for Financial Institutions* (15 October 2014, following the update of the first publication in October 2011).

B.3.5. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years, the Group has developed and implemented the necessary structural and operating improvements to reinforce and consolidate enterprise wide risk, based on complete, precise and regular data. This allows the Group's senior management to assess risk and act accordingly.

Against this background, Santander believes that regulatory requirements are aligned with the strategic risk transformation plan, and hence at the current date the Group complies with the standards set forth in the BCBS 239 regulation. The core aim of this project, which was launched in early 2015 and which has been successfully completed in 2015, was to ensure that the risk data reported to senior management will include the basic principles of Risk Data Aggregation (RDA).

Risks reports contain appropriate balance between **data, analysis** and **qualitative comments,** include **forward-looking** measures, **risk appetite** data, **limits** and **emerging risks,** and are **distributed** in **due time and form** to the **senior management.**

In the field of **governance,** the risk data and information quality committee was set up, and will be responsible for applying measures decided by the board in this area; a common data management methodology was also implemented using the pertinent models, procedures and guidelines.

The Group is equipped with a **common reporting taxonomy** which covers all the significant risk areas within the organisation, and which is in keeping with the Group's size, risk profile and activity.

The senior management receives the following reports to ensure adequate risk management and decision making:

- **Group risks report**
- **Risk factor reports:**
  - Credit risk.
  - Market and structural risks.
  - Operational risk.
  - Capital.
  - Commercialisation compliance.
  - Regulatory compliance.
  - Anti-money laundering (AML).
  - Non-prudential risk (SAC).
- **Risk units of each unit**

Important **technological developments** have been implemented, allowing the Group to improve data aggregation capacities in a complete, exact, reliable and traceable way. The data throughout the Group (enterprise wide) is limited to a defined data taxonomy which is registered in a single data dictionary which is accessed by authorised bank risks personnel.

One of Grupo Santander's commitments is to introduce new technologies to enhance data use, management and analysis. All these questions are addressed in pluri-annual plans adapted to the real situation of the Corporation and the geographies in which we operate.

B.3.6. Control environment

The risk management model has a **control environment** that guarantees adequate control of all the risks, contributing a **comprehensive vision** of them. This control is carried out in all the Group's units and for each type of risk in order to ensure that the Group's exposures and risk profile are within the mandates established by both the board as well as regulators.

The **main functions** that ensure effective control are:

1. Clearly **assigning responsibilities** in risk generating units through decision making and control of their activities.

2. **Specialised control** of each risk factor.

3. **Supervision** and aggregated **consolidation** of all risks.

4. **Assessment** of **control mechanisms**.

5. Independent assessment by **internal audit**.

B.4. Risk culture - *Risk Pro*

Our internal culture (The Santander Way) includes a Santander way of managing risks; a Santander risk culture which we call 'risk pro', which is one of our main competitive advantages on the market.

Grupo Santander's robust risk culture is one of the key reasons why it has been able to cope with changes in economic cycles, customers' new demands, increased competition, and to be considered as an entity which earns the trust of its employees, customers, shareholders and its communities.

Against a background of constant changes, with new types of risks and greater requirements by regulators, Grupo Santander wishes to maintain an excellent level of risk management in order to achieve sustainable growth.

Excellence in risk management is thus one of the strategic priorities that has most shaped the Group's development. This involves consolidating a strong risk culture in the Group, a risk culture which all Grupo Santander employees are familiar with and which they apply.

This risk culture is defined through five principles which must necessarily form part of all the Group's employees' day-to-day activities:

Accountability, because all units and employees (no matter what function they perform) should know of and understand the risks incurred in their daily management and be responsible for identifying, assessing, managing and reporting.

Resilience, which is a combination of prudence and flexibility. All employees have to be prudent and steer clear of any risks they are not familiar with or which are in excess of the established risk appetite. They must also be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.

Challenge, because ongoing debate is encouraged throughout the Group. We always ask ourselves how to manage risks in a proactive, positive and open way, giving us an overview which allows us to anticipate future challenges.

Simplicity, because universal risk management needs clear processes and decisions which are documented and easily understood by employees and customers.

And, of course, **customer focus.** All risks actions are focused on the customer, on his or her long term interests. Our aim at Grupo Santander is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities. We can achieve this goal by making a proactive contribution to help our customers prosper with excellent risk management.

The risk pro risk culture is being reinforced in all Grupo Santander units through three drivers:

- **Development of a model for the Advanced Risk Management (ARM) programme.** This is a solid and integrated programme which is designed to build towards the future using a forward-looking management and overview of all risks, which also safeguards our present with a strong control environment. For Grupo Santander, advanced risk management is a priority in its long-term objective of continuing to be a solid and sustainable bank.

- In the first phase of ARM, all the Group's banks have been aligned with regulatory guidelines and have established the milestones for the roll-out of the programme's initiatives. One of most important points is to have solid corporate governance of the risk function.

- **Developing capacities and attitudes to achieve advanced risk management.** A far-reaching plan has been set in motion for all Group units and employees to know about the risk culture, clearly understand its implications and for them to think carefully about how to improve their risk management attitudes and behaviour. This plan will continue its deployment in the coming years.

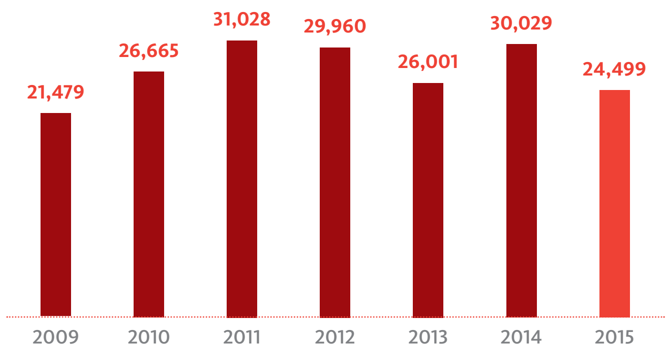
- **Setting up and monitoring measures to determine the risk culture status throughout the Group.** The Bank is collecting evidence, using systematic monitoring, of the culture initiatives which have been set in motion, to gauge the degree of knowledge of the risk culture and to be able to continuously identify areas for improvement and action plans.

Training activities

Training is one of the ways in which the Group builds upon the risk culture. Through the corporate risk school, Santander guarantees that all its risk professionals are trained and developed with uniform criteria. The corporate risk school has now been functional for ten years, since 2005. During these ten years, it has worked side by side with the 10 local schools to enhance Santander's leadership in this sphere, continuously strengthening the skills of executives and employees.

In 2015, 24,499 hours of training hours were taught by 6.271 Group employees. The corporate risk school trains professionals from other business areas, particularly retail and commercial banking, so as to align the demanding risk management criteria to business goals.

Training hours



In 2016, the goal is to extend this training to the entire Group, through launching new training activities and with the help of new digital technologies in order to achieve more effective and innovative training.

risk pro

All the Santander team engaged in risk

It is **Santanders Group's Risk Culture (under the Santander Way:** Simple Personal and Fair).

It is the **set of behaviours** that **each of the employees** must develope to proactively manage the risks that affect our daily activities.

It is the **contribution from all of us** to the **bank's sustainability** and to the **development of our future** through the contruction of a solid present.

C. Background and upcoming challenges

Growth in the global economy slowed in 2015 because the steady resurgence in developed countries, which has been more vigorous in the US and the United Kingdom but also in the Eurozone, was significantly offset by the downturn in emerging markets.

Growth has been lower than was expected at the start of the year. In developed economies, this has been the case due to specific circumstances which dragged on the US economy in early 2015, even though by December this did not stop the FED from implementing a slight rise in interest rates. In the Eurozone, the year saw moderate improvement until Greece's third bail-out and the point at which the ECB began to apply a more active policy (quantitative earing). Emerging countries have been impacted by the slowdown in China (and the change in China's growth mix), the fall in commodity prices, geopolitical problems and some measure of decline in financing conditions (lower capital outflows, rise in risk premiums, stock market falls).

Against this background, Banco Santander has a medium-low risk profile, with improved credit quality as evidenced by its core ratios: NPL ratio of 4.36% (- 83 b.p. vs. December 2014), cost of credit 1.25% (-18 b.p. vs. December 2014) and a coverage ratio of 73% (+6 p.p higher than in December 2014).

During 2015, the **regulatory background** has once again been shaped by highly demanding prudential requirements. These are some of the highlights which have happened this year:

- The BCBS's review of the initial proposals for credit, market and operational risk prudential frameworks.
- Regulatory progress concerning loss absorption mechanisms in the event of resolution situations (MREL and TLAC).
- Publication by the European Banking Authority (EBA) of the results of the transparency exercise, a preliminary step before the stress tests to be held in 2016.
- Entities' progress in projects designed to address regulatory changes regarding provisions, to come into force from 2018 on according to the IFRS 9 standard [refer to details in Table 1].

Regulatory compliance is a priority for Grupo Santander, and as such the Group constantly keeps track of new regulatory developments. Particularly worthy of note in 2015 were the steps forward taken in developments designed to satisfy the requirements of the Volcker rule (further details in section 3. Market regulations, section D.5.4. Regulatory compliance) and international standards on risk data aggregation (RDA) (further details in section B.3.5. Risk Data Aggregation & Risk Reporting Framework).

From the **supervisory standpoint**, 2015 marks one year since the coming into force of the Single Supervisory Mechanism (SSM). Supervisory activity by Eurozone banking entities has been conducted through the joint supervisory teams (JST) and through common ongoing supervision which includes the methodology known as the Supervisory Review and Evaluation Procedure (SREP[3]). This methodology is based on four key areas:

a. Analysis of business model;

b. Assessment of internal governance and global controls;

c. Assessment of capital risks; and

d. Assessment of liquidity risks.

3. According to the document published by the European Banking Authority (EBA): *Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)*

Regular supervision based on the SREP methodology is complemented with customised inspections by the supervisor, either jointly by several supervisory entities (in which case it is called a 'thematic review'), or through individualised analysis of a particular topic within an entity (in situ inspection).

Emerging Risks

The banking sector currently has to face new a plethora of new risk of different nature and sizes. By identifying and monitoring these emerging risks, the Group can adopt a forward-looking approach to risk management, enabling the senior management to deploy action plans to address detected threats and also to adapt the Group's risk appetite accordingly. The Group uses the Risk Identification and Assessment (RIA) exercise, referred to above, to pinpoint and assess these risks. The most important risks are as follows:

Macroeconomic environment: the main sources of macroeconomic uncertainty which could impact Banco Santander's business activity in the coming year are as follows:

- The sustained **low interest rate** environment in **Europe**.
- The **impact** which **divergent monetary policies** could have on the different economies, with potential implications regarding exchange rates and financial stability due to:
  - The increase in interest rates in the United States and how quickly the increases are applied (flight to quality).
  - Extensions of the quantitative easing programme by the ECB, and
  - Monetary expansion in China and Japan.
- Possible **liquidity stresses** on markets.
- The **adjustment** in the **Chinese** economy and its productive model.
- **Changes in commodity prices** and their impact on both emerging markets and developed economies.
- The decline in **Brazil's** economic and fiscal situation

Banco Santander's business model, based on geographic diversification and a customer-focused bank, leads to more stable results even in periods of macroeconomic uncertainty, ensuring a medium-low profile.

Competitive setting: the financial industry faces the challenge of adapting the way it does business to customers' new needs. Digital transformation is a key factor for the future of the financial sector. New competitors have sprung up through this transformation: financial start-ups, large technological companies, etc., which are making inroads into different segments of the financial sector, Banco Santander has identified and assessed this risk in its business and so has managed to turn this threat into an opportunity. Innovation and digital transformation are one of the cornerstones of our business model: A number of different initiatives have been launched: investments through Santander *InnoVentures* in start-ups such as *MyCheck, iZettle, Cyanogen*, etc., alliances with business schools, progress in use of big date techniques, etc.

Another factor to be considered is that part of financial activity, and thus also its risks, has been shifted towards entities which are subject to less regulation: what is known as shadow banking. Supervision and regulation of this type of banking has to be reinforced in order to safeguard the solvency of the financial system and to allay possible knock-on effects to the rest of the sector, thereby ensuring a competitive environment with a level playing field.

Regulatory environment: the financial crisis is the root cause of the speedy action taken by authorities to implement regulatory proposals in recent years. Entities have had to cope with substantial implementation and compliance costs due to this shifting background and the increasingly more demanding requirements, and as a result ROE has been considerably reduced.

2016 is expected to be an important year in which the Basel Committee on Banking Supervision will complete its tasks aimed at creating a more simple, comparable and risk-sensitive prudential framework. Having already completed the treatment of market risks, we expect to have finished reviewing credit risk, operational risks and IRB models by the end of the year. A hybrid approach - in which internal models can be used, but with limitations - is expected.

In Europe, the final agreement regarding the structural reform proposal (segregation of wholesale and retail activities) is still to be resolved, due to a lack of consensus about the supervisor's role and the degree of discretionality/automatism in applying this measure. In the area of retail financial services, the European Commission wants to analyse what restrictions are in place that would impede the development of a single common market. In 2016, we also expect to make progress in national transpositions of the Markets in Financial Instruments Directive (MIFID II) and the Payment Accounts Directive.

For the financial industry, it is crucial to have a stable and enduring regulatory framework, allowing banks to make valid mid-term strategies, and to constantly as the global impact of that framework so as to ensure a healthy balance between financial stability and economic growth. The regulatory proposals described above, together with recent proposals for new banking taxes (in the UK and Poland), some of which are still being discussed, such as the European Financial Transaction Tax, are causing further uncertainty.

Geopolitical backdrop: instability in international relationships, which a priori affects the volatility of financial variables and which can affect the real economy, gives rise to geopolitical risk. Evidently, the main sources of instability as we look towards the future are the debate in the UK on whether to remain in the EU (Brexit), the economic cycle in Spain, the Russia-Ukraine crisis, conflicts in the Middle East, the refugee crisis and international terrorism. Yet again, balanced **geographical diversification** between developed and emerging allays the possible impact of the stresses triggered by this kind of risk.

Lastly, concerning **non-financial risks**, the number of **cybersecurity** incidents which affect all sectors, including the financial sector, is steadily on the rise. In view of the importance and possible impact of this type of risk, the Bank continues to apply preventive measures so as to be ready to deal with any kinds of incidents of this nature. These types of measures are outlined in section D.4.4. Mitigation measures of Operational risk.

Table 1: New financial instruments classification and assessment model (IFRS 9)

1. Introduction
In July 2014, the International Accounting Standards Board (IASB) approved International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), to replace IAS39 – Financial instruments: recognition and assessment, in accordance with the guidelines which were prepared during the G-20 meeting in April 2009.

IFRS sets out the requirements for recognition and measurement of both financial instruments and certain types of contracts for the sale of non-financial items. It will be applicable from 1 January 2018 on, and will have to be previously approved by the European Union.

2. Model proposed by IFRS 9
The main new developments of the standard are as follows:

2.a Classification of financial instruments
The criterion for classifying financial assets will depend both on their business management model and the features of the contractual flows. Consequently, the asset will be measured at amortised cost, at fair value with changes in equity, or at fair value with changes in profit/loss for the period. IFRS 9 also establishes the option of designating an instrument at fair value with changes in P/L under certain conditions.

2.b Credit risk impairment model
The most important new development compared with the current model is that the new accounting standard introduces the concept of expected loss, whereas the current model (IAS 39) is based on incurred loss.

Scope of application
The IFRS 9 asset impairment model is applicable to financial assets valued at amortised cost, to debt instruments valued at fair value through other comprehensive income, to leasing receivables, and to contingent risks and commitments not valued at fair value.

Classification of financial instruments by phases
The financial instruments portfolio for impairment purposes will be divided into three categories, depending on the phase each instrument has with regard to its credit risk:

- Phase 1: a financial instrument is in phase 1 when there has been no significant increase in its risk since it was initially registered. If applicable, the valuation correction for losses will amount to the possible credit expected losses arising from possible defaults with ta period of 12 months following the reporting date.

- Phase 2: if there has been a significant increase in risk since the date in which the instrument was initially registered, but the impairment has not actually materialised, then the financial instrument will be included in this phase. In this case, the amount of the valuation correction for losses will be the expected losses owing to defaults throughout the residual life of the financial instrument.

- Phase 3: a financial instrument will be included in this phase when it is considered to be effectively impaired. In this case, the amount of the valuation correction for losses will be the expected losses for credit risk throughout the residual life of the financial instrument.

Impairment estimation methodology
In these three phases of financial instruments, the value correction for losses indicated must be an amount equivalent to the expected loss for default within a period of 12 months following the reporting date, except for those cases in which there has been a significant increase in risk since the initial registration date. In the latter case, the valuation correction will be the same amount of the expected loss for credit events during the rest of the expected life of the financial instrument.

The required methodology for calculating expected loss for credit events will based on an unbiased consideration weighted for the probable occurrence of a range of future scenarios which could affect the receipt of the contractual cash flows, always taking into account the temporary value of money, and all the available and relevant information about past occurrences, current conditions and predictions regarding changes in macroeconomic factors which are proven to be important for the purpose of estimating this amount.

For financial assets, a credit loss is the current value of the difference between the contractual cash flows owed to the entity according to the contract and the cash flows which the entity expects to receive.

For undrawn loan commitments, a credit loss is the current value of the difference between the contractual cash flows owed to the entity if the holder of the loan commitment draws the loan and the cash flows which the entity expects to receive if the loan is drawn.

Expected loss is measured using the following factors:

- Exposure at Default (EAD): the amount of the transaction exposed to credit risk referring to the period in which the likelihood of the counterparty defaulting is considered. This amount will be estimated in cases in which the transaction repayment schedule may be modified, subject to the standard.

- Probability of Default (PD): is the likelihood that a counterparty will fail to meet its obligation to pay principal or interest. For the purposes of IFRS 9, this will consider both PD-12 months, which is the probability of the financial instrument entering default within the next 12 months, and also lifetime PD, which is the probability of the transaction entering into default between the reporting date and the transaction's residual maturity date. Future information of relevance is considered to be needed to estimate these parameters, according to the standard.

- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It depends mainly on the ability to demand additional collateral and the future cash flows that are expected to be recovered. According to the standard, future information will have to be taken into account to estimate it.

- Discount rate: the rate applied to the future cash flows estimated during the expected life of the asset, and which is equal to the net present value of the financial instrument at its carrying value. When calculating the discount rate, expected losses for default when estimating future cash flows are not generally taken into account, except in cases in which the asset is considered to be impaired, in which case the interest rate applied will take into account such losses, and it will be known as the effective interest rate adjusted for credit risk.

Impairment registration

The main new development as against the current standard concerns assets measured at fair value with changes in other comprehensive income, where the part of the changes in fair value due to expected credit losses in the profit and loss account will be registered in the year in which the change occurs, and the rest will be entered in another comprehensive income.

2.c Accounting of hedges

IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, so allowing there to be a greater variety of derivative financial instruments which may be considered to be hedging instruments.

Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy.

3. IFRS 9 implementation strategy

The Group has established a workstream with the aim of adapting its processes to the new classification standards for financial instruments, accounting of hedges and estimating credit risk impairment, so that such processes are applicable in a uniform way for all Group units, and, at the same time, can be adapted to each unit's individual features.

Accordingly, the Group is working towards defining an objective internal model and analysing all the changes which are needed to adapt accounting classifications and credit risk impairment estimation models in force in each unit to the previous definitions.

In principle, the governance structure currently implemented at both corporate level and in each one of the units, complies with the requirements set out in the new standards.

The Group has set up a regular committee to manage the project governance structure, and a task force which is responsible for its tasks, and also assuring that the pertinent responsible teams take part.

Risks, Financial Accounting & Control and Technology and Operations are the main divisions involved in the project at the highest level, and which are thus represented in the project governance bodies indicated above.

The project's main phases and milestones are as follows:

- **Analysis / Diagnosis (2015 and first half of 2016):** this phase consists mainly of analysing the standards and their impact on the Group's processes.

- **Design and development (2015 and 2016)** this phase consists of the definition of functional requirements and transposition of requirements to the technological field, selection and development of necessary systems, identification of necessary data inputs, and construction of the new operational model to comply with regulatory requirements.

- **Implementation (2016-2017):** this phase consists of the model stabilisation, creation of stable and validated reports and the optimisation of execution times, in order to ensure that the model is effectively implemented.

- **Parallel Execution (2017):** this phase consists mainly of the transition to the new operational model by testing the model's effective operation, simulation calculations, and generating comparable information and reporting in parallel with the current model, so as to verify the consistency of the models and the reporting systems, and to help management to understand the assumptions and sensitivities involved.

- **Entry in force of standard:** 1 January 2018.

4. Guidelines and complementary rules

In addition to the standards issued by IASB, a number of regulatory and supervisory bodies have issued further considerations both in regard to the impairment model for financial instruments in IFRS 9, and items directly relating to it. These include the following documents and initiatives:

- **Basel Committee on Banking Supervision - Guidelines concerning credit risk and accounting of expected credit losses (December 2015, definitive status):** using 11 supervision principles and guidelines, the document issued by the Basel Committee on Banking Supervision provides a guide to good credit risk practices associated with the implementation and ongoing application of accounting frameworks for calculation of expected credit losses, and, in particular, for IFRS 9.

- **European Banking Authority (EBA) – The EBA 2016 Annual Work Programme (September 2015):** establishes a work plan which includes, inter alia: a quantitative and qualitative analysis of IFRS 9 as a result of the technical standards and guidelines which the European Banking Authority will develop to provide advise in accounting and auditing.

- **European Banking Authority (EBA**) – Draft Guidelines in the application of definition of default under article 178 of EU Regulation no. 575/2013 (September 2015, consultation status): the object of the document is to give the sector guidelines which can be used to harmonise the default definition used in internal models towards those existing for regulatory purposes.

- **Enhanced Disclosure Task Force EDTF – Impact of expected loss models in breakdowns of risk (November 2015, definitive status):** The EDTF, which the Group has been a member of since it was set up, is a task force made up of financial entities, fund managers, auditors and rating agencies which was promoted by the Financial Stability Board in 2012 with the main object of improving the quality, comparability and transparency in the disclosure of financial reporting. In 2015, the task force has reviewed the original principle and recommendations to include information for a provisions model based on expected credit losses (ECL). The publication of the recommended information is temporarily adapted to the provisional implementation schedule for the new standards, and includes transitional recommendations for the implementation phase, and other permanent recommendations.

D. Risk profile

D.1. Credit risk

Organisation of this section

After an **introduction** to the concept of credit risk and the segmentation that the Group uses for its treatment, the **key figures of 2015 and change over time** are presented [pag. 200-207].

This is followed by a look at the **main geographies**, setting out the main features from the credit risk standpoint [pag. 208-215].

The qualitative and quantitative aspects of **other credit risk matters** are then presented, including information on financial markets, risk concentration, country risk, sovereign risk and environmental risk [pag. 216-224].

Lastly, there is a description of the Group's **credit risk cycle**, with a detailed explanation of the various stages that form part of the phases of pre-sale, sale, and post-sale, as well as the main credit risk metrics [pag. 224-229].

D.1.1. Introduction to credit risk treatment

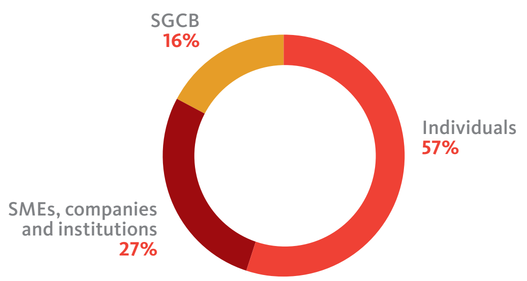
Credit risk arises from the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

The Group's risks function is organised on the basis of three types of customers:

- The segment of **individuals** includes all physical persons, except those with a business activity. This segment, in turn, is divided into sub segments by income levels, which enables risk management adjusted to the type of client.
- The segment of **SMEs, companies and institutions** includes companies and physical persons with business activity. It also includes public sector activities in general and non-profit making private sector entities.
- The segment of **Santander Global Corporate Banking – SGCB** – consists of corporate clients, financial institutions and sovereigns, who comprise a closed list revised annually. This list is determined on the basis of a full analysis of the company (business, countries where it operates, types of product used, volume of revenues it represents for the bank, length of relation with the client, etc.).

The following chart shows the distribution of credit risk on the basis of the management model.

Credit risk distribution



The Group's profile is mainly retail, accounting for 84% of total risk generated by the retail banking business.

D.1.2. Key figures and change over time

D.1.2.1. Global map of credit risk, 2015

The table below sets out the global credit risk exposure map in nominal amounts (except for derivatives and repos exposure which is expressed in credit risk equivalent) for the Group at 31 December 2015.

Gross credit risk exposure classified by legal entity

Million euros. Data at 31 December 2015

	Customer loans		Loans to entities[2]		Fixed income3[3]		Derivatives and Repos	
	Drawn[1]	Undrawn	Drawn	Undrawn	Sovereign	Private	CRE[4]	Total
Continental Europe	**327,556**	**77,739**	**30,890**	**288**	**55,387**	**12,772**	**24,397**	**529,030**
Spain	208,341	63,381	21,432	125	42,694	7,263	21,836	**365,071**
Germany	31,488	830	2,396	-	-	348	8	**35,069**
Portugal	32,792	4,591	3,489	104	6,803	3,771	2,073	**53,622**
Others	54,936	8,938	3,574	59	5,891	1,390	480	**75,267**
United Kingdom	**277,225**	**48,144**	**23,625**	**-**	**6,153**	**8,248**	**18,971**	**382,366**
Latin America	**149,039**	**35,139**	**24,273**	**13**	**25,460**	**6,108**	**8,260**	**248,292**
Brazil	69,182	21,316	14,820	12	16,226	4,826	5,291	**131,673**
Chile	34,836	8,363	1,725	0	1,665	976	1,469	**49,034**
Mexico	30,566	5,165	3,164	-	6,046	274	1,466	**46,681**
Others	14,455	297	4,565	-	1,523	32	34	**20,905**
United States	**85,548**	**33,667**	**10,151**	**333**	**8,685**	**10,746**	**478**	**149,609**
Rest of world	**596**	**191**	**108**	**-**	**-**	**1**	**-**	**896**
Total Group	**839,964**	**194,881**	**89,048**	**634**	**95,685**	**37,875**	**52,106**	**1,310,192**
% of total	64.1%	14.9%	6.8%	0.0%	7.3%	2.9%	4.0%	**100.0%**
% change/Dec 14	6.4%	8.0%	15.2%	-74.0%	12.2%	13.9%	4.2%	**7.5%**

Gross credit risk exposure: change over time

Million euros

	2015	2014	2013	Change on 14	Change on 13
Continental Europe	**529,030**	**480,551**	**473,267**	**10.1%**	**11.8%**
Spain	365,071	333,227	327,900	9.6%	11.3%
Germany	35,069	32,929	33,481	6.5%	4.7%
Portugal	53,622	43,754	41,013	22.6%	30.7%
Others	75,267	70,641	70,872	6.5%	6.2%
United Kingdom	**382,366**	**349,169**	**320,571**	**9.5%**	**19.3%**
Latin America	**248,292**	**264,459**	**241,592**	**-6.1%**	**2.8%**
Brazil	131,673	160,532	141,119	-18.0%	-6.7%
Chile	49,034	46,084	44,147	6.4%	11.1%
Mexico	46,681	43,639	39,066	7.0%	19.5%
Others	20,905	14,204	17,260	47.2%	21.1%
United States	**149,609**	**123,758**	**73,945**	**20.9%**	**102.3%**
Rest of world	**896**	**450**	**265**	**98.8%**	**237.8%**
Total Group	**1,310,192**	**1,218,387**	**1,109,640**	**7.5%**	**18.1%**

1. Balances drawn down by customers include contingent liabilities (see the auditor's report and note 35 to the annual consolidated accounts) and exclude repos (EUR 6,272 million) and other customer credit financial assets (EUR 4,673 million).
2. Balances with credit entities and central banks include contingent liabilities and exclude repos, the trading portfolio and other financial assets.
3. Total fixed income excludes the trading portfolio.
4. CRE (credit risk equivalent): net replacement value plus the maximum potential value. Includes mitigants).

Gross exposure (lending to customers, entities, fixed income, derivative and repos) to credit risk in 2015 amounts to 1,310,192 million euros. The highest proportion, accounting for 86% of the total, is credit to customers and credit entities.

Risk is diversified among the main regions where the Group operates: Continental Europe (41%), United Kingdom (29%), Latin America (19%) and the US (11%).

Credit risk exposure rose 7.5% in 2015, largely due to the combined impact of the increase in lending in the United Kingdom, the US, Spain and Portugal.

Changes in scope
In 2015, there were a number of different changes in the Group's scope of gross credit exposure. The main programmes were:

Santander Consumer Finance
Agreement with PSA (50/50% Joint Venture between Banque PSA Finance and Santander Consumer Finance), in the consumer finance business. The main goal of this alliance is to finance vehicle acquisitions of the Peugeot, Citroën and DS brands by end customers, and second-hand vehicle transactions in auto dealers of these three brands. This agreement adds approximately EUR 15,000 million of exposure in 2015.

Through this alliance, SCF has been able to strengthen its position on the market, stepping up its presence in countries where it already has exposure such as Spain, the United Kingdom and Portugal, and moving into new markets such as France and Switzerland, in so doing increasing its scope in 2015.

The new portfolio has an NPL ratio of approximately 2.4% at year end, and thus helps in the efforts made to bring down the SCF NPL ratio overall in 2015. The new portfolio has a coverage ratio of 110%, similar to SCF. In 2016, an additional EUR 6,000 million is expected to be added in six European countries, continuing the strategy aimed at increasing the scope with similar risk profiles.

Other important transactions were the acquisitions of Retop, which consolidates the consumer finance business in Uruguay, and of Carfinco, allowing the auto finance business in Canada to be included in the scope of Santander Consumer Finance.

In December 2015, Santander Totta bought most of the assets and liabilities of **Banco Internacional do Funchal** (Banif) were acquired by Santander Totta in Portugal, further increasing market share in that country.

D.1.2.2. Performance of magnitudes in 2015

The table below sets out the main items related to credit risk derived from our activity with customers:

Key figures of credit risk arising from activity with customers
Data at 31 December 2015

	Credit risk with customers[2] (million euros)			Non-performing loans (million euros)			NPL ratio (%)		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Continental Europe	**321,395**	**310,008**	**312,167**	**23,355**	**27,526**	**28,496**	**7.27**	**8.88**	**9.13**
Spain	173,032	182,974	189,783	11,293	13,512	14,223	6.53	7.38	7.49
Santander Consumer Finance[1]	76,688	63,654	58,628	2,625	3,067	2,351	3.42	4.82	4.01
Portugal	31,922	25,588	26,810	2,380	2,275	2,177	7.46	8.89	8.12
Poland	20,951	18,920	18,101	1,319	1,405	1,419	6.30	7.42	7.84
United Kingdom	**282,182**	**256,337**	**235,627**	**4,292**	**4,590**	**4,663**	**1.52**	**1.79**	**1.98**
Latin America	**151,302**	**161,974**	**146,956**	**7,512**	**7,767**	**7,342**	**4.96**	**4.79**	**5.00**
Brazil	72,173	90,572	79,216	4,319	4,572	4,469	5.98	5.05	5.64
Mexico	32,463	27,893	24,024	1,096	1,071	878	3.38	3.84	3.66
Chile	35,213	33,514	31,645	1,980	1,999	1,872	5.62	5.97	5.91
Argentina	6,328	5,703	5,283	73	92	75	1.15	1.61	1.42
United States	**90,727**	**76,014**	**44,372**	**1,935**	**1,838**	**1,151**	**2.13**	**2.42**	**2.60**
Puerto Rico	3,924	3,871	4,023	273	288	253	6.96	7.45	6.29
Santander Bank	54,089	45,817	40,349	627	647	898	1.16	1.41	2.23
SC USA	28,280	22,782	—	1,034	903	—	3.66	3.97	—
Total Group	**850,909**	**804,084**	**738,558**	**37,094**	**41,709**	**41,652**	**4.36**	**5.19**	**5.64**

	Coverage ratio (%)			Spec. provs. net of recovered write-offs[3] (million euros)			Credit cost (% of risk)[4]		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Continental Europe	**64.2**	**57.2**	**57.3**	**1,975**	**2,880**	**3,603**	**0.68**	**1.01**	**1.23**
Spain	48.1	45.5	44.0	992	1,745	2,411	0.62	1.06	1.38
Santander Consumer Finance[1]	109.1	100.1	105.3	537	544	565	0.77	0.90	0.96
Portugal	99.0	51.8	50.0	72	124	192	0.29	0.50	0.73
Poland	64.0	60.3	61.8	167	186	167	0.87	1.04	1.01
United Kingdom	**38.2**	**41.9**	**41.6**	**107**	**332**	**580**	**0.03**	**0.14**	**0.24**
Latin America	**79.0**	**84.5**	**85.4**	**4,950**	**5,119**	**6,435**	**3.36**	**3.70**	**4.43**
Brazil	83.7	95.4	95.1	3,297	3,682	4,894	4.50	4.91	6.34
Mexico	90.6	86.1	97.5	877	756	801	2.91	2.98	3.47
Chile	53.9	52.4	51.1	567	521	597	1.65	1.75	1.92
Argentina	194.2	143.3	140.4	148	121	119	2.15	2.54	2.12
United States	**225.0**	**193.6**	**86.6**	**3,103**	**2,233**	**43**	**3.66**	**3.31**	**(0.00)**
Puerto Rico	48.5	55.6	61.6	85	55	48	2.12	1.43	1.13
Santander Bank	114.5	109.4	93.6	64	26	(5)	0.13	0.06	(0.01)
SC USA	337.1	296.2	—	2,954	2,152	—	10.97	10.76	—
Total Group	**73.1**	**67.2**	**61.7**	**10,108**	**10,562**	**10,863**	**1.25**	**1.43**	**1.53**

1. SCF includes PSA in the 2015 figures.
2. Includes gross lending to customers, guarantees and documentary credits.
3. Recovered Written-Off Assets (EUR 1,375 million).
4. Cost of credit = loan-loss provisions twelve months / average lending.
NB: 2014 data have been reformulated due to the transfer of Banco Santander International units and the New York branch to the US.

At the end of 2015, credit risk with customers was 6% higher. Growth in local currency is across the board except for Spain (although customer lending in isolation actually increased slightly). The lower lending in Brazil in euros is due to the BRL's depreciation over the course of the year.

These levels of lending, together with lower non-performing loans (NPLs) of EUR 37,094 million (-11% vs. 2014) reduced the Group's NPL ratio to 4.36% (-83 b.p. against 2014).

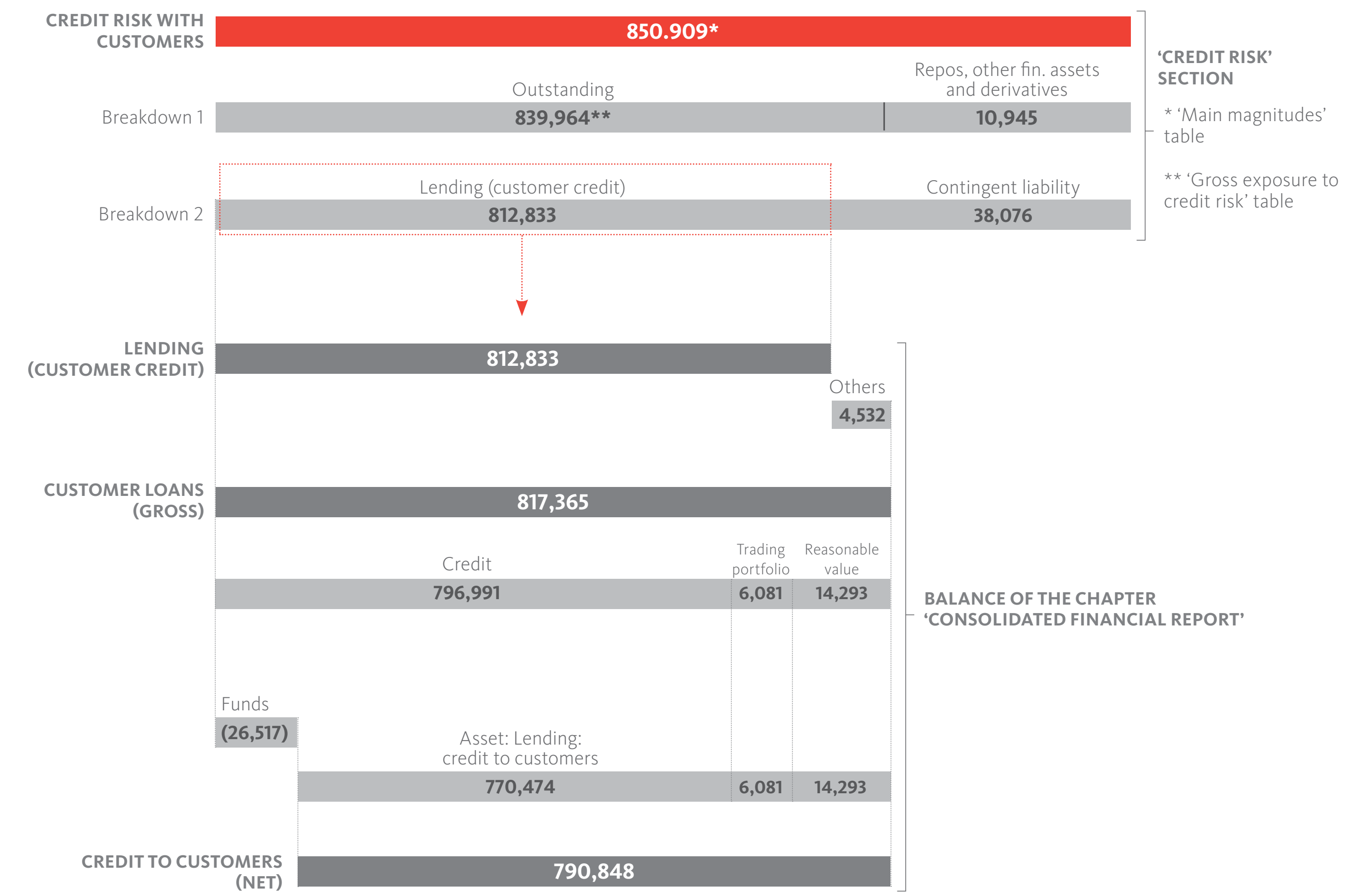
For coverage of these NPLs, the Group recorded net credit losses of EUR 10,108 million (-4% vs. 2014), after deducting write-off recoveries. This fall is materialised in a fall in the cost of credit to 1.25% (18 b.p. less than in 2014).

Total loan-loss provisions were EUR 27,121 million, bringing the Group's coverage ratio to 73%. It is important to bear in mind that this ratio is affected downwards by the weight of mortgage portfolios (particularly in the United Kingdom and Spain), which require fewer provisions as they have collateral.

Conciliation of the main magnitudes

The consolidated financial report details the portfolio of customer loans, both gross and net of funds. Credit risk also includes off-balance sheet risk and derivatives. The following chart shows the relation between the concepts that comprise these magnitudes.

Figures in million euros

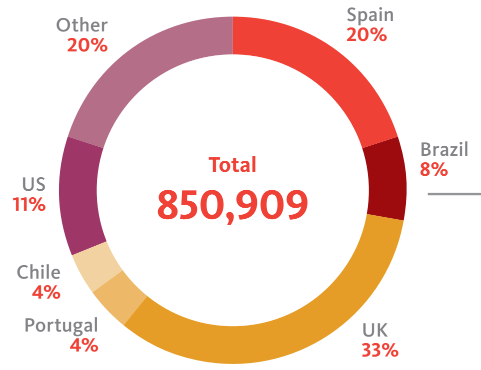


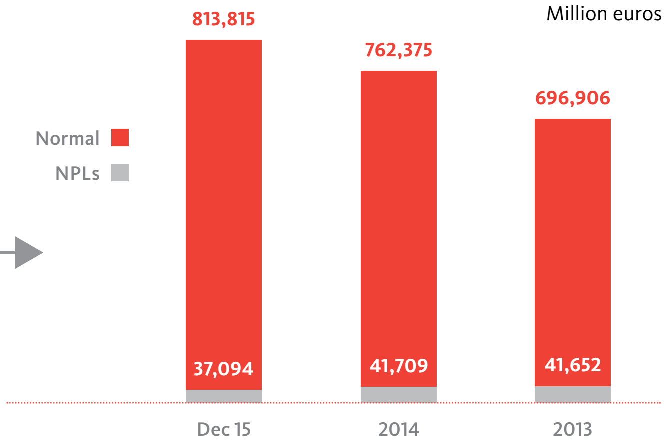
Geographic distribution and segmentation

On the basis of the aforementioned segmentation, the geographic distribution and situation of the portfolio is shown in the following charts:

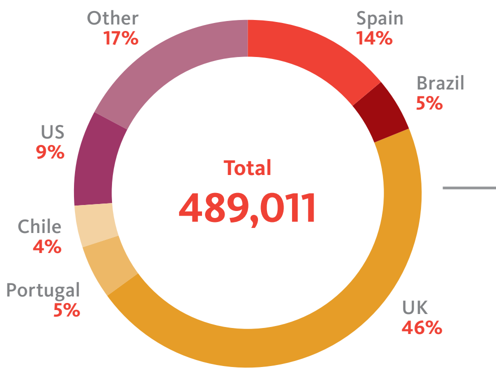
Million euros

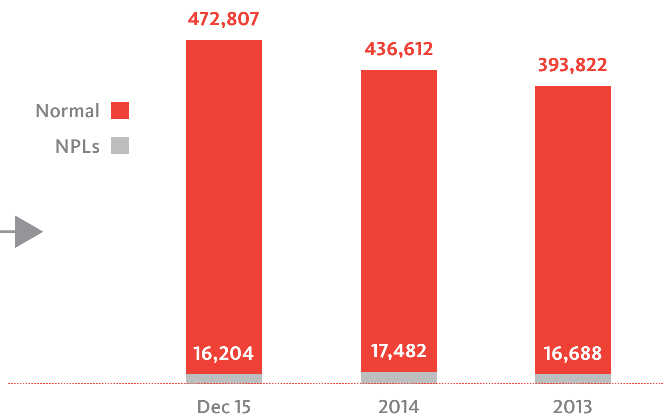
Total



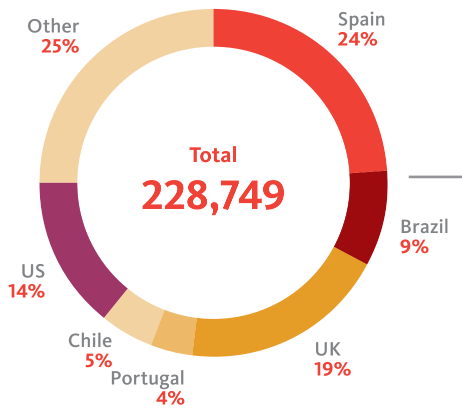


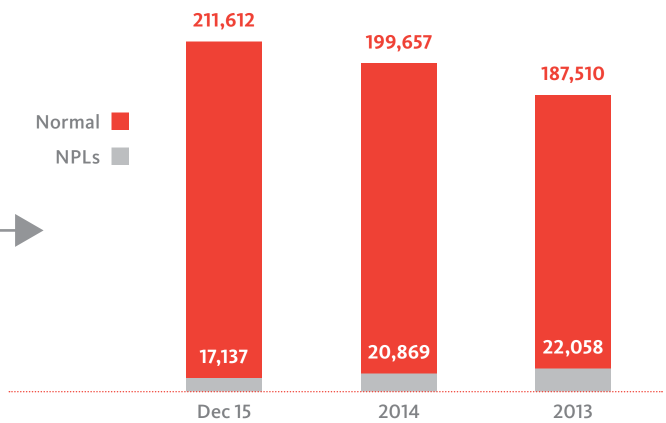
Individuals



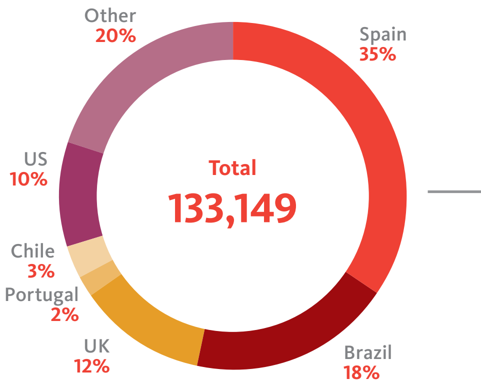


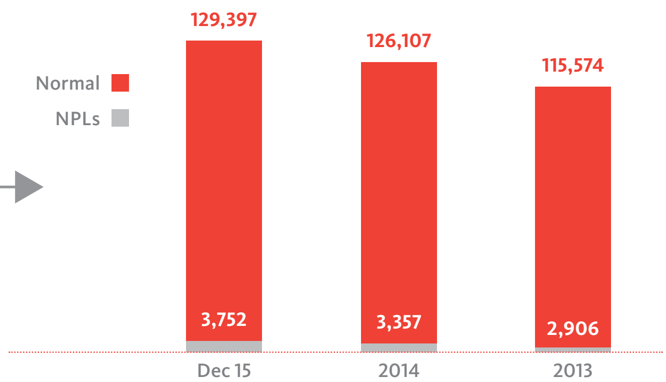
SME+Comp+Inst





SGCB





The structure of the main magnitudes by geographic area:

- **Continental Europe**

  - In **Spain**[4], the NPL ratio amounted to 6.53% (-85 b.p. vs. 2014), despite the reduction in the denominator and due to the favourable evolution of NPLs, mainly at companies. The coverage ratio rose to 48% (+3 p.p. in the year).

  - **Portugal** closed the year with a fall in the NPL ratio to 7.46%, (-143 b.p. in 2015), and an increase in the coverage ratio to 99% (+47 p.p. during the year). This performance is due to the lower with PNL in most segments and the addition of Banif.

  - In **Poland** the downturn in the NPL ratio continued to 6.3% (-112 b.p. vs. 2014). The coverage ratio rose to 64%.

  - **Santander Consumer's** NPL ratio, after the increase in the perimeter, was 3.42% (-140 b.p. in 2015), with a good general performance of portfolios in all countries. The coverage ratio increased to 109%.

- **The United Kingdom**[5] reduced its NPL ratio to 1.52% (-27 b.p.), due to the good performance in all segments, particularly retail and especially the mortgage portfolio. The coverage ratio was 38%.

- **Brazil**[6], against an adverse macroeconomic background, the NPL ratio was contained to 5.98% (+93 b.p. in the year) using proactive risk management. The coverage ratio was 84%.

- **Chile** has reduced its NPL ratio to 5.62 % (-35 b.p. in the year), thanks to the good performance in non-performance loans across most segments. The coverage ratio was 54%.

- In **Mexico** the NPL ratio was down to 3.38% (-46 b.p. in the year), with increase in credit risk much higher than growth in the NPL portfolio. The coverage ratio was 91%.

- The **United States'** NPL ratio declined to 2.13% (-29 b.p.) and the coverage ratio rose to 225% (+31 p.p. since 2014).

  - The NPL ratio at Santander Bank was 1.16% (-25 b.p.), as a result of the good performance of the portfolios, while the coverage ratio was higher at 115%.

  - In SCUSA, the high rotation of the portfolio and the unit's active credit management brought the NPL ratio to 3.66% and the coverage ratio increased to 337%.

  - Puerto Rico's NPL ratio fell to 6.96% and the coverage ratio dropped to 49%.

Portfolio with normal status: amounts past due

The amounts past due of three months or less represented 0.30% of total credit risk with customers. The following table shows the structure at 31 December 2015, classified on the basis of the age of the first maturity:

Matured amounts pending

Million euros

	Less than 1 month	1-2 months	2-3 months
Deposits in credit entities	5	-	-
Customer loans	1,654	553	407
Public administrations	4	0	0
Other private sectors	1,650	553	407
Securities representing debt	-	-	-
Total	**1,659**	**553**	**407**

Doubtful portfolio and provisions: change over time and mix

Doubtful assets are divided into:

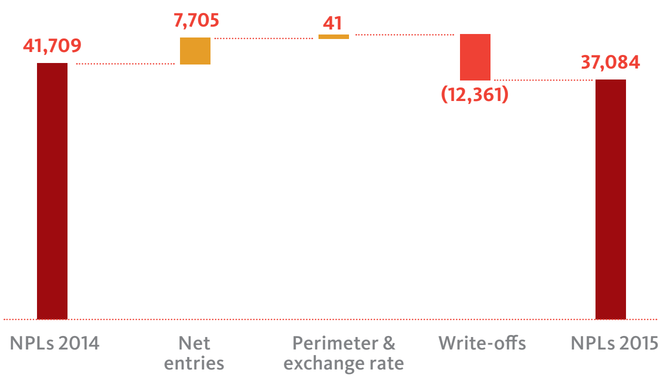
- **Assets classified as doubtful due to counterparty arrears:** Debt instruments, no matter what their holder or collateral might be, which have an amount in arrears for over 90 days, are allocated provisions in an individualised way, taking into account how long the unpaid amounts are outstanding, the collaterals offered and the economic situation of the counterparty and the guarantors.

- **Assets classified as doubtful for reasons other than counterparty arrears:** Debt instruments which cannot be classified as doubtful due to arrears but for which there are reasonable doubts as to the borrower's ability to pay in accordance with the contractual terms are assessed individually, and an allowance is recognised equal to the difference between the carrying amount of the assets and the present value of their estimated future cash flows.

The table below shows the change over time in doubtful loans by constituent items:

Change over time in doubtful loans by constituent item

Million euros. Data at 31 December 2015

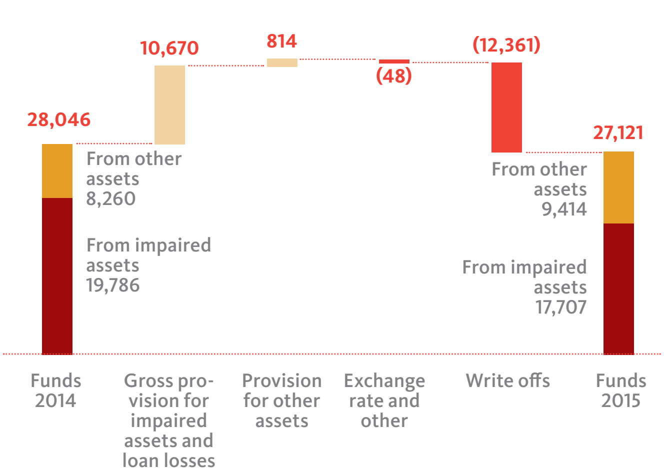


4. Does not include real estate activity. Further details in section D.1.3.2. Spain.
5. Further details in section D.1.3.1. United Kingdom.
6. Further details in section D.1.3.3. Brazil.

2013-2015 Evolution
Million euros

	2013	2014	2015
NPLs (start of he period)	**36,061**	**41,652**	**41,709**
Entries	17,596	9,652	7,705
Perimeter	743	497	106
Exchange rate and other	(2,122)	1,734	(65)
Write-offs	(10,626)	(11,827)	(12,361)
NPLs (end of period)	**41,652**	**41,709**	**37,094**

Change over time in loan loss provisions, according to constituent item
Million euros. Data at 31 December de 2015



Performance 2013-2015
Million euros

	2013	2014	2015
Funds (start of period)	**26,111**	**25,681**	**28,046**
From impaired assets	19,431	19,118	19,786
From other assets	6,681	6,563	8,260
Gross provision for impaired assets and loan losses	**11,881**	**11,766**	**10,670**
Allocation	11,686	11,766	10,670
Writedowns	195	-	-
Provision for other assets	**242**	**156**	**814**
Exchange rate and other	**(1,928)**	**2,271**	**(48)**
Write-offs	**(10,626)**	**(11,827)**	**(12,361)**
Funds (end of period)	**25,681**	**28,046**	**27,121**

Forbearance portfolio
The term forbearance portfolio refers for the purposes of the Group's risk management to operations in which the customer has shown, or is expected to show, financial difficulties which could have a material impact on its payment obligations in the prevailing contractual terms and, for this reason, steps have been taken to modify, cancel or even formalise a new transaction.

Grupo Santander has a detailed corporate policy for forbearance which acts as a reference in the various local transpositions of all the financial institutions that form part of the Group, and share the general principles established in Bank of Spain circular 6/2012 and the technical criteria published in 2014 by the European Banking Authority, developing them in a more granular way on the basis of the level of deterioration of clients.

This corporate policy sets rigorous criteria of prudence for assessing these risks:

- There must be restrictive use of restructuring, avoiding actions that delay recognising deterioration.
- The main aim must be to recover all the amounts owed, which entails recognising as soon as possible the amounts that it is estimated cannot be recovered.
- The restructuring must always envisage maintaining the existing guarantees and, if possible, improving them. Effective guarantees not only serve to mitigate the severity, but also can reduce the probability of default.
- This practice must not involve granting additional financing to the client, serve to refinance the debt of other banks, or be used as an instrument of cross-selling.
- It is necessary to assess all the forbearance alternatives and their effects, ensuring that the results would be better than those likely to be achieved in the event of not doing it.
- More severe criteria are applied for the classification of forbearance operations which prudently ensure the re-establishment of the client's payment capacity from the moment of forbearance and for an adequate period of time.
- In addition, in the case of clients assigned a risk analyst, individualised analysis of each case is particularly important, both for their correct identification as well as subsequent classification, monitoring and adequate provisions.

The policy also establishes various criteria related to determining the perimeter of operations considered as forbearance, through defining a detailed series of objective indicators to help identify financial distress situations which could have a material impact on the customer's meeting of its payment obligations.

In this way, operations not classified as doubtful at the date of forbearance are generally considered as being in financial difficulties if at this date non-payment exceeds a month. If there is no non-payment or if this does not exceed the month of maturity, other indicators to be assessed are taken into account including:

- Operations of clients who already have problems with other transactions.
- When the modification is made necessary prematurely, without there yet existing a previous and satisfactory experience with the client.

- In the event that the necessary modifications involve granting special conditions such as the need to have to establish a temporary grace period in the payment or, when these new conditions are regarded as more favourable for the client than those granted in an ordinary admission.
- Request for successive modifications over an unreasonable period of time.
- In any case, once the modification is made, if any irregularity arises in the payment during an established period of observation, even if there are no other symptoms, the operation will be considered within the perimeter of forbearance (backtesting).

As soon as it is determined that the reasons giving rise to the modification are due to financial difficulties, two types of forbearance are distinguished for management purposes on the basis of the management situation of these operations in origin: ex ante forbearance when the original operation is considered a doubtful risk and ex post forbearance when arising from a doubtful situation.

In addition, within ex post forbearance treatments applicable for cases of advanced deterioration are distinguished, whose requirements and classification criteria are even more severe than for the rest of forbearance.

Once the forbearance is done, those operations that remain classified as doubtful risk for not meeting at the time of forbearance the requirements for their reclassification to another category, must fulfil a schedule of prudent payments in order to ensure with reasonable certainty that the client has recovered his payment capacity.

If there is any irregularity (non-technical) in payments during this period, the observation period is begun again.

Once this period is over, conditioned by the customer's situation and by the operation's features (maturity and guarantees granted), the operation is no longer considered doubtful, although it remains subject to a test period with special monitoring.

This tracking is maintained as long as a series of requirements are not met, including: a minimum period of observation, amortisation of a substantial percentage of the amounts pending and having met the unpaid amounts at the time of forbearance.

The forbearance of a doubtful operation, regardless of whether, as a result of it, the transaction remains current in payment, the original non-payment dates are considered for all purpose, including the determination of provisions.

Total forbearance volume at 31 December 2015 amounts to 55,362 million euros, with the following details[7]:

Forbearance volume
Million euros

	Non-doubtful	Doubtful	Total risk	
	Amount	Amount	Amount	% spec. cov.
Total forebearance	**34,189**	**21,173**	**55,362**	**20%**

The Group's forbearance volume fell 2.4% (- EUR 1,341 million), continuing the downturn begun in 2013 (-14.1% total fall over the last three years, considering an unchanged scope). Its proportion as part of the total credit risk with Group customers has also diminished (currently 6.5% vs. 7% in the previous year).

The credit quality of the portfolio has improved, with 62% in non-doubtful status (58% in 2014). Of note is the high level of guarantees (77% with real guarantees) and adequate coverage through specific provisions (20% of the total forbearance portfolio and 52% of the doubtful portfolio).

Management metrics[8]
Credit risk management uses other metrics to those already commented on, particularly management of non-performing loans variation plus net write-offs (known in Spanish as VMG) and expected loss. Both enable risk managers to form a complete idea of the portfolio's evolution and future prospects.

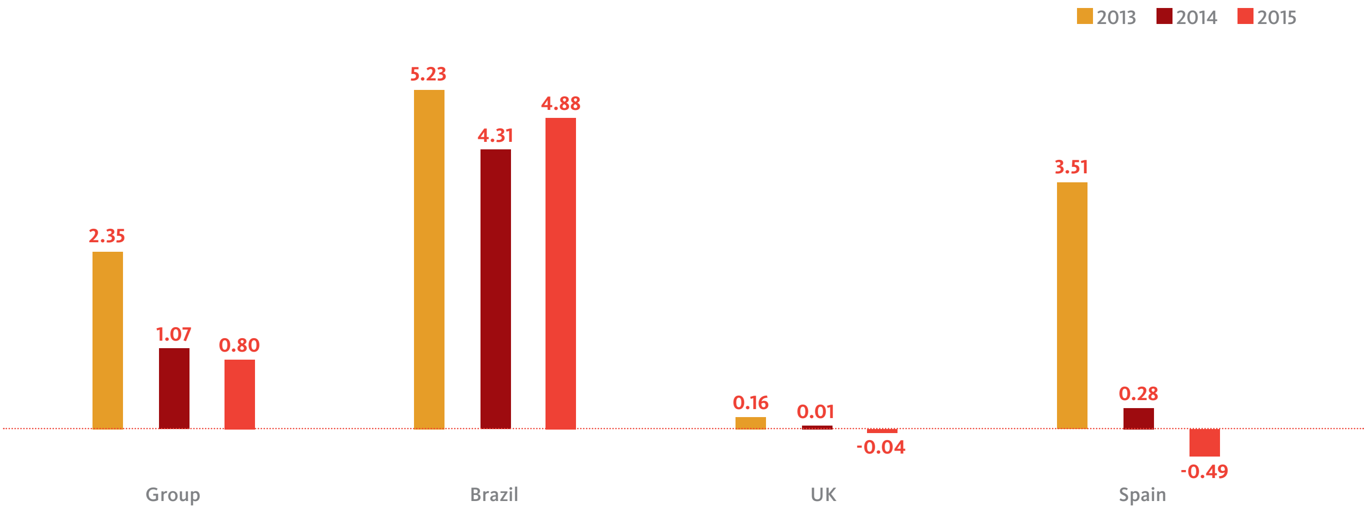
Unlike non-performing loans, the **VMG** refers to the total portfolio deteriorated over a period of time, regardless of the situation in which it finds itself (doubtful loans and write-offs). This makes the metric a main driver when it comes to establishing measures to manage the portfolio.

7. Non-doubtful portfolio figures include the portfolio classified as normal and substandard in Circular 4/2004 of the Bank of Spain. For more detail on the real estate portfolio consult note 54 of the auditor's report and the annual financial statements.
8. For further details of these metrics refer to section D.1.5.6. Measurement and control in this same chapter.

The VMG is frequently considered in relation to the average loan that generated them, giving rise to what is known as the **risk premium**, whose change over time can be seen below.

Risk premium (VMG/average balances)

%. Data with constant exchange rate



In 2015, the downturn in the Group's risk premium continued, despite the increase in Brazil.

Unlike the loss incurred, used by the Group to estimate loan-loss provisions, the **expected loss** is the estimate of the economic loss which will occur during the following year in the existing portfolio at a given moment. Its forward-looking component complements the view provided by the VMG when analysing the portfolio and its evolution.

The expected loss reflects the portfolio's features as regards the exposure at default (EaD), the probability of default (PD) and the severity or recovery once the default occurs (loss given default, LGD).

The table below sets out the distribution by segments in terms of EAD, PD and LGD. For example, it can be seen how the consideration of the LGD in the metrics makes the portfolios with mortgage guarantee generally produce a lower expected loss, fruit of the recovery that occurs in the event of a default via the mortgaged property.

The expected loss with clients of the portfolio in normal situation is 1.00% (virtually unchanged vs. 2014 in which it was 1.01%) and 0.79% for the whole of the Group's credit exposure (0.82% in 2014), maintaining the medium-low risk profile.

Credit risk exposure: segmentation

Segment	EAD[1]	%	Average PD	Average LGD	Expected loss
Sovereign debt	180,192	15.9%	0.13%	18.67%	0.02%
Banks and other fin. instit.	71,704	6.3%	0.29%	38.49%	0.11%
Public sector	3,794	0.3%	1.66%	21.25%	0.35%
Corporate	160,498	14.2%	0.65%	31.46%	0.21%
SMEs	161,934	14.3%	2.77%	40.12%	1.11%
Individual mortgages	343,213	30.4%	2.56%	7.38%	0.19%
Consumer credit (individuals)	145,001	12.8%	6.89%	48.13%	3.32%
Credit cards (individuals)	46,229	4.1%	3.25%	64.54%	2.10%
Other assets	17,209	1.5%	2.48%	41.30%	1.03%
Memorandum item[2]	860,669	76.2%	3.01%	33.11%	1.00%
Total	**1,129,773**	**100.0%**	**2.37%**	**33.15%**	**0.79%**

Data at December 2015.

1. Excludes doubtful loans.

2. Excludes sovereign debt, banks and other financial institutions and other assets.

D.1.3. Details of main geographies

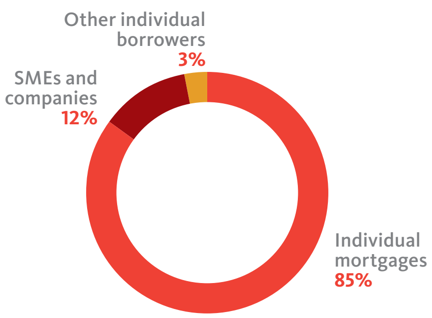
The portfolios of the geographies where Grupo Santander has the highest risk concentrations are set out below, based on the data in sections D.1.2.2 Performance in magnitudes in 2015.

D.1.3.1. United Kingdom

D.1.3.1.1. Overview of the portfolio
Credit risk with customers in the United Kingdom amounts to EUR 282,182 million at the close of December 2015, accounting for 33% of the Group total.

The Santander UK portfolio is divided into the following segments:

Portfolio segmentation
%



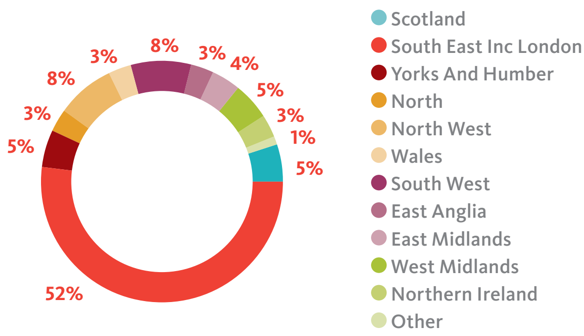
D.1.3.1.2. Mortgage portfolio
Because of its importance not just for Santander UK but for all of the Group's outstanding, it is worth highlighting the mortgage portfolio, which stood at EUR 207,309 million at the end of Deember 2015.

This portfolio consists of mortgages for acquisition or reforming homes, granted to new as well as existing clients and always constituting the first mortgage. There are no operations that entail second or successive charges on mortgaged properties.

The mortgaged property must always be located within United Kingdom territory, regardless of the destiny of the financing except in the case of some one-off operations in the Isle of Man. Mortgages can be granted for properties outside the United Kingdom, but the collateral for such mortgages must consists of a property in the United Kingdom.

Most of the credit exposure is in the south east of the United Kingdom, and particularly in the metropolitan area of London, where housing prices have risen over the last year.

Geographic concentration
%

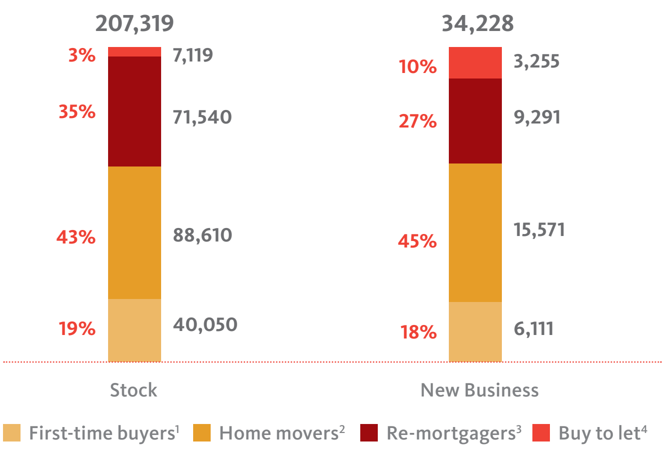


All the properties are valued independently before each new operation is approved, in accordance with the Group's risk management principles.

Mortgages that have already been granted are subject to a quarterly updating of the value of the property in guarantee, by an independent agency, using an automatic valuation system in accordance with the market's usual practices and in compliance with prevailing legislation.

The distribution of the portfolio by type of borrowers is shown in the chart below:

Mortgage portfolio loan types
Million euros



1. First-Time Buyers: customers who purchase a home for the first time.
2. Home Movers: customers who change houses, with or without changing the bank granting the loan.
3. Re-mortgages: customers who switch the mortgage from another financial entity.
4. Buy to Let: houses bought for renting out.

There are many different types of products with different risk profiles, all of them subject to the limits inherent in the policies of a prime lender such as Santander UK. The features of some of them (in brackets the percentage of the portfolio of United Kingdom mortgages they represent):

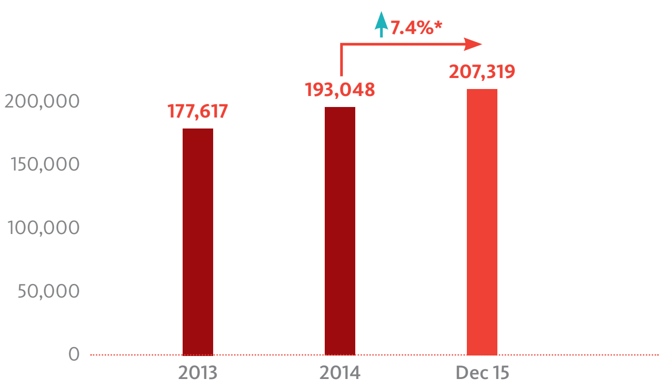
- **Interest only loans** (38.8%)[9]: the customer pays every month the interest and amortises the capital at maturity. An appropriate repayment vehicle such as a pension plan, mutual funds, etc is needed. This is a regular product in the United Kingdom market for which Santander UK applies restrictive policies in order to mitigate the risks inherent in it. For example, maximum LTV of 50%, higher cut-off in the admission score or the evaluation of the payment capacity simulating the amortization of capital and interest payments instead of just interest.

- **Flexible loans** (12.9%): This type of loan contractually enables the customer to modify the monthly payments or make additional provision of funds up to a pre-established limit, as well as having disbursements from previously paid amounts above that limit.

- **Buy to Let** (3.4%): Buy to let mortgages (purchase of a property to then rent it out) account for a small percentage of the total portfolio. Admission was halted between 2009 and 2013 when it was reactivated following the improvement in market conditions and approval with strict rick policies. In 2015, these mortgages represented around 10% of the total admission.

The evolution of the mortgage portfolio over the last three years is shown below:

Mortgage portfolio: change over time
Million euros

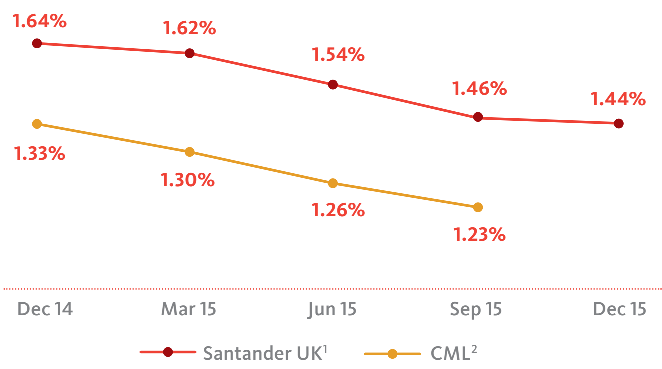


* Real growth, discounting exchange rate effect, is 2%.

There was slight growth of 2.0% (discounting the exchange rate impact) at December 2015, accompanied by a favourable environment for the property market with rising prices.

In 2015, as can be seen in the chart below, the NPL ratio dropped from 1.64% in 2014 to 1.44% at December 2015, slightly above that of the United Kingdom banking industry as a whole, according to the Council of Mortgage Lenders (CML).

Mortgage portfolio NPL ratio: change over time



1. Santander UK data according to amount of cases.
2 CML data according to volume of cases.

The decline in the NPL ratio was sustained by the evolution of non-performing loans, which improved significantly thanks to a more favourable economic environment, as well as the increased NPL exits due to the improvements in the efficiency of the recovery teams. The amount of non-performing loans thus dropped by 10.2%, following the trend seen in 2014.

It is also necessary to point out the more conservative focus adopted in Santander UK's definition of a NPL, in line with the criteria set by the Bank of Spain and Grupo Santander, with regard to the standard applied in the United Kingdom market. This focus includes the classification as doubtful of the following operations:

- Customers with payment delays of between 30 and 90 days and who have been declared publicly insolvent (via bankruptcy process) in the previous two years.

- Operations in which once the maturity date is reached there is still capital of the loan pending payment with a maturity of more than 90 days, although the client remains up to date with the monthly payments.

- Forbearance operations which, in accordance with the corporate policy, are considered as 'payment agreements' and thus classified as doubtful.

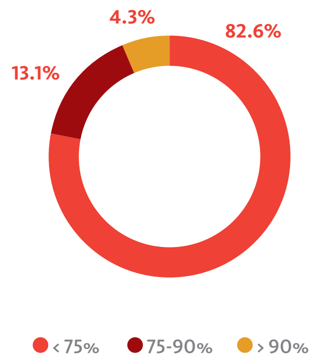
Excluding these concepts, which are not included for calculating the NPL ratio in the United Kingdom market, and under which EUR 445 million were classified as NPLs at the end of 2015, the ratio of the mortgage portfolio was 1.22%, well below the aforementioned 1.44% and close to that published by the Council of Mortgage Lenders.

The strict credit policies limit the maximum loan-to-value (LTV) to 90% for those loans that amortise interest payments and capital, and to 50% for those that amortize interest regularly and the capital at maturity. These policies were applied, bringing the simple arithmetic average LTV of the portfolio to 45.3% and the average weighted LTV to 41.1%. The proportion of the portfolio with a LTV of more than 100% was reduced to 1.7% from 2.4% in 2014.

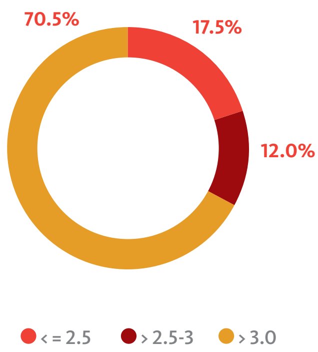
9. Percentage calculated for loans with the total or an interest only component.

The following charts show the LTV structure for the stock of residential mortgages and the distribution in terms of the income multiple of new loans in 2015:

Loan to value (average 45.3%)[1]



Income multiple (average 3.1)[2]



1. *Loan to value:* relation between the amount of the loan and the appraised value of the property. Based on indicess.
2. *Income multiple:* Income multiple: relation between the total original amount of the mortgage and the customer's annual gross income declared in the loan request.

Credit risk policies currently used explicitly forbid loans regarded as high risk (subprime mortgages) and establish demanding requirements for credit quality, both for operations and for clients. For example, as of 2009 mortgages with a loan-to-value of more than 100% have not been allowed.

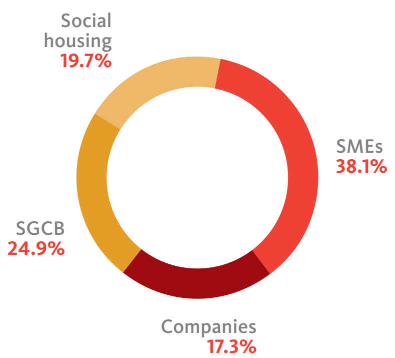
An additional indicator of the portfolio's good performance is the reduced volume of foreclosed properties, which in December 2015 amounted to EUR 62 million, less than 0.03% of the total mortgage exposure. Efficient management of these cases and the existence of a dynamic market for this type of housing enables sales to take place in a short period of time (around 18 weeks on average), contributing to the good results.

D.1.3.1.3. SMEs and companies

As shown in the chart on the segmentation of the portfolio at the beginning of this section, lending to SMEs and Companies (EUR 52,576 million) represented 12% of the total at Santander UK.

The following sub-segments are included in these portfolios:

SME and companies portfolio: segments



SMEs: this segment includes those small firms belonging to the business lines of small business banking and regional business centres. Total lending at December 2014 was EUR 20,036 million, with a NPL ratio of 3.8% (4.2% at the start of the year).

Companies: This includes companies who have a risk analyst assigned. It also includes portfolios considered as not strategic (legacy and non-core). Total lending at December was EUR 9,119 million, with a NPL ratio of 2% (2.2% at the start of the year).

SGCB: includes companies under the Santander Global Corporate Banking risk management model. Lending at December amounts to EUR 13,072 mn with an NPL ratio of 0.001%.

Social housing: this includes lending to companies that build, sell and rent social housing. This segment is supported by local governments and the central government and has no NPLs. Outstanding stood at EUR 10,349 million at the end of December.

In line with the objective of becoming the reference bank for SMEs and companies, the most representative portfolios of this segment had grown by around 3.6% at December 2015 in net terms.

D.1.3.2. Spain

D.1.3.2.1. Overview of the portfolio

Total credit risk (including guarantees and documentary credits) in Spain (excluding the real estate unit, commented on later) amounted to EUR 173,032 million (20% of the Group), with an adequate level of diversification by both product and customer segment.

Growth in new lending in main individual and business segment portfolios was consolidated in 2015, underpinned by the improved economic situation and the various strategies implemented by the Bank. In annual terms, total credit risk dropped 5% due mainly to lower lending to public authorities and the pace of repayment still being much higher than the growth of new lending in the other segments.

Credit risk by segment
Million euros

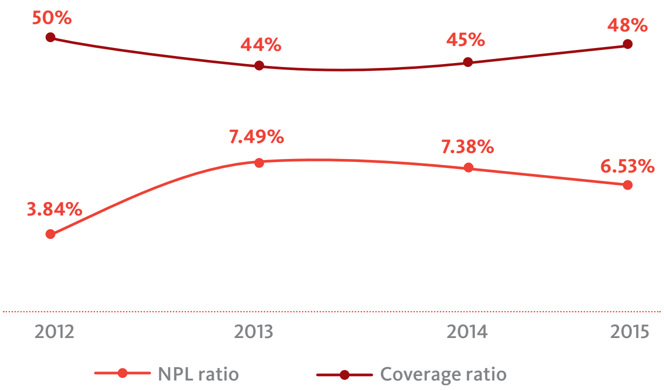
	2015	2014	2013	Var 15/14	Var 14/13
Total credit risk*	**173,032**	**182,974**	**189,783**	**-5%**	**-4%**
Home mortgages	47,924	49,894	52,016	-4%	-4%
Rest of loans to individuals	16,729	17,072	17,445	-2%	-2%
Companies	92,789	96,884	106,042	-4%	-9%
Public administrations	15,590	19,124	13,996	-18%	37%

* Including guarantees and documentary credits.

The NPL ratio for the total portfolio was 6.53%, 85 b.p less than in 2014. The fall in lending (which increased the NPL ratio by 42 b.p.) was offset by the better NPL figure (which reduced the ratio by 127 b.p.). This improvement was mainly due to the gross NPL entries, 22% lower than 2014, and, to a lower degree, to the normalisation of several restructured positions and portfolio sales.

The coverage ratio rose 3 p.p. to levels of 48%, continuing with the increase reported in 2014.

NPL ratio and coverage ratio



Below are the main portfolios.

D.1.3.2.2. Home mortgages

Lending to households to acquire a home in Spain amounted to EUR 48,404 million at the end of 2015 (28% of total credit). 99% of those homes have a mortgage guarantee.

Lending to households to acquire homes*

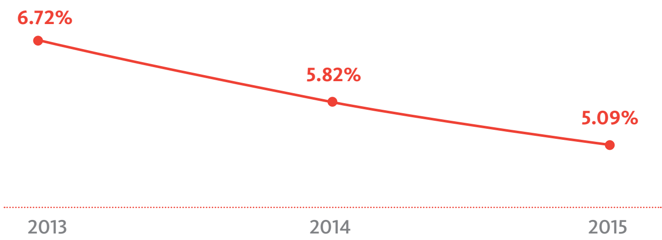
Million euros

	2015	2014	2013
Gross amount	**48,404**	**50,388**	**52,879**
Without mortgage guarantee	480	493	863
With mortgage guarantee	47,924	49,894	52,016
Of which doubtful	**2,477**	**2,964**	**3,956**
Without mortgage guarantee	40	61	461
With mortgage guarantee	2,437	2,903	3,495

* Not including the Santander Consumer España mortgage portfolio (EUR 2,382 million in 2015, with EUR 90 million of doubtful loans).

The NPL ratio of mortgages to households to acquire a home was 5.09%, 73 b.p.less than in 2014, supported by steadily falling gross NPL entries.

NPL ratio of mortgages for homes in Spain

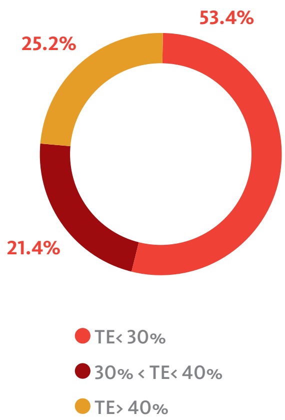


The portfolio of mortgages for homes in Spain kept its medium-low profile and with limited expectations of a further deterioration:

- All mortgages pay principle right from the start.
- Early amortization is usual and so the average life of the operation is well below that in the contract.
- The borrower responds with all his assets and not just the home.
- High quality of collateral concentrated almost exclusively in financing the first home.
- The average affordability rate was maintained at 28%.
- Some 69% of the portfolio has a loan-to-value of less than 80% (total risk/latest available valuation of the home).

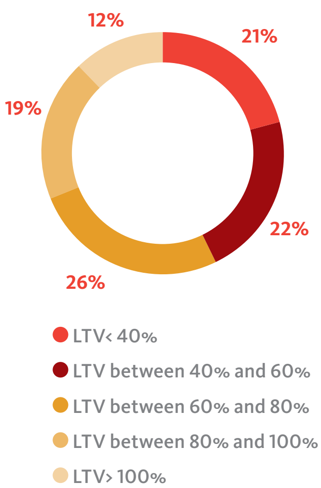
Affordability ratio %

Average 28.4%



Loan to value

%

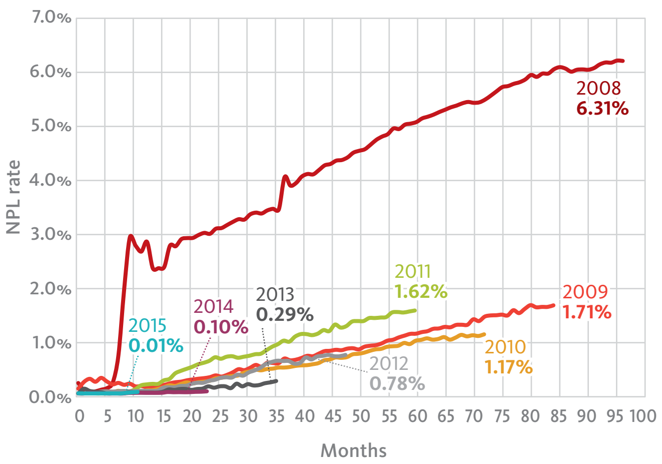


Loan to value: percentage indicating the total risk/latest available valuation of the home.

Affordability ratio: relation between the annual instalments and the customer's net income.

In 2015, the vintages performance remained strong, underpinned by the quality measures deployed in 2008 since 2008 and also a shift in demand towards better profiles, which is shown in falling NPL entries.

Maturity of vintages



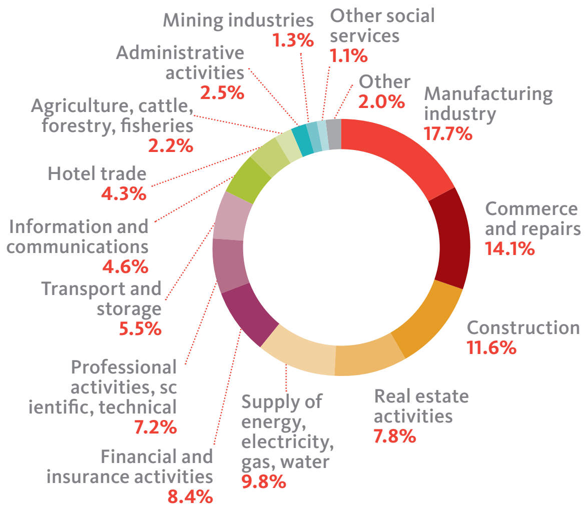
D.1.3.2.3. Companies portfolio

Credit risk assumed directly with SMEs and companies (EUR 92,889 million) is the main segment in lending in Spain (54% of the total).

Most of the portfolio (94%) corresponds to clients who have been assigned a analyst who monitors the borrower continuously throughout the risk cycle. In 2014, as part of the *Santander Advanced* project, the criteria of clients with an individual analyst was changed and the number of clients with continuous monitoring increased.

It is a highly diversified portfolio, with over 191,290 active customers and without significant concentrations in any one particular business segment.

Companies portfolio distribution



The NPL ratio of this portfolio was 7,64%, 127 b.p. lower than 2014, with gross entries in default 30% lower than the previous year.

D.1.3.2.4. Property activity in Spain

The Group manages, in a separate unit, run-off real estate activity in Spain[10], which includes loans to clients mainly for real estate promotion, and has a specialised management model, stakes in real estate companies[11] and foreclosed assets.

The Group's strategy in the last few years has been to reduce the volume of these loans which at the end of 2015 stood at EUR 6,991 million in net terms (around 2% of loans in Spain and less than 1% of the Group's loans). The portfolio's composition is as follows:

- Net loans are EUR 2,596 million, EUR 1,191 million less than in December 2014 and with a coverage of 56%.
- Net foreclosed assets at year end were EUR 3,707 million, with coverage of 55%.
- The value of the stakes in real estate companies was EUR 688 million.

The gross exposure in loans and foreclosures continued the downward trend of previous years and fell 59% between 2008 and 2015.

10. For more detail on the real estate portfolio see note 54 of the Audit Report and the Annual Financial Statements.
11. As of December 2014, the stake in Metrovacesa was consolidated by global integration.

The changes over time and the classification of the credit and foreclosed assets portfolios are shown in the table below:

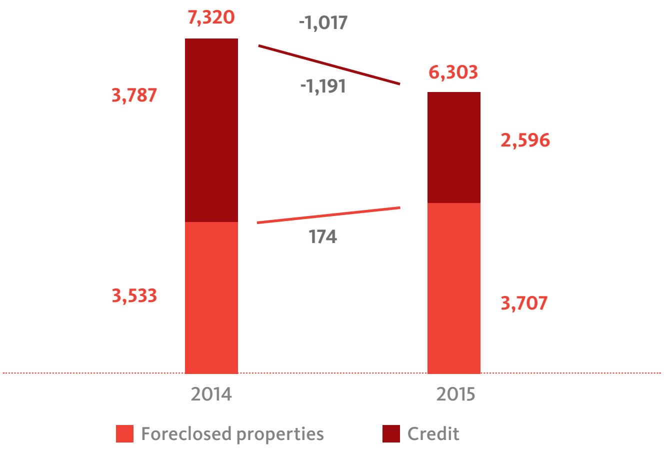
Credits and foreclosed assets portfolio

Million euros

	2015			2014		
	Gross balance	% coverage	Net balance	Gross balance	% coverage	Net balance
1. Credit	5,959	56%	2,596	8,276	54%	3,787
a. Normal	48	0%	48	102	0%	102
b. Substandard	387	30%	270	1,209	35%	784
c. Doubtful	5,524	59%	2,278	6,965	58%	2,901
2. Foreclosed	8,253	55%	3,707	7,904	55%	3,533
TOTAL 1+2	**14,212**	**56%**	**6,303**	**16,180**	**55%**	**7,320**

Under the perimeter of management of the real estate unit, net exposure was reduced by 14% in 2015.

Change in net exposure over time



By type of real estate that guarantees the loans and foreclosed assets, the coverage levels are as follows:

Coverage by guarantee type

Million euros

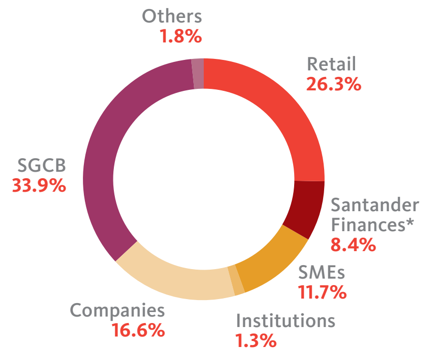
	Real estate loans		Foreclosed assets		Total	
	Exposure	Cove-rage	Exposure	Cove-rage	Exposure	Cove-rage
Completed buildings	2,735	43%	2,292	46%	5,027	44%
Promotions under construction	137	43%	832	49%	969	48%
Land	2,302	67%	5,081	60%	7,383	62%
Other guarantees	785	75%	48	60%	833	74%
TOTAL	**5,959**	**56%**	**8,253**	**55%**	**14,212**	**56%**

D.1.3.3. Brazil

Credit risk in Brazil amounts to EUR 72,173 million, down 20.3% against 2014 and largely due to the depreciation of the Brazilian currency. Santander Brasil thus accounts for 8.5% of all Grupo Santander's lending. It is adequately diversified and with a mainly retail profile (46.4% to individuals, consumer finance and SMEs).

Portfolio mix

%



* Santander Financiamentos: unit specialised in consumer finance (mainly auto finance).

At the close of 2015, this unit reported 5.70% growth at an unchanged exchange rate, in line with the average growth rate for private banks in the country.

The **strategy** focused on the **change** of mix used in recent years was continued during 2015. Stronger growth was obtained in the segments with a more conservative profile, leading to greater weight in higher credit quality products. In the individuals segment, growth in particularly strong in the mortgage portfolio and in the payroll discount ('consignado' credit) loans portfolio created through the joint-venture between Santander Brasil and Banco Bonsucesso. Unsecured products such as special cheque and cards have fallen in both individuals and in SMEs. In companies (legal entities), the strongest growth was to be found in the business and corporate banking portfolios, with significant positions in dollars in both cases, thus benefiting from the BRL's depreciation against the dollar.

Below are the levels of lending and growth of the main segments at a constant exchange rate.

Lending: segmentation

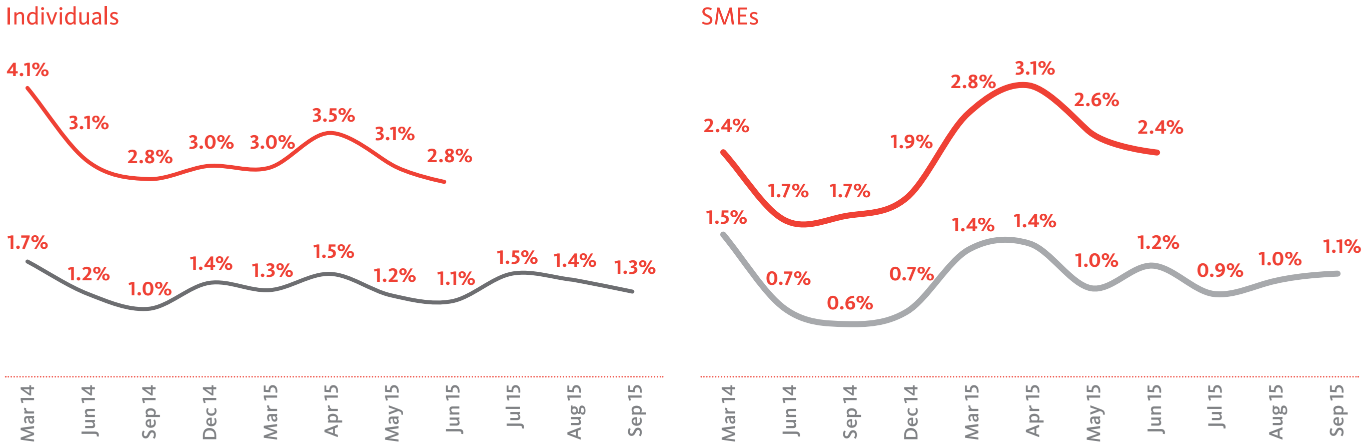
Million euros. Fixed exchange rate at 31 December, 2015

	2015	2014	2013	15 / 14	14 / 13
Individuals	**18,964**	**18,399**	**17,549**	**3%**	**5%**
Mortgages	6,107	5,168	3,823	18%	35%
Consumer	7,009	7,847	8,820	-11%	-11%
Cards	4,403	4,265	3,993	3%	7%
Others	1,445	1,120	912	29%	23%
Santander Financiamentos	**6,040**	**6,529**	**6,781**	**-7%**	**-4%**
SMEs and large companies	**44,840**	**40,740**	**34,038**	**10%**	**20%**
SMEs	8,440	7,976	8,413	6%	-5%
Companies	11,959	10,766	9,020	11%	19%
Corporate	24,441	21,998	16,605	11%	32%

The leading indicators on the credit profile of new loans (vintages), which are continuously tracked, are shown below. These are transactions over 30 days in arrears at three and six months respectively from their origination date, in order to anticipate any possible impairment in portfolios. These allow the Entity to define corrective measures if deviations against the expected scenarios are detected. As we can see, these vintages were kept at comfortable levels through proactive risk management.

Vintages. Changes in the Over 30* ratio over time at three and six months from each vintage admission

As a percentage



* Ratio calculated as the total amount of operations that are more than 30 days overdue on the total amount of the vintage.

Over30 Mob3 Over30 Mob 6

At the close of 2015, the NPL ratio stood at 5.98% (93 b.p. against the previous year). This increase was the result of the following factors: the country's economic recession and additional problems in industries with the highest sensitivity to commodity prices, particularly in the energy and oil sectors. Consequently, NPL entries in the Business and Santander Global Corporate Banking segments have increased.

Faced with this situation, Santander Brazil has deployed a **set of measures designed to reinforce risk management**. These measures are geared towards improving the quality of new lending, and also allaying the effects of this challenging economic situation on the portfolio. This set of measures, which is known as the ***Defence Plan***, is based on preventive management of arrears, thus enabling the Bank to anticipate possible further customer impairments. The defensive measures set out in this Plan include the following:

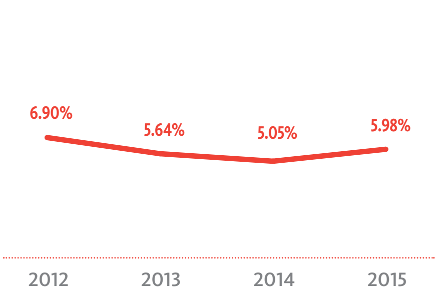
- Reduction of limits in products/medium-high risk clients.
- Implementing limits on maximum debt.
- Migration of revolving towards fixed instalment products.
- Higher collateralisation of portfolio.
- Improvements in admission models, which have to be more precise and predictive, and in collection channels.
- More individualised treatment in SMEs of a certain size (non-standardised model).
- Management of risk appetite by sectors and restriction of powers in critical sectors.

Santander Brazil is using this proactive risk management, based on the knowledge of our customers, to strengthen its position during the current economic cycle. This is shown by the change in the impairment rate (over 90 rate) of the loan portfolio, which stood at 3.24% at the close of 2015, and which was consistently lower than the average for Brazilian private banks in 2015 (4.20%).

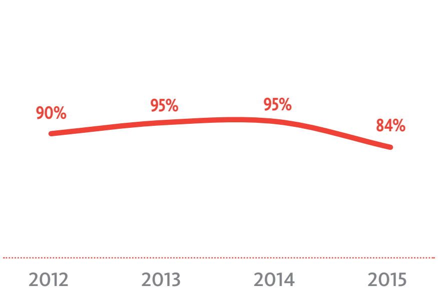
The cost of credit fell during the year from 4.9% in 2014 to 4.5% in 2015 due to growth in provisions being lower than the growth in lending, and also through the strategy of changing the product mix.

The NPL coverage rate stood at 83.7% at 2015 year-end, indicating an 11.7 pp decrease on the previous year-end. This fall is the result of the previously mentioned NPL rate increase, and the change in the portfolio mix, where there was an increase in the weight of mortgage lending, which requires lower provisions since it is secured by collateral.

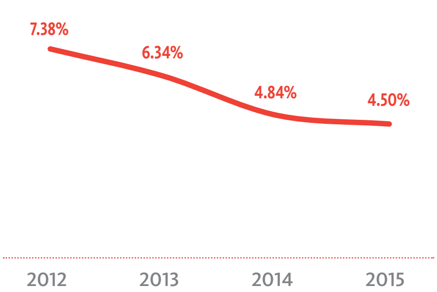
NPL ratio



Coverage ratio



Cost of credit



D.1.4. Other credit risk optics

D.1.4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with clients, mainly with credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives to provide service to Group clients.

According to chapter six of the CRR (EU regulation 575/2013), the credit risk of the counterparty is the risk that the client in an operation could enter into non-payment before the definitive settlement of the cash flows of this operation. It includes the following types of operations: derivative instruments, operations with repurchase commitment, stock lending commodities, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring the exposure, one is with the Mark to Market (MtM) methodology (replacement value of derivatives or drawn amount in committed credit lines) and the other, introduced in mid 2014 for some countries and products, which incorporates the calculation of the exposure by Monte Carlo simulation. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recovery.

After markets close, exposures are re-calculated by adjusting all operations to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is done through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any Group unit to be known at each moment.

Exposures in counterparty risk: over the counter (OTC) operations and organised markets

The total exposure **at the end of 2015** on the basis of management criteria in terms of positive market value after applying netting agreements and collateral by counterparty risk activities was EUR 18,761 million (net exposure of EUR 52,148 million) and was concentrated in high credit quality counterparties (78.3% of risk with counterparties has a rating equal to or more than A-).

In addition, at September 2015 credit valuation adjustments (CVA) of EUR 850.9 million were registered (+8.3% % vs. 2014 due mainly to the general decline in credit quality of the main Brazilian counterparties) and debt valuation adjustments (DVA) of EUR 530.8 million (+133%, largely due to the increase in spread of Banco Santander and to a lesser degree, as a result of changes in the corporate DVA calculation methodology)[12].

Around 93% of the counterparty risk operations in nominal terms was with financial institutions and central counterparty institutions (CCP in English) with whom we operate almost entirely under netting and collateral agreements. The rest of operations with customers who are not financial institutions are, in general, operations whose purpose is hedging. Occasionally, operations are conducted for purposes other than hedging, always with specialised clients.

Distribution of counterparty risk by customer rating (in terms of nominals)*

AAA	1.06%
AA	2.52%
A	74.74%
BBB	18.69%
BB	2.95%
B	0.04%
REST	0.01%

* Ratings based on equivalences between internal ratings and credit agency ratings.

12. The definition and methodology for calculating the CVA and DVA are set out in D.2.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA) of this Report.

Counterparty risk: distribution by nominal risk and gross market value*

Million euros

	2015			2014			2013		
		Market value			Market value			Market value	
	Nominal	Positive	Negative	Nominal	Positive	Negative	Nominal	Positive	Negative
CDS protection bought**	32,350	80	529	38,094	60	769	45,968	86	887
CDS protection sold	26,195	428	52	31,565	658	48	38,675	763	89
Total credit derivatives	**58,545**	**508**	**581**	**69,659**	**717**	**817**	**84,642**	**849**	**976**
Equity forwards	980	5	6	1,055	117	17	2,125	76	20
Equity options	23,564	959	1,383	36,616	1,403	2,192	58,964	1,686	2,420
Equity spot	20,643	794	-	19,947	421	-	10,041	1,103	-
Equity swaps	28	-	1,210	472	-	701	685	-	265
Equities - organised markets	6,480	-	-	8,616	-	-	9,117	-	-
Total equity derivatives	**51,695**	**1,758**	**2,598**	**66,705**	**1,941**	**2,910**	**80,931**	**2,865**	**2,705**
Fixed-income forwards	11,340	39	66	3,905	3	124	3,089	1	0
Fixed-income options	789	8	-	423	4	0	-	0	-
Fixed-income spot	3,351	-	-	5,055	-	-	1,906	-	-
Fixed income - organised markets	831	-	-	1,636	-	-	2,091	-	-
Total fixed income derivatives	**16,311**	**47**	**66**	**11,018**	**8**	**124**	**7,086**	**1**	**0**
Forward and spot rates	148,537	5,520	3,315	151,172	3,633	2,828	101,216	2,594	1,504
Exchange-rate options	32,421	403	644	44,105	530	790	46,290	604	345
Other exchange rate derivatives	189	1	4	354	3	6	125	2	1
Exchange-rate swaps	522,287	20,096	21,753	458,555	14,771	15,549	411,603	9,738	8,530
Exchange rate - organised markets	-	-	-	-	-	-	-	-	-
Total exchange rate derivatives	**703,434**	**26,019**	**25,716**	**654,187**	**18,936**	**19,173**	**559,233**	**12,940**	**10,380**
Asset swaps	22,532	950	1,500	22,617	999	1,749	22,594	901	1,634
Call money swaps	190,328	2,460	1,792	264,723	1,228	1,150	235,981	698	608
Interest rate structures	8,969	2,314	3,031	23,491	2,215	2,940	37,398	1,997	2,553
Forward interest rates- FRAs	178,428	19	78	171,207	13	63	117,011	16	18
IRS	3,013,490	85,047	85,196	2,899,760	95,654	94,624	2,711,552	58,164	54,774
Other interest-rate derivatives	194,111	3,838	3,208	218,167	4,357	3,728	230,735	3,870	3,456
Interest rate - organised markets	26,660	-	-	38,989	-	-	31,213	-	-
Total interest-rate derivatives	**3,634,518**	**94,628**	**94,806**	**3,638,955**	**104,466**	**104,253**	**3,386,485**	**65,648**	**63,043**
Commodities	468	130	40	1,020	243	112	1,363	265	78
Commodities - organised markets	59	-	-	208	-	-	446	-	-
Total commodity derivatives	**526**	**130**	**40**	**1,228**	**243**	**112**	**1,809**	**265**	**78**
Total gross derivatives	**4,431,000**	**123,089**	**123,805**	**4,392,303**	**126,312**	**127,389**	**4,077,320**	**82,567**	**77,183**
Total derivatives - organised markets ***	**34,028**			**49,449**			**42,866**		
Repos	**128,765**	**3,608**	**3,309**	**166,047**	**3,871**	**5,524**	**152,105**	**9,933**	**7,439**
Securities lending	**30,115**	**10,361**	**1,045**	**27,963**	**3,432**	**628**	**19,170**	**2,919**	**672**
Total counterparty risk	**4,623,908**	**137,058**	**128,159**	**4,635,762**	**133,615**	**133,541**	**4,291,461**	**95,419**	**85,294**

* Figures with management criteria.

** Credit derivatives bought including hedging of loans.

*** Refers to listed derivatives transactions (proprietary portfolio). Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.

Counterparty risk: exposure in terms of market value and credit risk equivalent including mitigation effect[1]

Million euros

	2015	2014	2013
Market value netting effect[2]	34,210	28,544	27,587
Collateral received	15,450	11,284	9,451
Exposure by market value[3]	18,761	17,260	18,136
Net CER[4]	52,148	50,077	58,485

1. Figures with management criteria. Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.
2. Market value used to include the effects of mitigation agreements so as to calculate exposure for counterparty risk.
3. Considering the mitigation of the netting agreements and having deducted the collateral received.
4. CER/Credit risk equivalent: net value of replacement plus the maximum potential value, minus collateral received. Includes regulatory EAD for organised markets (EUR 41 million in December 2015, EUR 71 million in 2014 and EUR 60 million in 2013).

Counterparty risk: distribution of nominals by maturity*

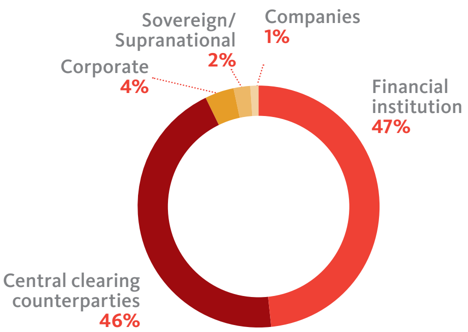
Million euros

	1 year**	1-5 years	5-10 years	Over 10 years	TOTAL
CDS protection bought ***	31,583	767	0	0	32,350
CDS protection sold	23,817	2,159	219	0	26,195
Total credit derivatives	**55,400**	**2,926**	**219**	**0**	**58,545**
Equity forwards	822	158	0	0	980
Equity options	22,316	715	63	470	23,564
Equity spot	20,027	401	0	215	20,643
Equity swaps	27	1	0	0	28
Equities - organised markets	4,563	1,915	1	0	6,480
Total equity derivatives	**47,756**	**3,190**	**64**	**685**	**51,695**
Fixed-income forwards	11,001	313	12	14	11,340
Fixed-income options	262	527	0	0	789
Fixed-income spot	2,504	603	99	146	3,351
Fixed income - organised markets	831	0	0	0	831
Total fixed income derivatives	**14,598**	**1,442**	**111**	**160**	**16,311**
Forward and spot rates	136,304	10,169	929	1,136	148,537
Exchange-rate options	29,919	1,842	283	377	32,421
Other exchange rate derivatives	159	28	2	0	189
Exchange-rate swaps	491,960	21,691	4,985	3,652	522,287
Exchange rate - organised markets	-	-	-	-	-
Total exchange rate derivatives	**658,342**	**33,729**	**6,198**	**5,165**	**703,434**
Asset swaps	6,483	15,585	243	220	22,532
Call money swaps	181,909	4,622	2,621	1,176	190,328
Interest rate structures	8,522	434	10	3	8,969
Forward interest rates- FRAs	178,240	47	141	0	178,428
IRS	2,871,123	94,584	35,985	11,798	3,013,490
Other interest-rate derivatives	176,529	11,752	4,815	1,016	194,111
Interest rate - organised markets	13,725	12,935	0	0	26,660
Total interest-rate derivatives	**3,436,530**	**139,959**	**43,815**	**14,213**	**3,634,518**
Commodities	422	45	0	1	468
Commodities - organised markets	35	24	0	0	59
Total commodity derivatives	**457**	**68**	**0**	**1**	**526**
Total gross derivatives	**4,193,930**	**166,439**	**50,406**	**20,225**	**4,431,000**
Total derivatives - organised markets ****	**19,153**	**14,874**	**1**	**0**	**34,028**
Repos	**114,485**	**9,417**	**3,035**	**1,828**	**128,765**
Securities lending	**17,989**	**6,462**	**3,892**	**1,772**	**30,115**
Total counterparty risk	**4,345,557**	**197,192**	**57,334**	**23,825**	**4,623,908**

* Figures with management criteria.
** The collateral replacement term is considered to be the maturity date in transactions with collateral agreements.
*** Credit derivatives acquired including hedging of loans.
**** Refers to listed bought transactions (proprietary). Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.

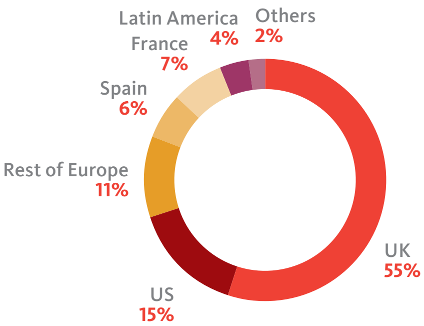
The distribution of the activity by type of counterparty in terms of notional amounts was concentrated mainly in financial institution (47%) and central clearing counterparties (46%).

Counterparty risk by customer type



As regards to geographic distribution, 55% of the activity in terms of notional amounts was with UK counterparties (whose weight within the total is due to the increasing use of clearing houses), 15% with North American counterparties, 7% with French ones, 6% with Spanish counterparties, and of note among the rest is 11% with other European countries and 4% with Latin America.

Counterparty risk by geography



Counterparty risk, organised markets and clearing houses

The Group's policies seek to anticipate wherever possible the implementation of measures resulting from new regulations regarding operations of OTC derivatives, repos and stock lending, both if settled by clearing house or if remaining bilateral. In recent years, there has been a gradual standardisation of OTC operations in order to conduct clearing and settlement via houses of all new trading operations required by the new rules, as well as foster internal use of the electronic execution systems.

As regards the operations of organised markets, although counterparty risk management is not considered to include credit risk for this type of transaction[13], since the coming into force of the new CRD IV (Capital Requirements Directive) and CRR (Capital Requirements Regulation) - which transpose the principles of Basel III - in 2014, regulatory credit exposure for these types of transactions form part of capital calculations.

The following table show the relative share in total derivatives of new operations settled by clearing house at close of 2015 and the significant evolution of operations settled by clearing house since 2013.

Distribution of counterparty risk in accordance with settlement channel and product type*

Nominal in million euros

	Bilateral		CCP**		Organised markets ***		
	Nominal	%	Nominal	%	Nominal	%	Total
Derivatives	56,767	97.0%	1,778	3.0%	-	0.0%	58,545
Equity derivatives	45,174	87%	42	0.1%	6,479	12.5%	51,695
Fixed-income derivatives	15,415	94.5%	65	0.4%	831	5.1%	16,311
Exchange rate derivatives	691,679	98.3%	11,755	1.7%	-	0.0%	703,434
Interest rate derivatives	1,564,716	43.1%	2,043,142	56.2%	26,660	0.7%	3,634,518
Commodities derivatives	468	88.9%	-	0.0%	58.6	11.1%	526
Repos	84,086	65.3%	44,679	34.7%	-	0.0%	128,765
Securities lending	30,115	100.0%	-	0.0%	-	0.0%	30,115
Total general	**2,488,419**	**53.8%**	**2,101,460**	**45.4%**	**34,028**	**0.7%**	**4,623,908**

* Figures with management criteria.
** Central counterparties (CCP).
*** Refers to listed derivatives transactions (proprietary portfolio). Listed derivatives have a market value of zero. No collaterals are received for these types of transactions.

13. Credit risk is eliminated by the organised markets acting as counterparty in the transactions, as they are equipped with mechanisms to safeguard their financial position using deposit and collateral replacement systems and processes to ensure liquidity and transparency in transactions.

Distribution of risk settled by CCP and organised markets by product and change over time*

Nominal in million euros

	2015	2014	2013
Credit derivatives	1,778	1,764	949
Equity derivatives	6,522	8,686	9,228
Fixed-income derivatives	896	1,651	2,092
Exchange rate derivatives	11,755	484	616
Interest rate derivatives	2,069,802	1,778,261	1,321,709
Commodities derivatives	59	208	446
Repos	44,679	57,894	55,435
Securities lending	-	-	46
Total	**2,135,489**	**1,848,948**	**1,390,519**

* Figures with management criteria.

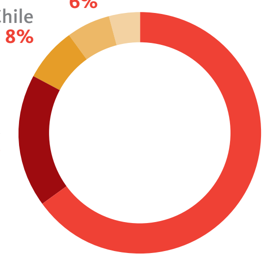
The Group actively manages operations not settled by clearing house and seeks to optimise their volume, given the requirements of spreads and capital that the new regulations impose on them.

In general, transactions with financial institutions are done under netting and collateral agreements, and constant efforts are made to ensure that the rest of operations are covered under this type of agreement. Generally, the collateral agreements that the Group signs are bilateral ones with some exceptions mainly with multilateral institutions and securitisation funds.

The collateral received under the different types of collateral (CSA, OSLA, ISMA, GMRA, etc) signed by the Group amounted to EUR 15,450 million (of which EUR 11,524 million corresponded to collateral received by derivatives), mostly effective (81%), and the rest of the collateral types are subject to strict policies of quality as regards the type of issuer and its rating, debt seniority and haircuts applied.

The chart below shows the geographic distribution:

Collateral received. Geographic distribution



Off-balance sheet credit risk

The off-balance sheet risk corresponding to funding and guarantee commitments with wholesale clients was EUR 90,795 million and with the following distribution by products:

Off balance sheet exposure

Million euros

	Maturity				
Product	**< 1 year**	**1-3 year**	**3-5 year**	**> 5 year**	**Total**
Funding*	11,207	13,728	33,229	6,329	**64,493**
Technical guarantees	3,589	10,034	1,667	281	**15,571**
Financial and commercial guarantees	3,998	4,396	986	684	**10,065**
Foreign trade**	451	119	92	4	**665**
Total	**19,245**	**28,277**	**35,974**	**7,298**	**90,795**

* Mainly including credit lines committed bilaterally and syndicated.
** Mainly including stand-by letters of credit.

Activity in credit derivatives

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and within trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits such as Value at Risk (VaR)[14], nominal by rating, sensitivity to the spread by rating and name, sensitivity to the rate of recovery and to correlation. Jump-to-default limits are also set by individual name, geographic area, sector and liquidity.

In notional terms, the CDS position incorporates EUR 28,335 million[15] of acquired protection and EUR 26,190 million of sold protection.

At December 31, 2015, the sensitivity of lending to increases in spreads of one basis point was marginal, and much lower than in 2014, of - EUR 1.5 million, and the average VaR was EUR 2.4 million, lower than in 2014 (EUR 2.9 million).

D.1.4.2. Risk of concentration

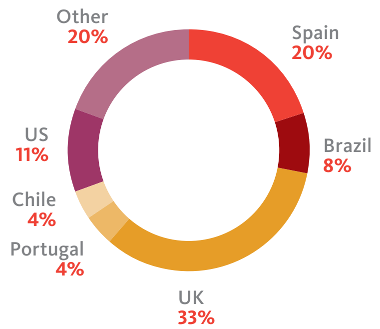
Control of risk concentration is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The board, via the risk appetite, determines the maximum levels of concentration, as detailed in section B.3.1. Risk appetite and structure of limits. In line with the risk appetite, the executive risk committee establishes the risk policies and reviews the exposure levels appropriate for adequate management of the degree of concentration of the credit risk portfolios.

14. The VaR definition and calculation methodology is in section D.2.2.2.1. Value at Risk (VaR) of this Report.
15. This figures excludes around EUR 3,189 million nominal of CDS which cover loans that for accounting purposes are recorded as financial guarantees instead of credit derivatives as their change in value has no impact on results or reserves in order to avoid accounting asymmetry.

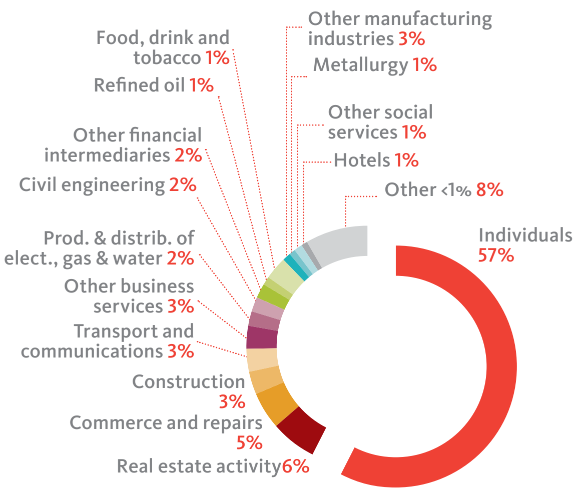
In geographic terms, credit risk with customers is diversified in the main markets in which the Group operates, as shown in the chart below.

Credit risk with customers



Some 57% of the Group's credit risk corresponds to individual customers, who, due to their inherent nature, are highly diversified. In addition, the portfolio is also well distributed by sectors, with no significant concentrations in specific sectors. The following chart shows the distribution at the end of the year.

Sector diversification



The Group is subject to the regulation on large risks contained in the fourth part of the CRR (EU regulations 575/2013), according to which the exposure contracted by an entity with a client or group of clients linked among themselves will be considered a 'large exposure' when its value is equal to or more than 10% of the eligible capital. In addition, in order to limit the large exposures no entity can assume with a client or group of linked clients an exposure whose value exceeds 25% of its eligible capital, after taking into account the impact of the reduction of credit risk contained in the regulation.

At December 2015, after applying risk mitigation techniques and regulations applicable to large risks, all the declared groups were below 4.9% of eligible equity except for two entities: a central EU counterparty entity which was 7.3%, and an EU corporate group with 6.8%.

The regulatory credit exposure with the 20 largest groups within the sphere of large risks represented 5.8% of outstanding credit risk with clients (lending plus balance sheet risks). As for regulatory credit exposure with financial institutions, the top 10 represented EUR 19,119 million.

The Group's risks division works closely with the financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques such as using credit derivatives and securitisation to optimise the risk-return relation of the whole portfolio.

D.1.4.3. Country risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks that could affect international financial activity (wars, natural disasters, balance of payments crisis, etc).

At 31 December 2015, exposure to potential country-risk provisions was EUR 193 million (EUR 176 million in December 2014). At the close of 2015, total provisions stood at EUR 25 million compared with EUR 22 million at the end of the previous year.

The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in operations that are clearly profitable for the bank, and which enhance the global relationship with customers.

D.1.4.4. Sovereign risk and vis-á-vis the rest of public administrations

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar entity (portfolio of public debt) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

This criterion, historically used by Grupo Santander, has some differences with that of the European Banking Authority (EBA) used for its regular stress exercises. The main ones are that the EBA's criterion does not include risk with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general (including regional and local ones) and not only the state sector.

Exposure to sovereign risk (according to the criteria applied in the Group) mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks, the establishment of deposits with the excess of liquidity and of fixed-income portfolios maintained within the risk management strategy for structural interest of the balance sheet and in trading books in treasuries. The great majority of these exposures are in local currency and are funded on the basis of customer deposits captured locally, and also in local currency.

Exposures in the local sovereign but in currencies different to the official one of the country of issuance is not very significant (EUR 11,116 million, 5.6% of the total sovereign risk), and less so the exposure in non-local sovereign issuers, which means cross-border risk (EUR 2,719 million, 1.38% of total sovereign risk).

In general, the total exposure to sovereign risk has remaimed at adequate levels to support the regulatory and strategic motives of this portfolio.

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows the percentage of exposure by rating levels[16].

Exposure by level of rating

%

	30 Sep. 2015	31 Dec. 2014	31 Dec. 2013
AAA	34%	29%	36%
AA	4%	4%	6%
A	22%	28%	27%
BBB	33%	32%	26%
Lower than BBB	7%	7%	5%

Exposure to sovereign risk (EBA criteria)

Million euros

31 Dec 2015	Portfolio: Trading and Others at FV	Portfolio: Available for sale	Portfolio: Loan portfolio	Portfolio: Held to maturity portfolio	Total net direct exposure
Spain	8,954	26,443	11,272	2,025	**48,694**
Portugal	104	7,916	1,987	0	**10,007**
Italy	2,717	0	0	0	**2,717**
Greece	0	0	0	0	**0**
Ireland	0	0	0	0	**0**
Rest Eurozone	(211)	143	69	0	**1**
UK	(786)	5,808	141	0	**5,163**
Poland	13	5,346	42	0	**5,401**
Rest of Europe	120	312	238	0	**670**
US	280	4,338	475	0	**5,093**
Brazil	7,274	13,522	947	2,186	**23,929**
Mexico	6,617	3,630	272	0	**10,519**
Chile	193	1,601	3,568	0	**5,362**
Rest of America	155	1,204	443	0	**1,802**
Rest of the world	3,657	1,687	546	0	**5,890**
Total	**29,087**	**71,950**	**20,000**	**4,211**	**125,248**

31 Dec 2014	Portfolio: Trading and Others at FV	Portfolio: Available for sale	Portfolio: Loan portfolio	Total net direct exposure
Spain	5,778	23,893	15,098	**44,769**
Portugal	104	7,811	589	**8,504**
Italy	1,725	0	0	**1,725**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest Eurozone	(1,070)	3	1	**(1,066)**
UK	(613)	6,669	144	**6,200**
Poland	5	5,831	30	**5,866**
Rest of Europe	1,165	444	46	**1,655**
US	88	2,897	664	**3,649**
Brazil	11,144	17,685	783	**29,612**
Mexico	2,344	2,467	3,464	**8,275**
Chile	593	1,340	248	**2,181**
Rest of America	181	1,248	520	**1,949**
Rest of the world	4,840	906	618	**6,364**
Total	**26,284**	**71,194**	**22,205**	**119,683**

16. Based on internal ratings.

The sovereign risk distribution by rating level was affected in the last few years by many rating revisions of the sovereign issuers of the countries where the Group operates.

On the basis of the EBA criteria already mentioned, the exposure to public administrations at the end of each of the last three years was as follows (figures in million euros)[17].

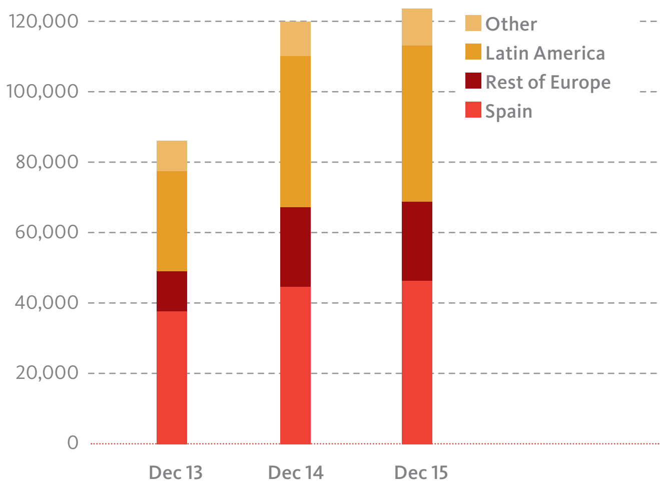
Exposure is moderate and the levels are similar to those in 2014. The sovereign risk exposure of Spain (where the Group has its headquarters) is not high in terms of total assets (3.6% at the end of December 2015), compared to its peers.

The sovereign exposure in Latin America is almost all in local currency, recorded in local books and concentrated in short-term maturities of lower interest rate risk and greater liquidity.

31 Dec 2013	Portfolio			
	Trading and Others at FV	Available for sale	Loan portfolio	Total net direct exposure
Spain	4,359	21,144	12,864	**38,367**
Portugal	149	2,076	583	**2,807**
Italy	1,310	77	0	**1,386**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest Eurozone	(1,229)	67	0	**(1,161)**
UK	(1,375)	3,777	0	**2,402**
Poland	216	4,770	43	**5,030**
Rest of Europe	5	117	0	**122**
US	519	2,089	63	**2,671**
Brazil	8,618	8,901	223	**17,743**
Mexico	3,188	2,362	2,145	**7,695**
Chile	(485)	1,037	534	**1,086**
Rest of America	268	619	663	**1,550**
Rest of the world	5,219	596	148	**5,964**
Total	**20,762**	**47,632**	**17,268**	**85,661**

Sovereign and rest of public administrations risk: Net direct exposure (EBA criterion)

Million euros



D.1.4.5. Social and environmental risk

Banco Santander considers social and environmental issues to be a crucial part of risk analysis and decision making processes in its financing transactions. The Bank has applied process to identify, analyse and assess credit transactions subject to Group policy, policies based on the Equator Principle criteria, which the Bank signed up to 2009. In accordance with these principles, the social and environmental impact of project finance operations and corporate loans with a known purpose (bridging loans with forbearance envisaged via project finance and corporate financing to construct or increase a specific project) is analysed.

The methodology used is set out below.

- For project finance operations with an amount equal to or more than $10 million, corporate loans with known destiny for a project with an amount equal to more than $100 million, with Santander's share equal to or more than $50 million, an initial questionnaire is filled out, of a generic nature, designed to establish the project's risk in the socio-environmental sphere (according to categories A, B and C, from greater to lower risk, respectively) and the operation's degree of compliance with the Equator Principles.
- For those projects classified within the categories of greater risk (categories A and B), a more detailed questionnaire has to be filled out, adapted according to the sector of activity.
- According to the category and location of the projects a social and environmental audit is carried out (by independent external auditors). The Bank also gives training courses in social and

17. In addition at December 31, 2015, the Group maintained direct net exposures in derivatives whose reasonable value was EUR 2,070 million, as well as indirect net exposures in derivatives whose reasonable value was EUR 25 million.

environmental matters to risk teams as well as to those responsible for business of all the areas involved.

In 2015, the Group took part in funding 55 projects under the Equator principles. The total amount of debt in these 55 projects amounts to EUR 29,953 million.

During the second half of 2015, the Bank's social-environmental task force, led by the Chief Compliance Officer, with representatives of the Compliance, Corporate Communications, Marketing and Research, Risks, Business, Internal Governance and Legal Counsel corporate areas, has carried out a project to analyse and improve the status of social-environmental policies. The analysis has been based on a benchmarking exercise with six of Santander's peers who have a similar size and geographical location, including the most important NGO (Non-Governmental Organisations) trends in this field.

As a result of this analysis, improvements to socio-environmental policies were proposed and were approved by the Bank's board of directors on 22 December 2015. The proposals will now be gradually applied in the different Santander geographies.

Sector wide policies establish the criteria used to limit financial activities relating to the defence, energy and soft commodities (e.g. products such as palm oil, soy and timber) sectors. These policies prohibit banks from funding certain activities, and place restrictions on others (transactions which will be closely monitored due to their social and environmental risk, and which will only be approved if they meet certain requirements). The review of policies not only includes new activities and sectors, but also defines a broader scope of application compared to those applied until 2015, given that the restricted transactions are applied across the board in wholesale banking, and the bans are applied to all transactions.

D.1.5. Credit risk cycle

The process of credit risk management consists of identifying, analysing, controlling and deciding on the risks incurred by the Group's operations. The business areas, senior management and the risk areas are all involved.

The board and the executive risk committee take part in the process, to set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework of the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and presale planning.

1. **Study of risk and credit classification process**
2. Planning (Commercial strategic plan - CSP) and setting of limits
   - Analysis of scenarios
3. Establishing limits / pre-approved limits
4. Decision on operations
   - Mitigants
5. Monitoring
6. Measurement and control
7. Recovery management
   - Impaired and restructured portfolio

D.1.5.1. Study of risk and credit rating process

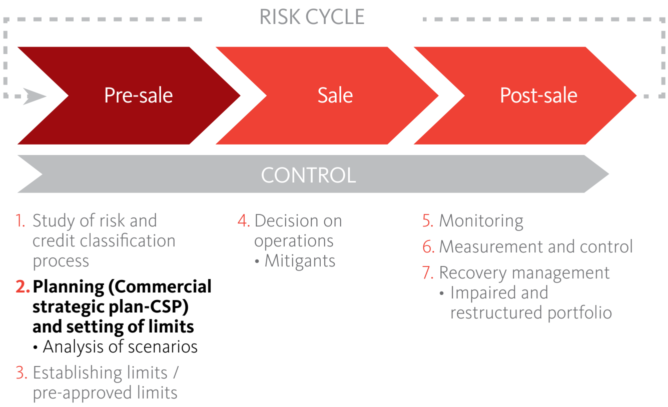
Generally speaking, risk study consists of analysing a customer's capacity to meet his contractual commitments with the Bank and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed.

With this objective, since 1993 the Group has made use of models to allocate customer solvency classifications, which are known as ratings. These mechanisms are used in the wholesale segment (sovereign, financial institutions and corporate banking), as well as the rest of companies and institutions in this category.

The rating is the result of a quantitative model based on balance sheet ratios or macroeconomic variables, which is supplemented by the expert advice of the analyst.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The regularity of the reviews increases in the case of customers who reach certain levels in the automatic warning systems and in those classified as special watch. The rating tools are also revised in order to adjust the accuracy of the rating granted.

While ratings are used for wholesale and other companies and institutions, scoring techniques are used more commonly for the individuals and SMEs segment. In the latter type, a score is assigned to the customer for decision making, as set out in the 'Decisions on operations' section.



D.1.5.2. Planning (Strategic Commercial Plan)

The purpose of this phase is to limit efficiently and comprehensively the risk levels assumed by the Group.

The credit risk planning process serves to set the budgets and limits at portfolio level. Planning is articulated via the strategic commercial plan, ensuring the conjunction of the business plan, the credit policy on the basis of the risk appetite and of the necessary resources to achieve it. It has come about, therefore, as a joint initiative between the commercial area and risks, and is meant to be not only a management tool but also a form of teamwork.

The highest executive risk committee of each entity is responsible for authorising the monitoring the plan. It is validated and monitored at corporate level.

The SCPs are used to arrange the map of all the Group's lending portfolios.

Analysis of scenarios

In line with what is described in section B.3.3. Analysis of scenarios of this Report, credit risk scenario analysis enables senior management to better understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of the provisions made and the capital to stress scenarios.

These exercises are carried out for all the Group's relevant portfolios and are articulated as follows:

- Definition of reference scenarios (at both the global level as well as for each of the Group's units).
- Determining the value of the risk parameters and metrics (probability of default, loss at default, etc) to different scenarios.
- Estimated expected loss associated with each one of the scenarios put forward and the other important credit risk metrics deriving from the parameters obtained (NPLs, provisions, ratios, etc.).
- Analysis of the evolution of the credit risk profile at the portfolio, segment, unit and Group levels in the face of different scenarios and compared to previous years.

The simulation models employed by the Group use data from a complete economic cycle in order to calibrate the performance of risk factors in the face of changes in macroeconomic variables. These models are submitted to backtesting processes and regular fine tuning in order to guarantee they reflect correctly the relationship between macroeconomic variables and risk parameters.

A series of controls and comparisons are run to ensure that the metrics and calculations are adequate, thus completing the process.

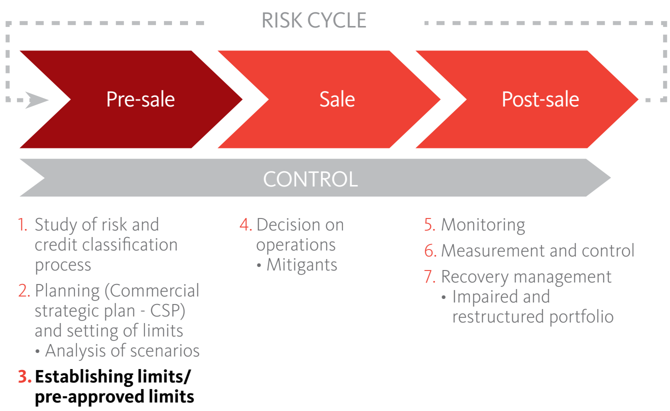
The projections of the risk and loss parameters, normally with a time frame of three years, are executed under various economic scenarios which include the main macroeconomic variables (GDP, unemployment rate, house prices, inflation, etc).

The economic scenarios defined are backed by different levels of stress, from the baseline scenario or the most probable one to stress scenarios which, although unlikely, are possible.

These scenarios are defined by Grupo Santander's research department in coordination with the counterparts of each unit and using as a reference the figures published by the main international institutions.

A global stress scenario is defined describing a world crisis situation and the way it would affect each of the countries in which the Grupo Santander operates. In addition, a local stress scenario is defined which affects in an isolated way some of the main units and with a greater degree of stress than the global stress scenario.

The entire process takes place within a corporate governance framework, and is thus adapted to the growing importance of this framework and to best market practices, assisting the Group's senior management in obtaining knowledge and decision making.



D.1.5.3. Establishing limits / pre-approved limits

Limits are planned and established using documents agreed between the business and risk areas and approved by the executive risk committee or committees delegated by it, and in which the expected results of business, in terms of risk and return are set out, as well as the limits to which this activity is subject and management of the associated risks by group / customer.

At the same time, in the wholesale sphere and the rest of companies and institutions analysis is conducted at the client level. When certain circumstances concur, the client is assigned an individual limit (pre-approved limit).

In this way, a pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. The result of pre-classification is the maximum risk level that a client or group can assume in terms of amount of maturity. A more streamlined version of pre-approved limits is used for those companies which meet certain requirements (high knowledge, rating, etc).

1. Study of risk and credit classification process
2. Planning (Commercial strategic plan - CSP) and setting of limits
   • Analysis of scenarios
3. Establishing limits / pre-approved limits
4. **Decision on operations**
   • Mitigants
5. Monitoring
6. Measurement and control
7. Recovery management
   • Impaired and restructured portfolio

D.1.5.4. Decisions on operations

The sales phase consists of the decision-taking process which analyses and resolves operations. Approval by the risks area is a prior requirement before contracting any risk operation. This process must take into account the policies defined for approving operations and take into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the right balance between risk and profitability.

In the sphere of individual customers, companies and SMEs with lower revenue, large volumes of credit operations can be managed more easily with the use of automatic decision models for classifying the customer/transaction binomial. Lending is classified into homogeneous risk groups, on the basis of the information on the features of the operation and of its owner.

As already indicated, the prior phase of setting limits can follow two different paths, giving rise to different types of decision in the sphere of **companies**:

- Automatic and verifying if there is capacity for the proposed operation (in amount, product, maturity and other conditions) within the limits authorised under the framework of pre-classification. This process is generally applied to corporate pre- classifications.

- Always requiring the authorisation of the analyst although the operation meets the amount, maturity and other conditions set in the pre-approved limit. This process applies to the pre-classification of companies under individualised management of retail banking.

Credit risk mitigation techniques

Grupo Santander applies various forms of credit risk reduction on the basis, among other factors, of the type of client and product. As we will later see, some are inherent in specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The various mitigation techniques can be grouped into the following categories:

Determination of a net balance by counterparty

Netting is the possibility of determining a net balance between operations of the same type, under the umbrella of a framework agreement such as ISDA or similar.

It consists of aggregating the positive and negative market values of derivative transactions that Santander has with a certain counterparty, so that in the event of default it owes (or Santander owes, if the net is negative) a single net figure and not a series of positive or negative values corresponding to each operation closed with the counterparty.

An important aspect of the contracts framework is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to net the risks of all operations covered by the contract with a same counterparty.

Real guarantees

These are those goods that are subject to compliance with the guaranteed obligation and which can be provided not only by the client but also by a third party. The real goods or rights that are the object of the guarantee can be:

- Financial: cash, deposit of securities, gold, etc.

- Non-financial: property (both homes as well as commercial premises, etc), other property goods.

From the standpoint of risk admission, the highest level of real guarantees is required. In order to calculate the regulatory capital, only those guarantees that meet the minimum qualitative requirements set out in the Basel agreements are taken into consideration.

A very important example of a real financial guarantee is **collateral**. This is a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions of derivatives with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateralisation, the final purpose, as in the netting technique, is to reduce the counterparty risk.

The operations subject to the collateral agreement are regularly valued (normally day to day) and, on the net balance resulting from this valuation, the parameters defined in the contract are applied so that a collateral amount is obtained (normally cash or securities), which is to be paid to or received from the counterparty.

As regards **property collaterals**, there are regular re-appraisal processes, based on real market values for the different types of property, which meet all the requirements set by the regulator.

Implementation of the mitigation techniques follows the minimum requirements established in the manual of credit risk management policies, and consists of ensuring:

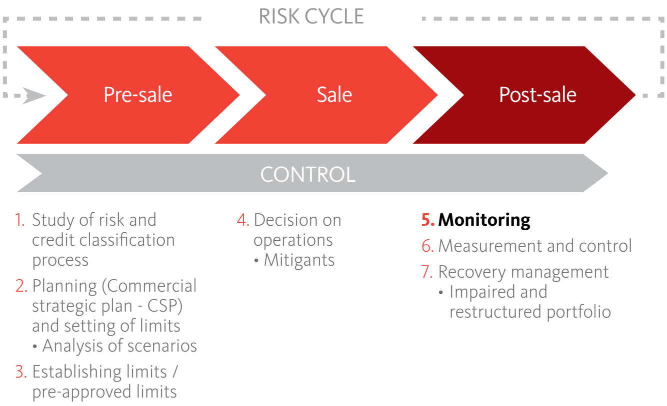
- Legal certainty. The possibility of legally requiring the settlement of guarantees must be examined and ensured at all times.
- The lack of substantial positive correlation between the counterparty and the value of the collateral.
- The correct documentation of all guarantees.
- The availability of documentation of the methodologies used for each mitigation technique.
- Adequate monitoring and regular control.

Personal guarantees and credit derivatives

This type of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover the credit risk by acquiring protection from a third party, through which the bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded in non-organised markets. The coverage with credit derivatives, mainly through credit default swaps, is contracted with front line banks.

The information on mitigation techniques is in 'Credit risk reduction techniques of the **Prudential Relevance Report (Pillar III)**'. There is also more information on credit derivatives in the section 'Activity in credit derivatives' in section D.1.4.1. Credit risk by activity in financial markets of this Report.



D.1.5.5. Monitoring / Anticipation

Monitoring is a continuous process of constant observation, which allows changes that could affect the credit quality of clients to be detected early on, in order to take measures to correct the deviations that impact negatively.

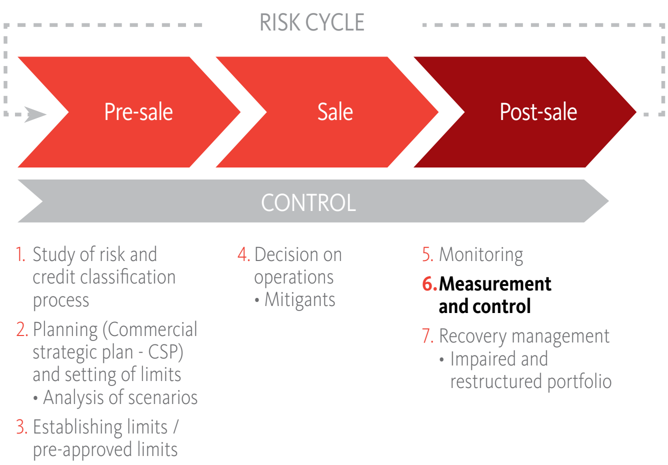
Monitoring is based on segmentation of customers, and is carried out by local and global risk dedicated teams, supplemented by internal audit. In the individuals model, this function is carried out through customer behaviour assessment models.

The function consists, among other things, of identifying and tracking clients under special monitoring, reviewing ratings and continuous monitoring of indicators of standardised clients.

The system called **companies in special monitoring** (FEVE) identifies four levels on the basis of the degree of concern arising from the circumstances observed (extinguish, secure, reduce, monitor). The inclusion of a company in FEVE does not mean there have been defaults, but rather the advisability of adopting a specific policy toward that company and establishing the person and time frame for it. Clients in FEVE are reviewed at least every six months, and every quarter for the most serious cases. A company can end up in special watch as a result of monitoring, a review conducted by internal audit, a decision of the person responsible for the company or the entry into functioning of the system established for automatic warnings.

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

As regards the risks of individual clients, businesses and SMEs with a low turnover, the main indicators are monitored in order to detect shifts in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.



D.1.5.6. Measurement and control

As well as monitoring clients' credit quality, Grupo Santander establishes the control procedures needed to analyse the current credit risk profile and its evolution, through different credit risk phases.

The function is developed by assessing the risks from various perspectives that complement one another, establishing as the main elements control by countries, business areas, management models, products, etc, facilitating early detection of points of specific attention, as well as preparing action plans to correct any deteriorations.

Each element of control admits two types of analysis:

1. Quantitative and qualitative analysis of the portfolio
Analysis of the portfolio controls, permanently and systematically, the evolution of risk with respect to budgets, limits and standards of reference, assessing the impacts of future situations, exogenous as well as those resulting from strategic decisions, in order to establish measures that put the profile and volume of the risks portfolio within the parameters set by the Group.

The credit risk control phase uses, among others and in addition to traditional metrics, the following metrics:

- **CMN (Change in Managed NPLs plus net write-offs)**

The CMN measures how NPLs change during a period, discounting write-offs and taking loan loss recoveries into account.

It is an aggregate measure at portfolio level that allows a response to deteriorations observed in the evolution of NPLs.

It is the result of the final balance less the initial balance of non-performing loans of the period under consideration, plus the write-offs in this period less loan loss recoveries in the same period.

The VMG and its components play a key role as variables of monitoring.

- **Expected loss (EL) and capital**

Expected loss is the estimate of the economic loss that would occur during the next year of the portfolio existing at a given moment.

It is one more cost of activity, and must impact on the price of operations. Its calculation is mainly based on three parameters:

- Exposure at Default (EaD): maximum amount that could be lost as a result of a default.

- Probability of Default (PD): the probability of a client's default during the year.

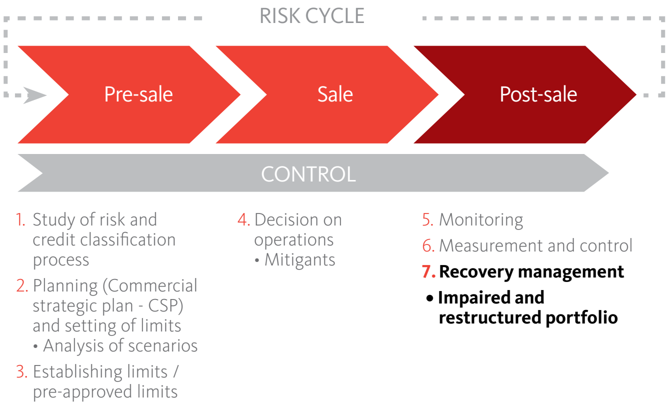
- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It is calculated by discounting at the time of the default the amounts recovered during the whole recovery process and this figure is then compared in percentage terms with the amount owed by the client at that moment.

Other relevant aspects regarding the risk of operations are covered, such as quantification of off-balance sheet exposures or the expected percentage of recoveries, related to the guarantees associated with the operation, as well as other issues such as the type of product, maturity, etc.

The risk parameters also enable economic and regulatory capital to be calculated. The integration in management of the metrics of capital is vital for rationalising its use. More detail is available in chapter D.8. Capital risk.

2.- Evaluation of the control processes
Evaluation of the control processes includes systematic and regular revision of the procedures and methodology, developed throughout the credit risk cycle, in order to guarantees their effectiveness and validity.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes Oxley law, a corporate tool was established in the Group's intranet to document and certificate all the sub processes, operational risks and controls that mitigate them. The risks division assesses every year the efficiency of internal control of its activities.



D.1.5.7. Recovery management

Recovery activity is a significant element in the Bank's risk management. This function is carried out by the recovery area, which defines a global strategy and an enterprise wide focus on recovery management.

The Group has a corporate management model which sets the guidelines and general lines of action to be applied in the various countries, always taking into account the local particularities that the recovery activity requires (economic environment, business model or a mixture of both). The recovery areas are business areas that directly manage clients; the corporate model thus has a business focus, whose creation of value on a sustained basis is based on effective and efficient collection management, whether by regularisation of balances pending payment or by total recovery.

The recovery management model requires adequate co-ordination of all the management areas (business of recoveries, commercial, technology and operations, human resources and risks). It is subject to constant review and continuous improvement in the processes and management methodology that sustain it, through applying the best practices developed in the various countries.

In order to conduct recovery management adequately, it is done in four phases: irregularity or early non-payment, recovery of non-performing loans, recovery of write-offs and management of foreclosed assets. Indeed, the recovery function begins before the first non-payment when the client shows signs of deterioration and ends when the debt has been paid or regularised. The function aims to anticipate non-compliance and is focused on Pre-saletive management.

The current macroeconomic environment directly impacts the non-payment index and customers' bad loans. The quality of portfolios is thus fundamental for the development and growth of our businesses in different countries. Debt reimbursement and recovery functions are given a special and continuous focus, in order to ensure that this quality always remains within the expected levels.

The diverse features of our clients makes segmentation necessary in order to manage recoveries adequately. Massive management of large collectives of clients with similar profiles and products is conducted through processes with a high technological component, while personalised management focuses on customers that, because of their profile, require a specific manager and more individualised management.

Recovery activity has been aligned with the socio-economic reality of various countries and different risk management mechanisms, with adequate criteria of prudence, have been used on the basis of their age, guarantees and conditions, always ensuring, as a minimum, the required classification and provisions.

Particular emphasis in the recovery function is placed on management of the aforementioned mechanisms for early management, in line with corporate policies, taking account of the various local realities and closely tracking vintages, stocks and performance. These policies are renewed and regularly adopted in order to reflect both the better management practices as well as the regulatory changes applied.

As well as measures focused on adapting operations to the client's payment capacity, also noteworthy is recovery management seeking solutions other than judicial ones for advance payment of debts.

One of the ways to recover debt from clients, who have suffered a severe deterioration in their repayment capacity, is repossession (judicial or in lieu of payment) of the real estate assets that serve as guarantees of the loans. In countries with a high exposure to real estate risk, such as Spain, there are very efficient sales management instruments which enable the capital to be returned to the bank and reduce the stock in the balance sheet at a much faster speed than the rest of banks.

D.2. Trading market risk and structural risks

Organisation of this section

We will first describe the activities subject to market risk, setting out the different types and risk factors.

Then we will look at each one of the market risks on the basis of the finality of the risk, distinguishing the risk of market trading and structural risks, and, within the latter, structural risks of the balance sheet and pension and actuarial risks.

The most relevant aspects to take into account such as the principal magnitudes and their evolution are set out for each type of risk, the methodologies and metrics employed in Santander and the limits used for their control.

D.2.1. Activities subject to market risk and types of market risk

The scope of activities subject to market risk includes transactions in which net worth risk is borne due to changes in market factors. Thus they include trading risks and also structural risks which are also affected by market shifts.

This risk comes from the change in risk factors—interest rates, inflation rates, exchange rates, share prices, the spread on loans, commodity prices and the volatility of each of these elements— as well as from the liquidity risk of the various products and markets in which the Group operates.

- **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.

- **Inflation rate risk** is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, whose return is linked to inflation or to an actual change in the rate.

- **Exchange rate risk** is the sensitivity of the value of a position in a currency different to the base currency to a potential movement in exchange rates. Hence, a long or open position in a foreign currency will produce a loss if that currency depreciates against the base currency. Among the positions affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any foreign currency transactions.

- **Equity risk** is the sensitivity of the value of positions opened in equities to adverse movements in the market prices or in expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, and equity swaps).

- **Credit spread risk** is the risk or sensitivity of the value of positions opened in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. Spread is the difference between financial instruments that quote with a margin over other benchmark instruments, mainly the IRR of Government bonds and interbank interest rates.

- **Commodities price risk** is the risk derived from the effect of potential changes in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with clients.

- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by all financial instruments whose valuation model has volatility as a variable. The most significant case are financial options portfolios.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

There are **other types of market risk,** whose coverage is more complex. They are as follows:

- **Correlation risk.** Correlation risk is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (for example, an interest rate and the price of a commodity).

- **Market liquidity risk.** Risk when a Group entity or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the cost of the transaction. Market liquidity risk can be caused by the reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or the instability of the markets. It increases as a result of the concentration of certain products and currencies.

- **Prepayment or cancellation risk.** When the contractual relationship in certain transactions explicitly or implicitly permits the possibility of early cancellation without negotiation before maturity, there is a risk that the cash flows may have to be reinvested at a potentially lower interest rate. It affects mainly mortgage loans or mortgage securities.

- **Underwriting risk.** This occurs as a result of an entity's participation in underwriting a placement of securities or another type of debt, assuming the risk of partially owning the issue or the loan due to non-placement of all of it among potential buyers.

Pension and actuarial risks, which are described later on, also depend on shifts in market factors.

On the basis of the finality of the risk, activities are segmented in the following way:

a) **Trading:** financial services to customers and purchase-sale and positioning mainly in fixed-income, equity and currency products. The SGCB (Santander Global Corporate Banking) division is mainly responsible for managing it.

b) **Structural risks:** we distinguish between balance sheet risks and pension and actuarial risks:

b.1) **Structural balance sheet risks:** market risks inherent in the balance sheet excluding the trading portfolio. Management decisions on these risks are taken by the ALCO committees of each country in coordination with the Group's ALCO committee and are executed by the financial management division. This management seeks to inject stability and recurrence into the financial margin of commercial activity and to the Group's economic value, maintaining adequate levels of liquidity and solvency. The risks are:

- **Structural interest rate risk:** this arises from mismatches in the maturities and repricing of all assets and liabilities.

- **Structural exchange rate risk/hedging:** Exchange rate risk occurs when the currency in which the investment is made is different from the euro in companies that consolidate and those that do not (structural exchange rate). In addition, this item also includes positions of exchange rate hedging of future results generated in currencies other than the euro (hedging of results).

- **Structural equity risk:** this involves investments via stakes in financial or non-financial companies that are not consolidated, as well as portfolios available for sale formed by equity positions.

b.2) **Pension and actuarial risk**

- **Pension risk:** the risk assumed by the Bank in relation to the pension commitments with its employees. The risk lies in the possibility that the fund does not cover these commitments in the period of accrual of the provision and the profitability obtained by the portfolio is not sufficient and obliges the Group to increase the level of contributions.

- **Actuarial risk:** unexpected losses produced as a result of an increase in the commitments with the insurance takers, as well as losses from an unforeseen rise in costs.

D.2.2. Trading market risk

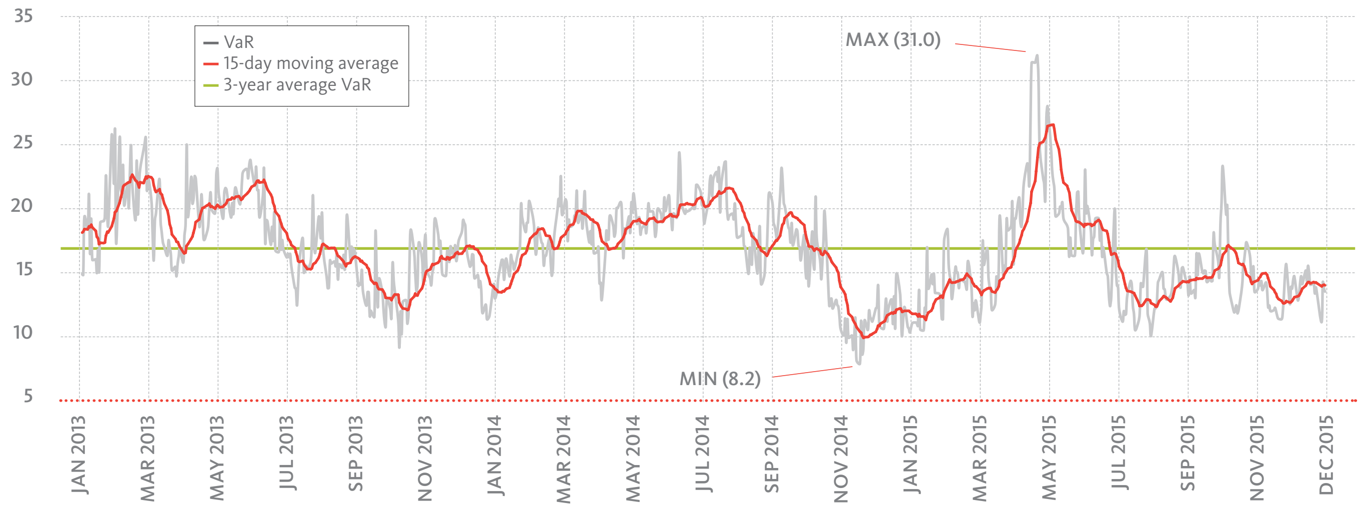
D.2.2.1. Key figures and change over time

Grupo Santander's trading risk profile remained relatively low in 2015, in line with previous years, due to the fact that traditionally the Group's activity has been focused on providing services to its customers, with limited exposure to complex structured products and diversification by geographic area and risk factor.

D.2.2.1.1. VaR analysis[18]

During the 2015 year, Grupo Santander maintained its strategy of concentrating its trading activity on customer business, minimising where possible exposures of directional risk opened in net terms. This was seen in the VaR evolution of the SGCB trading portfolio, which was around the average of the last three years and ended 2015 at EUR 13.6 million[19].

VaR 2013-2015: change over time
Million euros. VaR at a 99% over a one day horizon.

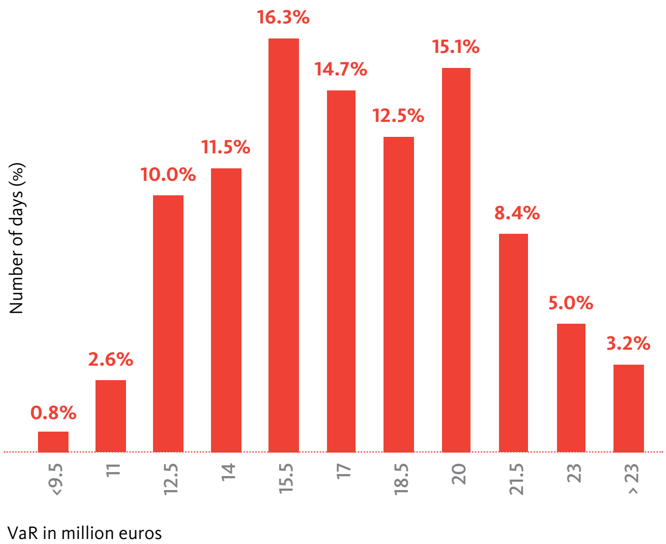


VaR during 2015 fluctuated between EUR 10.3 million and EUR 31 million. The most significant changes were related to changes in exchange rate and interest rate exposure and also market volatility.

The average VaR in 2015 was EUR 15.6 million, very similar to the two previous years (EUR 16.9 million in 2014 and EUR 17.4 million in 2013).

The following chart shows a frequency histogram of risk measured in terms of VaR between 2013 and 2015. The accumulation of days with levels of between EUR 9.5 and 23 million (96%) is shown. Values of higher than EUR 23 million (3.2%) largely occur in periods mainly affected by temporary spikes in volatility mainly in the Brazilian real against the dollar and also interest rates during the Greek bail-out period.

VaR risk histogram
VaR at a 99% over a one day horizon.
Number of days (%) in each range.



18. Value at Risk. The VaR definition and calculation methodology is in section D.2.2.2.1. Value at Risk (VaR)
19. Regarding trading activity in financial markets of SGCB (Santander Global Corporate Banking). As well as the trading activity of SGCB, there are other positions catalogued for accounting purposes. The total VaR of trading of this accounting perimeter was EUR 14.5 million.

Risk per factor

The following table displays the average and latest VaR values at 99% by risk factor over the last three years, and the lowest and highest values in 2015 and the Expected Shortfall (ES) at 97.5%[20] at the close of 2015:

VaR statistics and Expected Shortfall by risk factor [21, 22]

Million euros, VaR at 99% and ES at 97.5% with one day time horizon.

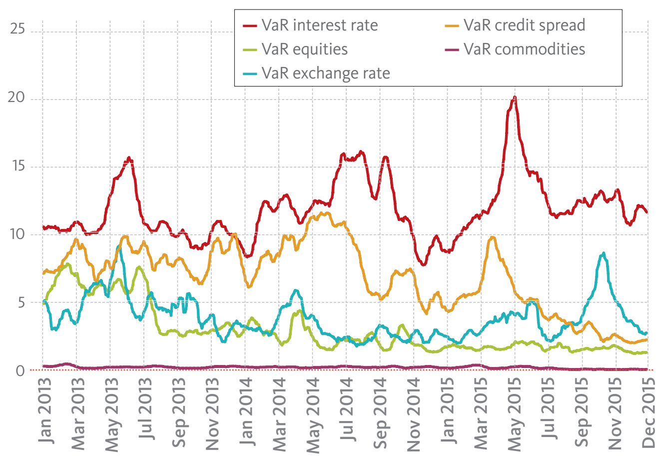
		2015					2014		2013	
		VaR (99%)				ES (97.5%)	VaR		VaR	
		Minimum	Average	Maximum	Latest	Latest	Average	Latest	Average	Latest
Total trading	**Total**	**10.3**	**15.6**	**31.0**	**13.6**	**14.0**	**16.9**	**10.5**	**17.4**	**13.1**
	Diversification effect	**(5.0)**	**(11.1)**	**(21.3)**	**(5.8)**	**(5.7)**	**(13.0)**	**(9.3)**	**(16.2)**	**(12.3)**
	Interest rate	9.7	14.9	28.3	12.7	12.7	14.2	10.5	12.7	8.5
	Equities	1.0	1.9	3.8	1.1	1.1	2.7	1.8	5.6	4.7
	Exchange rates	1.6	4.5	15.2	2.6	2.4	3.5	2.9	5.4	4.7
	Credit spread	1.9	5.2	13.7	2.9	3.4	9.3	4.6	9.6	7.2
	Commodities	0.0	0.2	0.6	0.1	0.1	0.3	0.1	0.3	0.3
Europe	**Total**	**7.4**	**11.6**	**24.8**	**11.1**	**11.2**	**12.2**	**7.3**	**13.9**	**9.9**
	Diversification effect	**(1.1)**	**(8.3)**	**(17.2)**	**(5.6)**	**(5.8)**	**(9.2)**	**(5.5)**	**(14.1)**	**(9.0)**
	Interest rate	6.1	10.6	25.1	10.9	10.7	8.9	6.2	9.3	6.6
	Equities	0.8	1.4	2.9	1.0	1.0	1.7	1.0	4.3	2.6
	Exchange rates	0.7	3.3	10.7	1.9	1.8	2.9	1.5	5.2	3.7
	Credit spread	1.6	4.4	11.5	2.8	3.4	7.6	3.9	9.0	5.8
	Commodities	0.0	0.2	0.6	0.1	0.1	0.3	0.1	0.3	0.3
Latin America	**Total**	**5.4**	**10.6**	**27.4**	**9.7**	**6.7**	**12.3**	**9.8**	**11.1**	**6.9**
	Diversification effect	**(0.5)**	**(4.8)**	**(10.6)**	**(4.4)**	**(1.5)**	**(3.5)**	**(12.2)**	**(5.3)**	**(6.7)**
	Interest rate	5.7	10.7	27.2	9.3	6.4	11.8	9.8	9.6	5.9
	Equities	0.5	1.5	3.2	0.5	0.6	2.1	3.0	3.2	2.9
	Exchange rates	0.7	3.2	8.2	4.3	1.3	2.0	9.2	3.5	4.7
US and Asia	**Total**	**0.3**	**0.9**	**2.0**	**0.9**	**0.8**	**0.7**	**0.7**	**0.8**	**0.5**
	Diversification effect	**(0.1)**	**(0.5)**	**(1.4)**	**(0.4)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.4)**	**(0.2)**
	Interest rate	0.2	0.8	1.6	0.8	0.8	0.7	0.7	0.7	0.5
	Equities	0.0	0.1	1.8	0.0	0.0	0,1	0.0	0.1	0.0
	Exchange rates	0.2	0.4	1.1	0.4	0.3	0.3	0.2	0.4	0.2
Global activities	**Total**	**0.3**	**1.6**	**3.0**	**0.4**	**0.3**	**2.3**	**1.9**	**1.5**	**2.0**
	Diversification effect	**0.1**	**(0.6)**	**(2.7)**	**(0.2)**	**(0.1)**	**(0.6)**	**(0.6)**	**(0.3)**	**(0.5)**
	Interest rate	0.0	0.5	3.0	0.1	0.0	0.6	0.4	0.3	0.4
	Credit spread	0.3	1.6	2.8	0.4	0.0	2.2	1.9	1.5	2.1
	Exchange rates	0.0	0.0	0.2	0.0	0.3	0.0	0.2	0.1	0.0

20. These types of measures are outlined in section D.2.2.2.2. *Stressed VaR* (sVaR) and *Expected Shortfall* (ES). Following the recommendation of the BCBS in its Fundamental review of the trading book: a revised market risk framework (October 2013), the confidence level of 97.5% means approximately a risk level similar to that which the VaR captures with a 99% confidence level.
21. The VaR of global activities includes operations that are not assigned to any particular country.
22. In Latin America, United States and Asia, the VaR levels of the credit spread and commodity factors are not shown separately because of their scant or zero materiality.

At the end of 2015, VaR had increased by EUR 3 million against 2014, although average VaR was down by EUR 1.4 million. By risk factor, the average VaR increased in interest rates and in exchange rates, while it fell in equities and credit spread. By geographies, it slightly increased in the United States/Asia, while it was down in the other geographies.

The VaR evolution by risk factor in general was stable in the last few years. The transitory rises in VaR of various factors is explained more by transitory increases in the volatility of market prices than by significant changes in positions.

VaR by risk factor: change over time
Million euros. VaR at a 99% with one day time horizon (15 day moving average).



Lastly, the table below compares the VaR figures with stressed VaR[25] figures for trading activity of the two portfolios with highest average VaR in 2015.

Stressed VaR vs. VaR in 2015: main portfolios
Million euros. Stresses VaR and VaR at 99% with one-day time horizon.

		Min	Average	Max	Latest
Spain-G10	VaR (99%)	4.0	8.9	15.9	8.8
	Stressed VaR (99%)	11.4	19.4	26.8	13.5
Brazil	VaR (99%)	4.5	9.5	25.6	9.4
	Stressed VaR (99%)	8.1	16.6	39.9	14.2

D.2.2.1.2. Gauging and backtesting measures

The real losses can differ from the forecasts by the VaR for various reasons related to the limitations of this metric, which are set out in detail later in the section on the methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame. This can detect anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc).

Santander calculates and evaluates three types of backtesting:

- ***'Clean' backtesting***: the daily VaR is compared with the results obtained without taking into account the intraday results or the changes in the portfolio's positions. This method contrasts the effectiveness of the individual models used to assess and measure the risks of the different positions.
- ***Backtesting on complete results***: the daily VaR is compared with the day's net results, including the results of the intraday operations and those generated by commissions.
- ***Backtesting on complete results without mark-ups or fees***: the daily VaR is compared with the day's net results from intraday operations but excluding those generated by mark-ups and commissions. This method aims to give an idea of the intraday risk assumed by the Group's treasuries.

For the first case and for the total portfolio, there were four exceptions of Value at Earnings (VaE)[24] at 99% in 2015 (days on which daily profit was higher than VaE) on 15 January, 23 January, 19 May and 3 December. These were primarily caused by strong shifts in the euro's exchange rates against the Swiss franc and the pound, and of the euro and dollar against the Brazilian real. The high VaE levels at the end of the year were due to the depreciation of the Argentinian peso after exchange restrictions in the country were lifted.

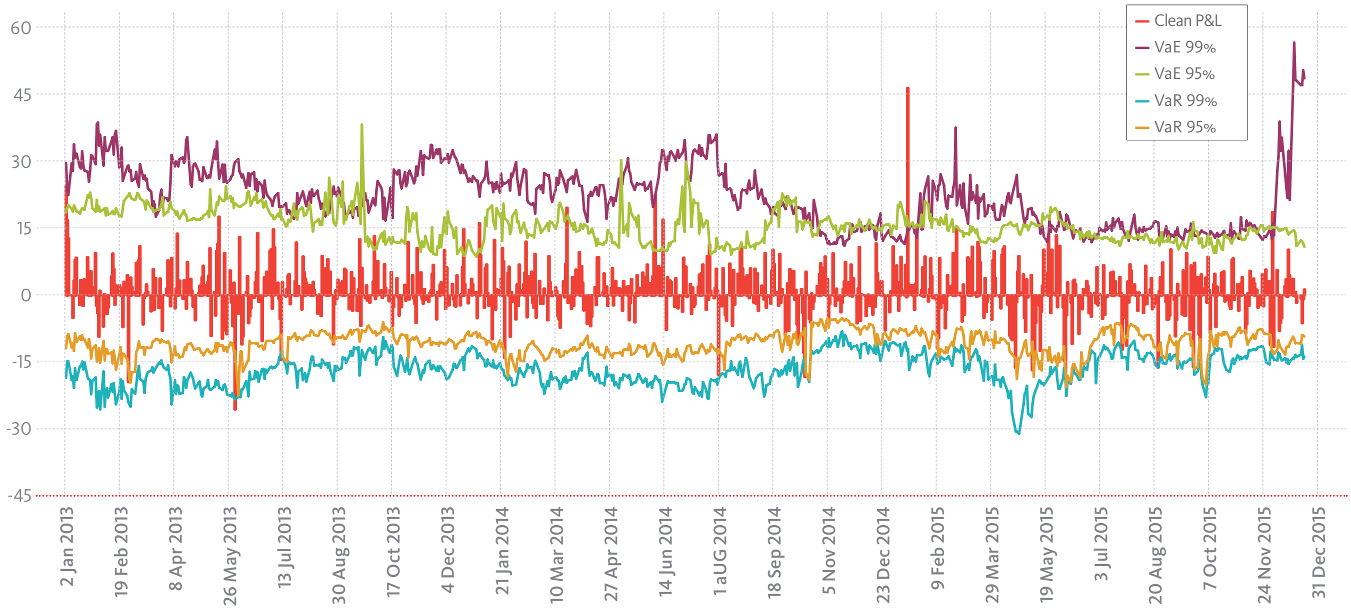
There was also an exception of VaR at 99% (days on which the daily loss was higher than the VaR) on 24 September, caused mainly, as in the above cases, by high volatility in exchange rates, in this case of the euro and dollar against the Brazilian real.

The number of exceptions responded to the expected performance of the VaR calculation model, which works with a confidence level of 99% and an analysis period of one year (over a longer period of time, an average of two or three exceptions a year is expected).

23. Described in section D.2.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES).
24. The VaE definition and calculation methodology is in section D.2.2.2.1. Value at Risk (VaR).

Backtesting of trading portfolios: daily results vs. previous day's VaR

Million euros



D.2.2.1.3. Distribution of risks and management results[25]

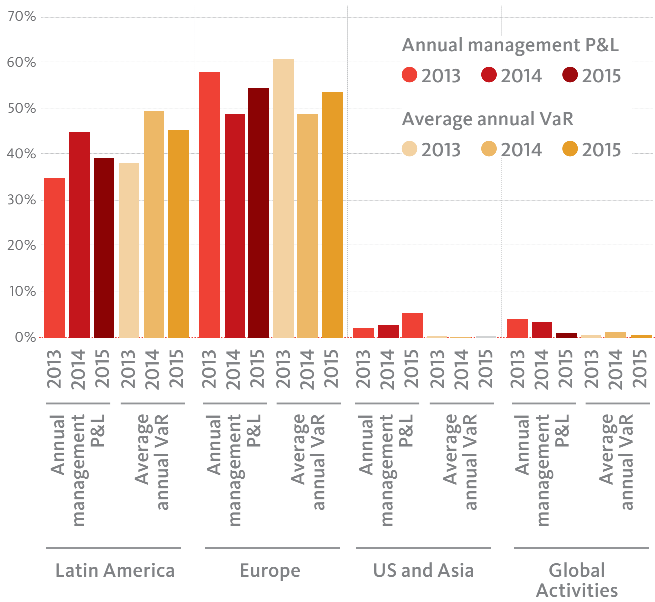
Geographic distribution

In trading activity, the average contribution of Latin America to the Group's total VaR in 2015 was 45.1% compared with a contribution of 39.7% in economic results. Europe, with 53.6% of global risk, contributed 54% of results. In relation to prior years, there was a gradual homogenisation in the profile of activity in the Group's different units, focused generally on providing service to professional and institutional clients.

Below is the geographic contribution (by percentage) to the Group total, both in risks, measured in VaR terms, as well as in results, measured in economic terms.

Binomial VaR - Management results: Geographic distribution

Average VaR (at 99% with a 1 day time horizon) and Annual cumulative management P&L (EUR mn), % of annual totals.



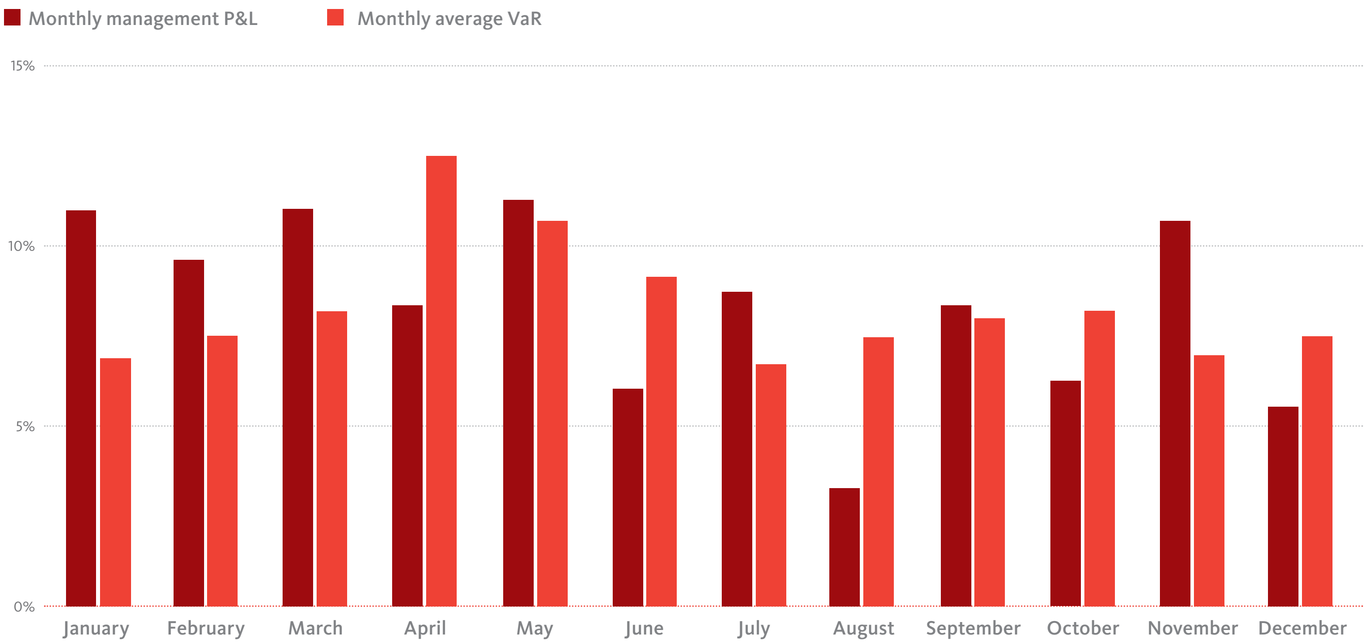
25. Results in terms similar to Gross Margin (excluding operating costs, the financial would be the only cost).

Distribution of risk by time

The following chart shows the risk assumption profile, in terms of VaR, compared to results in 2015. The average VaR remained relatively stable, albeit with higher values in the second quarter, while results evolved in a more regular way during the first half of the year, and were lower in the second half.

Temporary distribution of risks and P/L in 2015: percentages of annual totals

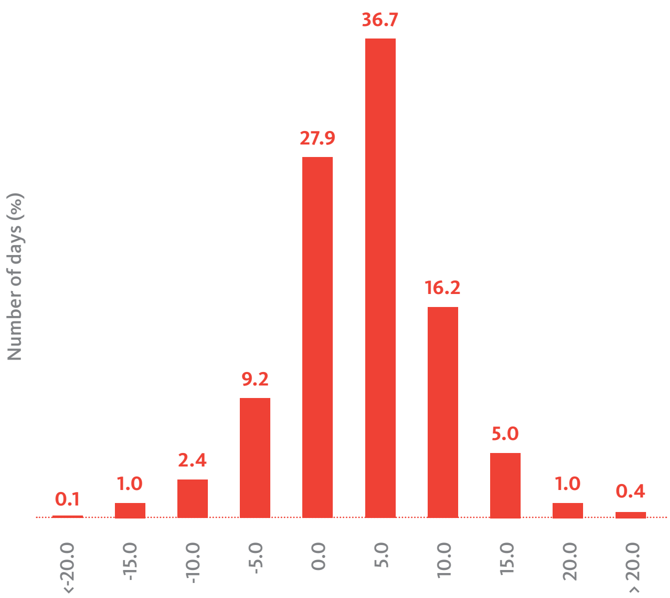
VaR (at 99% with a 1 day time horizon) and annual cumulative management P&L (EUR mn), % of annual totals.



The following frequency histogram shows the distribution of daily economic results on the basis of their size between 2013 and 2015. It shows that on over 97.4% of days on which the markets were open daily returns[28] were in a range of between -EUR 15 and +15 million.

Daily (MtM) management P&L frequency histogram

Daily management P&L 'clean' of fees and intraday operations (EUR mn). Number of days (%) in each range.



26. Yields 'clean' of fees and results of intraday derivative operations.

D.2.2.1.4. Risk management of derivatives

Derivatives activity is mainly focused on marketing investment products and hedging risks for clients. Management is focused on ensuring that the net risk opened is the lowest possible.

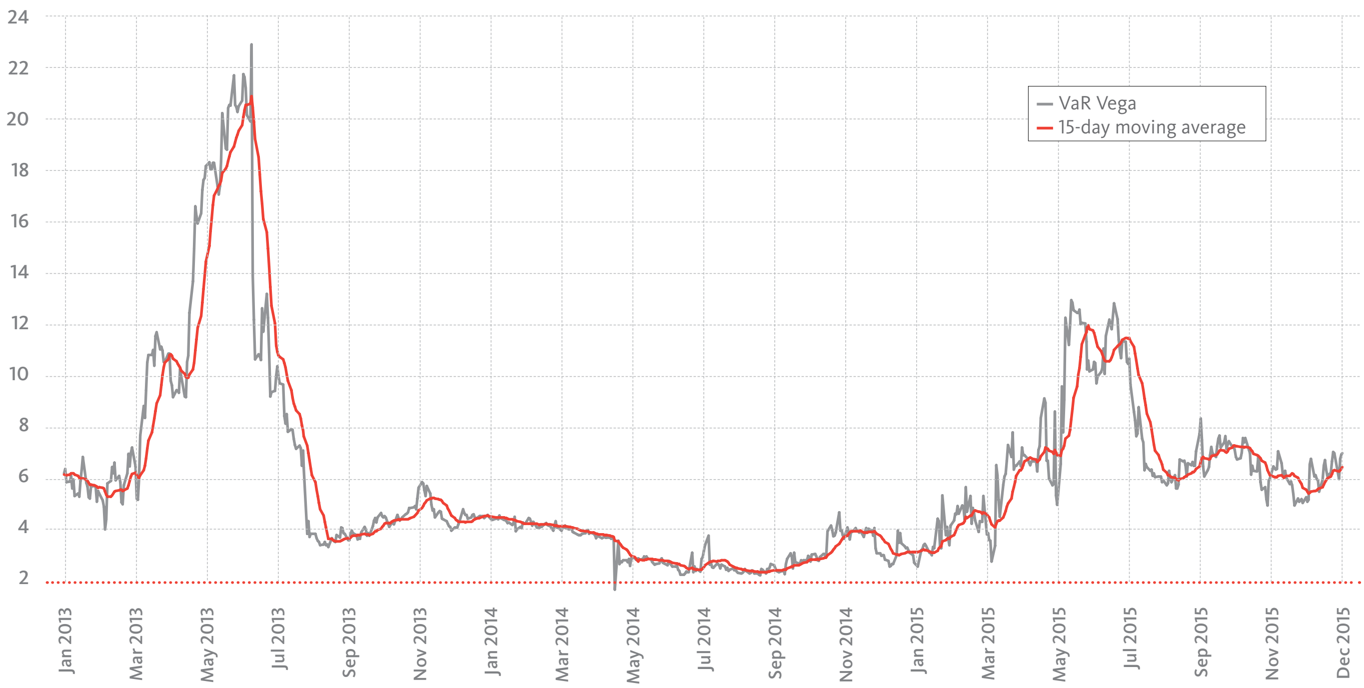
These transactions include options on equities, fixed-income and exchange rates. The units where this activity mainly takes place are: Spain, Santander UK, and, to a lesser extent, Brazil and Mexico.

The chart below shows the VaR Vega[27] performance of structured derivatives business over the last three years. It fluctuated at around an average of EUR 6 million. In general, the periods with higher VaR levels related to episodes of significant rises in volatility in the markets. The evolution of VaR Vega in the second quarter of 2013 was the result of the increased volatility of euro and US dollar interest rate curves, coinciding with a strategy of hedging client operations of significant amounts.

Although in **2015, VaR Vega** was similar to the previous year in the first quarter of the year, in the two next quarters it was affected by high market volatility due to events such as Greece's bail-out, high stock market volatility in China or Brazil's currency depreciation and rating downgrade, as well as the BRL's strong depreciation against the euro and the dollar.

■ Change in risk over time (VaR) of the derivatives business

Million euros. VaR vega at a 99% over a one day horizon.



As regards the VaR by risk factor, on average, the exposure was concentrated, in this order, in interest rates, equities, exchange rates and commodities. This is shown in the table below:

■ Financial derivatives. Risk (VaR) by risk factor

Million euros. VaR at a 99% over a one day horizon.

	2015				2014		2013	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	**2.6**	**6.8**	**12.8**	**7.0**	**3.3**	**2.7**	**8.0**	**4.5**
Diversification effect	(0.0)	(2.3)	(3.9)	(1.7)	(2.1)	(2.6)	(3.8)	(2.7)
VaR Interest rate	1.7	6.5	12.6	7.3	2.4	1.7	6.6	4.1
VaR equities	0.7	1.5	2.4	0.8	1.8	2.0	3.4	1.8
VaR exchange rate	0.4	1.1	2.1	0.6	1.2	1.6	1.7	1.3
VaR commodities	0.0	0.1	0.4	0.0	0.0	0.1	0.1	0.1

27. Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

Exposure by business unit was concentrated in Spain, Santander UK, Mexico and Brazil (in that order).

Financial derivatives. Risk (VaR) by unit

Million euros. VaR at a 99% over a one day horizon.

	2015				2014		2013	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	**2.6**	**6.8**	**12.8**	**7.0**	**3.3**	**2.7**	**8.0**	**4.5**
Spain	1.3	6.6	12.6	6.9	2.4	1.5	7.0	3.8
Santander UK	0.6	0.9	1.3	0.9	1.4	0.9	2.2	1.6
Brazil	0.3	0.7	1.5	0.4	0.8	0.7	1.2	0.9
Mexico	0.2	0.8	1.8	0.3	0.9	1.3	1.2	1.2

The average risk in 2015 (EUR 6.8 million) is slightly lower compared to 2013 and higher than in 2014, for the reasons explained above.

Grupo Santander continues to have a very limited exposure to instruments or complex structured vehicles, reflecting a management culture one of whose hallmarks is prudence in risk management. At the end of 2015, the Group had:

- **Hedge funds**: the total exposure is not significant (EUR 219.8 million at close of December 2015) and most of it is indirect, largely acting as counterparty in derivatives transactions, and also in financing transactions for those funds. This exposure has low loan-to-value levels of around 16.7% (collateral of EUR 1,225.1 million at the close of December). The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- **Monolines**: Santander's exposure to bond insurance companies (monolines) was, EUR 137.9 million as of December 2015 , mainly indirect exposure, EUR 136.1 million[28] by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is to double default, with the primary underlying assets are of high credit quality. The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non-payment by any of these insurance companies through a credit default swap). Exposure was virtually unchanged vs. 2014.

In short, the exposure to this type of instrument, as the result of the Group's usual operations, continued to decline in 2015. This was mainly due to the integration of positions of institutions acquired by the Group, as Sovereign in 2009. All these positions were known at the time of purchase, having been duly provisioned. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

Santander's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.

- The availability in the market of observable data (inputs) needed to be able to apply this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.

- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed appropriate.

D.2.2.1.5. Issuer risk in trading portfolios

Trading activity in credit risk is mainly conducted in the Treasury Units in Spain. It is done by taking positions in bonds and credit default swaps (CDS) at different maturities on corporate and financial references, as well as indexes (Itraxx, CDX).

The accompanying table shows the major positions at year-end in Spain, distinguishing between long (purchases of bonds and sales of CDS protection) and short (sales of bonds and purchases of CDS protection) positions.

28. Collateral provided by monoline in bonds issued by US states (Municipal Bonds), which amounted to EUR 19.1 million at December 2015, are not considered to be exposure.

Million euros. Data at 31 December 2015

	Largest 'long' positions (sale of protection)		Largest 'short' positions (purchase of protection)	
	Exposure at default (EAD)	% total EAD	Exposure at default (EAD)	% total EAD
1st reference	131	5.09%	(32)	4.30%
2nd reference	124	4.82%	(25)	3.36%
3rd reference	59	2.29%	(23)	3.09%
4th reference	56	2.10%	(23)	3.09%
5th reference	51	1.98%	(20)	2.68%
Sub-total top 5	**419**	**16.29%**	**(124)**	**16.64%**
Total	**2.572**	**100.00%**	**(745)**	**100.00%**

Note: zero recoveries are supposed (LCR=0) in the EaD calculation

D.2.2.1.6. Analysis of scenarios

Various stress scenarios were calculated and analysed regularly in 2015 (at least monthly) at the local and global levels for all the trading portfolios and using the same risk factor assumptions.

Maximum volatility scenario (worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad-hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). A historic volatility equivalent to six standard deviations is applied. The scenario is defined by taking for each risk factor the movement which represents the greatest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms. At year-end, that scenario implied, for the global portfolio, rising interest rates in Latin American markets and low interest rates in core markets, falls in stock markets, depreciation of all currencies against the euro, and widening credit spreads and volatility. The results for this scenario at 31 December 2015 are shown in the following table.

Stress scenario: Maximum volatility (worst case)
Million euros. Data at 31 December 2015

	Interest rates	Equities	Exchange rates	Credit spread	Commodities	Total
Total Trading	**(130.1)**	**(3.3)**	**(10.4)**	**(20.2)**	**(0.1)**	**(164.2)**
Europe	(119.7)	(1.5)	(0.3)	(19.8)	(0.1)	(141.4)
Latin America	(10.2)	(1.8)	(10.1)	0.0	0.0	(22.1)
US	0.0	0.0	0.0	0.0	0.0	0.0
Global Activities	(0.3)	0.0	0.0	(0.4)	0.0	(0.7)
Asia	0.0	0.0	0.0	0.0	0.0	0.0

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the mark to market (MtM) result, would be, if the stress movements defined in the scenario materialised in the market, EUR 164.2 million. This loss would be concentrated in Europe (in the following order: interest rates, credit spread and equities) and Latin America (in the following order: interest rates, exchange rates and equities).

Other global stress scenarios

Abrupt crisis: an ad hoc scenario with sharp market movements. Rise in interest rate curves, sharp falls in stock markets, large appreciation of the dollar against other currencies, rise in volatility and in credit spreads.

11 September crisis: historic scenario of the 11 September 2001 attacks with a significant impact on the US and global markets. This is sub-divided into two scenarios: I) maximum accumulated loss until the worst moment of the crisis; and II) the maximum loss in a day. In both cases, there are drops in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against other currencies.

'Subprime' crisis: historic scenario of the US mortgage crisis. The objective of the analysis is to capture the impact on results of the reduction in liquidity in the markets. Two time horizons were used (one day and 10 days), in both cases there are falls in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against other currencies.

EBA adverse scenario: the scenario proposed by the European Banking Authority (EBA) in April 2014 as part of the EBA 2014 EU-Wide Stress Test. This involves an adverse scenario for European banks over a time horizon from 2014 to 2016. The scenario reflects the systemic risks considered the most serious threats to the stability of the European Union's banking sector. These include: an increase in bond yields worldwide; incremental deterioration of credit quality in countries with weak demand; political reforms grinding to a halt, endangering the sustainability of public finances; and insufficient adjustments to balance sheets to maintain reasonable market finance.

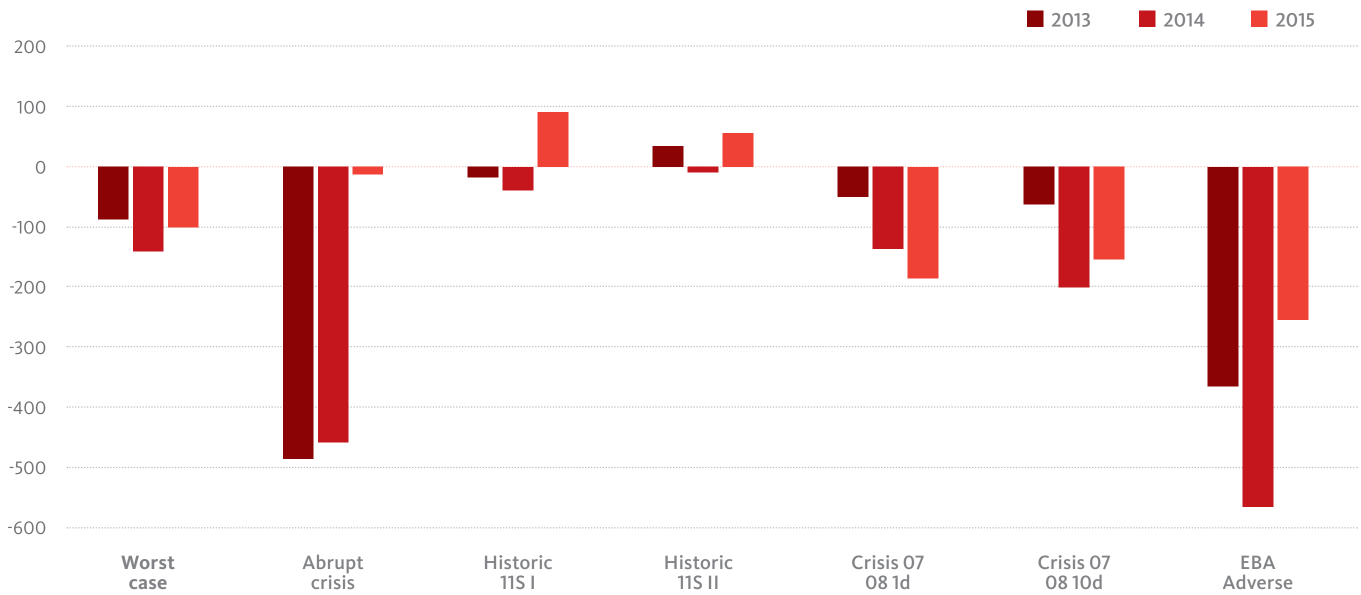
This latter scenario replaced the sovereign debt crisis scenario in November 2014. This historic scenario identified four geographic zones (the US, Europe, Latin America and Asia) and included interest rate rises, falls in stock markets and volatilities, widening credit spreads, and depreciation of the euro and Latin American currencies, and appreciation of Asian currencies, against the dollar.

Every month a consolidated stress test report is drawn up with explanations of the main changes in results for the various scenarios and units. An early warning mechanism has also been established so that when the loss for a scenario is high in historic terms and/or in terms of the capital consumed by the portfolio in question, the relevant business executive is informed.

The results of these global scenarios for the last three years are shown in the following table:

Stress test results. Comparison of the 2013-2015 scenarios (annual averages)

Million euros



D.2.2.1.7. Linkage with balance sheet items. Other alternative risk measures

Below are the balance sheet items in the Group's consolidated position that are subject to market risk, distinguishing the positions whose main risk metric is VaR from those where monitoring is carried out with other metrics. The items subject to market trading risk are highlighted.

Relation of risk metrics with balances in group's consolidated position
Million euros. Data at 31 December 2015.

		Main market risk metric		
	Balance sheet amount	VaR	Other	Main risk factor for 'Other' balance
Assets subject to market risk	**1,340,260**	**198,357**	**1,141,903**	
Cash and deposits at central banks	81,329	-	81,329	Interest rate
Trading portfolio	147,287	146,102	1,185	Interest rate, credit spread
Other financial assets at fair value	45,043	44,528	515	Interest rate, credit spread
Available-for-sale financial assets	122,036	-	122,036	Interest rate, equities
Investments	3,251	-	3,251	Equities
Hedging derivatives	7,727	7,727	-	Interest rate, exchange rate
Loans	835,992	-	835,992	Interest rate
Other financial assets[1]	35,469	-	35,469	Interest rate
Other non-financial assets[2]	62,126	-	62,126	
Liabilities subject to market risk	**1,340,260**	**168,582**	**1,171,678**	
Trading portfolio	105,218	104,888	330	Interest rate, credit spread
Other financial liabilities at fair value	54,768	54,757	11	Interest rate, credit spread
Hedging derivatives	8,937	8,937	-	Interest rate, exchange rate
Financial liabilities at amortised cost[3]	1,039,517	-	1,039,517	Interest rate
Provisions	14,494	-	14,494	Interest rate
Other financial liabilities	8,352	-	8,352	Interest rate
Equity	98,753	-	98,753	
Other non-financial liabilities	10,221	-	10,221	

1. Includes adjustments to macro hedging, non-current assets held for sale, reinsurance assets, and insurance contracts linked to pensions and fiscal assets.
2. Includes intangible assets, material assets and other assets.
3. Macro-hedging adjustment.

For activity managed with metrics other than VaR, alternative measures are used, mainly: sensitivity to different risk factors (interest rate, credit spread, etc).

In the case of the trading portfolio, the securitisations and 'level III' exposures (those in which non-observable market data constitutes a significant input in the corresponding internal valuation models) are excluded from the VaR measurement.

Securitisations are mainly treated as if they were part of the credit risk portfolio (in terms of default, recovery rate, etc). For 'level III' exposures, which are not very significant in Grupo Santander (basically derivatives linked to the home price index —HPI— in market activity in Santander UK, and interest rate and correlation derivatives for share prices in the parent bank's market activity), as well as in general for inputs that cannot be observed in the market (correlation, dividends, etc), a very conservative policy is followed: this is reflected in valuation adjustments as well as sensitivity.

D.2.2.2. Methodologies

D.2.2.2.1. Value at Risk (VaR)

The standard methodology that Grupo Santander applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and quickly. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

Value at Earnings (VaE) is also calculated. This measures the maximum potential gain with a certain level of confidence and time frame, applying the same methodology as for VaR.

VaR by historic simulation has many advantages as a risk metric (it sums up in a single number the market risk of a portfolio; it is based on market movements that really occurred without the need to make assumptions of functions forms or correlations between market factors, etc), but also has limitations.

Some limitations are intrinsic to the VaR metrics, regardless of the methodology used in their calculation, including:

- The VaR calculation is calibrated at a certain level of confidence, which does not indicate the levels of possible losses beyond it.
- There are some products in the portfolio with a liquidity horizon greater than that specified in the VaR model.
- VaR is a static analysis of the risk of the portfolio, and the situation could change significantly during the following day, although the likelihood of this occurring is very low.

Using the historic simulation methodology also has its limitations:

- High sensitivity to the historic window used.
- Inability to capture plausible events that would have significant impact, if these do not occur in the historic window used.
- The existence of valuation parameters with no market input (such as correlations, dividend and recovery rate).
- Slow adjustment to new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Some of these limitations are overcome by using Stressed VaR and Expected Shortfall, calculating VaR with exponential decay and applying conservative valuation adjustments. Furthermore, as previously stated, the Group regularly conducts analysis and backtesting of the accuracy of the VaR calculation model.

D.2.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES)

In addition to standard VaR, Stressed VaR is calculated daily for the main portfolios. The calculation methodology is the same as for VaR, with the two following exceptions:

- The historical observation period for the factors: when calculating Stressed VaR a window of 260 observations is used, rather than 520 for VaR. However, this is not the most recent data: rather, the data used is from a continuous period of stress for the portfolio in question. This is determined for each major portfolio by analysing the history of a subset of market risk factors selected based on expert judgement and the most significant positions in the books.
- Unlike VaR, Stressed VaR is obtained using the percentile with uniform weighting, not the higher of the percentiles with exponential and uniform weightings.

Moreover, the Expected Shortfall (ES) is also calculated, estimating the expected value of the potential loss when this is higher than that returned by VaR. Unlike VaR, ES has the advantages of capturing the risk of large losses with low probability (tail risk) and being a subadditive metric[29]. Going forward, in the near term the Basel Committee has recommended replacing VaR with Expected Shortfall as the baseline metric for calculating regulatory capital for trading portfolios[30]. The Committee considers that ES with a 97.5% confidence interval delivers a similar level of risk to VaR at a 99% confidence interval. Equal weights are applied to all observations when calculating ES.

D.2.2.2.3. Analysis of scenarios

The Group uses other metrics in addition to VaR, giving it greater control over the risks it faces in the markets where it is active. These measures include scenario analysis. This consists of defining alternative behaviours for various financial variables and obtaining the impact on results of applying these to activities. These scenarios may replicate events that occurred in the past (such as a crisis) or determine plausible alternatives that are unrelated to past events.

The potential impact on earnings of applying different stress scenarios is regularly calculated and analysed, particularly for trading portfolios, considering the same risk factor assumptions. Three scenarios are defined, as a minimum: plausible, severe and extreme. Taken together with VaR, these reveal a much more complete spectrum of the risk profile.

A number of trigger thresholds have also been established for global scenarios, based on their historical results and the capital associated with the portfolio in question. When these triggers are activated, the portfolio managers are notified so they can take appropriate action. The results of the global stress exercises, and any breaches of the trigger thresholds, are reviewed regularly, and reported to senior management, when this is considered appropriate.

D.2.2.2.4. Analysis of positions, sensitivities and results

Positions are used to quantify the net volume of the market securities for the transactions in the portfolio, grouped by main risk factor, considering the delta value of any futures or options. All risk positions can be expressed in the base currency of the unit and the currency used for standardising information. Changes in positions are monitored on a daily basis to detect any incidents, so they can be corrected immediately.

Measurements of market risk sensitivity estimate the variation (sensitivity) of the market value of an instrument or portfolio to any change in a risk factor. The sensitivity of the value of an instrument to changes in market factors can be obtained using

29. According to the financial literature, subaddivity is a desirable property for a coherent risk metric. This property establishes that f(a+b) is less than or equal to f(a)+f(b). Intuitively, it assumes that the more instruments and risk factors there are in a portfolio, the lower the risks, because of the benefits of diversification. Whilst VaR only offers this property for some distributions, ES always does so.Fundamental review of the trading book: a revised market risk framework (Basel Committee consultation document on banking supervision, October 2013).

30. Fundamental review of the trading book: a revised market risk framework (Consultative document of the Basel Committee on banking supervision, October 2013).

analytical approximations by partial derivatives or by complete revaluation of the portfolio.

In addition, the statement of income is also drawn up every day, providing an excellent indicator of risk, enabling us to identify the impact of changes in financial variables on the portfolios.

D.2.2.2.5. Derivatives activities and credit management

Also noteworthy is the control of derivative activities and credit management which, because of its atypical nature, is conducted daily with specific measures. First, the sensitivities to price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) are controlled. Second, measures such as the sensitivity to the spread, jump-to-default, concentrations of positions by level of rating, etc, are reviewed systematically.

With regard to the credit risk inherent to trading portfolios, and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, a further metric is also calculated: the Incremental Risk Charge (IRC). This seeks to cover the risks of non-compliance and ratings migration that are not adequately captured in VaR, through changes in the corresponding credit spreads. This metric is basically applied to fixed-income bonds, both public and private, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset backed securities, etc.). IRC is calculated using direct measurements of loss distribution tails at an appropriate percentile (99.9%), over a one year horizon. The Monte Carlo methodology is used, applying one million simulations.

D.2.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)

Grupo Santander incorporates credit valuation adjustment (CVA) and debt valuation adjustment (DVA) when calculating the results of trading portfolios. The CVA is a valuation adjustment of over the-counter (OTC) derivatives, as a result of the risk associated with the credit exposure assumed by each counterparty.

The **CVA is calculated** by taking into account the potential exposure with each counterparty in each future maturity. The CVA for a particular counterparty is therefore the sum of the CVAs over all such future terms. The following inputs are used:

- Expected exposure: including, for each operation the current market value (MtM) as well as the potential future risk (add-on) to each maturity. CVA also considers mitigating factors such as collateral and netting agreements, together with a decay factor for derivatives with interim payments.

- Severity: the percentage of final loss assumed in case of credit/ non-payment of the counterparty.

- Probability of default: for cases in which there is no market information (spread curve traded through CDS, etc.), general proxies generated on the basis of companies with listed CDS of the same sector and external rating as the counterparty are used.

- Discount factor curve.

The Debt Valuation Adjustment (DVA) is a valuation adjustment similar to the CVA, but in this case as a result of Grupo Santander's risk that counterparties assume in OTC derivatives.

D.2.2.3. System for controlling limits

Setting market risk and liquidity limits is designed as a dynamic process which responds to the Group's risk appetite level (described in section B.3.1. Risk appetite and structure of limits). This process is part of an annual limits plan drawn up by the Group's senior management, involving every Group entity.

The market risk limits used in Grupo Santander are established based on different metrics and try to cover all activity subject to market risk from many perspectives, applying a conservative approach. The main ones are:

- VaR limits.

- Limits of equivalent and/or nominal positions.

- Interest rate sensitivity limits

- Vega limits.

- Delivery risk limits for short positions in securities (fixed income and securities).

- Limits to constrain the volume of effective losses, and protect results generated during the period:

  - *Loss trigger.*

  - *Stop loss.*

- Credit limits:

  - Total exposure limit.

  - Jump to default by issuer limit.

  - Others.

- Limits for origination transactions.

These general limits are complemented by other sub-limits to establish a sufficiently granular limits framework for effective control of the market risk factors to which the Group is exposed in its trading activities. Positions are monitored on a daily basis, at both the unit and global levels, with exhaustive control of changes to portfolios, so as to identify any incidents that might need immediate correction. Meanwhile, the daily drawing up of the income statement by the risks area is an excellent indicator of risks, as it allows the impact that changes in financial variables have had on portfolios to be identified.

Implementation of the Volcker Rule throughout the Group in July 2015 required activities to be reorganised to ensure compliance with this new regulation, the preparation of new metrics and the definition of limits at the desk level.

Three categories of limits were established based on the scope of approval and control: global approval and control limits, global approval limits with local control, and local approval and control limits. The limits are requested by the business executive of each country/entity, considering the particular nature of the business and so as to achieve the budget established, seeking consistency between the limits and the risk/return ratio. The limits are approved by the corresponding risk bodies.

Business units must comply with the approved limits at all times. In the event of a limit being exceeded, the local business executives have to explain, in writing and on the day, the reasons for the excess and the action plan to correct the situation, which in general might consist of reducing the position until it reaches the prevailing limits or setting out the strategy that justifies an increase in the limits.

If the business unit fails to respond to the excess within three days, the global business executives will be asked to set out the measures to be taken in order to make the adjustment to the existing limits. If this situation lasts for 10 days as of the first excess, senior risk management will be informed so that a decision can be taken: the risk takers could be made to reduce the levels of risk assumed.

D.2.3. Structural balance sheet risks[31]

D.2.3.1. Main figures and trends

The market risk profile inherent in Grupo Santander's balance sheet, in relation to its asset volumes and shareholders' funds, as well as the budgeted financial margin, remained moderate in 2015, in line with previous years.

D.2.3.1.1. Structural interest rate risk

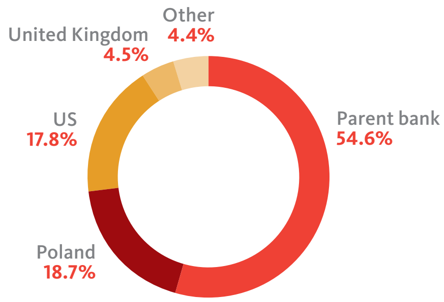
Europe and the United States

Against a backdrop of low interest rates, the main balance sheets in mature markets - the parent bank, the UK and the US - show positive economic value and net interest income sensitivities to interest rate rises.

Exposure levels in all countries are moderate in relation to the annual budget and equity levels.

At December 2015, net interest income risk at one year, measured as sensitivity to parallel changes of ±100 basis points, was concentrated in the yield curve for the euro, at EUR 257 million, the Polish zloty, at EUR 83 million, and the US dollar, at EUR 78 million, all relating to risks of rate cuts.

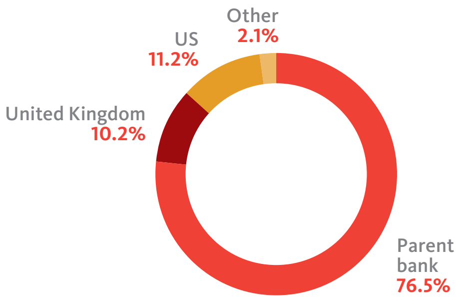
Net interest income (NII) sensitivity[32]
% of total



Other: Portugal and SCF.

At the same date, the most relevant risk to the economic value of equity, measured as its sensitivity to parallel changes in the yield curve of ±100 basis points was in the euro interest rate curve, at EUR 3,897 million, for the risk of rate cuts. The amounts at risk for the dollar and sterling curves were EUR 691 million and EUR 488 million, respectively, also for rate cuts. These scenarios are extremely unlikely in practice at present.

Economic value of equity (EVE) sensitivity[33]
% of total



Other: Poland, Portugal and SCF.

The following tables set out the interest-rate risk of the balance sheets of the parent bank and Santander UK by maturity, at the end of 2015.

31. This includes the whole balance sheet with the exception of trading portfolios.
32. Sensitivity to the worst-case scenario between +100 and -100 basis points.
33. Sensitivity to the worst-case scenario between +100 and -100 basis points.

Parent bank: Interest rate repricing gap[34]

Million euros. 31 December 2015

	Total	3 months	1 year	3 years	5 years	>5 years	Not sensitive
Assets	406,911	163,194	74,166	15,330	16,622	24,750	112,849
Liabilities	433,522	151,763	51,924	78,622	24,389	49,350	77,473
Off balance sheet	26,611	29,194	(1,607)	6,857	1,291	(9,124)	0
Net gap	**0**	**40,626**	**20,635**	**(56,435)**	**(6,477)**	**(33,725)**	**35,376**

Santander UK: Interest rate repricing gap[35]

Million euros. 31 December 2015

	Total	3 months	1 year	3 years	5 years	>5 years	Not sensitive
Assets	354,986	189,895	35,303	67,239	26,452	13,757	22,340
Liabilities	353,850	203,616	31,591	29,027	19,161	33,939	36,516
Off balance sheet	(1,137)	(25,363)	1,736	14,713	(1,653)	9,430	0
Net gap	**0**	**(39,083)**	**5,448**	**52,925**	**5,638**	**(10,752)**	**(14,176)**

In general, the gaps by maturities are kept at reasonable levels in relation to the size of the balance sheet.

Latin America

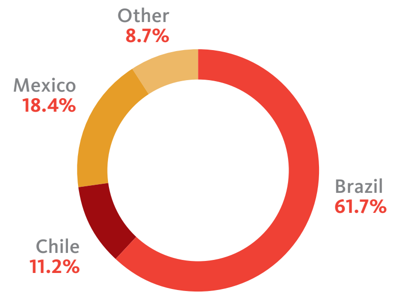
Latin American balance sheets are positioned for interest rate cuts for both economic value and net interest income, except for net interest income in Mexico, where excess liquidity is invested in the short term in the local currency.

In 2015, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

At the end of the year, net interest income risk over one year, measured as sensitivity to parallel ± 100 basis point movements, was concentrated in three countries, Brazil (EUR 124 million), Mexico (EUR 37 million) and Chile (EUR 23 million), as shown in the chart below.

Net interest income (NII) sensitivity[36]

% of total

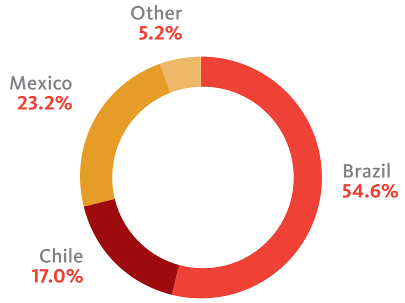


Other: Argentina, Uruguay and Peru.

Risk to the value of equity over one year, measured as sensitivity to parallel ± 100 basis point movements, was also concentrated in Brazil (EUR 425 million), Mexico (EUR 180 million) and Chile (EUR 132 million).

Economic value of equity (EVE) sensitivity[37]

% of total



Other: Argentina, Uruguay and Peru.

34. Aggregate gap for all currencies on the balance sheet of the parent bank unit, in euros.
35. Aggregate gap for all currencies on the balance sheet of the Santander UK unit, in euros.
36. Sensitivity to the worst-case scenario between +100 and -100 basis points.
37. Sensitivity to the worst-case scenario between +100 and -100 basis points.

The table below shows the interest-rate risk maturity structure of the Brazil balance sheet in December 2015.

Brazil: Interest rate repricing gap[38]

Million euros. 31 December 2015

	Total	3 months	1 year	3 years	5 years	>5 years	Not sensitive
Assets	160,088	79,089	21,096	17,908	4,510	12,731	24,754
Liabilities	160,088	108,719	7,818	7,526	4,257	4,303	27,464
Off balance sheet	0	(20,886)	14,613	2,863	783	1,679	948
Net gap	**0**	**(50,516)**	**27,890**	**13,246**	**1,036**	**10,106**	**(1,762)**

Balance sheet structural interest rate VaR

In addition to sensitivities to interest rate movements (in which, assessments of ±100 bp movements are supplemented by assessments of ±25 bp, ±50 bp and ±75 bp movements to give a fuller understanding of risk in countries with very low rates), Santander also uses other methods to monitor structural balance sheet risk from interest rates: these include scenario analysis and VaR calculations, applying a similar methodology to that for trading portfolios.

The table below shows the average, minimum, maximum and year-end values of the VaR of structural interest rate risk over the last three years:

Balance sheet structural interest rate risk (VaR)

Million euros. VaR at a 99% confidence interval over a one day horizon.

	2015			
	Minimum	**Average**	**Maximum**	**Latest**
Structural interest rate VaR*	**250.5**	**350.0**	**775.7**	**264.2**
Diversification effect	(90.8)	(181.1)	(310.7)	(189.1)
Europe and US	171.2	275.2	777.0	210.8
Latin America	170.1	255.9	309.3	242.6

* Includes credit spread VaR on ALCO portfolios.

	2014			
	Minimum	**Average**	**Maximum**	**Latest**
Structural interest rate VaR*	**411.3**	**539.0**	**698.0**	**493.6**
Diversification effect	(109.2)	(160.4)	(236.2)	(148.7)
Europe and US	412.9	523.0	704.9	412.9
Latin America	107.6	176.4	229.4	229.4

* Includes credit spread VaR on ALCO portfolios.

	2013			
	Minimum	**Average**	**Maximum**	**Latest**
Structural interest rate VaR*	**580.6**	**782.5**	**931.0**	**681.0**
Diversification effect	(142.3)	(164.7)	(182.0)	(150.3)
Europe and US	607.7	792.5	922.0	670.0
Latin America	115.2	154.6	191.0	161.3

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk measured in terms of VaR at a 99% confidence interval over a one year horizon averaged EUR 350 million in 2015. Of note is the wide diversification between the balance sheets in Europe and the United States on the one hand and those in Latin America on the other, as is the reduction in VaR in Europe and the USA.

D.2.3.1.2. Structural exchange-rate risk/Hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and hedging of these investments.

This management is dynamic and seeks to limit the impact on the core capital ratio of movements in exchange rates[39]. In 2015, hedging levels of the core capital ratio for exchange rate risk were maintained at around 100%.

At the end of 2015, the largest exposures of permanent investments (with their potential impact on equity) were, in order, in pounds sterling, US dollars, Brazilian reais, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions of a permanent nature with exchange-rate derivatives.

In addition, the Financial Management area is responsible for managing exchange-rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

D.2.3.1.3. Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as available for sale portfolios (capital instruments) or as equity stakes, depending on their envisaged time in the portfolio.

The equity portfolio of the banking book at the end of 2015 was diversified in securities in various countries, mainly Spain, the USA, China, Brazil and the Netherlands. Most of the portfolio is invested in the financial and insurance sectors; other sectors, to a lesser extent, are professional, scientific and technical activities, public administrations (stake in Sareb), manufacturing industry, the transport sector and warehousing.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. At the end of December 2015, the VaR at 99% with a one day time frame was EUR 208.1 million (EUR 208.5 and EUR 235.3 million at the end of December 2014 and 2013, respectively).

38. Aggregate gap for all currencies on the balance sheet of the Brazil unit, in euros.
39. In early 2015, the criteria for coverage of the core capital ratio was changed from phase-in to fully loaded.

D.2.3.1.4. Structural VaR
A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of Santander Global Corporate Banking (the VaR for this activity is described in section D.2.2.1.1. VaR analysis) distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rates and equities.

In general, structural VaR is not high in terms of the Group's volume of assets or equity.

Structural VaR
Million euros. VaR at a 99% confidence interval over a one day horizon

	2015				2014		2013	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
VaR estructural	**561.6**	**698.5**	**883.5**	**710.2**	**718.6**	**809.8**	**857.6**	**733.9**
Diversification effect	(325.7)	(509.3)	(1.042.6)	(419.2)	(364.1)	(426.1)	(448.3)	(380.2)
VaR Interest rate*	250.5	350.0	775.7	264.2	539.0	493.6	782.5	681.0
VaR exchange rate	428.7	634.7	908.6	657.1	315.3	533.8	254.5	197.8
VaR equities	208.1	223.2	241.8	208.1	228.4	208.5	269.0	235.3

* Includes credit spread VaR on ALCO portfolios.

D.2.3.2. Methodologies

D.2.3.2.1. Structural interest rate risk
The Group analyses the sensitivity of its net interest income and equity value to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

The financial measures to adjust the positioning to that desired by the Group are agreed on the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, the sensitivity of net interest income and of equity value to changes in interest rate levels, the duration of equity and Value at Risk (VaR), for the purposes of calculating economic capital.

Interest rate gap of assets and liabilities
This is the basic concept for identifying the entity's interest rate risk profile and measuring the difference between the volume of sensitive assets and liabilities on and off the balance sheet that reprice (i.e. that mature or are subject to rate revisions) at certain times (buckets). This provides an immediate approximation of the sensitivity of the entity's balance sheet and its net interest income and equity value to changes in interest rates.

Net interest income (NII) sensitivity
This is a key measure of the profitability of balance sheet management. It is calculated as the difference in the net interest income resulting from a parallel movement in interest rates over a particular period. The standard period for measuring net interest income sensitivity is one year.

Economic value of equity (EVE) sensitivity
This measures the interest rate risk implicit in equity value - which for the purposes of interest rate risk is defined as the difference between the net current value of assets and the net current value of liabilities outstanding - based on the impact that a change in interest rates would have on these values.

Treatment of liabilities without defined maturity
In the corporate model, the total volume of the balances of accounts without maturity is divided between stable and unstable balances. This separation between stable and unstable balances is obtained from a model that is based on the relation between balances and their own moving averages.

From this simplified model, the monthly cash flows are obtained and used to calculate NII and EVE sensitivities.

This model requires a variety of inputs:

- Parameters inherent in the product.
- Performance parameters of the client (in this case analysis of historic data is combined with the expert business view)
- Market data
- Historic data of the portfolio.

Pre-payment treatment for certain assets
The pre-payment issue mainly affects fixed-rate mortgages in units where the relevant interest rate curves for the balance sheet are at low levels. This risk is modelled in these units, and this can also be applied, with some modifications, to assets without defined maturity (credit card businesses and similar).

The usual techniques used to value options cannot be applied directly because of the complexity of the factors that determine borrower pre-payments. As a result, the models for assessing options must be combined with empirical statistical models that seek to capture pre-payment performance. Some of the factors conditioning this performance are:

- **Interest rate:** the differential between the fixed rate on the mortgage and the market rate at which it could be refinanced, net of cancellation and opening costs.
- **Seasoning:** pre-payment tends to be low at the start of the instruments life cycle (signing of the contract) and grow and stabilize as time passes.
- **Seasonality:** redemptions or early cancellations tend to take place at specific dates.
- **Burnout:** decreasing trend in the speed of pre-payment as the instrument's maturity approaches, which includes:

a) *Age:* defines low rates of pre-payment.

b) *Cash pooling*, defines as more stable those loans that have already overcome various waves of interest rate falls. In other words, when a portfolio of loans has passed one or more cycles of downward rates and thus high levels of pre-payment, the 'surviving' loans have a significantly lower pre-payment probability.

c) Others: geographic mobility, demographic, social and available income factors, etc.

The series of econometric relations that seek to capture the impact of all these factors is the probability of pre-payment of a loan or pool of loans and is denominated the pre-payment model.

Value at Risk (VaR)
For balance sheet activity and investment portfolios, this is defined as the 99% percentile of the distribution function of losses in equity value, calculated based on the current market value of positions and returns over the last two years, at a particular level of statistical confidence over a certain time horizon. As with trading portfolios, a time frame of two years or at least 520 days from the reference date of the VaR calculation is used.

D.2.3.2.2. Structural exchange-rate risk/Hedging of results
These activities are monitored via position measurements, VaR and results, on a daily basis.

D.2.3.2.3. Structural equity risk
These activities are monitored via position measurements, VaR and results, on a monthly basis.

D.2.3.3. System for controlling limits
As already stated for the market risk of trading, under the framework of the annual limits plan, limits are set for balance sheet structural risks, responding to Grupo Santander's risk appetite level.

The main ones are:

- Balance sheet structural interest rate risk
  - Limit on the sensitivity of net interest income to one year.
  - Limit of the sensitivity of equity value.
- Structural exchange rate risk:
  - Net position in each currency (for hedging positions of results).

In the event of exceeding one of these limits or their sub limits, the relevant risk management executives must explain the reasons and facilitate the measures to correct it.

D.2.4. Pension and actuarial risks

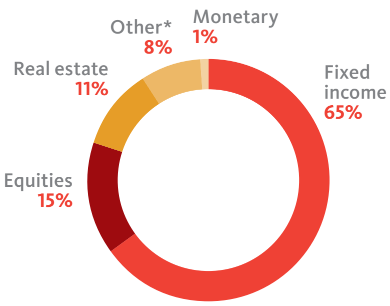
D.2.4.1. Pension risk
When managing the pension fund risks of employees (defined benefit), the Group assumes the financial, market, credit and liquidity risks it incurs for the assets and investment of the fund, as well as the actuarial risks derived from the liabilities, and the responsibilities for pensions to its employees.

The Group's objective in the sphere of controlling and managing pension risk focuses on identifying, measuring, monitoring, mitigating and communicating this risk. The Group's priority is thus to identify and mitigate all the focuses of risk.

This is why the methodology used by Grupo Santander estimates every year the combined losses in assets and liabilities in a defined stress scenario from changes in interest rates, inflation, stocks markets and properties, as well as credit and operational risk.

Main figures
The main figures for the pension funds of employees with defined contribution plans are set out in note 25 of the Group's auditor's report and annual consolidated financial statements, which report the details and movements of provisions for pensions, as well as the main hypotheses used to calculate the actuarial risk and the risk of the fund, including changes in the value of assets and liabilities and details of the investment portfolios assigned to them.

The investor profile of the aggregated portfolio of employees' pension funds is medium-low risk, as around 65% of the total portfolio is invested in fixed-income assets, as set out in the following chart:



* Includes positions in hedge funds, private equity and derivatives
Figures as of 31 December 2015

D.2.4.2. Actuarial risk

Actuarial risk is produced by biometric changes in the life expectancy of those with life assurance, from the unexpected increase in the indemnity envisaged in non-life insurance and, in any case, from unexpected changes in the performance of insurance takers in the exercise of the options envisaged in the contracts.

The following are actuarial risks:

Risk of life liability: risk of loss in the value of life assurance liabilities caused by fluctuations in risk factors that affect these liabilities:

- **Mortality/longevity risk**: risk of loss from movements in the value of the liabilities deriving from changes in the estimation of the probability of death/survival of those insured.
- **Morbidity risk**: risk of the loss from movements in the value of the liabilities deriving from changes in estimating the probability of disability/incapacity of those insured.
- **Redemption/fall risk**: risk of loss from movements in the value of the liabilities as a result of the early cancellation of the contract, of changes in the exercise of the right of redemption by the insurance holders, as well as options of extraordinary contribution and/or suspending contributions.
- **Risk of costs**: risk of loss from changes in the value of the liabilities derived from negative variances in envisaged costs.
- **Catastrophe risk**: losses caused by catastrophic events that increase the entity's life liability.

Risk of non-life liability: risk of loss from the change in the value of the non-life insurance liability caused by fluctuations in risk factors that affect these liabilities:

- **Premium risk**: loss derived from the insufficiency of premiums to cover the disasters that might occur.
- **Reserve risk**: loss derived from the insufficiency of reserves for disasters, already incurred but not settled, including costs from management of these disasters.
- **Catastrophe risk**: losses caused by catastrophic events that increase the entity's non-life liability.

Main figures

In the case of Grupo Santander, actuarial risk embraces the activity of the Group's fully-owned subsidiaries, which are subject not only to risk of an actuarial nature, but whose activity is also impacted by the other financial, non-financial and transversal risks defined by the Group.

As of 31 December 2015, the volume of assets managed by the companies in Spain and Portugal that belong 100% to Grupo Santander amounted to EUR 25,956 million, of which EUR 21,444 million relates directly to commitments with insurance holders, as follows:

- EUR 14,663 million are commitments guaranteed (wholly or partly) by the companies themselves.
- EUR 6,781 million are commitments where the risks are assumed by the insurance holders.

D.3. Liquidity risk and funding

Structure of this section

Following an **introduction** to the concept of liquidity risk and funding in Grupo Santander [pag. 250], we present the **liquidity management framework** put in place by the Group, including monitoring and control of liquidity risk [pag. 250-254].

We then look at the **funding strategy** developed by the Group and its subsidiaries over the last few years [pag. 254-256], with particular attention to the **evolution of liquidity in 2015.** For the last year, we examine changes in the liquidity management ratios and the business and market trends that gave rise to these [pag. 256-260].

The section ends with a qualitative description of the **prospects** for funding for the next year for the Group and its main countries [pag. 260].

D.3.1. Introduction to the treatment of liquidity risk and funding

- Santander has developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in its main units, even during stress in the markets.
- In the last few years, as a result of the economic and regulatory changes arising from the global economic and financial crisis, it has been necessary to adapt the funding strategies to new commercial business trends, market conditions and new regulatory requirements.
- In 2015, Santander continued to improve in specific aspects based on a very comfortable liquidity position at the level of the Group and in the subsidiaries, with no significant changes in liquidity management or funding policies or practices. All of this enables us to face 2016 from a good starting point, with no restrictions on growth.

Liquidity management and funding have always been basic elements in Banco Santander's business strategy and a fundamental pillar, together with capital, in supporting its balance sheet strength.

The Group adopts a decentralised funding model, based on autonomous subsidiaries that are self-sufficient in their liquidity needs. Each subsidiary is responsible for covering the liquidity needs of its current and future activity, either through deposits captured from its customers in its area of influence or through recourse to the wholesale markets in which it operates, within a management and supervision framework coordinated at the Group level.

The funding structure has shown its great effectiveness in situations of high levels of market stress, as it prevents the difficulties of one area from affecting the funding capacity of other areas, and thus of the Group as a whole, as could happen in the case of a centralised funding model.

Moreover, at Grupo Santander this funding structure benefits from the advantages of a solid retail banking model with a significant presence in ten high potential markets, focused on retail clients and high efficiency. All of this gives our subsidiaries substantial capacity to attract stable deposits, as well as a strong issuance capacity in the wholesale markets of these countries, generally in their own currency, backed by the strength of their franchise and belonging to a leading group.

D.3.2. Liquidity management

Management of structural liquidity aims to fund the Group's recurring activity in optimum conditions of maturity and cost, avoiding the assumption of undesired liquidity risks.

Santander's **liquidity management** is based on the following principles:

- **Decentralised liquidity model.**
- **Needs** derived from **medium-** and **long-term** activity must be **financed** by **medium-** and **long -term instruments.**
- **High contribution from customer deposits,** derived from the retail nature of the balance sheet.
- **Diversification of wholesale funding sources** by instruments/ investors, markets/currencies and terms.
- **Limited recourse to wholesale short-term funding.**

- **Availability of sufficient liquidity reserves,** including the discounting capacity in central banks to be used in adverse situations.

- **Compliance with regulatory liquidity requirements** required at Group and subsidiary level, as a new conditioning factor in management.

The effective application of these principles by all the institutions that comprise the Group required the development of a unique **management framework** built upon three essential pillars:

- A solid organisational and governance model that ensures the involvement of the senior management of subsidiaries in decision-taking and its integration into the Group's global strategy.

- In-depth balance sheet analysis and measurement of liquidity risk, supporting decision-taking and its control.

- Management adapted in practice to the liquidity needs of each business.

D.3.2.1. Organisational model and governance

The decision-making process for all structural risks, including liquidity and funding risk, is carried out by local asset and liability committees (ALCO) in coordination with the global ALCO.

The global ALCO is the body empowered by Banco Santander's board to coordinate asset and liability management (ALM) throughout the Group, including liquidity and funding management, which is conducted via the local ALCOs and in accordance with the corporate ALM framework.

This body is chaired by the Bank's executive chairman and comprises an executive vice-chairman (who is, in turn, chairman of the executive risk committee), the chief executive officer, the chief financial officer, the senior executive vice president for risk and other senior executives responsible for the business and analysis units who provide advice.

In line with these principles and the ALM corporate framework, the function of liquidity and funding management is supported by:

- The **board of directors,** as the highest body responsible for management of the Group.

- The **local ALCO committees,** which define at each moment the objective liquidity positioning and strategies to ensure and/or anticipate the funding needs of their business, always within the risk appetite set by the board and regulatory requirements.

- The **global ALCO committee,** which conducts the parent bank's ALM management, as well as coordinating and monitoring the function in the Group's other units.

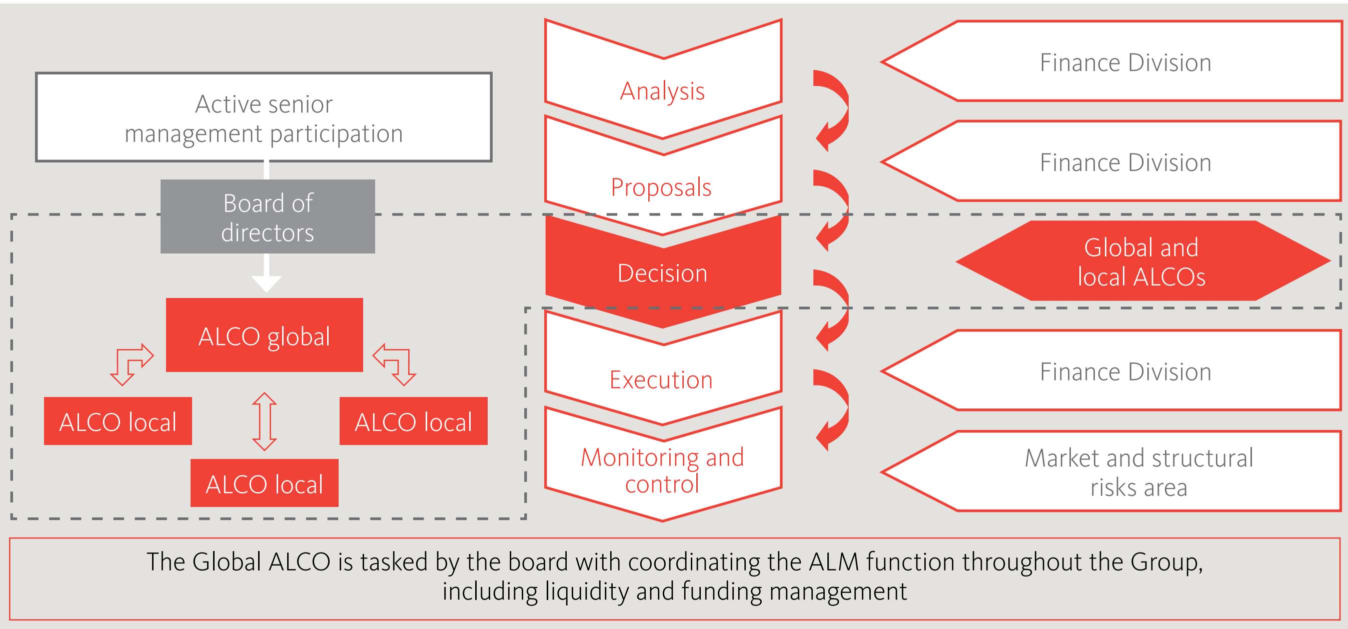
- The **Financial Management** area, which manages on a day to day basis, conducting analysis, proposing strategies and carrying out the measures adopted within the positioning defined by the ALCOs.

- The **Market Risk** area, responsible for on-going monitoring and control of compliance with the limits established. This independent control function is completed a posteriori by regular reviews conducted by Internal Audit.

- All of this supported by an independent **Operations area** that guarantees the integrity and quality of the information used for managing and controlling liquidity.

Governance-Grupo Santander: liquidity and funding risk

Decision making structure and functions



This governance model has been strengthened over the last few years by being integrated into a more global vision of the Group's risks: **Santander's risk appetite framework.** This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

The liquidity risk profile and appetite aims to reflect the Group's strategy for developing its businesses, which consists of structuring the balance sheet in the most resistant way possible to potential liquidity stress scenarios Liquidity appetite metrics have been put in place that reflect the application of the principles of the Group's liquidity management model at the individual level, with specific levels for the structural funding ratio and minimum liquidity horizons under various stress scenarios, as indicated in the following sections.

In parallel, analysis is being carried out of a range of scenarios to consider the additional needs that might arise in the face of various events with very serious features, even if their probability of occurrence is very low. These could affect various balance sheet items and sources of funding in different ways (renewal of wholesale funding, outflows of deposits, impairment of liquid assets, etc), whether through conditions in global markets or specific to the Group.

Over the next few years, the metrics used in the liquidity risk appetite framework will be enhanced with the incorporation of those monitored and controlled by the financial management area at Group level and the main units, be they regulatory metrics or of any other type.

The new metrics used in 2015 were the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR). The former measures the relationship between structural funding sources and needs, whilst the latter is a regulatory ratio that measures the strength of a bank in the face of a short-term (30 day) liquidity crisis, through its high-quality liquid assets.

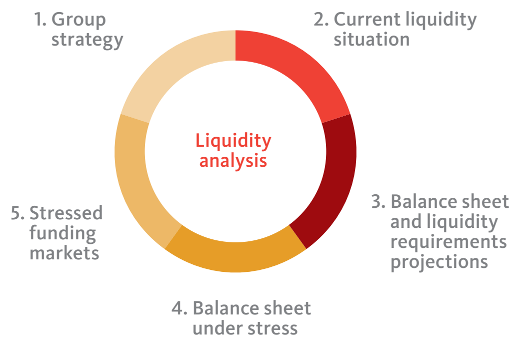
D.3.2.2. Balance sheet analysis and measurement of liquidity risk

Decision-making on liquidity and funding is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and state of liquidity), of the future liquidity needs of the various units and businesses (projection of liquidity), as well as access to and the situation of funding sources in the wholesale markets.

The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs with stable funding sources, optimising the impact of its cost on the income statement.

This requires monitoring of the structure of balance sheets, forecasting short and medium-term liquidity and establishing the basic metrics.

Balance sheet analysis and measurement of liquidity risk



The inputs for drawing up the Group's various contingency plans are obtained from the results of the analysis of balance sheets, forecasts and scenarios, which, in turn, enable a whole spectrum of potential adverse circumstances to be anticipated.

All these actions are in line with the practices being fostered by the Basel Committee and the various regulators (in the European Union, the European Banking Authority) to strengthen the liquidity of banks. Their objective is to define a framework of principles and metrics that, in some cases, are close to being implemented and, in others, still being developed.

The first **ILAAP (Internal Liquidity Adequacy Assessment Process)** was carried out in 2015. This comprises an internal self-assessment process of the adequacy of liquidity, which must be integrated into the Group's other risk management and strategic processes. The ILAAP addresses both quantitative and qualitative aspects. All of the Group's units have maintained robust liquidity levels, in both the baseline scenario and under potential stress scenarios. Although our supervisor (SSM) did not require us to undertake this exercise in 2015, it did use it as in input in the SREP (Supervisory Review and Evaluation Process) and for Pillar II requirements.

The content of the ILAAP largely shares the liquidity management structure we have been developing over recent years. It includes a qualitative block, which describes our business model, the organisation of our subsidiaries, the organisation of our liquidity management, the controls put in place, and governance and reporting to the governance bodies. The qualitative block analyses liquidity through metrics criteria and stress scenarios, at both the group and subsidiary level. The methodology used by the Group in this analysis over recent years is set out in the following sections.

Fuller details on the measures, metrics and analysis used by the Group and its subsidiaries to manage and control liquidity risk are set out below:

Methodology for monitoring and controlling liquidity risk. The Group's liquidity risk metrics aim to:

- **Achieve greater efficiency** in measuring and controlling liquidity risk.
- **Support financial management,** with measures adapted to the form of managing the Group's liquidity.

- **Alignment with the regulatory requirements** derived from the transposition of Basel III in the European Union, in order to avoid conflicts between limits and facilitate management.

- **Serve as an early warning system,** anticipating potential risk situations by monitoring certain indicators.

- **Achieve the involvement of countries.** The metrics are developed on the basis of common and homogeneous concepts that affect liquidity, but they require analysis and adaptation by each unit.

There are two types of basic metrics used to control liquidity risk: short term and structural. The first category basically includes the liquidity gap and the second one the balance sheet's net structural position. As an additional element, the Group develops various stress scenarios. Further details of three of these metrics are as follows:

a) Liquidity gap

The liquidity gap provides information on the potential cash inflows and outflows, both contractual and estimated, over a certain period of time by applying certain hypotheses. The liquidity gap is drawn up for each of the main entities and each of the main currencies in which the Group operates.

In practice, and given the different performances of a particular item in the Group's subsidiaries, there are common standards and methodologies to homogenize the construction of the liquidity risk profiles for each unit, so they can be presented in a comparable way to the Bank's senior management.

As a result, and given that this analysis must be conducted at the individual level of each subsidiary for its autonomous management, a consolidated view of the Group's liquidity gaps is of very limited use for managing and understanding liquidity risk. Of note in the various analyses made using the liquidity gap is that for wholesale funding. On the basis of this analysis, a metric has been defined to guarantee that sufficient liquid assets are maintained in order to attain a minimum liquidity horizon, under the assumption of non-renewal of wholesale funding at maturity.

The minimum liquidity horizons are determined in a corporate and homogeneous way for all units/countries, which must calculate their wholesale liquidity metric in the main currencies in which they operate.

Bearing in mind the market tensions in the last few years of global crisis, this wholesale liquidity gap has been closely monitored in the parent bank and in the euro zone units.

At the end of 2015, all units were in a comfortable position in the horizons established at the corporate level for this scenario.

b) Net structural position

The objective of this metric is to determine the reasonableness of the funding structure of the balance sheet. The Group's criterion is to ensure that the structural needs (lending, fixed assets, etc) are covered by an adequate combination of wholesale sources and a stable base of retail deposits, to which is added capital and other permanent liabilities.

Each unit draws up its liquidity balance sheet in accordance with the features of their businesses and compares them with the various funding sources they have. This determines the funding structure that must be met at all times with a key premise: basic businesses must be financed with stable funds and medium- and long-term funding. All of this guarantees the Bank's sound financial structure and the sustainability of its business plans.

At the end of 2015, the Group had a structural liquidity surplus of more than EUR 149,000 million, equivalent to 14% of net liabilities (vs. 15% of net liabilities in 2014).

c) Analysis of scenarios

As an additional element to these metrics, the Group develops various stress scenarios. The main objective of these is to identify the critical aspects of potential crises and define the most appropriate management measures to tackle each of these situations.

Generally speaking, the units take into account three scenarios in their liquidity analysis: idiosyncratic, local systemic and global systemic. These scenarios are the minimum standard analysis established for all the Group's units for reporting to senior management. Each of the units also develops ad hoc scenarios that replicate significant historic crises or specific liquidity risks in their environment.

- Idiosyncratic crisis: only affects the Bank but not its environment. This is basically reflected in wholesale funds and in retail deposits, with various percentages of outflows depending on the severity defined.

  This category includes studying a specific crisis scenario affecting a local unit as a result of a crisis in the parent bank, Banco Santander. This scenario was particularly relevant in 2012 because of significant tension in the markets with regard to Spain and other countries on the periphery of the euro zone, a situation amply overcome since then.

- Local systemic crisis: an attack by the international financial markets on the country where the unit is located. Each unit would be affected to varying degrees, depending on its relative position in the local market and the image of soundness it transmits. The factors that would be affected in such a scenario include, for example, wholesale funding because of closure of markets, and liquid assets linked to the country, which would suffer significant falls in their value.

- Global systemic crisis: In this scenario some of the factors mentioned in the scenarios above are stressed, paying particular attention to the most sensitive aspects from the standpoint of the unit's liquidity risk.

An additional combined scenario is also prepared for the parent. This considers extremely severe impacts on both solvency and liquidity, such as, for example, Banco Santander having to face reputational problems caused by mismanagement, powerfully impacting its ability to access liquidity in the market, and assuming these problems occur against a backdrop of a local (i.e. Spain) macroeconomic crisis, further penalising the assets available to the Bank to meet its needs. Consequently, the impacts on assets and liabilities are the result of the most severe combination of the idiosyncratic and local-systemic (Spain) scenarios.

Defining scenarios and calculating metrics under each of them is directly linked to the process of drawing up and executing the liquidity contingency plan, which is the responsibility of the financial management area.

At the end of 2015, and in a scenario of a potential systemic crisis affecting the wholesale funding of units in Spain (following the previously mentioned 2012 scenario), Grupo Santander maintained an adequate liquidity position. The wholesale liquidity metric horizon in Spain (included within the liquidity gap measures) showed levels higher than the minimums established, during which the liquidity reserve would cover all wholesale funding maturities, in the event of them not being renewed.

As well as these three metrics, several other internal and market variables were defined as early warning indicators of possible crises, revealing their nature and severity. Their integration into daily liquidity management enables anticipation of situations that could affect the Group's liquidity risk. Although these alerts vary from country to country and from bank to bank on the basis of specific determinants, some of the parameters used are common to the Group, such as Banco Santander's CDS level, the evolution of customer deposits and trends in official central bank interest rates.

D.3.2.3. Management adapted to business needs

As already pointed out, Grupo Santander's liquidity management is carried out at the level of subsidiaries and/or business units in order to finance their recurring activities at appropriate prices and maturities. The main balance sheet items related to the Group's business and funding its major business units are as follows:

Main units and balance sheet items
Billion euros. December 2015

	Total assets	Net loans	Deposits	M/LT funding
Spain	327	155	175	57
Portugal	50	28	29	5
Santander Consumer Finance	89	74	33	18
Poland	29	19	21	0
UK	383	283	232	70
Brazil	139	60	57	20
Mexico	65	30	28	2
Chile	46	32	24	7
Argentina	11	6	8	0
US	131	84	60	37
Group Total	**1,340**	**787**	**678**	**217**

* Customer loans excluding loan-loss provisions.
** Including retail commercial paper in Spain.
*** M/LT issues in markets, securitisations and other collateralised funding in the market and funds taken from FHLB lines. All in their nominal value.

In practice, and in line with the funding principles set out, liquidity management in these units consists of:

- Drawing up a liquidity plan every year, based on the funding needs derived from the budgets of each business and the methodology already described. On the basis of these liquidity needs and taking into account prudent limits on recourse to short-term markets, the Financial Management area establishes an issuance and securitisation plan for the year for each subsidiary/global business.
- Monitoring, throughout the year, the evolution of the balance sheet and of the funding needs of the subsidiaries/businesses that gives rise to updating the plan.
- Monitoring and managing compliance by units with regulatory ratios, as well as overseeing the level of asset encumbrance in each unit's funding, from both the structural standpoint and the component with the shortest maturity.
- Maintaining an active presence in a large number of wholesale funding markets that enables an appropriate structure of issues to be sustained, diversified by products and with a conservative average maturity.

The effectiveness of this management at Group level is based on implementation in all subsidiaries. Each subsidiary budgets its liquidity needs based on their intermediation activity and assesses its capacity to access wholesale markets in order to establish an issuance and securitisation plan, in coordination with the Group.

Traditionally, the Group's main subsidiaries have been self-sufficient as regards their structural financing. The exception is Santander Consumer Finance (SCF) which needs the support of other Group units, particularly that of Banco Santander, S.A., given its nature as a consumer finance specialist operating mainly via dealers.

This support –always at market prices based on maturity and the internal rating of the borrowing unit– has been on a sustained downward trend and currently relates almost entirely to the needs of new portfolios and business units incorporated in the context of the agreement with Banque PSA Finance. In 2016, this requirement for greater financial support from the Group will continue, as there are no more units to incorporate. Over the medium term, the development of wholesale funding capacity in the new units, as required by the Santander model, will enable this support to be reduced.

D.3.3. Funding strategy and evolution of liquidity in 2015

D.3.3.1. Funding strategy

Santander's funding activity over the last few years has focused on extending its management model to all Group subsidiaries, including new incorporations, and, in particular, adapting the strategies of the subsidiaries to the increasingly demanding requirements of both markets and regulators. These requirements have not been the same for all markets and reached much higher levels of difficulty and pressure in some areas, such as on the periphery of Europe.

It is possible, however, to extract a series of **general trends** implemented by Santander's subsidiaries in their funding and liquidity management strategies **since** the **beginning of the crisis.** These are the following:

- **Maintaining adequate and stable medium and long-term wholesale funding levels at the Group level.** This funding represented 21% of the liquidity balance at the end of 2015, similar to the level over recent years, but well below the 28% at the end of 2008, when wholesale liquidity, then more abundant and at lower cost, was yet to suffer the tensions of the crisis.

  In general, this wholesale activity has been modulated in each unit on the basis of regulatory requirements, the generation of internal funds in the business and decisions to hold sufficient liquidity reserves.

- **Ensuring a sufficient volume of assets that can be discounted in central banks as part of the liquidity reserve** (as defined on page 258 of this section) to cater for stress situations in wholesale markets.

  The Group has significantly increased its total discounting capacity in the last few years, from EUR 85,000 million at the end of 2008 to more than EUR 195,000 million at present.

- **Strong liquidity generation from the commercial business through lower credit growth and increased emphasis on attracting customer deposits**

  The changes in the Group's lending over recent years have been the result of reductions in the Spain and Portugal units, caused by rapid deleveraging in those countries, coupled with growth in the bank's other markets, through both expansion of developing units and businesses (the US, Germany, Poland and UK Companies) and sustained business growth in emerging economies (Latin America). Overall, the Group's net loans have increased by EUR 146,000 million since December 2008, an increase of 26%.

  In parallel, the volume of customer deposits has increased by EUR 262,495 million, due to the focus on liquidity during the crisis and the Group's capacity to attract retail deposits through its branches. This represents a 62% increase since December 2008, more than double the increase in net loans over the same period. Deposits have increased in all commercial units, both in deleveraging and growing economies, where they are growing in line with loans.

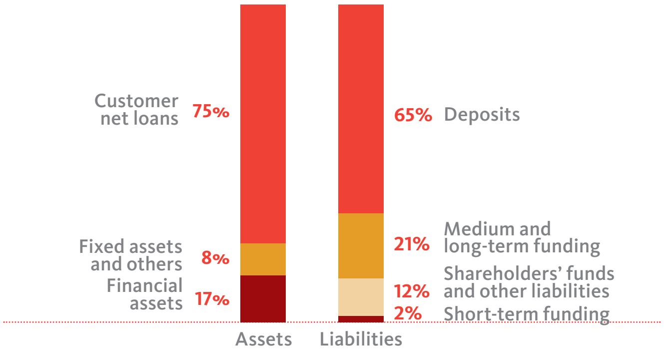
  As in 2014, in 2015 these trends for loans and deposits were interrupted at the Group level. This was caused by, on the one hand, lower deleveraging and recovering production in the economies most affected by the crisis, and, on the other, the focus on reducing liability costs in mature economies with historically low interest rates. As a result the gap between loan and deposit balances has stopped shrinking, and even started to edge upwards slightly over the last two years.

All these developments in businesses and markets, built on the foundations of a solid liquidity management model, enable Santander to enjoy a very robust **funding structure** today. The basic features of this are:

- **High share of customer deposits in a retail banking balance sheet.** Customer deposits are the main source of the Group's funding, representing around two-thirds of the Group's net liabilities (i.e. of the liquidity balance) and 86% of net loans at the end of 2015.

  They are also very stable funds given their origin mainly in business with retail customers (89% of the Group's deposits come from retail and private banks, whilst the remaining 11% come from large corporate and institutional clients).

Grupo Santander liquidity balance sheet*
% December 2015



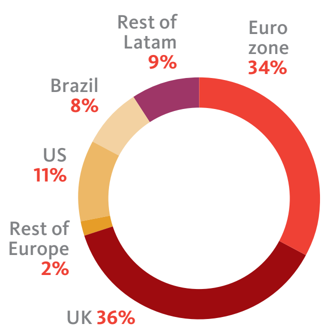
* Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.

- **Diversified wholesale funding focused on the medium and long term, with a very small relative short-term component** Medium and long term wholesale funding accounts for 21% of the Group's net funding and comfortably covers the lending not financed by customer deposits (commercial gap).

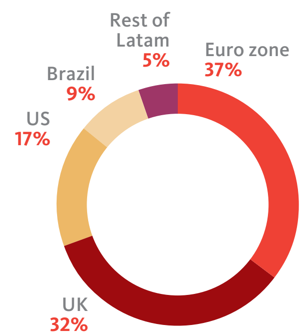
  This funding is well balanced by instruments (approximately 40% senior debt, 30% securitisations and structured products with guarantees, 20% covered bonds, and the rest preferred shares and subordinated debt) and also by markets so that those with the highest weight in issues are those where investor activity is the strongest.

The following charts show the geographic distribution of customer loans in the Group, and its medium and long-term wholesale funding, so that their similarity can be appreciated.

Net customer loans
December 2015



M/LT wholesale funding
December 2015



The bulk of medium and long-term wholesale funding consists of debt issues. Their outstanding balance at the end of 2015 was EUR 149,393 million in nominal terms, with an adequate maturity profile and average maturity of 3.9 years).

The distribution of this by instrument, evolution over the last three years and maturity profile was as follows:

Medium and long-term debt issuances. Grupo Santander
Million euros

	Outstanding balance at nominal value		
	December 2015	December 2014	December 2013
Preferred shares	8,491	7,340	4,376
Subordinated debt	12,262	8,360	10,030
Senior debt	83,630	68,457	60,195
Covered bonds	45,010	56,189	57,188
Total	**149,393**	**140,346**	**132,789**

Distribution by contractual maturity. December 2015*

	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	over 5 years	Total
Preferred shares	0	0	0	0	0	0	0	8,491	8,491
Subordinated debt	0	7	224	1,058	84	1,079	2,178	7,633	12,262
Senior debt	3,337	4,994	4,327	2,902	5,305	21,617	30,636	10,512	83,630
Covered bonds	2,627	1,444	1,458	1,477	1,669	8,714	10,170	17,452	45,010
Total*	**5,964**	**6,444**	**6,008**	**5,438**	**7,058**	**31,410**	**42,984**	**44,087**	**149,393**

* In the case of issues with a put option in favour of the holder, the maturity of the put option is considered instead of the contractual maturity.
Note: there are no additional guarantees for any of the senior debt issued by the Group's subsidiaries.

In addition to debt issues, medium and long-term wholesale funding is completed by securitised bonds placed on the market, and collateralised and other specialist financing amounting to close to EUR 67,508 million, with a maturity of less than two years.

The wholesale funding of short-term issuance programmes is a residual part of the Group's financial structure, accounting for around 2% of net funding, which is related to treasury activities and is comfortably covered by liquid financial assets.

The outstanding balance at the end of 2015 was EUR 24.448 million, mainly captured by the UK unit and the parent bank through existing issuance programmes: various certificate of deposit and commercial paper programmes in the UK, 39%; European commercial paper and US commercial paper and the domestic programmes of the parent bank, 22%, and programmes in other units, 39%.

In short, Santander enjoys a solid financing structure based on an essentially retail banking balance sheet that enables the Grupo Santander to comfortably cover its structural liquidity needs (loans and fixed assets) with permanent structural funds (deposits, medium and long-term funding and equity), giving rise to a large surplus in structural liquidity.

D.3.3.2. Evolution of liquidity in 2015

The key aspects at the level of Group liquidity in 2015 were:

- **Comfortable liquidity ratios,** backed by balanced commercial activity and greater capturing of medium and long-term wholesale finance, absorbing the growth in lending.

- **Compliance with regulatory ratios:** the requirement to comply with the LCR ratio (Liquidity Coverage Ratio) came into effect in 2015. At the end of 2015, the Group's LCR stood at 146%, well in excess of the minimum required (60% in 2015 - the percentage should increase steadily to 100% in 2018).

- **Large liquidity reserve,** stronger than 2014 in quantity (EUR 257,740 million) and quality (52% of the total are high quality liquid assets).

- **Reduced weight of encumbered assets** in structural medium and long-term funding operations: around 14% of the Group's extended balance sheet (under European Banking Authority —EBA— criteria) at the end of 2015.

i. Basic liquidity ratios at comfortable levels

The table shows the evolution of the basic metrics for monitoring liquidity at the Group level over the last few years:

Grupo Santander monitoring metrics

	2008	2012	2013	2014	2015
Net loans/net assets	79%	75%	74%	74%	75%
Net loan-to-deposit ratio (LTD ratio)	150%	113%	112%	113%	116%
Customer deposits and medium and long-term funding/net loans	104%	117%	118%	116%	114%
Short-term wholesale funding/net liabilities*	7%	2%	2%	2%	2%
Structural liquidity surplus (% net liabilities*)	4%	16%	16%	15%	14%

* Balance sheet for liquidity management purposes.

Note: in 2012 and 2013 customer deposits include retail commercial paper in Spain (excluding short term wholesale funding). The 2012 and 2013 ratios include SCUSA by global integration, the same as in 2014.

At the end of 2015, and compared to 2014, Grupo Santander recorded:

- A stable ratio of net loans/net assets (total assets less trading derivatives and interbank balances) at 75%, as a result of improved credit conditions following ending of deleveraging in mature markets. This high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance sheet.

- Net loan-to-deposit ratio (LTD ratio) at 116%, within a very comfortable range (below 120%). This evolution shows the recovery of credit in mature markets, both organic as well as inorganic (incorporation of consumer businesses in Europe), and the greater focus on optimising the cost of retail deposits in countries with low interest rates.

- There was a decline in the ratio of customer deposits and medium and long-term financing/lending, for similar reasons to the LTD ratio, given that the rise in the Group's capture of wholesale funds was also lower than the rise in lending. This ratio stood at 114% in 2015 (116% in 2014).

- The Group's reduced recourse to short-term wholesale funding was maintained. The ratio was around 2%, in line with previous years.

- Lastly, the Group's structural surplus (i.e. the excess of structural funding resources - deposits, medium and long-term funding and capital - over structural liquidity needs - fixed assets and loans) increased in 2015, to an average of EUR 159,000 million, around 4% higher than at the end of 2014.

  At 31 December 2015, the consolidated structural surplus stood at EUR 149,109 million. This consists of fixed-income assets (EUR 158,818 million) and equities (EUR 19,617 million), partly offset by short-term wholesale funding (EUR -24,448 million) and net interbank and central bank deposits (EUR -4,878 million). In relative terms, the total volume was equivalent to 14% of the Group's net liabilities, a similar level to the end of 2014.

In summary, Grupo Santander had a comfortable liquidity position at the end of 2015, as a result of the performance of its subsidiaries.

The table below sets out the most frequently used liquidity ratios for Santander's main units at the end of December 2015:

Liquidity ratios for the main units

% December 2015

	Net loan-to-deposit ratio	Deposits+M & LT funding/net loans
Spain	89%	149%
Portugal	97%	121%
Santander Consumer Finance	226%	69%
Poland	88%	115%
UK	122%	107%
Brazil	106%	128%
Mexico	107%	101%
Chile	133%	98%
Argentina	78%	130%
US	140%	115%
Group Total	**116%**	**114%**

Note: in Spain, including retail commercial paper in deposits.

Generally speaking, there were **two drivers** behind the evolution of the Group's liquidity and that of its subsidiaries in **2015**:

1. Widening of the commercial gap, continuing the change of trend that began in 2014, reinforced by non-organic components (SCF).

2. Continuing intensity of issuance activity, particularly by the European and US units, against a backdrop of more favourable conditions in wholesale markets.

In 2015, the Group as a whole attracted EUR 56,000 million in medium and long-term funding.

In terms of **instruments**, the biggest increase was in issuances of medium and long-term fixed-income instruments (senior debt, covered bonds, subordinated debt and preferred shares), up 16% to more than EUR 42,000 million, with a larger weight of senior debts than covered bonds. Spain was the largest issuer, followed by the UK and Santander Consumer Finance units, the three of which accounted for 87% of the issuances.

The remaining EUR 14,400 million of medium and long-term finance related to securitisations and finance with guarantees, which remained stable compared to 2014. US and European units specialising in the consumer segment accounted for 85% of the total.

By **geographic area**, Santander Consumer Finance, Brazil and the US recorded the largest increases, supported by increased senior debt issuances.

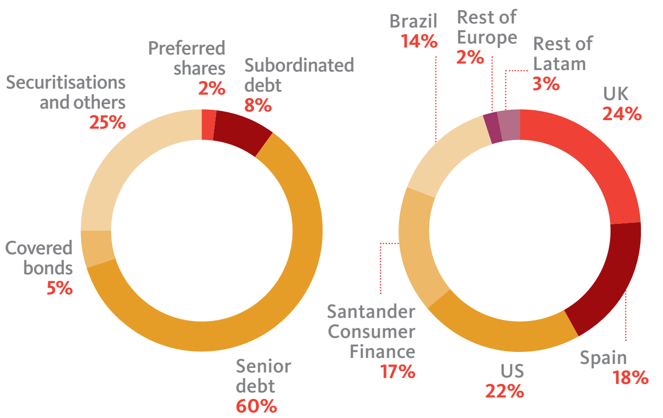
In the United States, Santander Consumer Finance USA continued to increase its securitisation activity and its recourse to warehouse lines to fund strong growth in new lending and the portfolio. Santander Consumer Finance notched up EUR 4,200 million in securitisations, considerably lower than in 2014, but offset by the increased issuances of senior debt mentioned above.

The chart below sets out in greater detail their distribution by instruments and geographic areas:

Medium and long-term funding placed in the market (issuances and securitisations)

January-December 2015

Distribution by instrument   Geographic distribution



In summary, Grupo Santander maintained comfortable access to the markets in which it operates, strengthened by the incorporation of new issuing units. It was involved in issuances and securitisations in 14 currencies in 2015, in which 18 issuers from 15 countries participated, with an average maturity of around 4 years, slightly up on the previous year.

ii. Compliance ahead of schedule with regulatory ratios

Under its liquidity management model, over the last few years Grupo Santander has been managing the implementation, monitoring and compliance - ahead of schedule - with the new liquidity requirements established under international financial regulations.

LCR *(Liquidity Coverage Ratio)*

In 2014, and after approval by the Basel Committee of the final definition of the liquidity coverage ratio (LCR), a delegated act of the European Commission was adopted defining the criteria for calculating and implementing this metric in the European Union in the CRD IV sphere. Implementation was delayed until October 2015, although the initial compliance level of 60% was maintained. This percentage will be gradually increased to 100% in 2018.

The Group's strong short-term liquidity starting position, combined with autonomous management of the ratio in all major units, enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated and individual levels. As of December 2015, the Group's LCR ratio stood at 146%, comfortably exceeding the regulatory requirement. Although this requirement has only been set at the Group level, the other subsidiaries also comfortably exceed this minimum ratio.

NSFR *(Net Stable Funding Ratio)*

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and is pending transposition to local regulations.

As regards this ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs deriving from commercial activity funded by medium and long-term instruments and limited recourse to short-term funds. All of this enables it to maintain a balanced liquidity structure, which is reflected in NSFR levels at Group level and for most subsidiaries exceeding 100% at the end of 2015, even though this is not required until 2018.

In short, the liquidity models and management of the Group and its main subsidiaries have enabled them to meet both regulatory metrics ahead of schedule.

iii. High liquidity reserve

This is the third major aspect reflecting the Group's comfortable liquidity position during 2015.

The liquidity reserve is the total volume of highly liquid assets for the Group and its subsidiaries. This serves as a last resort recourse at times of maximum stress in the markets, when it is impossible to obtain funding with adequate maturities and prices.

As a result, this reserve includes deposits in central banks and cash, unencumbered sovereign debt, discounting capacity with central banks, assets eligible as collateral and undrawn credit lines in official institutions (Federal Home Loans Banks in the US).

All of this reinforces the solid liquidity position that Santander's business model (diversified, retail banking focus, autonomous subsidiaries, etc.) confers on the Group and its subsidiaries.

At the end of 2015, Grupo Santander's liquidity reserve amounted to EUR 257,740 million, 12% higher than at year-end 2014 and 3% above the average for the year. The structure of this volume by asset type according to cash value (net of haircuts) was as follows:

Liquidity reserve

Cash value (net of haircuts) in million euros

	2015	2015 average	2014
Cash and deposits at central banks	48,051	46,703	47,654
Unencumbered sovereign debt	85,454	75,035	52,884
Undrawn credit lines granted by central banks	110,033	112,725	115,105
Assets eligible as collateral and undrawn credit lines	14,202	15,703	14,314
Liquidity reserve	**257,740**	**250,165**	**229,957**

Note: the reserve excludes other assets of high liquidity such as listed fixed income and equity portfolios.

This increase was accompanied by a qualitative rise in the Group's liquidity reserve, deriving from the varied evolution of its assets. The first two categories (cash and deposits in central banks + unencumbered sovereign debt), the most liquid (or high quality liquidity assets in Basel's terminology, as first line of liquidity), increased by more than the average. They rose by EUR 32,967 million, increasing their share of total reserves at the end of the year to 52% (44% in 2014).

Under the autonomy conferred by the funding model, each subsidiary maintains a suitable composition of assets in its liquidity reserve for its business and market conditions (for example, capacity to mobilise their assets or recourse to additional discounting lines, such as in the US).

Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use. There are however regulatory restrictions in most countries limiting activity between related parties.

The geographic distribution of the liquidity reserve is: 51% in the UK, 27% in the Eurozone, 9% in the US, and the remaining 9% in Poland and Latin America.

Location of liquidity reserve

Million euros

UK	130,309	51%
Eurozone	69,719	27%
US	23,234	9%
Brazil	10,384	4%
Rest	24,094	9%
Total	**257,740**	

iv. Asset encumbrance in financing transactions

Lastly, it is worth pointing out Grupo Santander's moderate use of assets as collateral in the structural funding sources of the balance sheet.

In line with the guidelines established by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both assets on the balance sheet contributed as collateral in operations to obtain liquidity as well as those off-balance sheet assets received and re-used for a similar purpose, as well as other assets associated with liabilities for different funding reasons.

The report on the Grupo Santander information required by the EBA at the end of 2015 is given below.

Encumbered assets on balance sheet

Billion euros	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets
Assets	**323.3**		**1,017.0**	
Credit and loans	217.8		725.9	
Equities	13.2	13.2	10.5	10.5
Debt instruments	74.6	74.5	105.5	105.4
Other assets	17.7		175.1	

Grupo Santander
Encumbrance of collateral received

Billion euros	Fair value of encumbered collateral received and debt issued by the encumbered entity	Fair value of collateral received and debt issued by the entity available for encumbrance
Collateral received	**44.9**	**52.0**
Credit and loans	1.2	0.0
Equities	0.9	1.7
Debt instruments	42.8	45.1
Other collateral received	0.0	5.2
Debt instruments issued by the entity other than covered loans and securitisations	0.0	5.6

Grupo Santander
Encumbered assets and collateral received, and related liabilities

Billion euros	Liabilities, contingent liabilities and securities lending associated with the encumbered assets	Assets encumbered and collateral received, including debt instruments issued by the entity other than guaranteed bonds and securitisations, encumbered
Total sources of encumbrances (carrying value)	302.6	368.3

On-balance sheet asset encumbrance amounted to EUR 323,300 million, over two-thirds of which is accounted for by loans (mortgages, corporate, etc.). Off-balance sheet asset encumbrance stood at EUR 44,900 million, mainly relating to debt securities received as collateral in operations to acquire assets which were re-used. The total for the two categories was EUR 368,300 million, giving rise to a volume of associated liabilities of EUR 302,600 million.

At the end of 2015, total asset encumbrance in financing operations represented 26% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,437 million as of December 2015). This ratio stands at levels in the preceding year. The Group's recourse to TLTRO during 2015 has been offset by maturities of secured debt (mainly mortgage covered bonds) which have been replaced with unsecured funding

Lastly, it is important to note the different natures of the sources of encumbrance within these, as well as their role in funding the Group:

- 44% of total asset encumbrance corresponds to collateral contributed in medium and long-term funding operations (with a residual maturity of over 1 year) to finance the commercial activity on the balance sheet. This puts the level of asset encumbrance in funding transactions understood as 'structural' at 11% of the extended balance sheet, using EBA criteria.
- The other 56% corresponds to short-term market transactions (with a residual maturity of less than 1 year) or collateral contributed in operations with derivatives and whose purpose is not to finance the ordinary activity of businesses but efficient short-term liquidity management.

D.3.4. Funding outlook for 2016

Grupo Santander starts 2016 with a comfortable liquidity position, with a good outlook for financing over the coming year. However, there are risks to this rosier picture, including instability in financial markets, adjustments in China's economy and changes in monetary policy at major central banks.

With maturities which can be assumed in the coming quarters, due to the reduced weight of short-term maturities and a dynamic of medium and long-term issues similar to that of a year ago, the Group will manage these needs in each country together with the specific needs of each business, including the envisaged incorporation of new portfolios and businesses, particularly consumer business in Europe.

The expected scenario of increased growth and new incorporations will generate moderate liquidity requirements in our units, in both mature and emerging economies.

In most cases, the **Group's business units** can draw on surpluses from the end of 2015. There is also ample access to wholesale markets, particularly in Europe because of the European Central Bank's quantitative easing programme. Taken together, these factors will enable the Group's subsidiaries to maintain adequate liquidity structures for their balance sheets.

In Spain, where there is a surplus of deposits over loans, a moderate recovery in lending is envisaged after a long period of deleveraging, with a continuing focus on optimising the cost of funds. Liquidity ratios will be strengthened with an eye to the forthcoming returns of LTRO funds.

Of note in the other European units will be increasing issuance and securitisation activity in Santander Consumer Finance, backed by the strength of its business and the quality of its assets. As already discussed, in 2016 the consolidation of new portfolios will require a greater dependence on short-term funds in the rest of the Group.

In the UK, the strong performance of commercial activity and the capturing of clients will strengthen the deposit base as the basic source of credit growth. The expected favourable situation in the markets will enable the unit to optimise its medium and long-term sources of finance. The United States, also with balanced growth in loans and deposits, will focus on diversifying its wholesale financing sources, both in Santander Bank as well as Santander Consumer USA, which will contribute to reducing its leverage with respect to the funds guaranteed.

In Latin America, as in the previous year, the emphasis will remain on financing business activities from deposits, while fostering issuances in the wholesale markets open to the Group's major units.

In addition, and at Group level, Santander is continuing its long-term plan to issue funds eligible as capital. This plan seeks to enhance the Group´s current regulatory ratios efficiently, and also takes into account future regulatory requirements. Specifically, this includes fulfilment of TLAC (total loss-absorbing capacity) requirements, which come into effect in 2019 for systemically-important financial institutions. Although this is currently just an international agreement and awaits transposition into European regulations, the Group is already incorporating it into its issuance plans to meet potential requirements. The pace of issues over recent years are estimated to be sufficient to meet future needs.

Within this general picture, the Group's various units took advantage of good conditions in the markets at the beginning of 2016 to make issues and securitisations at very tight spreads, capturing more than EUR 4,000 million in January.

D.4. Operational risk

D.4.1. Definition and objectives

Following the Basel framework, Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, employees or systems, or external events.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their sphere of action.

The Group's objective in controlling and managing operational risk is to identify, measure, evaluate, monitor, control, mitigate and communicate this risk.

The Group's priority is to identify and mitigate risk focuses, regardless of whether they produce losses or not. Measurement also helps to establish priorities for operational risk management.

In 2015, the Group continued to drive the improvement of its operational risk management model through a range of initiatives fostered through the Risks area. Some of the most significant of these include completion of the document tree for operational risk management policies as part of the 'Documenta' project, progress with the AORM (Advanced Operational Risk Management) transformation project as part of the Group's ARM (Advanced Risk Management) strategy. This programme seeks to enhance operational risk management capacity through an advanced risk measurement approach, helping to reduce future exposure and losses impacting the income statement.

Grupo Santander has been calculating regulatory capital using the standardised approach set down in the EU Capital Requirements Directive. The AORM programme will help Grupo Santander develop internal models for estimating capital in its main geographic areas, both for economic capital and stress testing, and for potential application as regulatory capital.

The report on Prudential Significance/Pillar III in section 4 includes information on the calculation of capital requirements for operational risk.

D.4.2. Operational risk management and control model

D.4.2.1. Operational risk management cycle

The Group's operational risk management incorporates the following elements:

The various phases of the operational risk management and control model are:

- Identify the operational risk inherent in all the Group's activities, products, processes and systems.
- Define the target profile of operational risk, specifying the strategies by unit and time frame, by establishing the OR appetite and tolerance for the budget of annual losses and monitoring thereof.
- Promote the involvement of all employees in the operational risk culture, through adequate training in all spheres and at all levels.
- Measure and assess operational risk objectively, continuously and consistently with regulatory standards (Basel, Bank of Spain) and the sector.
- Continuously monitor operational risk exposure, and implement control procedures, improve internal knowledge and mitigate losses.
- Establish mitigation measures that eliminate or minimise operational risk.
- Produce regular reports on operational risk exposure and the level of control for senior management and the Group's areas and units, and inform the market and regulatory bodies.
- Define and implement the methodology needed to calculate internal capital in terms of expected and unexpected loss.

The following are needed for each of the aforementioned processes:

- Define and implement systems that enable operational risk exposure to be monitored and controlled in the Group's day-to-day management activity, taking advantage of existing technology and achieving the maximum automation of applications.
- Define and document policies for managing and controlling operational risk, and implement methodologies and management tools for this risk in accordance with regulations and best practices.

The advantages of Grupo Santander's operational risk management model include:

- It fosters development of an operational risk culture.
- It allows comprehensive and effective operational risk management (identification, measurement and assessment, control and mitigation, and information).
- It improves knowledge of existing and potential operational risks and assigns them to business and support lines.
- Operational risk information helps to improve processes and controls, and reduces losses and the volatility of revenues.
- It facilitates the establishment of operational risk appetite limits.

D.4.2.2. Risk identification, measurement and assessment model

A series of quantitative and qualitative corporate techniques and tools has been defined to identify, measure and assess operational risk. These are combined to produce a diagnosis on the basis of the risks identified and an assessment of the area or unit through their measurement and evaluation.

The quantitative analysis of this risk is carried out mainly with tools that register and quantify the potential level of losses associated with operational risk events:

- An **internal database of events**, the objective of which is to capture all of the Group's operational risk events. The capture of operational risk events is not restricted by thresholds (i.e. there are no exclusions for reasons of amount), and events with both accounting (including positive effects) and non-accounting impact are captured.

  Accounting reconciliation processes have been put in place to guarantee the quality of the information in the databases. The main events for the Group and each operational risk unit are especially documented and reviewed.

- An **external database of events**, as the Grupo Santander participates in international consortiums, such as the Operational Risk Exchange (ORX). The use of external databases has been stepped up, providing quantitative and qualitative information leading to a more detailed and structured analysis of events in the sector and enabling adequate preparation of the scenario analysis exercises described below.
- **Analysis of OR scenarios**. An expert opinion is obtained from the business lines and from risk and control managers to identify potential events with a very low probability of occurrence, but which could result in a very high loss for an institution. The possible effects of these are assessed and extra controls and mitigating measures are identified to reduce the likelihood of high economic impact.

  In 2015 a corporate scenarios methodology was implemented in the Group's main geographic areas.

- **Capital calculation through the standard approach** (see the corresponding section in the report on Prudential Relevance Report/Pillar III).

The tools defined for qualitative analysis seek to assess aspects (coverage/exposure) linked to the risk profile, enabling the existing control environment to be captured. These tools are mainly:

- **Operational risk control self-assessment (RCSA)**. Self-assessment of operational risk is a qualitative process that seeks to determine the main operational risks for a unit, assigning these to the relevant function based on the judgement and experience of a group of experts in each function.

The RCSA process identifies and assesses the material operational risks that could stop a business or support unit achieving its objectives. It seeks to identify these operational risks, assessing them in inherent and residual terms, evaluating the design and operation of the controls and identifying mitigation measures whenever the associated risk levels are unacceptable to risk managers.

The Group has put in place an on-going operational risk self-assessment process: this ensures that material risks are assessed at least once a year. This process combines expert judgement and participation in workshops involving all interested parties, particularly the first-line of defence responsible for the risks and their control. These workshops are run by a facilitator, who is neutral and has no decision-making authority, helping the Group achieve its desired results.

The Group also produces focused assessments of specific operational risk sources, enabling transversal identification of risk levels at a greater degree of granularity. These are applied in particular to technological risks and factors that could lead to regulatory non-compliance, and areas that are exposed to money laundering and terrorism financing risks. The two latter areas, together with related plans for 2016, are set out in greater detail in the section D.5. Compliance and conduct risk.

- **Corporate indicators system**. These are various types of statistics and parameters that provide information on an institution's risk exposure and control environment. These indicators are regularly reviewed in order to flag up any changes that could reveal risk problems.

  In 2015, the Group evolved its corporate indicators to monitor the main risk concentrations in the Group and the industry. It has also fostered the use of indicators in all spheres of the organisation, from front-line risk managers down. The objective is to incorporate the most relevant risk indicators into the metrics that form the basis for constructing the operational risk appetite.

- **Audit and regulatory recommendations**. These provide relevant information on inherent risk due to internal and external factors, enabling weaknesses in the controls to be identified.

- **Customer complaints**. The Group's increasing systemisation of the monitoring of complaints and their root causes also provides relevant information for identifying and measuring risk levels.

- **Other specific instruments** that enable more detailed analysis of technology risk, such as control of critical system incidents and cyber-security events. The capture of this information was incorporated into the corporate operational risk tool in 2015.

- **Specific assessment of risks** related to technological infrastructure management processes, the acquisition and development of solutions, control of information security and IT governance.

D.4.2.3. Implementation of the model and initiatives

Almost all the Group's units are now incorporated into the model with a high degree of uniformity. However, the different pace of implementation and historical depth of the respective databases means that the degree of progress varies from country to country.

As set out in section D.4.1. Definition and objectives, the Group accelerated its transformation to an advanced operational risk management (AORM) approach in 2015. This programme seeks both to consolidate the current operational risk management framework and to adopt best practices in the market, based on monitoring of an integrated and consolidated operational risk profile, for proactive management of business strategy and tactical decisions.

This programme involves a number of key areas (risk appetite, self-assessment, scenarios, metrics, etc.) that enable the Group to refine the improvements it is implementing: these will mostly be completed in 2016, covering the ten main geographic areas. A monitoring structure has been set up at the highest organisational levels, both at the corporate centre and in the local units, to ensure adequate monitoring of progress.

This programme is supported by the development of a customised and integrated operational risk solution (Heracles, based on the external SAP GRC platform). This tool and the transformation plan will be fully implemented in all of the Group's geographic areas in 2016.

The main activities and global initiatives adopted to ensure effective operational risk management are:

- Development and implementation of the operational risk framework, policies and procedures, both at the corporate level and in the geographic areas.

- Creation of operational risk control units in the Risks areas (second line of defence) and designation of coordinators responsible for OR in the various spheres of the first lines of defence.

- A new definition of a complete group of operational risk taxonomies (risks, controls, root causes, etc.), enabling more granular, thorough and consistent management of operational risk throughout the Group.

- Development of a new operational risk appetite structure, enabling increased granularity in risk tolerance for the Group's most significant risk concentrations.

- Establishment of a process for escalating incidents, setting down the criteria for communication and escalation of operational risk events based on their relevance. The relevance of operational risk is defined based on thresholds set for each type of impact.

- Implementation of training programme at all levels of the organisation (from the board to the employees most exposed to risk in the first line of the business) and initiatives for the sharing of experiences (best practice sessions, launch of a monthly newsletter, etc.).

- Fostering of mitigation plans for aspects of particular relevance (information security and cyber-security in the widest sense, control of suppliers, etc.): monitoring of the implementation of corrective measures and projects under development.

- Improvements to the quality and granularity of the information on such risks analysed and presented to the main decision making forums.

- Improvements to contingency and business-continuity plans, and, in general, crisis-management (this initiative is linked to the viability and resolution plans).

- Fostering the control of risk associated with technology (application development and maintenance, design, implementation and maintenance or technological platforms, output of IT processes, etc.).

In the particular case of controlling suppliers mentioned above, following the development and approval of the corporate framework for agreements with third parties and control of suppliers in 2014, work continued throughout 2015 to define and develop the procedures, processes and tools needed for implementation. To this end, Group entities have been working on defining, implementing and monitoring action plans so as to adapt current processes to the new requirements of the model, paying particular attention to:

- Identification, assignment and communication of roles and responsibilities.

- Creation of specific committees for each geographic area to deal with issues relating to suppliers.

- Definition and monitoring of indicators.

- Preparation and maintenance of up-to-date inventories of suppliers of critical services.

- Training and awareness raising of risks associated with suppliers and other third parties.

The Group is continuing to work on the implementation of the model, reinforcing and standardising the activities to be carried out throughout the management lifecycle for suppliers and other third parties.

D.4.2.4. Operational risk information system

The Group has a corporate information system that supports the operational risk management tools and facilitates information and reporting functions and needs at both the local and corporate levels.

This system includes modules for registering events, mapping and assessing risks, indicators, and mitigation and reporting systems, and applies to all Group entities.

As part of the implementation of the advanced operational risk management approach, and taking into account the synergies that will be produced in the control sphere (integration of operational risk control functions in the widest sense and compliance, documentation and certification process particularities for the internal model into a single tool), the Group is in the process of installing a new GRC (governance, risk and compliance) tool based on the SAP system, known as Heracles. The objective of Heracles is to improve decision making for operational risk management throughout the organisation.

This objective will be achieved by ensuring that those responsible for risks in every part of the organisation have a comprehensive vision of their risk, and the supporting information they need, when they need it. This comprehensive and timely vision of risk is facilitated by the integration of various risk and control programs, such as risk assessment, scenarios, events, assessment of control activities and metrics using a common taxonomy, and methodological standards. This integration provides a more accurate risk profile and significantly improves efficiency by cutting out redundant and duplicated effort.

Heracles also enables the interaction of everybody involved in operational risk management with the information in the system, but subject to their specific needs or limited to a particular sphere. However, it is always draws on a single source of information for all of the functions involved.

In 2015, the Group worked on automating the loading of information into operational risk management systems, and on improving reporting capabilities in the context of the project to comply with regulations on effective aggregation and reporting principles (Risk Data Aggregation/Risk Reporting Framework - RDA/RRF).

In order to achieve the objectives for this project, a reference technological architecture has been developed, providing solutions for information capture and feeding an integrated and reliable database (Golden Source) that is used for the generation of operational risk reports.

D.4.2.5. Training

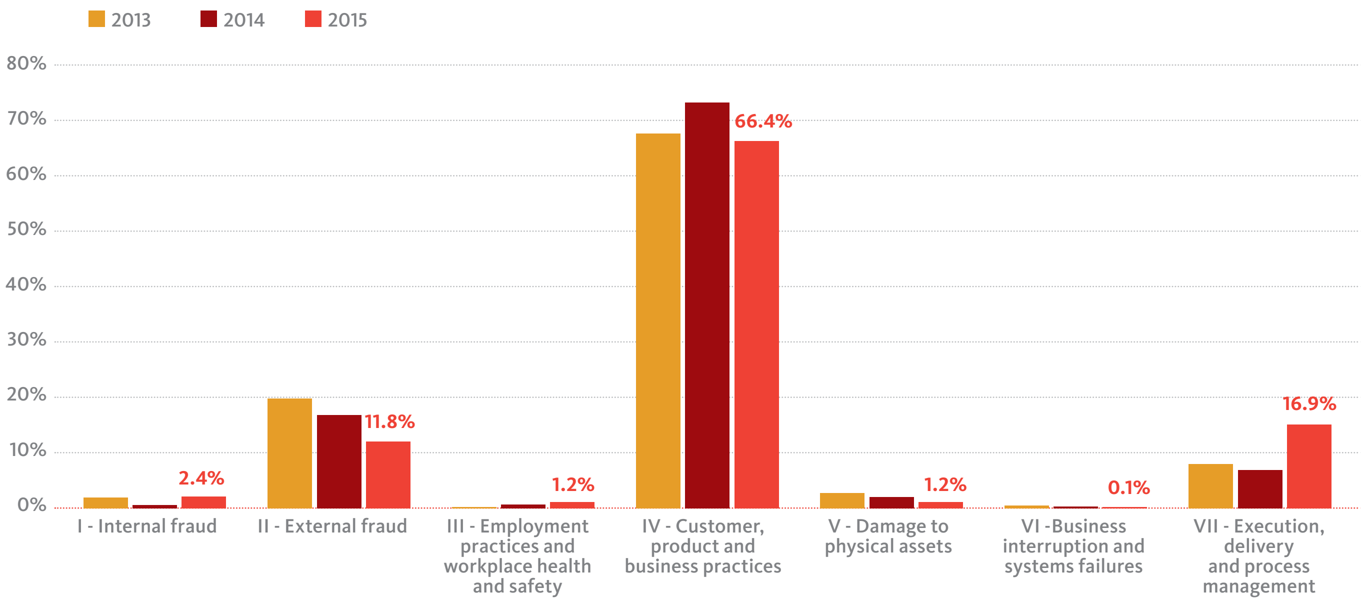
The Group fosters awareness and knowledge of operational risk at all levels of the organisation. In 2014, a range of training initiatives were carried out, including e-learning programmes for all Group employees (general, computer security, business continuity plan) and training activities for groups requiring specific knowledge. These activities included training for employees in wholesale businesses, e-learning for executives and directors, and courses for operational risk coordinators on the first line of defence.

D.4.3. Evolution of the main metrics

As regards the databases of events, and after consolidating the information received, the evolution of net losses (including both losses incurred and net provisions) by Basel[40] risk category over the last three years is set out in the chart below:

Distribution of net losses by operational risk category[41]

% of total



The evolution of losses by category shows a slight reduction in relative terms for practices with clients, products and business, although these continue to be the largest item.

The most relevant losses by type and geographic region in 2015 related to judicial cases in Brazil and customer compensation in the UK.

In **Brazil**, the roll out of a set of measures to improve customer service (the *Trabalhar Bem*[42] programme) has enabled us to reduce losses from judicial cases.

The increase in compensation for customers in the **UK** is due mainly to sales of Payment Protection Insurance. The claims received relate to a widespread practice in the UK banking sector. Provisions for possible future claims were increased in 2015, according to the Bank's best estimates after having analysed the decision of the local authority to limit the deadline on claims.

The most noteworthy factors in the other operational risk categories include a decrease of fraud, in relative terms, and an increase in losses on process execution, delivery and management, mainly relating to provisions for process errors in the UK.

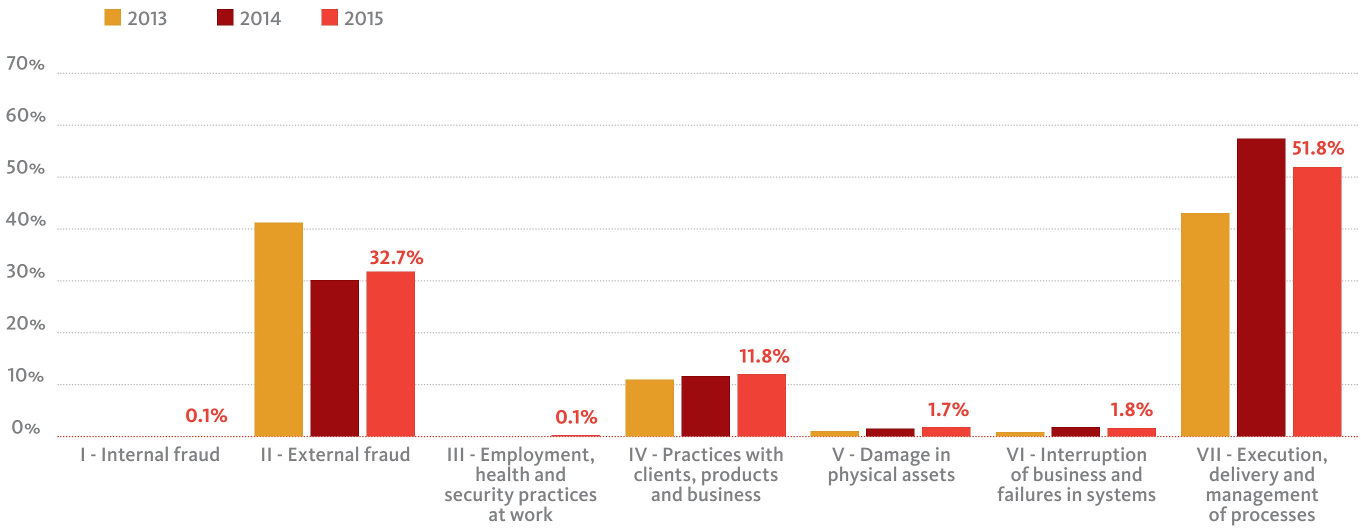
40. The Basel categories include the risks set out in chapter D.5. Compliance and conduct risk.

41. In accordance with local practices, the remuneration of employees in Brazil is managed as personnel expenses for the entity, without prejudice to its treatment under the Basel operational risk framework, and is therefore not included.

42. Refer to section D.4.4., Mitigation measures, for further details.

The chart below shows the evolution of the number of operational risk events by Basel category over the last three years:

Distribution of number of events by operational risk category[43]
% of total



In 2015, the Group analysed the number of internal events and put a new procedure in place for escalation of relevant events (in terms of both financial impact and number of customers affected), enabling us to process these with more effective corrective measures. The concentration of relevant events compared to total events remained at very low levels, and was lower than in the previous year.

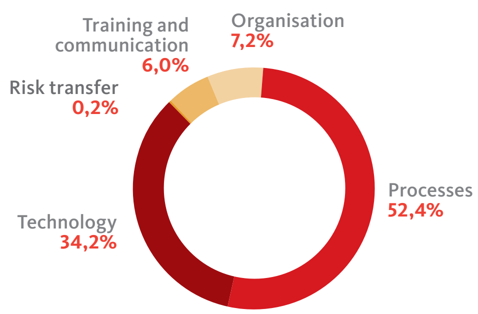
D.4.4. Mitigation measures

The model requires the Group to monitor the mitigation measures put in place for the main sources of risk identified through operational risk management tools and the organisational and development model, and by preventative implementation of policies and procedures for managing and controlling operational risk.

The Group model combines these measures in a shared database, enabling us to assign each mitigation measure and the various tools used (events, indicators, self-assessment, scenarios, recommendations and prevention policies).

The percentage of measures distributed by type was as follows:

2015 mitigation – type of measure
%



The main mitigation measures centred on improving the security of customers in their usual operations, the management of external fraud, continued improvements in processes and technology, and management of the sale of products and adequate provision of services.

Regarding the reduction of fraud, the main specific measures were:

Card fraud:
- Roll out of chip cards:

  - Implementation of the standard in all the Group's geographic areas in line with the timeframe set down by the payment media industry.

43. In accordance with local practices, the remuneration of employees in Brazil is managed as personnel expenses for the entity, without prejudice to its treatment under the Basel operational risk framework, and is therefore not included.

- Replacement of vulnerable cards with new cards based on advanced authentication CDA technology, reducing the risk of cloning through more robust and complete encryption algorithms.

- Robust (Full Grade) validation of card transactions, including more checks, always carried out online.

- Implementation of the secure ecommerce standard (3DSecure) for internet purchases and requiring additional security codes for transactions, including the use of one-time passwords (OTP-SMS).

- Incorporation of anti-skimming detectors and passive elements in ATMs to stop card cloning.

- Review of card limits based on the product and customer segment, to adjust these for risk levels.

- Application of specific fraud monitoring rules and detection tools to block suspicious transactions abroad.

Electronic fraud:

- Implementation of specific protection measures for mobile banking, such as identification and registration of customer devices (Device Id).

- An improved Internet banking authentication system, with additional checks depending on the risk level for the customer or transaction.

- Checks of online banking transactions through a second factor based on one-time use passwords. Evolution of technology, depending on the geographic area (for example, based on image codes (QR) generated from data for the transaction).

Cyber-Security Program and information security plan

The Group has put in place the Santander Cyber-Security Program to foster and complement the actions already underway. This covers:

- governance, integrating the three lines of defence;
- an approach based on cyber-resilience, including identification, prevention, protection, detection and reaction activities;
- aspects of cyber-security relating to training, access control, segregation of functions and secure software development;
- initiatives to enhance organisation.

In 2015 the Group also continued paying full attention to cyber-security risks, which affect all companies and institutions, including those in the financial sector. This situation is a cause of concern for all entities and regulators, prompting the implementation of preventative measures to be prepared for any attack of this kind.

The Group has put in place the Santander Cyber-Security Program to foster and complement the actions already underway. The global aim is for this programme to be implemented in all Group banks, and covers: i) governance, integrating the three lines of defence; ii) an approach based on cyber-resilience, including identification, prevention, protection, detection and reaction activities; iii) aspects of cyber-security relating to training, access control, segregation of functions and secure software development; and iv) initiatives to enhance organisation.

The Group has evolved its internal cyber-security model to reflect international standards (including, the US NIST —National Institute of Standards and Technology— framework) and incorporate mature concepts. It has also continued its implementation of its cyber-security master plans in Group entities, including:

- Provision of specific budgets to improve cyber-security protection mechanisms against threats in the Group's entities and geographic areas.

- Contracting of cyber-security insurance at the corporate level.

- Improvement of the Security Operations Centre (SOC), increasing its sphere of activity.

- Participation in cyber-security exercises in various Group geographies, to assess responses to such incidents.

- Cooperation with international forums to identify best practices and share information on threats.

The Group has also launched a training programme in this area, with a new course being implemented on the e-learning platform. This course will give precise guidelines for action, as well as examples of the main current patterns of cyber attacks and electronic fraud.

In addition, observation and analytical assessment of the events in the sector and in other industries enables us to update and adapt our models for emerging threats.

Other relevant mitigation measures:
A number of local initiatives have been put in place to tackle external fraud involving identity theft and loan applications, given the significance of this for the Group and the industry. These include, enhancing quality controls for verifying customer identification alerts, evidence of income and applicant documentation (in the US) and plans to improve analysis of proposals (in Brazil).

With regard to mitigation measures relating to customer practices, products and business, Grupo Santander is involved in continuous improvement and implementation of corporate policies on aspects such as the selling of products and services and prevention of money laundering and terrorism financing. Detailed information on these areas can be found in section D.5.2. Compliance risk control and supervision.

The 'Working Well' *(Trabalhar Bem)* project in Brazil is also relevant to this category of operational risk, seeking to provide the Bank's customers with a better service, with fewer incidents and complaints. This project includes various lines of action to improve selling practices and customer protection, including: influencing design decisions for products and services, analysis and solution of the root causes of customer complaints, development of a complaints management and monitoring structure, and improvement of protection networks at contact points.

D.4.5. Business continuity plan

The Group has a business continuity management system (BCMS), which ensures that the business processes of our entities continue to operate in the event of a disaster or serious incident.

The basic objective is to:

- Minimise the possible damage from an interruption to normal business operations on people, and adverse financial and business impacts for the Group.
- Reduce the operational effects of a disaster, providing predefined and flexible guidelines and procedures to be used to re-launch and recover processes.
- Restart time-sensitive business operations and associated support functions, in order to achieve business continuity, stable profits and planned growth.
- Protect the public image of, and confidence in, Grupo Santander.
- Meet the Group's obligations to its employees, customers, shareholders and other stakeholders.

During 2015, the Group continued to advance in implementing and continuously improving its business continuity management system. This included consolidating the implementation of the three lines of defence in relation to business continuity, including newly created businesses and divisions in the management scope.

Furthermore, and based on the improvements made to the viability and resolution plans (for more details see section B.3.4. Recovery and resolution plans), **a new comprehensive crisis-management model has been defined** for operational and reputational crises. This refines the communication protocols for the functions involved in the decision to escalate a situation involving calling a new meeting of the crisis management committee. This also involves a redefinition of the current business continuity committee to provide adequate support to the head of operational risk Crisis Management Director in escalating issues to, and supporting, the CFO (the Crisis Management Director).

D.4.6. Other aspects of control and monitoring of operational risk

Analysis and monitoring of controls in market operations
Due to the specific nature and complexity of financial markets, the Group considers it necessary to continuously improve operational control procedures to keep them in line with new regulations and best practices in the market. Thus, during the year, it continued to improve the control model for this business, attaching particular importance to the following points:

- Analysis of the individual operations of each Treasury operator in order to detect possible anomalous behaviour. During the year all the thresholds applied to each of the controls were reviewed with the other control areas, implementing specific limits for each desk.
- Implementation of a new tool that enables compliance with new record keeping requirements for monitoring communication channels.
- Strengthening of controls on cancelling and modifying operations and calculation of the actual cost thereof, where these are due to operational errors.
- Strengthening of controls on contributions of prices to market indexes.
- Development of additional controls to detect and prevent irregular operations (such as controls on triangular sales).
- Development of extra controls for access to systems registering front office operations (for example, to detect shared usernames).
- Adaptation of existing controls and development of new controls to comply with the new Volcker requirements.
- Formalisation of IT procedures, tools and systems for cyber-security protection, prevention and training.
- Development of the Keeping in B project. This involves a range of inter-disciplinary teams seeking to reinforce aspects relating to corporate governance, compliance with money laundering and credit risk controls and procedures, financial and operational architecture, technological platforms, regulatory and organisational aspects and sufficiency of resources.

For more information on issues relating to regulatory compliance in markets, refer to section D.5.4. Regulatory compliance.

The business is also undertaking a global transformation and evolution of its operational risk management model. This involves modernising its technology platforms and operational processes to incorporate a robust control model, enabling a reduction of the operational risk associated with its business.

Corporate information

The operational risk function has an operational risk management information system that provides data on the Group's main elements of risk. The information available for each country and unit in the operational risk sphere is consolidated to give a global vision with the following features:

- Two levels of information: corporate with consolidated information, and individual for each country or unit.
- Dissemination among Grupo Santander's countries and units of the best practices identified through a combined study of the results of qualitative and quantitative analysis of operational risk.

Information on the following aspects is drawn up:

- Grupo Santander's operational risk management model and the Group's main units and countries.
- The perimeter of operational risk management.
- Monitoring of risk appetite metrics.
- The risk profile by country and risk category, and the main operational risk concentrations.
- Operational risk capital.
- The action plans associated with each risk source.
- Distribution of losses by geographic area and risk category.
- Evolution of losses (accumulated annual, deviation on previous year and against budget) and provisions by detection and accounting dates.
- Analysis of the database of relevant internal and external events.
- Analysis of the most relevant risks detected from different information sources, such as the self-assessment exercises for operational and technological risk and operational risk scenarios.
- Assessment and analysis of risk indicators.
- Mitigating and active management measures.
- Business continuity and contingency plans.

This information forms the basis for complying with reporting requirements to the executive risk committee, the board risk committee, the operational risk committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander regards insurance as a key element in the management of operational risk. Common guidelines for co-ordination among the various functions involved in the insurance management cycle to mitigate operational risk were promoted in 2015. These mainly involved the insurance areas themselves and operational risk control areas, but also the first line risk management areas, pursuant to the procedure designed in 2014.

These guidelines incorporate the following activities:

- Identification of all risks in the Group that can be covered by insurance, including identification of new insurance coverage for risks already identified in the market.
- Establishment and implementation of criteria to quantify the insurable risk, backed by analysis of losses and loss scenarios that enable the Group's level of exposure to each risk to be determined.
- Analysis of coverage available in the insurance market, as well as preliminary design of the conditions that best suit the identified and assessed needs.
- Technical assessment of the protection provided by the policy, its costs and the elements retained in the Group (franchises and other elements at the responsibility of the insured) in order to make contracting decisions.
- Negotiating with suppliers and award of contracts in accordance with the procedures established by the Group.
- Monitoring of incidents declared in the policies, as well as of those not declared or not recovered due to an incorrect declaration, establishing protocols for action and specific monitoring forums.
- Analysis of the adequacy of the Group's policies for the risks covered, taking appropriate corrective measures for any shortcomings detected.
- Close cooperation between local operational risk executives and local insurance coordinators to strengthen mitigation of operational risk.
- Active involvement of both areas in the global insurance sourcing unit, the Group's highest technical body for defining coverage strategies and contracting insurance, the forum for monitoring the risk insured (created specifically in each geography to monitor the activities mentioned in this section) and the corporate operational risk committee.

This year, the Group has also contracted a cyber-insurance policy to cover the possible consequences of cyber-attacks.

Finally, it has adapted its in-house insurance model to improve the definition of functions and the coordination of the internal and external parties involved, so as to optimise protection of the income statement.

D.5. Compliance and conduct risk

D.5.1. Scope, aim, definitions and objective

The Compliance function comprises all matters related to regulatory compliance, prevention of money laundering and terrorism financing, governance of products and consumer protection, and reputational risk.

To achieve this, the Compliance function fosters the adherence of the Santander Group to the rules, supervisory requirements, principles and values of good conduct by setting standards, debating, advising and informing in the interest of employees, customers, shareholders and the wide community.

In the Grupo Santander's current corporate configuration of three lines of defence, Compliance is an independent second-line control function that reports directly to the board of directors and the committees thereof, through the GCCO, who does so periodically and independently. The Compliance function reports to the CEO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

In line with what is described in section B.1. Map of risks and in accordance with the current General Risk Framework of the Grupo Santander approved by the Board of Directors of Banco Santander, the following are described as compliance risks:

- **Compliance risk:** risk due to not complying with the legal framework, the internal rules or the requirements of regulators and supervisors.
- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered to them and their suitability and appropiateness for each specific customer.
- **Reputational risk:** risk arising from damage to the perception of the Bank by public opinion, its customers, investors or any other interested party.

The Group's objective in the sphere of compliance and conduct is to minimise the probability that irregularities occur; and that any irregularities that should occur are identified, assessed, reported and quickly resolved.

Other control functions (risks) and support functions (legal, T&O, etc) also take part in controlling these risks.

D.5.2. Compliance risk control and supervision

According to the configuration of lines of defence in the Grupo Santander and, in particular, within the Compliance function, primary responsibility for the management of such function's risks lies in the first line of defence, jointly with the business units that directly originate such risks and the Compliance function. This is performed either directly or through allocation of compliance activities or tasks to this first line.

Further, setting, promoting and achieving units' adherence to corporate frameworks, policies and standards across the Group is the responsibility of the Compliance function in its task of control and supervision as the second line of defence. To do so, controls are put in place and their application is monitored and verified. Reporting to governance and administrative bodies is the responsibility of the Compliance function, which is also responsible for advising and informing to senior management in these matters and fostering a culture of compliance, all of these within the framework of an annual programme whose effectiveness is periodically reviewed.

In compliance, the GCCO is responsible for reporting to governance and administrative bodies; who is also responsible for advising and informing senior management in these matters and fostering a culture of compliance, all of these within the framework of an annual programme whose effectiveness is periodically reviewed. This is independently of the reporting on all the Group's risks (also including compliance risks) performed by the vice chairman of Risks and the CRO to the governance and administration bodies.

The Compliance function provides the basic components for managing these risks (frameworks and policies for combating money-laundering, codes of conduct, marketing of products, reputational risks, etc.) and ensures that the rest are duly tended to by the corresponding units of the Group (responsible financing, data protection, customers' complaints, etc.), having established the opportune control and verification systems, in the second line of defence of Compliance.

Internal audit - as part of its third-line functions - performs tests and reviews necessary to verify that adequate controls and oversight mechanisms are being applied, and that the Group's rules and procedures are being followed.

The essential elements of Compliance risk management are based on resolutions adopted by the board of directors, as the highest responsible body, by means of the approval of corporate frameworks that regulate significant matters, and the Santander Group's General Code of Conduct. Such frameworks are approved at corporate level by the Banco Santander, S.A. as the Group parent, and subsequently approved by the units by means of the latter's adhesion to the same, in order to carry out transposition in a manner that takes into account applicable local requirements.

The corporate frameworks of the Compliance function are as follows:

- General compliance framework.
- Products and services marketing framework.
- Complaint management framework.
- Anti-money laundering and terrorist financing framework.

These corporate frameworks are developed following Grupo Santander's internal governance and are consistent with the Parent-subsidiary relationship model.

The General Code of Conduct sets out the ethical principles and rules of conduct that must govern the actions of all Grupo Santander's employees and it is being supplemented in certain matters by the rules found in other codes and internal rules and regulations.

The Code also lays down the following:

- the Compliance functions and responsibilities set out in the same.
- the rules governing the consequences of non-compliance
- a whistleblowing channel for the submission and processing of reports of allegedly irregular conduct.

Regulatory compliance, under the Board Risk Committee and of the regulatory compliance committee, is responsible for the effective implementation and monitoring of the General Code of Conduct.

D.5.3. Governance and the organisational model

In the exercise of its general function of supervision, the board of directors of the Banco Santander, S.A. is responsible for approving the appointment of the head of Compliance (the Group Chief Compliance Officer – GCCO), and the framework for this function and its implementing policies. In addition, the board is the holder of the Group's General Code of Conduct and of the corporate structures that implement this function.

In order to strengthen the independence of the compliance function as a function of internal control and provided it with sufficient relevance, the executive committee, at its meeting on February 2, 2015, agreed to appoint an executive vice-president as chief compliance officer (GCCO). For these purposes, in 2015 and pursuant to its mandate, a programme for the transformation of the compliance function at global level is being carried out (Target Operating Model for Compliance, TOM) and will be implemented over a period of three years, with the aim of elevating and bringing this function in line with the best standards in the financial industry.

Reporting on the compliance function to the board is done monthly.

Mention must also be made of the adequate coordination with the operational risk function, which collects different loss events deriving from compliance and conduct risks, and which, through risk governance - which includes a common overview of all the group risks - also reports to the board of directors and to its committees.

D.5.3.1. Governance

The following corporate committees, each with their corresponding local replicas, are collegiate bodies with competencies in Compliance:

The **regulatory compliance committee** is the collegiate body that has powers in all matters inherent in regulatory compliance, without detriment to those assigned to the two specialised bodies in the area (corporate committee of marketing as regards the commercialisation of products and services, the monitoring committee and the anti-money laundering and terrorist financing committee.

The regulatory compliance committee held five meetings in 2015.

The **products and services commercialisation committee** is the collegiate body of governance for the validation of products and services. The initial proposal and authorisation of new products and services is the responsibility of units, while such proposals and their alignment with corporate policies must be subject to corporate validation. Its objectives and functions are based on the minimisation of inappropriate commercialisation of products and services to customers, taking into account consumer protection. Its functions are performed at both corporate and local level.

The committee assesses the appropriateness of adjusting products and services to the framework where they are going to be marketed, paying special attention to ensuring:

- That the stipulations set out in the corporate commercialisation frameworks and policies, and in general, the internal or external laws (for example, not granting loans for investment products, limiting the bank's roles as underlying in commercialised structures, etc.) are fulfilled.

- That the target audience is clearly established, in accordance with its features and needs, clearly stating which customers it is not considered suitable for (e.g. aspects such as the customer's commercial segment, customer's age, geographical jurisdiction, etc.).

- That the criteria and controls are in place to assess how suitable the products is for the customer are defined at the time of the sale. This will include, depending on the type of product and the commercial treatment applied in each case, an assessment of the customer's financial capacity to meet the payments associated with the product/service, the appropriateness of the customer's knowledge and previous investment experience, and the adequate diversification of his investment portfolio, as the case may be.

- That the suitable documentation (advertising, commercial, pre-contractual, contractual and post-contractual) for each product/service, customer and commercialisation type be determined, and in each case, that the information be conveyed to customers clearly and transparently. This information can refer to:

  - Explaining how the product or service works, presenting, in an objective and transparent way, the information on the product/service's characteristics, terms and conditions, costs, risks and the calculation methodology, and not giving rise to unreasonable expectations or causing the customer to choose an inappropriate product/service.

  - Frequency and content of the post-contractual information sent to customers, including details of the effective costs incurred and information on the product's profitability and assessment, as the case may be.

- That training/certification plans, and checks on such plans, are in place to ensure that sales employees in the different channels have the required training and have sufficient information about the characteristics of the product/service, in order to be able to sell it appropriately.

The products and services commercialisation committee met 13 times in 2015 and analysed 104 new products/services, not having validated three of them.

The corporate monitoring committee is the Group's collegiate governance body in monitoring of products and services, and for the assessment of customer claims in all Group units. Approved products and services are monitored locally through local monitoring committees or similar bodies, and their conclusions are reported directly to the corporate monitoring committee.

The monitoring committee held 34 meetings in 2015 at which incidents were resolved and information was analysed on the monitoring of products and services of the Group's units.

The anti-money laundering and terrorist financing committee (formerly called the Analysis and Resolution Committee, CAR) is the collegiate body in this area, setting frameworks, policies and general objectives. It also validates the rules and regulations of other Group collegiate bodies and units in relation to prevention and coordination.

In order to strengthen governance of the function and to preserve its independence, the objectives and functions of the aforementioned committees have been reviewed in order to adjust them to the Group's governance model, in the adaptation of the TOM.

D.5.3.2. Organisational model

Derived from the aforementioned transformation programme (TOM) and with the objective of attaining an integrated view and management of Compliance risks, the organisational structure of the function has been modified in accordance with a hybrid approach, in order to converge specialised Compliance risks (vertical functions) with an aggregate and standardised view of them (cross-cutting functions).

Hence, the Compliance structure is organised as follows to contribute to the Group's mission in this field:

Cross-cutting functions

- Coordination with units.

- Governance, planning and consolidation.

- Compliance processes and information systems.

Vertical functions

- Regulatory compliance.

- Governance of products and consumer protection.

- Anti-money laundering and combating terrorist financing.

- Reputational risk.

D.5.4. Regulatory compliance

The following functions are in place for adequate control and supervision of regulatory compliance risks:

- Implement the Group's General Code of Conduct and other codes and rules developing the same. Advise on resolving doubts that arise from such implementation.

- Cooperate with Internal Audit in the regular reviews of compliance with the general code and with the codes and other rules developing it, without detriment to the regular reviews which, on matters of regulatory compliance, are to be conducted directly.

- Prepare compliance programmes in relation with specific rules, or modifications thereof, for submission to the regulatory compliance committee and, as the case may be, subsequent approval by the board of directors or the committees thereof.

- Regularly report to the RSRCC and the board of directors on the development of the framework and the implementation of the compliance programme.

- Assess changes that need to be introduced into the compliance programme, particularly in the event of detecting unregulated risk situations and procedures susceptible to improvement, and propose the changes to the committee of regulatory compliance or the RSRCC.

- Receive and handle the accusations made by employees or third parties via the whistle blowing channel.

- Direct and coordinate investigations into the possible committing of acts of non-compliance, being able to request support from Internal Audit and propose to the Irregularities Committee the sanctions that might be applicable in each case.

- Supervise mandatory training activity on Compliance programme.

The Compliance TOM orients the focus of the regulatory Compliance function in the following areas:

1. Compliance in employee matters.

2. Compliance in organisational aspects.

3. Compliance of market regulations.

4. Conduct in the securities markets.

1. Employees
The objective of regulatory compliance with respect to employees –on the basis of the General Code of Conduct – is to establish standards in corporate defence and conflicts of interest and, from a regulatory perspective, set guidelines for remuneration and in dealings with suppliers.

In corporate defence, the responsibility is undertaken of minimising the impact of the penal responsibility of companies for any crimes committed on account of and for the benefit of them by administrators or representatives and by employees as a result of a lack of control.

The system of managing risks for the prevention of penal crimes, which was audited in 2015, obtained the AENOR certification in 2014.

A key element in this system is the whistle blowing channel. There are five main whistle blowing channels in the Group, which registered some 400 communications in 2015.

2. Organisational aspects
This is a new aspect for regulatory compliance. The aim is to set standards, from a regulatory perspective, in record keeping, and in safeguarding the right to the protection of personal data, specifically, those of our customers.

Second-line work is also performed for the general Group compliance of US FATCA tax regulation.

3. Market regulations
In 2015, a contribution was made to the corporate project of adjustment to the US Volcker Rule, which limits proprietary trading to very specific cases that the group controls by means of a compliance programme. Compliance of other specific security markets regulations are also monitored: as in the field of derivatives, that which is established by Title VII of the US Dodd Frank Act or its European counterpart, EMIR (European Market Infrastructure Regulation).

Regulatory compliance is also responsible for disclosing relevant Group information to the markets. Banco Santander made public 98 relevant facts in 2015, which are available on the Group's web site and that of the National Securities Market Commission (CNMV).

4. Code of Conduct in Securities Markets (CCSM)
The Code of Conduct in Securities Markets (CCSM), supplemented by the Code of Conduct for Analysis Activity, and other implementing rules, contains Group policies in this field and defines, inter alia, the following responsibilities for regulatory compliance:

- Register and control sensitive information known and generated by the Group.

- Maintain the lists of securities affected and related personnel, and watch the transactions conducted with these securities.

- Monitor transactions with restricted securities according to the type of activity, portfolios or collectives to whom the restriction is applicable.

- Receive and deal with communications and requests to carry out own account trading.

- Control own account trading of the relevant personnel and manage possible non-compliance of CCSM.

- Identify, register and resolve conflicts of interest and situations that could give rise to them.

- Analyse activities suspicious of constituting market abuse and, where appropriate, report them to the supervisory authorities.

- Resolve doubts on the CCSM.

At present, 13,000 people are considered relevant persons under the CCSM in the Group.

D.5.5. Governance of products and consumer protection

As a result of the transformation of the compliance function into the new TOM model, the old reputational risk office has been renamed as governance of products and consumer protection, and broadens its authority to strengthen adequate control and supervision of the marketing risks of products and services, promotion of transparency and a simple, personal and fair approach to customers to protect their rights and ensure that policies and procedures take consumers' perspective into account. To do so, the following functions have been established, and organised on the basis of two corporate frameworks and a set of policies that lay down basic principles and guidelines in this field:

Frameworks

- **Corporate commercialisation framework:** uniform system for the marketing of products and services, with the aim of minimising exposure to risks and possible claims arising from such fields in all phases (validation, pre-sales, sales, post-sales following).

- **Complaint management framework:** uniform system for the systematised management of registration, control, management and analysis of the cause of complaints by different categories, thus allowing for identifying reasons for customer dissatisfaction, offering appropriate solutions in each case and improving, as necessary, the processes giving rise to them.

Functions

- Foster units' adherence to aforementioned corporate frameworks.

- Facilitate the functions of the corporate commercialisation committee, ensuring correct validation of any new product or service proposed by any Group subsidiary or the parent prior to the launch thereof.

- Preserve internal consumer protection, with the objective of improving relations with the Group, effectively promoting their rights, facilitating a solution to any controversies, in accordance with best practices through any channel, and fostering financial knowledge. The objective is to contribute to lasting relationships with customers.

- Identify, analyse and control fiduciary risk generated by private banking, asset management, insurance and outsourced activity of custody services for customers' financial instruments. Fiduciary risk is the risk that arises from the administration of financial instruments on customers' behalf. This process of fiduciary risk management requires the following activities, in addition to an admission process:

  - regular assessment of compliance of products' mandates, such that the risk associated to customers' position is always handled in the customer's best interest.

  - monitoring the final performance of the investments both with regard to the fiduciary relations with the client who expects the best performance as well as with regard to competitors.

  - regular monitoring of third-party custody providers.

- collect, analyse and report to Group governance bodies the information necessary to carry out an adequate analysis of the marketing risk of products, services and claims, with a twofold view: the possible impact on customers and on the Group, and on the monitoring of products and services throughout their life cycle.

- supervise subsidiaries' processes of marketing and of customer complaint management, making proposals for improvement and following up on actions plans to mitigate risks.

The following were the main activities carried out by this function in 2015:

- In addition to the aforementioned analysis, of the 104 products and services submitted to the corporate commercialisation committee:

  i. analysis and validation of 27 products or services considered to be not new.

  ii. reviewing compliance of agreements in 63 structured notes issued by Santander International Products Plc. (subsidiary fully owned by Banco Santander S.A.) and

  iii. resolution of 182 consultations by different areas and countries.

- Updating of the contents and formats of documents that regulate the validation and monitoring of products and services in order to incorporate the best practices identified in the Group in this areas. These documents were validated by the committee (July 2015) and then communicated to the subsidiaries, as they are considered benchmark documents that Group units must use as the basis for developing or adapting their own procedures in these areas. The main innovations are:

  i. checklist which includes an assessment of the degree to which the proposal is aligned with the simple, personal and fair values of the corporate culture.

  ii. update of the draft memorandum provided to Group units as guidelines for submitting initiatives to the pertinent commercialisation committee.

  iii. update of the monitoring report submitted to Group units to assist in setting minimum and homogeneous contents for tracking and reporting on marketed products and services and

  iv. extending the monitoring scope to all products and services, regardless of the date on which they were validated.

- supervise local monitoring of marketed products and services, with special attention focused on some units that require it due to the type of products and customers they have.

- Monitor the the fiduciary risk of customers' equity in real estate investment funds and pension funds all managed by Santander Asset Management, the holding company owned by the group.

- Analyse and consolidate complaint information and management thereof from 25 local units and 36 business units and 10 branch offices of Santander Global Corporate Banking.

Corporate projects

- Darwin Project: development of corporate tools to improve safeguarding of customers' rights:

  i. MRF claim management tool, used in the registration, management and traceability of customer cases in order to comply with regulators' and consumers' expectations;

  ii. tool based on *Text & Speech Analytics ARCA (Application for Root Cause Analysis)*, complying with the Joint Committee guidelines of the European regulators. The tool processes all complaints cases in order to create uniform groups of information or clusters, and identify the cause of customers' problems in order to mitigate them.

- Classification of financial products under a corporate methodology (rating of one to five): during the year, monitoring of implementation of technology developments in subsidiaries that will allow for maintaining this classification in systems and apply pertinent marketing criteria, with implementation estimated for the first half of 2016.

- Conduct costs arising from marketing (pilot Spain with the idea of spreading conclusions and synergies throughout the rest of the Group): the Corporation has led a collecting of processes and data of Santander España, in order to prepare and action plain aimed at setting up a procedure for identifying and recording, in a centralised, comprehensive, complete and reliable manner, all costs relating to conduct risks arising from marketing.

D.5.6. Anti-money laundering and terrorist financing

The following functions are in place for the adequate control and supervision of money laundering and terrorist financing risks:

- For Grupo Santander, it is a strategic objective to have an advanced and efficient anti-money laundering and terrorist financing system, constantly adapted to the latest international regulations and with the capacity to confront the appearance of new techniques by criminal organisations.

- Its action is structured based on the corporate framework which establishes the principles and basic action guidelines to set minimum standards that Grupo Santander's units must observe. It is formulated in accordance with the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and the obligations and provisions of European directives concerning the prevention of the financial system being used for money laundering and for combating terrorist financing.

- The local units, in their role as first line of defence, are responsible for managing and coordinating the systems and procedures for anti-money laundering and terrorist financing in the countries where the Group operates, as well as the investigation and treatment of communications of suspicious transactions and of the information requirements of the corresponding authorities. Each of these local units has persons responsible for this function.

- Corporate systems and processes have been established in all units, based on decentralised operational technology systems, which can provide the corporate function with local management information and data, and also reporting, monitoring and control. These systems are used to apply an active and preventive management in the analysis, identification and monitoring of transactions suspected to be involved in money laundering or terrorist financing.

- Grupo Santander is a founding member of the Wolfsberg Group, with other major international financial entities. The Wolfsberg Group aims to establish international standards to increase the effectiveness of the anti-money laundering and combating terrorism financing programmes in the financial community. A number of initiatives have been launched to address different areas of concern. Supervisory authorities and experts in this area believe that the principles and guidelines set by the Wolfsberg Group represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

The prevention organisation assists 168 different Group units established in 31 countries. There are 900 professionals in the Group performing the anti-money laundering and combating of terrorism financing function, and 81% of them are exclusively engaged on this task.

The main activity indicators for 2015 are as follows:

- Subsidiaries reviewed: 109

- Cases investigated: 84,748

- Communications to authorities: 21,485

- Training for employees: 129,233

The Group has both local and corporate training plans, with the aim of covering all employees. There are also specific training plans for the most sensitive areas related to anti-money laundering and terrorist financing.

D.5.7. Reputational risk

As a result of the transformation of the compliance function through the implementation of the TOM model, very significant progress has been made in the specification of the details of the reputational risk model.

The specific characteristic of reputational risk, originating in a wide variety of sources which, when combined with the stakeholder's view,requires a unique approach, control and management model, different from other risks.

The reputational risk model is based on an eminently preventative approach, but it is also based on efficient crisis management processes.

Reputational risk management is to be incorporated into both business and support activities, and in internal processes. It should, therefore, allow for integrating functions of risk control and supervision in its activities.

The reputational risk model also involves an integrated understanding not only of the bank's activities and processes in the performance of its activity, but also of how it is perceived by stakeholders (employees, customers, shareholders and investors, and society at large) in different environments. This approach requires close coordination between the management, support and control functions with the different stakeholders.

Reputational risk governance is thus included as a part of compliance governance, as indicated. The compliance function reports to the senior management about reputational risk questions, once the data regarding the sources of reputational risk has been consolidated.

D.5.8. Risk assessment model of compliance and risk appetite

The Group risk appetite for compliance risks stems from a non appetite declaration for risks of this type, in order to clearly reduce the probability of any economic, regulatory or reputational impact occurring within the Group. Compliance risk is organised in a homogeneous way in units, by establishing a common methodology, which consists of setting a series of compliance risk indicators and assessment matrices which are prepared for each local unit.

The corporate compliance function has assessed the regulatory risk (risk assessment) in 2015, focusing on the Group's main countries. Actions plans designed to allay high risks which derive from risk assessment are monitored on a quarterly basis, country by country.

In accordance with the new compliance TOM, in 2015 the Group launched new indicators and established an initial risk assessment in regulatory consumer protection and products governance, anti-money laundering and funding of terrorism, and reputational risk functions.

From 2015 on, risk assessment is going to be consolidated in order to have a comprehensive overview of all compliance risks, so that such risks can be integrated with all the Group's other risks, and so the board of directors may have a holistic vision of these risks. This will allow the Group to have a single overview of how compliance risk appetite is established, how it is monitored and what corrective measures need to be deployed, if necessary. This task is performed in accordance with the same methodologies and indicators as in the risk function, so that they are integrated in the Group's risk appetite framework. Incurred losses resulting from compliance risks are added to the common event data base that is managed by the Risk function, in order to have a complete oversight, and also to provide an integrated control and management of non-financial risks.

The TOM model implementation is expected to include a revised taxonomy of the different types of compliance risks, as first level risks. The aim of this taxonomy is to clearly identify the compliance risks and so be able to ready for possible stress tests in the future.

D.5.9. Transversal corporate projects

In Risk Assessment, a methodology has been established for assessing compliance risks, training of all Group units, and in coordination with the operational risk function, the launching of an assessment exercise.

Lastly, the Risk Data Aggregation (RDA) project, in collaboration with the risk function, consists of a risk indicators models, which have been identified by the vertical functions, and which are required in a corporate tool in order to provide management information.

D.6. Model risk

Grupo Santander has far-reaching experience in the use of models to help make all kinds of decisions, and risk management decisions in particular.

A model is taken to be a any metric based on a quantitative method, system or estimate which provides a simplified representation of reality, using statistical, economic, financial or mathematical techniques for processing information and obtaining a result based on a series of assumptions and subject to a certain degree of uncertainty. The use of models helps decisions to be taken more rapidly and objectively, generally justified by analysis of large amounts of information.

When models are used extensively, so-called Model Risk emerges, which is defined as a number of possible adverse impacts, including losses, produced by decisions based on erroneous models or models that have been misused.

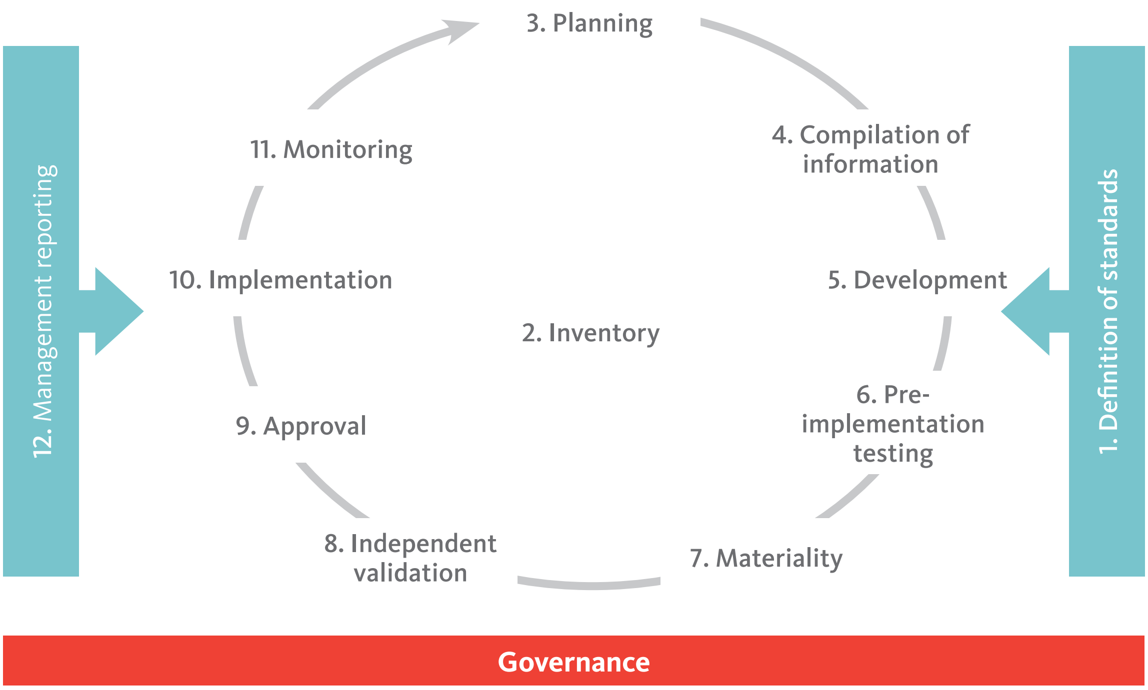
According to this definition, the sources of Model Risk are as follows:

- the model itself, due to the utilisation of incorrect or incomplete data, or due to the modelling method used and its implementation in systems
- improper use of the model

Grupo Santander has been working on the definition, management and control of Model Risk in recent years, and took a major step forward in 2015 by creating a specific area within its Risk division to control this type of contingency. The area encompasses the old model validation unit and a specific control team.

The function is deployed at the corporation and also at each of the Group's main entities. In order to carry out this function, a control framework has been defined with details concerning questions such as organisation, governance, model management and model validation.

Management and control of Model Risk is based on the life cycle of a model as defined by Grupo Santander, shown below:



1.- Definition of standards

The Group has defined a set of standards to develop, monitor and validate its models. Any models used by the Group must meet these standards, regardless of whether they are developed internally or are acquired from third parties. The standards provide a guarantee of quality for the models used by the Group for decision-making purposes.

2.- Inventory

One key feature of proper management of Model Risk is a complete exhaustive inventory of the models used.

Grupo Santander has a centralised inventory, created on the basis of a uniform taxonomy for all models used at the various business units. The inventory contains all relevant information on each of the models, enabling all of them to be properly monitored according to their relevance. The inventory enables transversal analyses to conducted on the information (by geographic area, types of model, importance etc.), thereby easing the task of strategic decision-making in connection with models.

3.- Planning

This phase involves all those affected by the model life cycle –users, developers, validators, data providers, IT etc.– and draws up and establishes priorities.

This planning takes place once a year at each of the Group's largest entities, and is approved by local governance bodies, and validated by the corporation.

4.- Compilation of information

As already mentioned, the data used to create models are a main source of Model Risk. Data must be reliable and complete, and must have sufficient historic depth to ensure that the model developed is suitable.

Grupo Santander has specialist teams to provide the information used to build models, information which has previously been certified by the owners.

5.- Development

This is the model's construction phase, based on the needs laid down in the Models Plan and the information furnished to this end by the specialists.

Most of the models used by the Santander Group are developed by internal methodology teams, though some models are also outsourced from external providers. Development must meet the standards established in either case.

6.- Pre-implementation testing

When the models have been built, the developers and their owners subject them to a battery of tests to ensure that they are functioning as expected, and make any adjustments necessary to this end.

7.- Materiality

Each Group model must be associated with a level of materiality or importance, which is established by an agreement among the parties involved.

The criteria for establishing materiality are documented in a corporate policy, which is transposed and approved at each of the Group' s major entities.

Materiality determines the depth, frequency and scope of the validations and monitoring of the model, in addition to the governance bodies that must take decisions concerning the model.

Materiality constitutes basic information for proper model risk management, and constitutes a field in the corporate inventory.

8.- Independent validation

Internal validation of models is not only a regulatory requirement in certain cases, but it is also a key feature for proper management and control of Grupo Santander's model risk.

Hence, as indicated above, a specialist unit is in place which is totally independently of both developers and users, draws up a technical opinion of the suitability of internal models to their purposes, and sets out conclusions concerning their robustness, utility and effectiveness.

At the present time internal validation covers any models used in the risk function, be they models for credit risk, market risk, structural or operational risk, economic or regulatory capital risk, models for provisions and stress test models including, in the latter case, models to estimate items on the institution's balance sheet and income statement.

The scope of validation includes not only the more theoretical or methodological aspects, but also IT systems and the data quality they allow, which determines their effectiveness. In general, it includes all relevant aspects of management in general (controls, reporting, uses, senior management involvement etc.).

After each model has been revised, the validation opinion is converted into a score on a scale of one to five as the model risk appraised by the internal validation team.

This corporate internal validation environment at Grupo Santander is fully aligned with the internal validation criteria of advanced models produced by the financial regulators to which the Group is subject. This maintains the criterion of a separation of functions for units developing and using the models (first line of defence), internal validation units (second line of defence) and internal audit (third line of defence) as the ultimate layer of control, checking the effectiveness of the function and its compliance with internal and external policies and procedures, and commenting on its level of effective independence.

9.- Approval

Before they are rolled out and actually used, models must be submitted for approval by the proper body, in accordance with their materiality.

10.- Implementation

This is the phase during which the newly developed model is implemented in the system in which it will be used. As already mentioned, the implementation phase is another possible source of model risk, and it is therefore essential that tests be conducted by technical units and the owners of the model to certify that it has been implemented pursuant to the methodological definition.

11.- Monitoring

A model is designed and built on the basis of certain information and circumstances, which may change with the passage of time. Models must therefore be regularly checked to ensure that they are still working properly, and adapted or redesigned if this is not the case.

The frequency and depth of monitoring is established on the basis of the models' materiality.

12.- Management reporting

Senior management at Grupo Santander, in the various units and also at the Corporation itself, regularly monitors model risk in a set of reports that provide a consolidated view of the Group's model risk and enable decisions to be taken in this regard.

13.- Governance

The Model Risk Management Framework stipulates that the body taking responsibility for authorising risk management models to be used is the Models Committee. Each business unit has a models committee which takes responsibility for decisions concerning approval of the local usage of these models when the approval of the corporate models committee has been secured. Under the current policy, all models submitted to a models committee must have an internal validation report.

D.7. Strategic risk

Grupo Santander considers strategic risk to be what it calls a transversal risk. During 2015, a **strategic risk control and management model** has been designed, and will be used as a reference for Group subsidiaries. This model includes the risk definition, the functional aspects and the description of the main processes associated with strategic management and control.

Strategic risk is the risk which is associated with strategic decisions and with changes in the entity's general conditions, which have an important impact on its business model in both the mid and long term.

The entity's **business model** is a key factor for strategic risk. The business model should be feasible and sustainable, deliver acceptable results each year and for at least the next three years.

There are three categories or types of strategic risk:

- **Business model risk:** the risk associated with the entity's business model. This includes the risk of the business model being obsolescent, of it being irrelevant, and/or losing value, and so not be able to deliver the expected results. This risk is caused both by external factors (macroeconomic, regulatory, social and political questions, changes in the banking industry, etc.) and also internal ones (strength and stability of the income statement, distribution model/channels, revenue and expenses structure, operational efficiency, adequacy of human resources and systems, etc).

- **Strategy design risk:** the risk associated with the strategy set out in the entity's five-year strategic plan. Specifically, it includes the risk that the strategic plan may not be adequate per se, or due to its assumptions, and thus the Bank will not be able to deliver on its expected results. It is also important to consider the opportunity cost of designing another more adequate strategy or the lack of action through not designing it.

- **Strategy execution risk:** the risk associated with the process of implementing five-year strategic plans and three-year plans. As the strategy is implemented in the mid and long term, it often has execution risk due to the complexity and many variables involved in it. Other risk area to be borne in mind are possibly inadequate resources, change management, and, lastly, lack of capacity to cope with changes in the business environment.

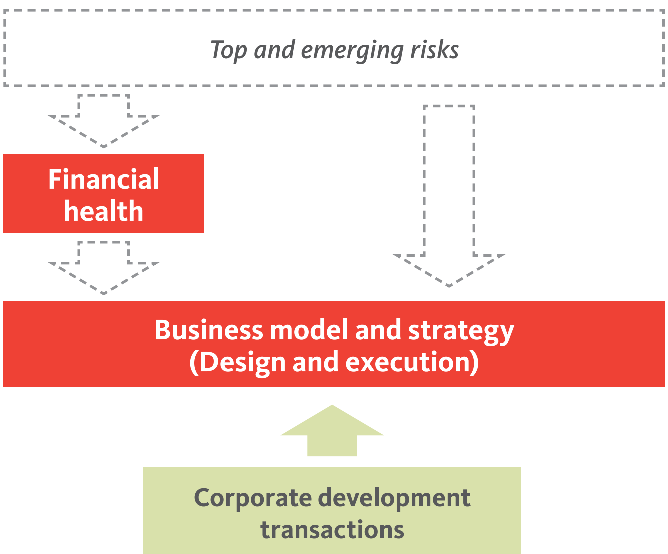
As far as strategic risk management and control are concerned, transversal risks associated with **corporate development** should also be taken into account, as they can pose an important risk to the business model. Such risks are: those which entail a change in the entity's scope and activity, acquisitions or disposals of significant holdings and assets, joint ventures, strategic alliances, shareholder agreements and capital transactions.

Lastly, there is another type of risks which may not have a strategic origin (credit, market, operational, compliance risks, etc.). Such risks can have a significant impact on the entity's financial strength, and may in turn affect the entity's strategy and business model. Hence, it is important to identify, assess, manage and control them.

Thus, **Top Risks**: they are risks with a significant impact on the entity's results, liquidity or capital or risks which could entail undesirable considerations. These risks can bring the entity nearer to default.

While **Emerging and Evolving Risks**: are risks which have not previously appeared or which have been presented in a different way. These risks often involve a certain degree of uncertainty and are difficult to quantify, but they can have a significant impact during a mid-long term time frame.

The chart below shows how the above risks impact the Group's business model and strategy.



D.8. Capital risk

Organisation of this section

After an **introduction** to the concept of capital risk and **solvency levels at the close of 2015**, the key capital figures are outline (pag. pag.281-282].

Next we describe the **regulatory framework** from a capital standpoint [pag. 282-283].

After that, the **regulatory capital** and **economic capital** figures are presented [pag. 283-287].

Lastly, we describe the **capital planning process and stress tests** in Grupo Santander [pag. 287-289].

For further details, refer to the Prudential Risk Report of Grupo Santander (Pillar III).

D.8.1. Introduction

Santander defines capital risk as the risk that the Group or some of its companies do not have the amount and/or quality of sufficient equity to meet the minimum regulatory requirements set for operating as a bank, to fulfil on the market's expectations about its/ their credit solvency and support business growth and the strategic possibilities they present, in accordance with the strategic plan. Of note are the following objectives:

- complying with the internal objectives for capital and solvency.
- meeting regulatory requirements.
- aligning the Bank's strategic plan with the capital expectations of outside agents (rating agencies, shareholders and investors, customers, supervisors, etc.)
- supporting the growth of the businesses and exploit the strategic opportunities that arise.

Grupo Santander has a comfortable solvency position, above the levels required by regulators and by the European Central bank, our supervisor. In 2015, the Group continued to bolster its capital ratios in view of the adverse economic setting and to comply with new regulatory requirements. In early 2015, it carried out a EUR 7.5 billion accelerated book building operation, and established a dividend policy which assures organic capital generation.

At 31 December 2015, the Group's main capital ratios are as follows:

	Fully loaded	Phase-in
Common Equity (CET1)	10.05%	12.55%
Tier1	11.00%	12.55%
Total Ratio	13.05%	14.40%
Leverage ratio	4.73%	5.38%

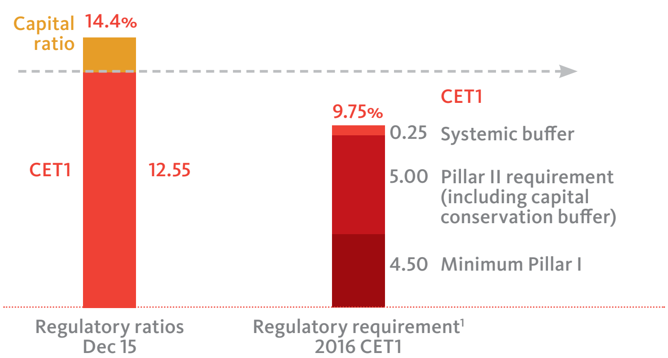
Phase-in ratios are calculated applying the transitional Basel III implementation schedules, while Fully loaded ratios are calculated using the final standard.

On 3 February, 2016, the European Central Bank authorised the use of the Alternative Standard Method to calculate capital requirements at consolidated level for operational risk in Banco Santander (Brasil) S.A. The impact of this authorization on the Group's risk-weighted assets (-EUR 7,836 million), and, consequently, on its capital ratios, has not been taken into account in the data published on 27 January and which are presented in this report.

At the end of 2015, the ECB sent every entity a notification setting out the minimum prudential capital requirements for the following year. For 2016, Grupo Santander must maintain a minimum phase-in CET1 capital ratio at the consolidated level of 9.75% (9.5% being the Pillar I, Pillar II and capital buffer requirements and 0.25% the requirement for being a Systemically Important Financial Institution). As can be seen from the table above, the Group's capital exceeds the ECB's minimum requirement.

Regulatory capital

%



1. Minimum prudential requirements established by the ECB based on the supervisory review and assessment process (SREP)

The Group is working towards its goal of having a CET1 fully loaded of more than 11% by 2018.

Capital

The Group considers the following capital concepts:

Regulatory capital

- **Capital requirements:** the minimum volume of own funds required by the regulator to ensure the solvency of the entity, depending on its credit, market and operational risks.
- **Eligible capital:** the volume of own funds considered eligible by the regulator to meet capital requirements. The main elements are accounting capital and reserves.

Economic capital

- **Self-imposed capital requirement:** the minimum volume of own funds required by the Group to absorb unexpected losses resulting from current exposure to the risks assumed by the entity at a particular level of probability (this may include other risks in addition to those considered in regulatory capital).
- **Available capital:** the volume of own funds considered eligible by the entity under its management criteria to meet its capital requirements.

Cost of capital

The minimum return required by investors (shareholders) as remuneration for the opportunity cost and risk assumed by investing in the entity's capital. The cost of capital represents a 'cut-off rate' or 'minimum return' to be achieved, enabling us to analyse the activity of our business units and assess their efficiency.

Return on risk adjusted capital (RORAC)

This is the return (net of tax) on economic capital required internally. Therefore, an increase in economic capital decreases the RORAC. For this reason, the Bank requires transactions or business units involving higher capital consumption to deliver higher returns.

This considers the risk of the investment, and is therefore a risk-adjusted measurement of returns.

Using the RORAC enables the Bank to manage its business more effectively, assess the real returns on its business - adjusted for the risk assumed - and to be more efficient in its business decisions.

Value creation

The profit generated in excess of the cost of economic capital. The Bank creates value when risk adjusted returns (measured by RORAC) exceed its cost of capital, and destroys value when the reverse occurs. This measures risk adjusted returns in absolute terms (monetary units), complementing the RORAC approach.

Expected loss

This is the loss due to insolvency that the entity will suffer over an economic cycle, on average. Expected loss considers insolvencies to be a cost that can be reduced by appropriate selection of loans.

Leverage ratio

This is a regulatory metric that monitors the solidity and robustness of a financial institution by comparing the size of the entity to its capital.

It is calculated as the ratio between Tier1 capital and leverage exposure, which considers the size of the balance sheet with certain adjustments for derivatives, security funding transactions and contingency accounts.

Control of capital risks is not just a question of complying with current regulatory ratios. The regulatory changes affecting the Group, our key regulatory capital figures and leverage ratio, economic capital, return on risk adjusted capital) and capital planning and stress tests performed by the Group to assure our solvency, are explained in the following sections.

D.8.2. Regulatory framework

The standards known as Basel III came into force in 2014, setting new global standards for banks' capital and liquidity.

From the standpoint of capital, Basel III redefines what is considered as available capital in financial institutions (including new deductions and raising the requirements of eligible capital instruments), increases the minimum capital required, demands that institutions operate permanently with capital buffers and adds new requirements in the risks considered.

In Europe, the new standards have been implemented via EU directive 2013/36, known as CRD IV, and its regulations 575/2013 (CRR), which is directly, applied in all EU countries (Single Rule Book). These standards are also subject to regulatory developments entrusted to the European Banking Authority (EBA).

CRD IV was introduced into Spanish law through Act 10/2014 on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015. The CRR is directly applicable in Member States from 1 January 2014 and repeals those lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the instruments and elements of capital that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV will also be phased in gradually, starting in 2016 and reaching full implementation in 2019.

After it was implemented, the Basel Committee on Banking Supervision has said that it intends to amend the capital regulations in the following sections:

- Standard credit risk method (open for public consultation until March 2016).
- Standard market risk method (Fundamental review of trading book).
- Standard operational risk method (there will be a public consultation in early 2016).
- IRB Internal Models: reducing the eligible options in design of models, particularly in certain portfolios.
- Internal market models: allow supervisors to withdraw authorisation to use this on the trading desk, reduce hedge mitigation and reduce diversification mitigation.
- Operational risk internal models: a consultation will be made on whether to eliminate them.
- Securitisations: the treatment of securitisations which fit the definition of 'simple, transparent and comparable' will be modified.
- Minimum requirements (*floors*): the BCBS has said that it intends to replace the current floor of 80% of RWA calculated under Basel I with floors consisting of one for each risk type, defined based on the new revised standard methods.
- Structural interest rate risk: the Committee has said that it intends to establish a capital requirement for the structural interest rate risk on banks' balance sheets.
- Calibration of leverage ratio: a minimum benchmark of 3% has been established, and will be reviewed in 2017. In recent publications, both the BCBS and the EVA have recommended a ratio of between 4% and 5%. Its calibration is expected to be completed in 2016 and it should be implemented in 2018.

Most of these regulatory modifications will be defined in 2016.

Grupo Santander shares the ultimate objective that the regulator pursues with this new framework, which is to make the international financial system more stable and solid. For years Grupo Santander has collaborated by supporting regulators and taking part in the studies promoted by the Basel Committee and the European Banking Authority (EBA), and coordinated at the local level by the Bank of Spain to calibrate the regulations.

Lastly, the TLAC (Total Loss Absorption Capacity) required of Global Systemically Important Entities (G-SIBs) was approved in the last G-20 meeting held in Antalya in November 2015. This is a very important milestone in terms of regulation. The TLAC means that banks must have a sufficient buffer of liabilities (capital and convertible debt) to be able to absorb losses, either through conversion to capital or by accepting a 'haircut'. The objective is that when facing a risk of insolvency, a bank should be able to recover its solvency without needing to be bailed out by national governments. This regulation is pending incorporation into the prevailing regulatory framework. However, the Financial Stability Board (FSB) has set a 3-year implementation schedule, such that it comes into effect in 2019. This proposes a minimum requirement for January 2019 equivalent to the higher of 16% of risk-weighted assets or 6% of leverage exposure; and for January 2022, the higher of either 18% of risk-weighted assets or 6.75% of leverage exposure.

The regulation requires that liabilities eligible for computation in this requirement must be subordinate to other non-eligible liabilities, and may include common equity, preferred issues eligible as Tier1 capital, subordinated debt eligible as Tier2 capital and at least 33% in the form of senior and junior debt.

The regulation stipulates that this requirement should be met at the consolidated level and at the level of each resolution group, as defined in the living wills. It also sets down certain restrictions on the financial support that a parent can provide to a subsidiary to comply with these requirements.

In Europe, Directive 2014/59/EU, known as the 'BRRD', was implemented. The BRRD has similar goals to the TLAC regulation.

This Directive also includes the concept of loss absorption and a minimum required eligible liability (MREL) requirement, which is similar to the TLAC. However, there are some differences in the ratios established, the scope of application and certain other definitions. The MREL applies to all entities operating in Europe, and is not limited solely to systemically important institutions. This began to apply on 1 January 2016, based on an 'bank by bank' calibration, with a 48-month transition period. It only applies to EU territory.

The MREL will be reviewed at the end of 2016, following the EBA submitting a report to the European Commission.

Furthermore, in 2015 the European Banking Authority has conducted the 2015 transparency exercise, in which it published information on risk-weighted assets, capital, solvency, and the details of sovereign positions at December 2014 and 2015 for 105 banks from 21 European countries, covering 67% of total assets in the European banking system. This exercise was aimed to promote transparency and to provide information on European banks' capital and solvency, encouraging market discipline and the Union's financial stability. The results underscore Grupo Santander's comfortable capital and solvency position, ahead of its peers in many core metrics.

D.8.3. Regulatory capital

The regulatory capital framework is based on three pillars:

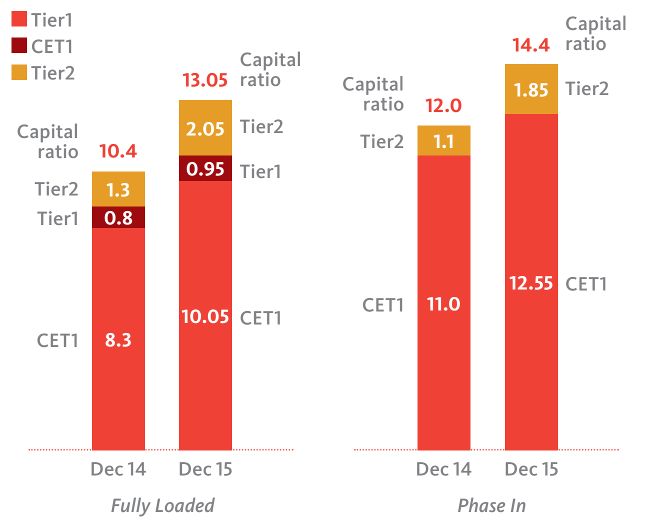
- Pillar I sets the minimum capital requirement for credit, market and operational risk, allowing the possibility of using internal ratings and internal models (IRB approach) for calculating credit-risk-weighted exposures, internal models (VaR) for market risk and internal models for operational risk. The aim is to make the regulatory requirements more sensitive to the risks actually incurred by financial institutions in carrying on their business activities.
- Pillar II establishes a system of supervisory review, aimed at improving banks' internal risk management and capital adequacy assessment in line with their risk profile.

- Lastly, Pillar III deals with financial information transparency and market discipline.

In 2015, the solvency target set was reached, despite negative one-off impacts. Our CET1 ratio fully loaded stands at 10.05% at the close of 2015, proving our organic capital generation capacity, which is of 10 b.p. a quarter. The key regulatory capital figures are indicated below:

	Fully loaded		Phase-in	
	Dec 15	**Dec 14**	**Dec 15**	**Dec 14**
Common equity (CET1)	58,705	48,129	73,478	64,250
Tier1	64,209	52,857	73,478	64,250
Capital total	76,205	60,394	84,346	70,483
Risk-weighted assets	583,893	582,207	585,633	585,621
CET1 Ratio	10.05%	8.27%	12.55%	10.97%
Tier1 Ratio	11.00%	9.08%	12.55%	10.97%
Total capital ratio	13.05%	10.37%	14.40%	12.03%

Capital
%



The table below shows risk-weighted assets (RWAs) in the main geographic areas and type of risk.

Cifras en millones de euros

Deployment of models

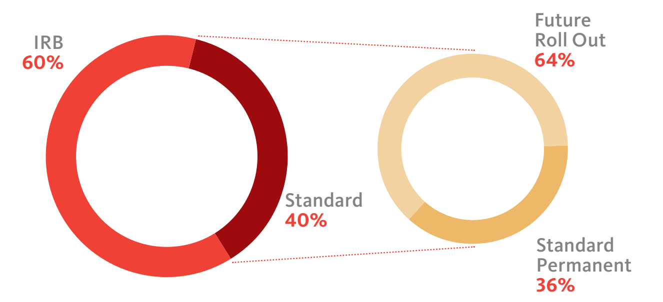
As regards credit risk, Grupo Santander continued its plan to implement Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities, as well as by the need for coordination between supervisors of the validation processes of internal models.

The Group operates in countries where the legal framework among supervisors is the same, as is the case in Europe via the Capital Directive. However, in other jurisdictions, the same process is subject to the cooperation framework between the supervisor in the home country and that in the host country with different legislations. This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

Santander continued to pursue this objective during 2015 through its plan to gradually implement the necessary technology platforms and methodological improvements to be able to gradually apply the advanced IRB approach for the calculation of regulatory capital in the rest of the Group's units.

Grupo Santander currently has the supervisory authorisation to use advanced approaches for calculating the regulatory capital requirements by credit risk for the parent bank and the main subsidiaries in Spain, United Kingdom, Portugal, and certain portfolios in Mexico, Brazil, Chile, Santander Consumer Finance Spain and the US. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe. In 2015, authorisation was received for the vehicle portfolio of Santander Consumer Nordics, maintaining the IRB approach for the companies and retail portfolios of the joint venture with PSA Francia.

The current proportion of use of IRB and standard methods is as follows:



With regard to operational risk, Grupo Santander currently applies the standard approach to calculating regulatory capital, as set out in the European Capital Directive. During 2015, the Group increased the pace of transformation towards an advanced operational risk management (AORM) approach. The AORM programme will help Grupo Santander to develop internal models for estimating capital in its main geographic areas, both for economic capital and stress testing, and for potential application as regulatory capital.

As regards the other risks explicitly addressed in Pillar I of the Basel Capital Accord, in terms of market risk the Santander Group has permission to use its internal model for the treasury trading activity in Spain, Chile, Portugal and Mexico, thus continuing the plan of gradual implementation for the rest of the units presented to the Bank of Spain.

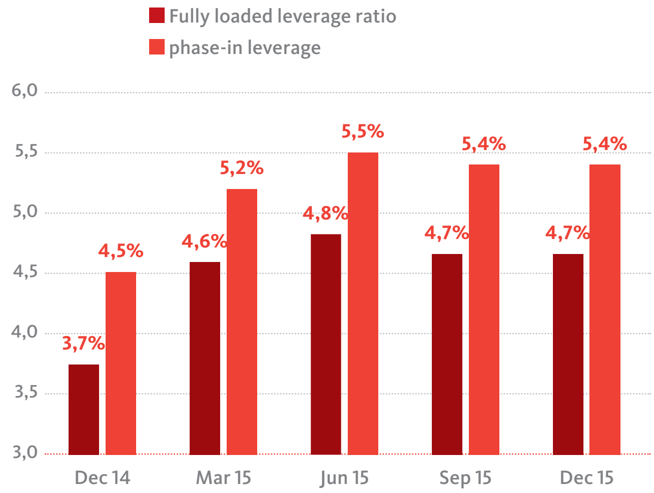
Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The CRD IV was amended on 17 January 2015 by modifying Regulation (EU) no. 575/2013 to harmonise the calculation criteria with those set forth in the *Basel III leverage ratio framework and disclosure requirements* document by the BCBS.

This ratio is calculated as the ratio between Tier1 divided by the leverage exposure. This exposure is calculated as the sum of the following items:

- Accounting assets, without derivatives and not including items considered to be deductions in Tier1 (for example, it include the balance of loans but not the goodwill).
- Off-balance sheet items (guarantees, unused credit limits granted, documentary credits, in the main) weighted by the credit limits.
- Inclusion of the net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.
- A charge for the potential risk of security funding transactions.
- Lastly, it includes a charge for the risk of credit derivative swaps.

The ratios published by the Group since 2014 are indicated below:



The leverage ratio is still undergoing calibration and it is not compulsory until 2018. For the time being, a reference of 3% has been set (the Bank's ratio is higher). During this period, the only obligation is to disclose the data to the market. More details are available in the Prudential Relevance Report (Pillar III) which is published on the Group website.

Global systemically important financial institutions

Grupo Santander is one of the 30 entities which have been classified as global systematically importance banks (G-SIB).

The designation as a systemically important entity is based on a measurement established by the regulators (the FSB and BCBS) based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity). This information is requested annually from banks with leverage exposure in excess of EUR 200,000 million (76 banks in December 2014), which are required to disclose it (refer to the information on www.gruposantander.com).

Based on this information, Banco Santander scored 208.4 points.

The fact that Santander is considered as a G-SIB means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (we are included in the group of banks with the smallest capital buffer, 1%), in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

Refer to the Prudential Relevance Report (Pillar III) for more information.

D.8.4. Economic capital

Economic capital is the capital needed, in accordance with an internally developed model, to support all the risks of business with a certain level of solvency. In the case of Santander, the solvency level is determined by the long term rating objective of 'A' (two notches above Spain's rating), which means a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

Santander's economic capital model includes in its measurement all significant risks incurred by the Group in its operations (risk of concentration, structural interest rate, business, pensions and others beyond the sphere of Pillar I regulatory capital). Moreover, economic capital incorporates the diversification impact, which in the case of Grupo Santander is vital, because of its multinational and business nature, in order to determine the global risk profile and solvency.

Economic capital is a key tool for the internal management and development of the Group's strategy, both from the standpoint of assessing solvency, as well as risk management of portfolios and businesses.

From the solvency standpoint, the Group uses, in the context of Basel Pillar II, its economic model for the capital self-assessment process (ICAAP). For this, the business evolution and capital needs are planned under a central scenario and alternative stress scenarios. The Group is assured in this planning of maintaining its solvency objectives even in adverse scenarios.

The economic capital metrics also enable risk-return objectives to be assessed, setting the prices of operations on the basis of risk, evaluating the economic viability of projects, units and lines of business, with the overriding objective of maximising the generation of shareholder value.

As a homogeneous measurement of risk, economic capital can be used to explain the risk distribution throughout the Group, putting in a metric comparable activities and different types of risk.

The economic capital requirement at the end of December 2015 was EUR 71,671 million, EUR 20,706 million below the EUR 92,377 million available economic capital.

The table below sets out the available economic capital:

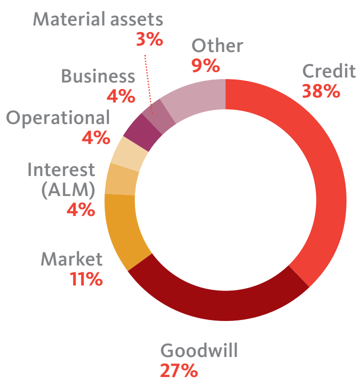
Million euros

	Dec 15	Dec 14
Net capital and issue premiums	52,004	44,851
Reserves and retained profits	49,673	46,227
Valuation adjustments	(15,448)	(11,429)
Minority interests	6,148	4,131
Base economic capital available	**92,377**	**83,780**
Required economic capital	71,671	69,278
Excess Capital	20,706	14,502

The main difference with the regulatory CET1 comes from the treatment of goodwill and other intangibles, which we consider as one more requirement of capital instead of as a deduction from the available capital.

The distribution of economic capital needs by type of risk at the end of December 2015 is shown in the following chart:

Million euros



Credit	26,893
Goodwill	19,178
Market	8,227
Interest (ALM)	2,550
Operational	3,233
Business	3,226
Material assets	1,838
Other	6,527
TOTAL ECONOMIC CAPITAL	71,671

The table below sets out Grupo Santander's distribution by types of risk and geographic area at the end of December 2015:

Cifras en millones de euros

Grupo Santander
Total requirements: 71,671

Corporate centre 25,503	Continental Europe 19,265	UK 8,159	Latin America 10,840	US 7,904
Total risks:	**Total risks:**	**Total risks:**	**Total risks:**	**Total risks:**
Goodwill: 75%	Credit: 54%	Credit: 61%	Credit: 58%	Credit: 64%
Market: 20%	Market: 10%	Structural (pensions): 15%	Structural (interest): 10%	Operational: 9%
DTAs: 4%	DTAs: 10%	Operational: 9%	DTAs: 9%	Material assets: 7%
Other: 1%	Business: 7%	Business: 7%	Business: 8%	Intangible assets: 6%
	Other: 19%	Other: 8%	Other: 15%	Business: 6%
				Other: 9%

The distribution of economic capital among the main business areas reflects the diversified nature of the Group's business and risk. Continental Europe represents 42% of the capital, Latin America including Brazil 23%, the United Kingdom 18% and the United States 17%.

Outside the operating areas, the corporate centre assumes, principally, the risk from goodwill and the risk derived from the exposure to structural exchange rate risk (risk derived from maintaining stakes in subsidiaries abroad denominated in currencies other than the euro).

The benefit of diversification contemplated in the economic capital model, including both the intra-risk diversification (equivalent to geographic) as well as inter-risks amounted to approximately 30%.

Return on risk adjusted capital (RORAC) and creation of value

Grupo Santander has been using RORAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Measurement of the Group units' management, using budgetary tracking of capital consumption and RORAC.
- Analyse and set prices in the decision-taking process for operations (admission) and clients (monitoring).

RORAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk- adjusted return higher than the cost of the Group's capital, aligning risk and business management with the intention of maximising the creation of value, the ultimate aim of the Group's senior management.

The Group regularly assesses the level and evolution of value creation (VC) and the risk-adjusted return (RORAC) of its main business units. The VC is the profit generated above the cost of the economic capital (EC) employed, and is calculated as follows:

Value creation =profit – (average EC x cost of capital).

The profit used is obtained by making the necessary adjustments to the accounting profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the free return of risk the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of the Banco Santander share in relation to the market's performance. The Group's cost of capital for 2015 was 9.31% (vs. 11.59% the previous year, in which there was greater market volatility).

The Group's internal management includes an annual revision of the cost of capital and also an estimated cost of capital for each business unit, taking into account the specific features of each market, under the philosophy of subsidiaries autonomous in capital and liquidity, in order to assess if each business is capable of generating value individually.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is only creating shareholder value when that return exceeds the cost of capital.

The performance of the business units in 2015 in value creation varied. The Group's results, and thus the RORAC figures and value creation, are conditioned by the different evolution of the economic cycle in the Group's units.

The creation of value and the RORAC for the Group's main business areas at December 2015 are shown below:

	Dec 15		Dec 14	
Main segments	**RORAC**	**Value creation**	**RORAC**	**Value creation**
Continental Europe	13.9%	883	13.6%	358
UK	22.5%	1,065	20.4%	634
Latin America	33.8%	2,746	29.7%	2,401
US	13.4%	308	19.5%	412
Total business units	**20.2%**	**5,001**	**20.4%**	**3,805**

D.8.5. Planning of capital and stress exercises

Stress tests on capital have become particularly important as a dynamic evaluation tool of the risks and solvency of banks. A new model of evaluation, based on a dynamic (forward-looking) approach, is becoming a key element for analysing the solvency of banks.

It is a forward-looking assessment, based on macroeconomic as well as idiosyncratic scenarios of little probability but plausible. It is necessary to have for it robust planning models, capable of transferring the impact defined in projected scenarios to the different elements that influence the bank's solvency.

The ultimate objective of the stress exercises is to carry out a full assessment of the risks and solvency of banks, which enables possible capital requirements to be calculated in the event that they are needed because of banks' failure to meet the capital objectives set, both regulatory and internal.

Internally, Grupo Santander has defined a process of stress and capital planning not only to respond to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The goal of the internal process of stress and capital planning is to ensure sufficient current and future capital, including for adverse though plausible economic scenarios. Starting from the Group's initial situation (defined by its financial statements, capital base, risk parameters and regulatory ratios), the envisaged results are estimated for different business environments (including severe recessions as well as 'normal' macroeconomic situations), and the Group's solvency ratios are obtained for a period usually of three years.

This process provides a comprehensive view of the Group's capital for the time frame analysed and in each of the scenarios defined. It incorporates the metrics of regulatory capital, economic capital and available capital.

The structure of the process is shown below:

1 Macroeconomic scenarios	→ **Central** and of **recession** → **Idiosyncratic:** based on specific risks → **Multiannual** time frame
2 Projection of the balance sheet and income statement	→ Projection of **volumes. Business** strategy → **Spreads** and **cost of funding** → **Commissions** and **operating** costs → **Market** shocks and **operational** losses → Credit losses and **provisions**. PD and LGD PIT models
3 Projection of capital requirements	→ **Consistent** with the projected **balance** sheet → **Risk parameters** (PD, LGD and EaD)
4 Solvency analysis	→ **Capital base** available. Profit and dividends → **Impact of regulations and regulatory requirements** → **Capital and solvency ratios** → **Compliance** with capital **objectives**
5 Action plan	→ In the event of not meeting objectives or regulatory requirements

The structure facilitates achieving the ultimate objective which is capital planning, by turning it into an element of strategic importance for the Group which:

- Ensures the solvency of current and future capital, including in adverse economic scenarios.
- Enables comprehensive management of capital and incorporates an analysis of the specific impacts, facilitating their integration into the Group's strategic planning.
- Enables a more efficient use of capital.
- Supports the design of the Group's capital management strategy.
- Facilitates communication with the market and supervisors.

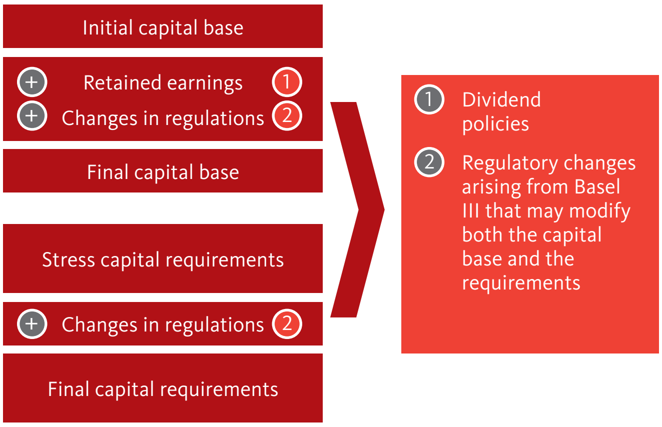
In addition, the whole process is developed with the maximum involvement of senior management and its close supervision, as well as under a framework that ensures that the governance is the suitable one and that all elements that configure it are subject to adequate levels of challenge, review and analysis.

One of the key elements in capital planning and stress analysis exercises, due to its particular importance in forecasting the income statement under defined stress scenarios, consists of calculating the provisions needed under these scenarios, mainly those to cover losses in the credit portfolio. Specifically, to calculate credit portfolio loan loss provisions, Grupo Santander uses a methodology that ensures that at all times there is a level of provisions that covers all the projected credit losses for its internal models of expected loss, based on the parameters of Exposure at Default (EaD), Probability of Default (PD) and Loss Given Default (LGD).

This methodology is widely accepted and it similar to that used in previous stress exercises (for example, the EBA stress exercises in 2011 and 2014 or the health check on the Spanish banking sector in 2012).

Lastly, the capital planning and stress analysis process culminates with analysis of solvency under the various scenarios designed and over a defined time frame, in order to assess the sufficiency of capital and ensure the Group fulfils both the capital objectives defined internally as well as all the regulatory requirements.

Quantification of capital sufficiency



In the event of not meeting the capital objectives set, an action plan will be prepared which envisages the measures needed to be able to attain the desired minimum capital. These measures are analysed and quantified as part of the internal exercises, although it is not necessary to put them into force as Santander exceeds the minimum capital thresholds.

This internal process of stress and capital planning is conducted in a transversal way throughout Grupo Santander, not only at the consolidated level, but also locally in the Group's units as they use the process of stress and capital planning as an internal management tool and to respond to their local regulatory requirements.

Throughout the recent economic crisis, Grupo Santander was submitted to five stress tests which demonstrated its strength and solvency in the most extreme and severe macroeconomic scenarios. All of them, thanks mainly to the business model and geographic diversification in the Group, showed that Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In the first (CEBS 2010), the Group was the entity with a low impact on its solvency ratio, except for those banks that benefited from not distributing a dividend. In the second, carried out by the EBA in 2011, Santander was not only among the small group of banks that improved their solvency in the stress scenario, but also the bank with the highest profits.

In the stress exercises conducted by Oliver Wyman on Spanish banks in 2012 (top-down and then bottom-up), Banco Santander again showed its strength to give with full solvency the most extreme economic scenarios. It was the only bank that improved its core capital ratio, with a surplus of more than EUR 25,000 million over the minimum requirement.

Lastly, in the recent stress test carried out in 2014 by the European Central Bank, in conjunction with the European Banking Authority, Grupo Santander was the bank with the smallest impact from the adverse scenario among its international peers (EUR 20,000 million capital surplus above the minimum requirement). These results show, once again, that Grupo Santander's business model enables it to face with greater robustness the most severe international crises.

As already mentioned, as well as the regulatory exercises of stress, Grupo Santander annually conducts since 2008 internal exercises of resilience within its self-assessment process of capital (Pillar II). All of them showed, in the same way, Grupo Santander's capacity to face the most difficult scenarios, both globally as well as in the main countries in which it operates.

Appendix: EDTF transparency

Banco Santander has traditionally maintained a clear commitment to transparency. By virtue of this transparency, it has played an active role in the Enchanced Disclosure Task Force (EDTF) promoted by the Financial Stability Board (FSB) in order to improve the quality and comparability of the risk information that banks provide to the market. Several studies have analysed the degree of adoption of the 32 recommendations formulated by the EDTF in October 2012, in which Santander stands out as one of the banks that is leading globally the practical application of this initiative.

The table below sets out where the EDTF recommendations can be found in the information published by Grupo Santander.

		EDTF recommendations	Annual report*	Audit report and annual accounts *	IRP (Pillar III) *
General	1	Index with risk information	Executive summary		Appendix V; Appendix VI; 3.4
	2	Terminology and risk measures	B.1.; D.1.5.; D.2.1.-D.2.4.; D.3.2.	Notes 54b, 54c, 54d, 54e	Appendix IV
	3	Top and emerging risk	C		5.2; 5.3.7
	4	New regulatory ratios and compliance plans	D.1.; D.3.; D.8.	Notes 54c, 54e, 54j	1; 4.6.3.2- 6.5.3.3
Risk governance and risk management and business model	5	Organisation of risk management, processes and functions	B; D.3.2.	Notes 54b, 54e	5; 4.2; 4.3; 4.4
	6	Risk culture and internal measures	A; B.4.	Notes 54a, 54b	5
	7	Business model risks, risk management and appetite	B; D.8.	Notes 54b, 54j	5.1; 5.3; 11.8;
	8	Stress test uses and process	B.3.1.-B.3.3.; D.1.5.; D.2.2.-D.2.3.; D.3.2.; D.8.4.	Notes 54b, 54c, 54d, 54e, 54j	4.7.1
Capital adequacy and risk-weighted assets	9	Minimum capital requirements (Pillar I)	D.8.	Note 54j	Executive summary; 4.6.1: 4.6.3; 4.6.4
	10	Composition of regulatory capital and reconciliation to the balance sheet			3.6; 4.6.1 Anexo III.a y III.c
	11	Flow statement of movements in regulatory capital			4.6; 4.6.1; Appendix III.b; Appendix III.c
	12	Capital planning	D.8.4.	Note 54j	4.7.1
	13	Business activities and RWAs	D.8.	Note 54j	4.6.3
	14	Capital requirements by method of calculation and portfolio			4.6; 4.6.3;6.4
	15	Credit risk by Basel portfolios			4.6.3.1.1; 6.2-6.4
	16	RWA flow statement by type of risk			Executive summary; 4.6.3.1; 4.6.3.3; 4.6.3.4
	17	Backtesting of models (Pillar III)			6.7; 6.9; 8.2.5
Liquidity	18	Liquidity needs, management and liquidity reserve	D.3.2.; D.3.3.	Note 54e	9
Funding	19	Encumbered and unencumbered assets	D.3.3.	Note 54e	9.3.2 (IV.)
	20	Contractual maturities of assets, liabilities and off-balance sheet balances	D.3.3.	Note 54e	-
	21	Funding plan	D.3.3.; D.3.4	Note 54e	9.3
Market risk	22	Balance sheet reconciliation to trading and non-trading positions	D.2.2.	Note 54d	-
	23	Significant market risk factors	D.2.1.-D.2.3.	Note 54d	8.1; 8.2
	24	Market risk measurement model limitations	D.2.2.	Note 54d	8.2; 8.2.6
	25	Management techniques for measuring and assessing the risk of loss	D.2.2.	Note 54d	8.2.1; 8.2.2; 8.2.3; 8.2.4; 8.2.5
Credit risk	26	Credit risk profile and reconciliation to balance sheet items	D.1.2.	Note 54c	6.2
	27	Policies for impaired or non-performing loans and forbearance portfolio	D.1.2.	Note 54c	-
	28	Conciliation of non-performing loans and provisions	D.1.2.	Note 54c	6.2
	29	Counterparty risk resulting from derivative transactions	D.1.4.	Note 54c	6.10
	30	Credit risk mitigation	D.1.5.	Note 54c	6.11
Other risks	31	Other risks	D.4.; D.6.; D.7.	Notes 54f, 54h, 54i	10; 11; 12
	32	Discussion of risk events in the public domain	D.5.	Note 54g	11
IFRS 9		The recommendations regarding the adoption of IFRS 9 which transversally affect the various EDTF recommendations can be consulted in table 1 (pg. 194-196) which outlines the proposed model and the implementation strategy as well as the regulatory and complementary guidelines	C (Table 1)		

* The location refers to chapters or sections of this Annual report. In the case of capital recommendations and risk-weighted assets, they also refer to sections of the information of Prudential Relevance (Pillar III). In addition, the navigation map has the cross-references of the information published by the Group (Annual report, Pillar III, Auditor's report and annual consolidated accounts).

Historical data. 2005 - 2015

Balance sheet	Mill. US$	2015 € Million	2014 € Million	2013 € Million	2012 € Million	2011 € Million
Total assets	1,459,141	1,340,260	1,266,296	1,134,128	1,282,880	1,251,008
Net customer loans	860,996	790,848	734,711	684,690	731,572	748,541
Customer deposits	743,715	683,122	647,628	607,836	626,639	632,533
Customer funds under management	1,170,967	1,075,565	1,023,437	946,210	990,096	984,353
Stockholders' equity	95,849	88,040	80,806	70,327	71,797	74,459
Total managed funds	1,640,149	1,506,520	1,428,083	1,270,042	1,412,617	1,382,464
Income statement						
Net interest income	35,688	32,189	29,548	28,419	31,914	28,883
Gross income	50,192	45,272	42,612	41,920	44,989	42,466
Net operating income	26,278	23,702	22,574	21,762	24,753	23,055
Profit before taxes	10,584	9,547	10,679	7,378	3,565	7,858
Attributable profit to the Group	6,614	5,966	5,816	4,175	2,283	5,330

Per share data (1)	US$	2015 Euros	2014 Euros	2013 Euros	2012 Euros	2011 Euros
Attributable profit to the Group	0.45	0.40	0.48	0.39	0.23	0.60
Dividend	0.22	0.20	0.60	0.60	0.60	0.60
Share price	4.962	4.558	6.996	6.506	6.100	5.870
Market capitalisation (million)	71,628	65,792	88,041	73,735	62,959	50,290

Euro / US$ = 1.089 (balance sheet) and 1.109 (income statement)
(1) Figures adjusted to capital increase in 2008.

Historical data. 2005 - 2015

2010	2009	2008	2007	2006	2005
€ Million	€ Million	€ Million	€ Million	€ Million	€ Million
1,217,501	1,110,529	1,049,632	912,915	833,873	809,107
724,154	682,551	626,888	571,099	523,346	435,829
616,376	506,976	420,229	355,407	331,223	305,765
985,269	900,057	826,567	784,872	739,223	651,360
75,018	69,678	57,587	55,200	44,852	39,778
1,362,289	1,245,420	1,168,355	1,063,892	1,000,996	961,953

27,728	25,140	20,019	14,443	12,480	10,659
40,586	38,238	32,624	26,441	22,333	19,076
22,682	22,029	17,807	14,417	11,218	8,765
12,052	10,588	10,849	10,970	8,995	7,661
8,181	8,943	8,876	9,060	7,596	6,220

2010	2009	2008	2007	2006	2005
Euros	Euros	Euros	Euros	Euros	Euros
0.94	1.05	1.22	1.33	1.13	0.93
0.60	0.60	0.63	0.61	0.49	0.39
7.928	11.550	6.750	13.790	13.183	10.396
66,033	95,043	53,960	92,501	88,436	69,735

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

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Ombudsman

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