



**Statement on Corporate Governance in relation
to the Code of Best Practices for WSE Listed
Companies**

23 February 2015

1. INTRODUCTION

In accordance with § 29 sec. 5 of the Warsaw Stock Exchange Rules, Banco Santander S.A. (“**Banco Santander**” or the “**Company**”) hereby presents a report regarding the level of compliance with the Warsaw Stock Exchange Corporate Governance Rules set forth in the Code of Best Practices for WSE Listed Companies (the “**WSE Code**”)¹.

For information on the Company’s compliance with the Spanish Corporate Governance Code, please refer to the 2014 Report on Corporate Governance and the 2014 Report on the Director Remuneration Policy of Banco Santander, an English version of which is available at the Company’s corporate website: www.santander.com.

Banco Santander is a company incorporated and operating under the laws of Spain. In this regard, Spanish companies (other than those taking the corporate form of a European company –*sociedad anónima europea*) cannot establish a two-tier board and therefore have a one-tier board consisting of both executive and non-executive directors, whereas the WSE Code assumes that a company will have separate supervisory and management boards. Consequently, it should be noted that in assessing the level of compliance with the WSE Code, references to the supervisory board and the management board have been construed to refer to the board of directors.

2. INFORMATION ON COMPLIANCE WITH THE WSE CODE

As of 31 December 2014, the Company complies with all the corporate governance rules set forth in the WSE Code, except for the practices indicated below, which were not possible to fully comply with due to the discrepancies between the laws and regulations and operational practices of the Company as a foreign entity and the respective practice in Poland.

(A) Recommendation II.1:

- (i) *Paragraph 7:* Banco Santander has not published on its website questions regarding issues on the agenda submitted before and during a general meeting. However, a set of frequently asked questions has always been published at the time a general meeting is convened and shareholders can share their views on the board’s proposals in the *Foro de Accionistas* (Electronic Shareholders’ Forum) that the Company is required to establish at such time and maintain until the general meeting is held. Moreover, any questions submitted during a general meeting are always included in the minutes of such meeting, a copy of which can be requested by any shareholder.

In addition to the above, on December 2014 the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*) was amended, now requiring listed companies to publish on its website any valid written information request, together with the response provided by the Company. The Company will implement this measure in the context of the 2015 annual general meeting, to be held on 26 or 27 March 2015.

- (ii) *Paragraph 9a:* Banco Santander does not currently publish a record of the general meeting in audio or video format. The Company believes that the

¹ For the purposes of § 29 sec. 5 of the Warsaw Stock Exchange Rules, this document shall be read as an attachment to the Company’s annual report, an English version of which is available at the Company’s corporate website: www.santander.com

current information policy applied by it guarantees investors full and comprehensive information on the decisions made at the Company's general meetings.

(iii) *Paragraph 14*: The Company does not publish information on the internal rules relating to the change or rotation of its auditors, since it follows the rules set forth in the applicable legislation. In this regard, the Spanish Audit Law (*Ley de Auditoría de Cuentas*) currently provides for²:

- (a) the competent body of the Company empowered to appoint the auditor (i.e., the general meeting);
- (b) the minimum and maximum term of the auditor's initial mandate (i.e., from three to nine years), which can subsequently be extended for additional periods of up to three years; and
- (c) the need to rotate from time to time the partner responsible for the audit within the appointed auditing firm (i.e., after the seventh anniversary of the initial contract with the auditing firm; such partner will not be allowed to again audit the Company's accounts for at least two years from the rotation).

Banco Santander usually re-appoints its auditor (currently Deloitte) every year at the annual general meeting, following a proposal of the audit committee, and the partner responsible for the audit within such auditing firm rotates as required under applicable law. Moreover, the audit committee supervises the independence of the auditor and the duration of service of the partner who leads the audit team in the provision of such services to the Company (cfr. Article 16.4.h) of the rules and regulations of the board).

(B) **Recommendations II.3 and III.9**: Certain related-party transactions require the approval of the board of directors (Banco Santander does not have a supervisory board)³ after a favourable report from the remuneration committee⁴. Even though the scope of related-party transactions under Spanish Law (cfr. Article 2 of the Order EHA/3050/2004, of 15 September) is similar to the applicable definition under Polish law, the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*) only requires approval by the board⁵ (taking into account the conclusions of a previous report issued by the audit committee (or, as it is currently the case for the Company, the remuneration committee⁶) of transactions entered into by Banco Santander or other companies of its Group

² The Spanish Parliament is discussing a bill amending the Spanish Audit Law (for which there is no envisaged date of approval) in order to (i) transpose Directive 2014/56/EU of the European Parliament and the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and (ii) implement issues which are open to national discretion in Regulation (EU) N° 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

³ Since 24 December 2014, transactions with directors of the Company (or with persons related thereto) representing more than 10% of the Company's assets require the approval of the general meeting.

⁴ However, the Company's board of directors will submit for the approval of the 2015 annual general meeting an amendment of the bylaws whereby the audit committee will assume this competence.

⁵ Or, where applicable, by the general meeting (see footnote 3).

⁶ See footnote 4.

with directors of Banco Santander or shareholders who, individually or acting in concert, hold a significant shareholding, including shareholders which are represented at the Company's board or at the board of any Group entity or related parties thereto. Section D of the 2014 Report on Corporate Governance of Banco Santander and Note 53 to the 2014 Individual and Consolidated Financial Statements provide information on the related-party transactions of Banco Santander and its Group.

- (C) **Recommendation II.8:** The rules and regulations of general meetings of the Company are subject to Spanish legislation, which is similar to the Polish regulations referred to in this recommendation, with the following exceptions:
- (i) the Company does not have a supervisory board and, therefore, the board is the only corporate body empowered to convene a general meeting (Article 399 § 2); and
 - (ii) shareholders representing 50% of the share capital cannot convene an extraordinary general meeting (Article 399 § 3). However, under Spanish law, shareholders holding at least three percent of the share capital have the right to request the convocation of an extraordinary general meeting (and such request has to set out the matters to be addressed at such meeting). In such case, the directors must convene a general meeting to be held within two months from the date on which the request is submitted; otherwise, a judge may convene the general meeting. In addition, if the board does not convene an ordinary annual general meeting to be held within the first six months of the relevant fiscal year, a judge may convene such meeting following a request by any shareholder.
- (D) **Recommendation III.8:** The board committees comply with Annex I to the Commission Recommendation 2005/162/EC with the exception of the requirement regarding the description in the terms of reference of the relevant committee of the circumstances in which the chair of such committee may communicate directly with shareholders. As to the renewed membership reference in paragraph 1.2 of such Commission Recommendation, it should be noted that rotation of chairmanship is only required under Spanish law for the chair of the audit committee, who must rotate at least every four years, a provision which is complied with by Banco Santander.
- (E) **Recommendation IV.6:** Banco Santander complies with this recommendation when it pays dividends. However, it should be noted that in recent years Banco Santander has decided to remunerate its shareholders by launching a scrip dividend scheme (*Santander Dividendo Elección*), which entitles shareholders to receive a sum equivalent to the dividend in the form of cash or Banco Santander shares, in some or all of the traditional payment dates of the three interim dividends and the final dividend relating to any given fiscal year of Banco Santander. The scrip dividend scheme entails a rights issue and Spanish law requires that the bonus share rights (*derechos de asignación gratuita*) attributed to the shareholders be traded for at least 15 calendar days; after such period, a number of procedural steps must be taken before the newly issued shares can be delivered. Consequently, the delivery of the newly issued shares or payment in cash of the remuneration to shareholders, as applicable, may take place within several days after the expiry of the 15-business day period.

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