

## BASE PROSPECTUS



### BANCO SANTANDER, S.A.

*(incorporated with limited liability in Spain)*

## €25,000,000,000 PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

This document (the “**Base Prospectus**”) constitutes a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the “**Prospectus Directive**”) relating to instruments (the “**Instruments**”) issued under the programme described herein (the “**Programme**”) by Banco Santander, S.A. (“**Santander**”, “**Banco Santander**”, the “**Issuer**” or the “**Bank**”).

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. This Base Prospectus has been approved on 6 March 2017, as a base prospectus issued in compliance with the Prospectus Directive for the purpose of giving information with regard to the issue of Instruments under the Programme during the period of twelve months after the date of its approval. The Central Bank of Ireland assumes no responsibility as to the economic and financial soundness of the transactions and the quality or solvency of the Issuer. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (“**EU**”) law pursuant to the Prospectus Directive. Such approval relates only to the Instruments which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any member state (“**Member State**”) of the European Economic Area (“**EEA**”). Application has been made to the Irish Stock Exchange (the “**Irish Stock Exchange**”) for the Instruments to be admitted to the official list (the “**Official List**”) and trading on its regulated market. This Base Prospectus will be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the information incorporated by reference under Section titled “*Documents incorporated by Reference*” herein will be published on the website of Banco Santander ([www.bancosantander.com](http://www.bancosantander.com)). The Programme also permits Instruments to be issued on the basis that they will be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

For the purposes of the Directive 2004/109/EC (the “**Transparency Directive**”) the Home Member State is Spain.

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

There are certain risks related to any issue of Instruments under the Programme, which investors should ensure they fully understand (see “*Risk Factors*” on pages 30 – 69 of this Base Prospectus). Potential investors should note the statements regarding the tax treatment in Spain of income obtained in respect of the Instruments and the disclosure requirements imposed by Law 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*), as amended from time to time (“**Law 10/2014**”) on the Issuer in relation to the Instruments. In particular, payments on the Instruments may be subject to Spanish withholding tax if certain information relating to the Instruments is not received by the Issuer in a timely manner.

The Instruments may be issued in bearer form (“**Bearer Instruments**”) or in registered form (“**Registered Instruments**”). Bearer Instruments may be issued in new global note (“**NGN**”) form and Registered Instruments may be held under the new safekeeping structure (“**NSS**”) to allow Eurosystem eligibility. Unless otherwise specified in the Final Terms, each Tranche of Bearer Instruments having an original maturity of more than one year will initially be represented by a temporary Global Instrument (each a “**Temporary Global Instrument**”) and each Tranche of Bearer Instruments having an original maturity of one year or less will initially be represented by a permanent Global Instrument (each a “**Permanent Global Instrument**”) and, together with a Temporary Global Instrument, each a “**Global Instrument**”) which, in each case, will (i) if the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”); or (ii) if the Global Instruments are not intended to be issued in NGN form (“**CGN**”), be delivered on or prior to the original issue date of the relevant Tranche to a common depositary (“**Common Depositary**”) for, Euroclear and Clearstream, Luxembourg, or as otherwise agreed between the relevant Issuer and the relevant Dealer. Interests in Temporary Global Instruments will be exchangeable for interests in a Permanent Global Instrument or, if so stated in the relevant Final Terms, for definitive Bearer Instruments (the “**Definitive Instruments**”) after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership. If specified in the relevant Final Terms, interests in Permanent Global Instruments will be exchangeable for Definitive Instruments. Registered Instruments will be represented by registered certificates (each an “**Individual Certificate**”), one Individual Certificate being issued in respect of each Holder’s entire holding of Registered Instruments of one Series and may be represented by registered global certificates (each a “**Global Registered Instrument**”). Registered Instruments which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Registered Instrument is not to be held under the NSS, in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee for both or (ii) if the Global Registered Instrument is to be held under the NSS, in the name of a nominee of the Common Safekeeper and the relevant Individual Certificate(s) will be delivered to the appropriate depositary, a Common Depositary or Common Safekeeper, as the case may be. The provisions governing the exchange of interests in Global Instruments for other Global Instruments and Definitive Instruments are described in “*Summary of Provisions Relating to the Instruments while in Global Form*”.

The Instruments have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States, and Instruments in bearer form are subject to U.S. tax law requirements. The Instruments may not be offered, sold or (in the case of Instruments in bearer form) delivered with the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”) or (in the case of Instruments in bearer form) as defined in the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder) except in certain transactions exempt from the registration requirements of the Securities Act.

If the Final Terms in respect of any Instruments issued under the Programme includes a legend entitled “**Prohibition of Sales to EEA Retail Investors**”, the Instruments are not intended, to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (IMD), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, in that case, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Instruments or otherwise making them available to retail investors in the EEA will be prepared and therefore offering or selling the Instruments or otherwise making them available as from 1 January 2018 to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

**Arrangers for the Programme**  
**BARCLAYS**  
**SANTANDER GLOBAL CORPORATE BANKING**

**Dealers**

<b>BARCLAYS</b>	<b>BNP PARIBAS</b>
<b>BOFA MERRILL LYNCH</b>	<b>CITIGROUP</b>
<b>COMMERZBANK</b>	<b>CRÉDIT AGRICOLE CIB</b>
<b>CREDIT SUISSE</b>	<b>DEUTSCHE BANK</b>
<b>GOLDMAN SACHS INTERNATIONAL</b>	<b>HSBC</b>
<b>J.P. MORGAN</b>	<b>MIZUHO SECURITIES</b>
<b>MORGAN STANLEY</b>	<b>NATIXIS</b>
<b>NATWEST MARKETS</b>	<b>NOMURA</b>
<b>SANTANDER GLOBAL CORPORATE BANKING</b>	<b>SOCIÉTÉ GÉNÉRALE CORPORATE &amp; INVESTMENT BANKING</b>
<b>UBS INVESTMENT BANK</b>	<b>UNICREDIT BANK</b>

6 March 2017

## ***Important information relating to Public Offers of Instruments***

### **Restrictions on Public Offers of Instruments in Relevant Member States**

Certain Tranches of Instruments with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a **“Public Offer”**. This Base Prospectus has been prepared on a basis that permits Public Offers of Instruments. However, any person making or intending to make a Public Offer of Instruments in Ireland or any other Member State of the EEA which has implemented the Prospectus Directive (each, a **“Relevant Member State”**) may only do so if this Base Prospectus has been approved by the competent authority in that Relevant Member State (or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State) and published in accordance with the Prospectus Directive, provided that the Issuer has consented to the use of this Base Prospectus in connection with such offer as provided under *“Consent given in accordance with Article 3.2 of the Prospectus Directive (Retail Cascades)”* and the conditions attached to that consent are complied with by the person making the Public Offer of such Instruments.

Save as provided above, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any Public Offer of Instruments in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

### **Consent given in accordance with Article 3.2 of the Prospectus Directive (Retail Cascades)**

In the context of a Public Offer of such Instruments, the Issuer accepts responsibility, in the jurisdictions to which the consent to use the Base Prospectus extends, for the content of this Base Prospectus under Article 6 of the Prospectus Directive in relation to any person (an **“Investor”**) who acquires any Instruments in a Public Offer made by any person to whom the Issuer has given consent to the use of this Base Prospectus (an **“Authorised Offeror”**) in that connection, provided that the conditions attached to that consent are complied with by the Authorised Offeror. The consent and conditions attached to it are set out under *“Consent”* and *“Common Conditions to Consent”* below.

Neither the Issuer nor any Dealer makes any representation as to the compliance by an Authorised Offeror with any applicable conduct of business rules or other applicable regulatory or Instruments law requirements in relation to any Public Offer and neither the Issuer nor any Dealer has any responsibility or liability for the actions of that Authorised Offeror.

**Save as provided below, neither the Issuer nor any Dealer has authorised the making of any Public Offer by any offeror and the Issuer has not consented to the use of this Base Prospectus by any other person in connection with any Public Offer of Instruments. Any Public Offer made without the consent of the Issuer is unauthorised and neither the Issuer nor any Dealer accepts any responsibility or liability for the actions of the persons making any such unauthorised offer.** If, in the context of a Public Offer, an Investor is offered Instruments by a person which is not an Authorised Offeror, the Investor should check with that person whether anyone is responsible for this Base Prospectus for the purposes of Article 6 of the Prospectus Directive in the context of the Public Offer and, if so, who that person is. If the Investor is in any doubt about whether they can rely on this Base Prospectus and/or who is responsible for its contents they should take legal advice.

### **Consent**

In connection with each Tranche of Instruments and subject to the conditions set out below under *“Common Conditions to Consent”*, the Issuer expressly consents to the use of this Base Prospectus (as supplemented as at the relevant time, if applicable) in connection with a Public Offer of such Instruments during the relevant Offer Period stated in the applicable Final Terms by the relevant Dealer and/or by any financial intermediary named as an Authorised Offeror in the applicable Final Terms.

## Common Conditions to Consent

The conditions to the Issuer's consent are that such consent:

- (i) is only valid during the Offer Period specified in the applicable Final Terms;
- (ii) only extends to the use of this Base Prospectus to make Public Offers of the relevant Tranche of Instruments in each Relevant Member State, as specified in the applicable Final Terms; and
- (iii) is subject to any other conditions set out in Part B of the applicable Final Terms.

The Issuer's consent referred to above is given for Public Offers of Instruments during the period of twelve months from the date of approval of the Base Prospectus or shorter periods as specified in the Final Terms.

Each Tranche of Instruments may only be offered to Investors as part of a Public Offer in the Relevant Member State(s) specified in the applicable Final Terms, or otherwise in circumstances in which no obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

**Any financial intermediary who meets all of the conditions set out above who has consent to use this Base Prospectus in connection with a Public Offer is required, for the duration of the relevant Offer Period, to publish on its website the statement (duly completed) specified in the paragraph below. In addition, such financial intermediary will provide information to Investors on the terms and conditions of the Offer at the time the Offer is made.**

*"We, [insert legal name and address of financial intermediary], refer to the [insert title of relevant Instruments] (the "**Instruments**") described in the Final Terms dated [insert date] (the "**Final Terms**") published by Banco Santander, S.A. (the "**Issuer**"). We hereby accept the offer by the Issuer of its consent to our use of the Base Prospectus (as defined in the Final Terms) in connection with the offer of the Instruments in [insert Ireland or any other relevant Member State] (the "**Offer**") subject to the conditions to such consent, as specified in the Base Prospectus, and we are using the Base Prospectus in connection with the Offer accordingly".*

## ARRANGEMENTS BETWEEN INVESTORS AND AUTHORISED OFFERORS

**AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY INSTRUMENTS IN A PUBLIC OFFER FROM AN AUTHORISED OFFEROR WILL DO SO, AND OFFERS AND SALES OF SUCH INSTRUMENTS TO AN INVESTOR BY SUCH AUTHORISED OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH AUTHORISED OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE ISSUER WILL NOT BE A PARTY TO ANY SUCH ARRANGEMENTS WITH SUCH INVESTORS IN CONNECTION WITH THE PUBLIC OFFER OR SALE OF THE INSTRUMENTS CONCERNED AND, ACCORDINGLY, THIS BASE PROSPECTUS AND ANY FINAL TERMS WILL NOT CONTAIN SUCH INFORMATION. THE INVESTOR MUST LOOK TO THE AUTHORISED OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION AND THE AUTHORISED OFFEROR WILL BE RESPONSIBLE FOR SUCH INFORMATION. NEITHER THE ISSUER NOR ANY DEALER (EXCEPT WHERE SUCH DEALER IS THE RELEVANT AUTHORISED OFFEROR) HAS ANY RESPONSIBILITY OR LIABILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION.**

The Base Prospectus should be read and construed together with any supplements thereto and with any other documents incorporated by reference therein and, in relation to any Tranche (as defined herein) of Instruments, should be read and construed together with the relevant Final Terms (as defined herein).

The Issuer has confirmed to the Dealers that the Base Prospectus (together with the relevant Final Terms (each "**Final Terms**") referred to herein) contains all such information as investors and their professional advisers would reasonably require, and reasonably expect to find, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attaching to the relevant Instruments.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer and the companies whose financial statements are consolidated with those of the Issuer (together, the

“Group” or “Santander Group”) or the Instruments other than as contained or incorporated by reference in the Base Prospectus, in the Dealership Agreement (as defined herein), in any other document prepared in connection with the Programme or any Final Terms or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Dealers or any of them.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates make any representation or warranty or accept any responsibility, as to the accuracy or completeness of the information contained in the Base Prospectus. Neither the delivery of the Base Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall create, in any circumstances, any implication that there has been no adverse change in the financial situation the Issuer or the Group since the date hereof or, as the case may be, the date upon which the Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements which are deemed to be incorporated into the Base Prospectus by reference. The distribution of the Base Prospectus and any Final Terms and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession the Base Prospectus or any Final Terms come are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of the Base Prospectus or any Final Terms and other offering material relating to the Instruments, see “*The Instruments—5.2 (Plan of distribution and allotment)*”. In particular, the Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Instruments in bearer form are subject to U.S. tax law requirements. The Instruments may not be offered, sold or (in the case of Instruments in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) or (in the case of Instruments in bearer form) as defined in the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder) except in certain transactions exempt from the registration requirements of the Securities Act.

**Neither the Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.**

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Instruments in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Instruments may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State, such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Instruments. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON**

BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISING ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

There are certain risks relating to an investment in the Instruments. See “*Risk Factors*”.

References herein to the “**Terms and Conditions**” are to the Terms and Conditions of the Instruments.

Tranches of Instruments may be rated or unrated. Where a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be issued by a credit rating agency established in the EU and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (as amended, the “**CRA Regulation**”) will be disclosed in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold Instruments and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

All references in this Base Prospectus to “\$”, “US\$” or “US dollars” are to United States dollars, references to “Sterling” and “£” are to pounds sterling, references to “euro”, “EUR” and “€” are to the single currency of participating Member States of the EU and references to “BRL” are to Brazilian Real.

For the avoidance of doubt, uniform resource locators (“URLs”) given in respect of web-site addresses in the Base Prospectus are inactive textual references only and it is not intended to incorporate the contents of any such web sites into this Base Prospectus nor should the contents of such web sites be deemed to be incorporated into this Base Prospectus.

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## SUMMARY OF THE PROGRAMME

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all the Elements required to be included in a summary relating to the Instruments and the Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary of the programme because of the type of Instruments and the Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary of the programme with the mention of not applicable.

### SECTION A – INTRODUCTION AND WARNINGS

Element	
A.1	<p>This summary of the €25,000,000,000 programme for the issuance of debt instruments (the “<b>Programme</b>”) should be read as an introduction to the base prospectus (the “<b>Base Prospectus</b>”). Any decision to invest in any instruments issued under the Programme (the “<b>Instruments</b>”) should be based on consideration of this Base Prospectus as a whole by the investor, including any documents incorporated by reference. Where a claim relating to information contained in the Base Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member State where the claim is brought, have to bear the costs of translating the Base Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus or it does not provide, when read together with the other parts of this Base Prospectus, key information (as defined in Article 2.1(s) of the Directive 2003/71/EC (as amended, the “<b>Prospectus Directive</b>”)) in order to aid investors when considering whether to invest in the Instruments.</p>
A.2	<p><b>Programme summary:</b></p> <p>Certain Tranches of Instruments with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a “<b>Public Offer</b>”.</p> <p><b>Issue specific summary:</b></p> <p><b>Consent:</b> Subject to the conditions set out below, the Issuer consents to the use of this Base Prospectus in connection with a Public Offer of Instruments by the relevant Dealer(s) specified in the Final Terms [and/or] [names and addresses of specific financial intermediaries listed in Final Terms] (each an “<b>Authorised Offeror</b>”) and that publishes on its website the following statement (with the information in square brackets being completed with the relevant information):</p> <p><i>“We, [insert legal name and address of financial intermediary], refer to the [insert title of relevant Instruments] (the “<b>Instruments</b>”) described in the Final Terms dated [insert date] (the “<b>Final Terms</b>”) published by Banco Santander, S.A. (the “<b>Issuer</b>”). We hereby accept the offer by the Issuer of its consent to our use of the Base Prospectus (as defined in the Final Terms) in connection with the offer of the Instruments in [insert Ireland or any other relevant Member State] (the “<b>Public Offer</b>”) subject to the conditions to such consent, as specified in the Base Prospectus, and we are using the Base Prospectus in connection with the Offer accordingly”.</i></p> <p><b>Offer period:</b> The Issuer’s consent referred to above is given for Public Offers of Instruments during [the period of twelve months from the date of approval of the Base Prospectus] / [the period from [Insert, for example, one business day after satisfaction of all regulatory requirements of such Member State(s)] until [specify date or a formula such as “the Issue Date” or “the date which falls [ ] Business Days thereafter”]] (the “<b>Offer Period</b>”).</p> <p><b>Conditions to consent:</b> The conditions to the Issuer’s consent [(in addition to the conditions referred to above)] are that such consent (a) is only valid during the Offer Period; (b) only extends to the use of this Base Prospectus to make Public Offers of the relevant Tranche of Instruments in [specify Ireland or each Relevant Member State in which the particular Tranche of Instruments can be offered] and (c) [specify any other conditions applicable to the Public Offer of the particular Tranche,</p>



as set out in the Final Terms].

**AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY INSTRUMENTS IN A PUBLIC OFFER FROM AN AUTHORISED OFFEROR WILL DO SO, AND OFFERS AND SALES OF SUCH INSTRUMENTS TO AN INVESTOR BY SUCH AUTHORISED OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH AUTHORISED OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE INVESTOR MUST LOOK TO THE AUTHORISED OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION AND THE AUTHORISED OFFEROR WILL BE RESPONSIBLE FOR SUCH INFORMATION. NEITHER THE ISSUER NOR ANY DEALER (EXCEPT WHERE SUCH DEALER IS THE RELEVANT AUTHORISED OFFEROR) HAS ANY RESPONSIBILITY OR LIABILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION.**

## SECTION B – ISSUER

Element	
<b>B.1</b>	<p><b>Legal and commercial name of the Issuer</b></p> <p>Banco Santander, S.A. (“<b>Santander</b>”, “<b>Banco Santander</b>”, the “<b>Issuer</b>” or the “<b>Bank</b>”).</p>
<b>B.2</b>	<p><b>Domicile / legal form / legislation / country of incorporation</b></p> <p>The Issuer is domiciled in Spain and has its registered office at Paseo de Pereda, 9-12, Santander. The principal operating headquarters of the Issuer are located at Ciudad Grupo Santander, Avda. de Cantabria s/n, 28660 Boadilla del Monte, Madrid. The telephone number of the principal operating headquarters of the Issuer is +34 91 259 6520. The Issuer was incorporated in Spain and has the legal form of a public limited liability company (<i>sociedad anónima</i>) and is subject to the Companies Law approved by Royal Decree 1/2010, of July 2 (<i>Texto Refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de Julio</i>). Its activities are subject to special Spanish legislation governing credit institutions in general and to the supervision, control and regulation of the European Central Bank and the Bank of Spain in particular.</p>
<b>B.4b</b>	<p><b>Trend information</b></p> <p>The global financial services sector is likely to remain competitive with a large number of financial service providers and alternative distribution channels. Additionally, consolidation in the sector (through mergers, acquisitions or alliances) is likely to occur as other major banks look to increase their market share, combine complementary businesses or strengthen their balance sheets. In addition, regulatory changes will take place in the future that the Issuer and the companies whose financial statements are consolidated with those of the Issuer (together, the “<b>Group</b>” or “<b>Santander Group</b>”) expect will increase the overall level of regulation in the markets.</p> <p>The following are the most important trends, uncertainties and events that are reasonably likely to have a material adverse effect on the Santander Group or that would cause the disclosed financial information not to be indicative of its future operating results or its financial condition:</p> <p><i>Economic and Industry Conditions</i></p> <ul style="list-style-type: none"> <li>• general economic or industry conditions in Spain, the UK, other European countries, the U.S., Brazil, other Latin American countries and the other areas in which the Issuer has significant business activities or investments;</li> <li>• exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk and equity price risk;</li> <li>• a worsening of the economic environment in Spain, the UK, other European countries, Brazil, other Latin American countries, and the U.S., and an increase of the volatility in the capital markets;</li> <li>• the effects of a continued decline in real estate prices, particularly in Spain and the UK;</li> <li>• monetary and interest rate policies of the European Central Bank and various central banks;</li> <li>• inflation or deflation;</li> <li>• the effects of non-linear market behaviour that cannot be captured by linear statistical models,</li> </ul>

	<p>such as the value at risk (“VaR”) model the Issuer uses;</p> <ul style="list-style-type: none"> <li>• changes in competition and pricing environments;</li> <li>• the inability to hedge some risks economically;</li> <li>• the adequacy of loss reserves;</li> <li>• acquisitions or restructurings of businesses that may not perform in accordance with the Issuer’s expectations;</li> <li>• changes in demographics, consumer spending, investment or saving habits;</li> <li>• potential losses associated with prepayment of the Issuer’s loan and investment portfolio, declines in the value of collateral securing the Issuer’s loan portfolio, and counterparty risk; and</li> <li>• changes in competition and pricing environments as a result of the progressive adoption of the internet for conducting financial services and/or other factors.</li> </ul> <p><i>Political and Governmental Factors</i></p> <ul style="list-style-type: none"> <li>• political stability in Spain, the UK, other European countries, Latin America and the U.S.;</li> <li>• changes in Spanish, UK, European Union (“EU”), Latin American, U.S. or other jurisdictions’ laws, regulations or taxes, including changes in regulatory capital and liquidity requirements; and</li> <li>• increased regulation in light of the global financial crisis.</li> </ul> <p><i>Transaction and Commercial Factors</i></p> <ul style="list-style-type: none"> <li>• damage to the Group’s reputation;</li> <li>• the Group’s ability to integrate successfully the Group’s acquisitions and the challenges inherent in diverting management’s focus and resources from other strategic opportunities and from operational matters while the Issuer integrates these acquisitions; and</li> <li>• the outcome of the Group’s negotiations with business partners and governments.</li> </ul> <p><i>Operating Factors</i></p> <ul style="list-style-type: none"> <li>• potential losses associated with an increase in the level of non-performance by counterparties to other types of financial instruments;</li> <li>• technical difficulties and/or failure to improve or upgrade the Group’s information technology;</li> <li>• changes in the Group’s ability to access liquidity and funding on acceptable terms, including as a result of changes in the Group’s credit spreads or a downgrade in the Group’s credit ratings or those of the Group’s more significant subsidiaries;</li> <li>• the Group’s exposure to operational losses (for example failed internal or external processes, people and systems);</li> <li>• changes in the Group’s ability to recruit, retain and develop appropriate senior management and skilled personnel;</li> <li>• the occurrence of force majeure, such as natural disasters, that impact the Group’s operations or impair the asset quality of the Group’s loan portfolio; and</li> <li>• the impact of changes in the composition of the Group’s balance sheet on future net interest income.</li> </ul>
<b>B.5</b>	<p><b>Description of the Group</b></p> <p>The Issuer is the parent company of the Group which was comprised at 31 December 2016 of 715 companies that consolidate by the global integration method. In addition, there were 183 companies that were accounted for by the equity method.</p>
<b>B.9</b>	<p><b>Profit forecast or estimate</b></p> <p>Not Applicable – no profit forecasts or estimates have been included in the Base Prospectus.</p>
<b>B.10</b>	<p><b>Audit report qualifications</b></p> <p>No qualifications are contained in any audit report included in the Base Prospectus.</p>
<b>B.12</b>	<p><b>Selected historical key financial information</b></p> <p>The consolidated balance sheet and income statement of the Group as of, and for the year ended, 31 December 2016 have been extracted without any adjustment from, and are qualified by reference to</p>

and should be read in conjunction with, the Issuer's consolidated financial statements in respect of such period.

The balance sheet and income statement of the Group as of, and for the year ended, 31 December 2015 are not audited as they are not the audited consolidated balance sheet and income statement of the Group for the year ended 31 December 2015. The balance sheet and income statement included in such sections have been prepared in accordance with the Circular 5/2015, of 28 October, of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and on the basis of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015, have been extracted from the audited consolidated financial statements of the Issuer for the year ended 31 December 2016 and are shown in this Base Prospectus for comparison purposes with the audited consolidated financial information for the year ended 31 December 2016.

**(a) Consolidated balance sheet of the Group under International Financial Reporting Standards as adopted by the EU ("IFRS-EU") for the years ended 31 December 2016 and 31 December 2015**  
(in millions of euros)

ASSETS	2016	2015 <sup>(*)</sup>	LIABILITIES AND EQUITY	2016	2015 <sup>(*)</sup>
	(audited)	(unaudited)		(audited)	(unaudited)
<b>Cash, cash balances at central banks and other deposits on demand:</b>	<b>76,454</b>	<b>77,751</b>	<b>Financial liabilities held for trading:</b>	<b>108,765</b>	<b>105,218</b>
			Derivatives	74,369	76,414
<b>Financial assets held for trading:</b>	<b>148,187</b>	<b>146,346</b>	Short positions	23,005	17,362
Derivatives	72,043	76,724	Deposits	11,391	11,442
Equity instruments	14,497	18,225	<i>Central banks</i>	<i>1,351</i>	<i>2,178</i>
Debt instruments	48,922	43,964	<i>Credit institutions</i>	<i>44</i>	<i>77</i>
Loans and advances	12,725	7,433	<i>Customers</i>	<i>9,996</i>	<i>9,187</i>
<i>Central banks</i>	<i>-</i>	<i>-</i>	Marketable debt securities	-	-
<i>Credit institutions</i>	<i>3,221</i>	<i>1,352</i>	Other financial liabilities	-	-
<i>Customers</i>	<i>9,504</i>	<i>6,081</i>			
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>38,145</i>	<i>34,026</i>	<b>Financial liabilities designated at fair value through profit or loss:</b>	<b>40,263</b>	<b>54,768</b>
			Deposits	37,472	51,394
<b>Financial assets designated at fair value through profit or loss:</b>	<b>31,609</b>	<b>45,043</b>	<i>Central banks</i>	<i>9,112</i>	<i>16,486</i>
Equity instruments	546	630	<i>Credit institutions</i>	<i>5,015</i>	<i>8,551</i>
Debt instruments	3,398	3,717	<i>Customers</i>	<i>23,345</i>	<i>26,357</i>
Loans and advances	27,665	40,696	Marketable debt securities	2,791	3,373
<i>Central banks</i>	<i>-</i>	<i>-</i>	Other financial liabilities	-	1
<i>Credit institutions</i>	<i>10,069</i>	<i>26,403</i>	<i>Memorandum items: subordinated liabilities</i>	<i>-</i>	<i>-</i>
<i>Customers</i>	<i>17,596</i>	<i>14,293</i>			
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>2,025</i>	<i>-</i>	<b>Financial liabilities at amortised cost:</b>	<b>1,044,240</b>	<b>1,039,343</b>
			Deposits	791,646	795,679
<b>Financial assets available-for-sale:</b>	<b>116,774</b>	<b>122,036</b>	<i>Central banks</i>	<i>44,112</i>	<i>38,872</i>
Equity instruments	5,487	4,849	<i>Credit institutions</i>	<i>89,764</i>	<i>109,209</i>
Debt instruments	111,287	117,187	<i>Customers</i>	<i>657,770</i>	<i>647,598</i>

<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	23,980	26,742	Marketable debt securities	226,078	222,787
			Other financial liabilities	26,516	20,877
<b>Loans and receivables:</b>	<b>840,004</b>	<b>836,156</b>	<i>Memorandum items: subordinated liabilities</i>	19,902	21,153
Debt instruments	13,327	10,907			
Loans and advances	826,767	825,249	<b>Hedging derivatives:</b>	<b>8,156</b>	<b>8,937</b>
Central banks	27,973	17,337			
			<b>Changes in the fair value of hedged items in portfolio hedges of interest risk rate:</b>	<b>448</b>	<b>174</b>
Credit institutions	35,424	37,438			
Customers	763,370	770,474			
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	7,994	1,697	<b>Liabilities under insurance contracts:</b>	<b>652</b>	<b>627</b>
<b>Investments held-to-maturity</b>	<b>14,468</b>	<b>4,355</b>	<b>Provisions:</b>	<b>14,459</b>	<b>14,494</b>
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	2,489	-	Provision for pensions and other employment defined benefit obligations	6,576	6,356
			Provisions for other long term employee benefits	1,712	1,916
<b>Hedging derivatives:</b>	<b>10,377</b>	<b>7,727</b>	Provisions for taxes and other legal contingencies	2,994	2,577
			Provisions for commitments and guarantees given	459	618
<b>Changes in the fair value of hedged items in portfolio hedges of interest risk rate</b>	<b>1,481</b>	<b>1,379</b>	Other provisions	2,718	3,027
<b>Investments:</b>	<b>4,836</b>	<b>3,251</b>	<b>Tax liabilities:</b>	<b>8,373</b>	<b>7,725</b>
Joint ventures entities	1,594	1,592	Current tax liabilities	2,679	2,160
Associated companies	3,242	1,659	Deferred tax liabilities	5,694	5,565
<b>Reinsurance assets:</b>	331	331	<b>Other liabilities:</b>	<b>11,070</b>	<b>10,221</b>
			<b>Liabilities associated with non-current assets held for sale:</b>	-	-
<b>Tangible assets:</b>	<b>23,286</b>	<b>25,320</b>			
Property, plant and equipment-	20,770	19,335			
For own use	7,860	7,949			
Leased out under an operating lease	12,910	11,386	<b>TOTAL LIABILITIES</b>	<b>1,236,426</b>	<b>1,241,507</b>
Investment property	2,516	5,985			
Of which leased out under an operating lease	1,567	4,777	<b>EQUITY</b>		
<i>Memorandum items: acquired in financial lease</i>	115	195	<b>Shareholders' equity:</b>	<b>105,977</b>	<b>102,402</b>
<b>Intangible assets:</b>	<b>29,421</b>	<b>29,430</b>	Capital	7,291	7,217
			Called up paid capital	7,291	7,217

<i>Goodwill</i>	26,724	26,960	<i>Unpaid capital which has been called up</i>	-	-
<i>Other intangible assets</i>	2,697	2,470	<i>Memorandum item: Uncalled up capital</i>	-	-
			Share premium	44,912	45,001
<b>Tax assets:</b>	<b>27,678</b>	<b>27,814</b>	Equity instruments issued other than share capital	-	-
<i>Current tax assets</i>	6,414	5,769	<i>Equity components of compound financial instruments</i>	-	-
<i>Deferred tax assets</i>	21,264	22,045	<i>Other equity instruments</i>	-	-
			Other equity	240	214
			Accumulated retained earnings	49,953	46,429
			Revaluation reserves	-	-
<b>Other assets:</b>	<b>8,447</b>	<b>7,675</b>	Other reserves	(949)	(669)
<i>Insurance contracts linked to pensions:</i>	269	299	(-) Own shares	(7)	(210)
<i>Inventories</i>	1,116	1,013	Profit attributable to the shareholders of the Parent	6,204	5,966
<i>Other</i>	7,062	6,363	(-) Dividends	(1,667)	(1,546)
<b>Non-current assets held for sale:</b>	<b>5,772</b>	<b>5,646</b>	<b>Other comprehensive income:</b>	<b>(15,039)</b>	<b>(14,362)</b>
<b>TOTAL ASSETS</b>	<b>1,339,125</b>	<b>1,340,260</b>	<b>Items not reclassified to profit or loss</b>	<b>(3,933)</b>	<b>(3,166)</b>
			<i>Actuarial gains or (-) losses on defined benefit pension plans</i>	<i>(3,931)</i>	<i>(3,165)</i>
			<i>Non-current assets classified as held for sale</i>	-	-
			<i>Other recognised income and expense of investments in subsidiaries, joint ventures and associates</i>	<i>(2)</i>	<i>(1)</i>
			<i>Other valuation adjustments</i>	-	-
			<b>Items that may be reclassified to profit or loss</b>	<b>(11,106)</b>	<b>(11,196)</b>
			<i>Hedge of net investments in foreign operations (Effective portion)</i>	<i>(4,925)</i>	<i>(3,597)</i>
			<i>Exchange differences</i>	<i>(8,070)</i>	<i>(8,383)</i>
			<i>Hedging derivatives. Cash flow hedges (Effective portion)</i>	469	171
			<i>Financial assets available-for-sale</i>	1,571	844
			<i>Debt instruments</i>	423	98
			<i>Equity instruments</i>	1,148	746
			<i>Non-current assets classified as held for sale</i>	-	-
			<i>Other recognised income</i>	<i>(151)</i>	<i>(231)</i>

		<i>and expense of investments in subsidiaries, joint ventures and associates</i>		
		<b>Non-controlling interest</b>	<b>11,761</b>	<b>10,713</b>
		<i>Other comprehensive income</i>	(853)	(1,227)
		<i>Others items</i>	12,614	11,940
		<b>TOTAL EQUITY</b>	<b>102,699</b>	<b>98,753</b>
		<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,339,125</b>	<b>1,340,260</b>
		<b>Memorandum items:</b>		
		Contingent liabilities	44,434	39,834
		Contingent commitments	231,962	221,738

(\*) Presented for comparison purposes only.

**(b) Condensed consolidated income statement of the Group under IFRS-EU for the years ended 31 December 2016 and 2015**

	<b>(Debit)/Credit</b>	
	<b>2016</b>	<b>2015(*)</b>
	<i>(audited)</i>	<i>(unaudited)</i>
	<i>(in millions of euros)</i>	
Interest income	55,156	57,198
Interest expense	(24,067)	(24,386)
<b>Net interest income</b>	<b>31,089</b>	<b>32,812</b>
Dividend income	413	455
Share of results of entities accounted for using the equity method	444	375
Commission income	12,943	13,042
Commission expense	(2,763)	(3,009)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	869	1,265
Gains or losses on financial assets and liabilities held for trading, net	2,456	(2,312)
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	426	325
Gains or losses from hedge accounting, net	(23)	(48)
Exchange differences, net	(1,627)	3,156
Other operating income	1,919	1,971
Other operating expenses	(1,977)	(2,235)
Income from assets under insurance and reinsurance contracts	1,900	1,096
Expenses from liabilities under insurance and reinsurance contracts	(1,837)	(998)
<b>Total income</b>	<b>44,232</b>	<b>45,895</b>
Administrative expenses	(18,737)	(19,302)
<i>Staff costs</i>	<i>(11,004)</i>	<i>(11,107)</i>
<i>Other general administrative expenses</i>	<i>(7,733)</i>	<i>(8,195)</i>
Depreciation and amortisation cost	(2,364)	(2,418)
Provisions or reversal of provisions	(2,508)	(3,106)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	(9,626)	(10,652)
<i>Financial assets measured at cost</i>	<i>(52)</i>	<i>(228)</i>
<i>Financial assets available-for-sale</i>	<i>11</i>	<i>(230)</i>

	<i>Loans and receivables</i> (9,557) (10,194) <i>Held-to-maturity investments</i> (28) - <b>Profit from operations</b> <b>10,997</b> <b>10,417</b> Impairment of investments in subsidiaries, joint ventures and associates, net (17) (1) Impairment on non-financial assets, net (123) (1,091) <i>Tangible assets</i> (55) (128) <i>Intangible assets</i> (61) (701) <i>Others</i> (7) (262) Gains or losses on non-financial assets and investments, net 30 112 Negative goodwill recognised in results 22 283 Gains or losses on non-current assets held for sale classified as discontinued operations (141) (173) <b>Profit or loss before tax from continuing operations</b> <b>10,768</b> <b>9,547</b> Tax expense or income from continuing operations (3,282) (2,213) <b>Profit for the period from continuing operations</b> <b>7,486</b> <b>7,334</b> Profit or loss after tax from discontinued operations - - <b>Profit for the period</b> <b>7,486</b> <b>7,334</b> <i>Profit attributable to non-controlling interests</i> 1,282 1,368 <i>Profit attributable to the parent</i> 6,204 5,966 <b>Earnings per share</b> <i>Basic</i> 0.41 0.40 <i>Diluted</i> 0.41 0.40 (*) Presented for comparison purposes only.
	<b>Statements of no significant or material adverse change</b> There has been no significant change in the financial or trading position of the Santander Group since 31 December 2016 and there has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole since 31 December 2016.
<b>B.13</b>	<b>Events impacting the Issuer's solvency</b> Acquisitions, Dispositions, Reorganisations and Other Recent Events: <ul style="list-style-type: none"> <li>• <i>Santander Asset Management</i></li> <li>• <i>Santander Consumer USA</i></li> <li>• <i>Agreement with Banque PSA Finance</i></li> <li>• <i>Agreement to acquire Carfinco</i></li> <li>• <i>Metrovacesa, S.A.</i></li> <li>• <i>Acquisition of Banco Internacional do Funchal (Banif)</i></li> <li>• <i>Custody business</i></li> <li>• <i>Metrovacesa agreement</i></li> <li>• <i>Santander Holdings USA and Santander Consumer USA Inc. restatement of financial statements</i></li> <li>• <i>Commercial transformation plan</i></li> <li>• <i>Visa stake disposal</i></li> <li>• <i>Contribution to SRF</i></li> <li>• <i>Asset quality review and results of stress tests</i></li> <li>• <i>SREP Prudential Minimum Requirements</i></li> </ul>
<b>B.14</b>	<b>Dependence upon other group entities</b> The Issuer is the parent company of the Santander Group. The Issuer is not dependent upon any other entity in the Group.

**B.15****Principal activities**

The Issuer and its consolidated subsidiaries are a financial group operating through a network of offices and subsidiaries across Spain, the UK and other European countries, Brazil and other Latin American countries and the U.S., offering wide range of financial products. At 31 December 2016, the Santander Group operated through 4,805 branch offices in Continental Europe, 844 branches in the United Kingdom, 5,818 branches in Latin America and 768 branches in the United States.

In accordance with the criteria established by IFRS-EU, the structure of the Group's operating business areas has been segmented into two levels:

**First (or geographic) level.** The activity of the Group's operating units is segmented by geographical areas. This coincides with the Group's first level of management and reflects its positioning in the world's main currency areas.

The reported segments are:

- **Continental Europe.** This covers all retail banking business and corporate banking in this region. This segment includes the following units: Spain, Portugal, Poland, Santander Consumer Finance (which includes the consumer business in Europe, including that of Spain, Portugal and Poland) and Real Estate Operations in Spain.
- **United Kingdom.** This includes retail and corporate banking conducted by the various units and branches of the Group in the country.
- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries.
- **United States.** This includes the intermediate holding company (Santander Holdings USA) and its subsidiaries: 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.

**Second (or business) level.** This segments the activity of the Group's operating units by type of business. The reported segments are:

- **Commercial Banking.** This area covers all customer banking businesses (except those of Corporate Banking, managed through the Global Customer Relationship Model). Also included in this business area are the results of the hedging positions taken in each country within the scope of the relevant local asset liability committees portfolio.
- **Santander Global Corporate Banking.** This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally, both trading and distribution to customers (after the appropriate distribution with Commercial Banking customers), as well as equities business. This area covers the Group's corporate banking, treasury and investment banking activities throughout the world. Global Corporate Banking has three major areas:
  - Global Transaction Banking (which includes cash management, trade finance and basic financing and custody),
  - Financing Solutions and Advisory (which includes the units that originate and distribute corporate loans or structured financing, the teams that originate bonds and securitisation, the corporate finance units (mergers and acquisitions, primary equity markets, investment solutions for corporate clients via derivatives), as well as asset and capital structuring) and
  - Global Markets (which include the sale and distribution of fixed income and equity derivatives, interest rates and inflation, the trading and hedging of exchange rates, short-term money markets for the Group's corporate and retail clients, management of books associated with distribution, brokerage of equities, and derivatives for investment and hedging solutions).
- **Real Estate Operations in Spain.** This business includes loans to customers in Spain whose activity is mainly real estate development, equity stakes in real estate companies and foreclosed assets.

In addition to these operating units, which report by geographic area and by businesses, the Group continues to maintain the Corporate Centre. This 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 and securitizations. As the Group's holding



	entity, the Corporate Centre manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates provisions of a varied nature and amortisation of goodwill. The costs related to the Group’s central services (charged to areas) are not included, except for corporate and institutional expenses related to the Group’s functioning. Finally, the Group also includes in this area significant Group non-recurring income and expense.																																																
B.16	<p><b>Controlling shareholders</b></p> <p>The Issuer is not aware of any person which exerts or may exert control over the Issuer within the terms of Article 5 of the consolidated text of the Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (<i>texto refundido de la Ley de Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre</i>) as amended (the “<b>Spanish Securities Market Law</b>”).</p>																																																
B.17	<p><b>Credit ratings</b></p> <p><b>Programme summary:</b></p> <p>In accordance with the last available public information, the Issuer has been rated by the rating agencies as follows:</p> <table><tr><th>Rating Agency</th><th>Short</th><th>Long</th><th>Perspective</th></tr><tr><td>Fitch Ratings<sup>(1)</sup></td><td>F2</td><td>A-</td><td>Stable</td></tr><tr><td>Moody’s<sup>(2)</sup></td><td>P-2</td><td>A3</td><td>Stable</td></tr><tr><td>Standard &amp; Poor’s<sup>(3)</sup></td><td>A-2</td><td>A-</td><td>Positive</td></tr><tr><td>DBRS<sup>(4)</sup></td><td>R-1 (Low)</td><td>A</td><td>Stable</td></tr><tr><td>Scope Ratings<sup>(5)</sup></td><td>S-1</td><td>A+</td><td>Stable</td></tr><tr><td>GBB-Rating<sup>(6)</sup></td><td></td><td>DD-</td><td>Stable</td></tr></table> <p>The Instruments to be issued under the Programme are expected to be rated by the rating agencies as follows:</p> <table><tr><th>Rating Agency</th><th>Short-term Ordinary Senior Instruments</th><th>Long-term Ordinary Senior Instruments</th><th>Second Ranking Senior Instruments</th><th>Subordinated Instruments</th></tr><tr><td>Fitch Ratings<sup>(1)</sup></td><td>F2</td><td>A-</td><td>A-</td><td>BBB+</td></tr><tr><td>Moody’s<sup>(2)</sup></td><td>P-2</td><td>A3</td><td>Baa2</td><td>Baa2</td></tr><tr><td>Standard &amp; Poor’s<sup>(3)</sup></td><td>A-2</td><td>A-</td><td>BBB+</td><td>BBB</td></tr></table> <p><i>Notes</i></p> <p>(1) Fitch Ratings España, S.A.U. (2) Moody’s Investor Service España, S.A. (3) Standard &amp; Poor’s Credit Market Services Europe Limited. (4) DBRS Ratings Limited. (5) Scope Ratings GmbH (6) GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH.</p> <p>Tranches of Instruments may be rated or unrated and, if rated, such ratings will be specified in the relevant Final Terms and such rating will not necessarily be the same as the rating assigned to the Issuer, the Programme or the Instruments already issued under the Programme. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be issued by a credit rating agency established in the EU and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the “<b>CRA Regulation</b>”) will be disclosed in the relevant Final Terms.</p> <p><b>Issue specific summary:</b></p> <p>The Instruments to be issued have been rated [[ ]] by [[ ]].</p> <p><b>A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</b></p>	Rating Agency	Short	Long	Perspective	Fitch Ratings <sup>(1)</sup>	F2	A-	Stable	Moody’s <sup>(2)</sup>	P-2	A3	Stable	Standard & Poor’s <sup>(3)</sup>	A-2	A-	Positive	DBRS <sup>(4)</sup>	R-1 (Low)	A	Stable	Scope Ratings <sup>(5)</sup>	S-1	A+	Stable	GBB-Rating <sup>(6)</sup>		DD-	Stable	Rating Agency	Short-term Ordinary Senior Instruments	Long-term Ordinary Senior Instruments	Second Ranking Senior Instruments	Subordinated Instruments	Fitch Ratings <sup>(1)</sup>	F2	A-	A-	BBB+	Moody’s <sup>(2)</sup>	P-2	A3	Baa2	Baa2	Standard & Poor’s <sup>(3)</sup>	A-2	A-	BBB+	BBB
Rating Agency	Short	Long	Perspective																																														
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Moody’s <sup>(2)</sup>	P-2	A3	Stable																																														
Standard & Poor’s <sup>(3)</sup>	A-2	A-	Positive																																														
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Standard & Poor’s <sup>(3)</sup>	A-2	A-	BBB+	BBB																																													

## SECTION C – SECURITIES

Element	
C.1	<p><b>Type and class of the Securities</b></p> <p><b>Programme summary:</b></p> <p>The Issuer may issue under the Programme debt instruments up to an aggregate principal amount of EUR 25,000,000,000. Such Instruments may be issued on a continuing basis and will be placed by one or more dealers appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an on-going basis. Under the Programme, the Issuer may issue fixed, reset or floating rate Instruments. The Instruments may be senior Instruments (which are Instruments which specify their status as ordinary senior Instruments) (“<b>Ordinary Senior Instruments</b>”), second ranking senior Instruments (being the instruments which specify their status as second ranking senior Instruments) (“<b>Second Ranking Senior Instruments</b>”, together with the Ordinary Senior Instruments, “<b>Senior Instruments</b>”) or subordinated Instruments (being those Instruments which specify their status as subordinated Instruments) (“<b>Subordinated Instruments</b>”) which may be, in turn, Senior Subordinated Instruments (“<b>Senior Subordinated Instruments</b>”) or Tier 2 Subordinated Instruments (“<b>Tier 2 Subordinated Instruments</b>”), as specified in the relevant Final Terms.</p> <p>Instruments may be issued with any maturity subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. The Instruments will be issued following the execution of the relevant public deed (<i>escritura pública</i>) to be executed before a Spanish Notary Public and to be registered with the Mercantile Registry of Cantabria on, prior to or after the Issue Date (as defined below).</p> <p>The Instruments are issued in series (each, a “<b>Series</b>”), and each Series may comprise one or more tranches (“<b>Tranches</b>” and each, a “<b>Tranche</b>”) of Instruments. issued on different issue dates (each, an “<b>Issue Date</b>”).</p> <p>The Instruments of each Series will all be subject to identical terms except that the Issue Dates and the amount of the first payment of interest may be different in respect of different Tranches.</p> <p>The Instruments may be issued in bearer form (“<b>Bearer Instruments</b>”) or in registered form (“<b>Registered Instruments</b>”). Bearer Instruments may be issued in new global note (“<b>NGN</b>”) form and Registered Instruments may be held under the new safekeeping structure (“<b>NSS</b>”) to allow Eurosystem eligibility. Unless otherwise specified in the Final Terms, each Tranche of Bearer Instruments having an original maturity of more than one year will initially be represented by a temporary Global Instrument (each a “<b>Temporary Global Instrument</b>”) and each Tranche of Bearer Instruments having an original maturity of one year or less will initially be represented by a permanent Global Instrument (each a “<b>Permanent Global Instrument</b>”) which, in each case, will (i) if the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “<b>Common Safekeeper</b>”) for Euroclear Bank SA/NV (“<b>Euroclear</b>”) and Clearstream Banking, <i>société anonyme</i> (“<b>Clearstream, Luxembourg</b>”); or (ii) if the Global Instruments are not intended to be issued in NGN form (“<b>CGN</b>”), be delivered on or prior to the original issue date of the relevant Tranche to a common depositary (“<b>Common Depositary</b>”) for, Euroclear and Clearstream, Luxembourg, or as otherwise agreed between the relevant Issuer and the relevant Dealer. Interests in Temporary Global Instruments will be exchangeable for interests in a Permanent Global Instrument or, if so stated in the relevant Final Terms, for definitive Bearer Instruments (“<b>Definitive Instruments</b>”) after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership. If specified in the relevant Final Terms, interests in Permanent Global Instruments will be exchangeable for Definitive Instruments. Registered Instruments will be represented by registered certificates (each an “<b>Individual Certificate</b>”), one Individual Certificate being issued in respect of each Holder’s entire holding of Registered Instruments of one Series and may be represented by registered global certificates (each a “<b>Global Registered Instrument</b>”). Registered Instruments which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Registered Instrument is not to be held under the NSS, in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee for both or (ii) if the Global Registered Instrument is to be held under the NSS, in the name of a nominee of the Common Safekeeper and the relevant Individual Certificate(s) will be delivered to the appropriate depositary, a</p>

	<p>Common Depositary or Common Safekeeper, as the case may be.</p> <p>The security identification number (“ISIN”) of the instruments will be set out in the relevant final terms.</p> <p><b>Issue specific summary:</b></p> <p>Series Number: [ ]</p> <p>[Tranche Number: [ ]]</p> <p>Aggregate Principal Amount: [ ]</p> <p>[Series: [ ]]</p> <p>Tranche: [ ]]</p> <p>Method of distribution: [Syndicated/Non-syndicated]</p> <p>Name[s] of [ ]</p> <p>[Manager[s]/[Dealer]:</p> <p>Form of Instruments: Bearer Instruments:</p> <p>[Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments on [ ] days’ notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]</p> <p>[Temporary Global Instrument exchangeable for Definitive Instruments]</p> <p>[Permanent Global Instrument exchangeable for Definitive Instruments on [ ] days’ notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]</p> <p>Registered Instruments:</p> <p>[Global Registered Instrument exchangeable for Individual Certificates in the limited circumstances specified in the Global Registered Instrument]</p> <p>[Global Registered Instrument (US\$/€[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]</p> <p>[Individual Certificates]</p> <p>ISIN: [ ]</p> <p>Common Code: [ ]</p> <p>Any other clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, <i>société anonyme</i> and the relevant identification number(s): [Clearstream Banking AG] [ ]</p> <p>[Not applicable]</p> <p>Status of the Instruments: [Ordinary Senior Instruments/Second Ranking Senior Instruments/ Subordinated Instruments-Senior Subordinated Instruments/Subordinated Instruments-Tier 2 Subordinated Instruments]</p> <p>[<i>The Subordinated Instruments-Tier 2 Subordinated Instruments are intended to constitute Tier 2 Instruments of the Issuer</i>]</p>
C.2	<p><b>Currency of the Securities</b></p> <p><b>Programme summary:</b></p> <p>The Instruments may be denominated in any currency subject to compliance with all applicable legal and/or regulatory requirements and/or central bank requirements.</p>

	<p><b>Issue specific summary:</b> The Specified Currency of the Instruments is [ ].</p>
C.5	<p><b>Restrictions on free transferability</b> <b>Programme summary:</b> The Instruments may not be transferred prior to their Issue Date. Selling restrictions apply to offers, sales or transfers of the Instruments under the applicable laws in various jurisdictions. A purchaser of the Instruments is required to make certain agreements and representations as a condition to purchasing the Instruments. For each issue of Instruments, a minimum tradeable amount could be set out in the relevant Final Terms.</p> <p>With regards to Spain, the Instruments may not be offered, sold or distributed, nor may any subsequent resale of Instruments be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law, as amended and restated, or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Instruments.</p> <p><b>Issue specific summary:</b> The Issuer and the [Dealer/Manager(s)] have agreed certain customary restrictions on offers, sale and delivery of Instruments and of the distribution of offering material in [<i>insert relevant jurisdictions</i>]. US selling restrictions: Reg. S Compliance Category 2. [TEFRA C/TEFRA D/TEFRA not applicable] Prohibition of Sales to EEA Retail Investors: [Applicable/ Not Applicable]</p>
C.8	<p><b>Description of the rights attaching to the Securities</b> <b>Status:</b> <b>a) Senior Instruments</b> The payment obligations of the Issuer under Senior Instruments constitute direct, unconditional, unsubordinated and unsecured obligations (<i>créditos ordinarios</i>) of the Issuer and, upon the insolvency of the Issuer (and unless they qualify as subordinated claims (<i>créditos subordinados</i>) pursuant to Article 92.1º or 92.3º to 92.7º of Law 22/2003 dated 9 July 2003 (<i>Ley Concursal</i>) (the “<b>Insolvency Law</b>”)), but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), rank:</p> <ul style="list-style-type: none"> <li>(i) in the case of Ordinary Senior Instruments, <i>pari passu</i> and rateably without preference among themselves and with all other unsecured and unsubordinated indebtedness (<i>créditos ordinarios</i>) of the Issuer, present or future (other than Second Ranking Senior Instruments and claims in respect of Senior Parity Liabilities which will rank junior to them as set out in (ii) below) and senior to any present and future subordinated obligations (<i>créditos subordinados</i>) of the Issuer; and</li> <li>(ii) in the case of Second Ranking Senior Instruments (i) within the senior and unsecured liabilities (<i>créditos ordinarios</i>) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities and (b) <i>pari passu</i> with the claims in respect of Senior Parity Liabilities, and (ii) senior to any present and future subordinated obligations (<i>créditos subordinados</i>) of the Issuer.</li> </ul> <p><b>b) Subordinated Instruments</b> The payment obligations of the Issuer under Subordinated Instruments, on account of principal constitute direct, unconditional, unsecured and subordinated obligations (<i>créditos subordinados</i>) of the Issuer according to Article 92.2º of the Insolvency Law and, in accordance with Additional Provision 14.2º of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer (unless they qualify as subordinated claims (<i>créditos subordinados</i>) pursuant to Articles 92.3º to 92.7º of the Insolvency Law) rank:</p> <ul style="list-style-type: none"> <li>(i) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Senior Subordinated Liabilities of the Issuer: <i>This would be expected to be the case if the Subordinated Instruments are specified as Senior Subordinated Instruments in the relevant Final Terms.</i> <ul style="list-style-type: none"> <li>(a) <i>pari passu</i> among themselves and with (i) all other claims for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations (<i>créditos subordinados</i>) under Articles 92.3º to 92.7º of the Insolvency Law, and (ii) any other</li> </ul> </li> </ul>

	<p>subordinated obligations (<i>créditos subordinados</i>) which by law and/or by their terms, to the extent permitted by Spanish law, rank <i>pari passu</i> with the Issuer's obligations under the relevant Subordinated Instruments;</p> <p>(b) junior to (i) any unsubordinated obligations (<i>créditos ordinarios</i>) of the Issuer, (ii) any subordinated obligations (<i>créditos subordinados</i>) of the Issuer which become subordinated pursuant to article 92.1º of the Insolvency Law and (iii) any other subordinated obligations (<i>créditos subordinados</i>) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the relevant Subordinated Instruments; and</p> <p>(c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments or Tier 2 Instruments, (ii) any subordinated obligations (<i>créditos subordinados</i>) under Articles 92.3º to 92.7º of the Insolvency Law, (iii) any other subordinated obligations (<i>créditos subordinados</i>) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments; and</p> <p>(ii) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Tier 2 Instruments of the Issuer:  <i>This would be expected to be the case if the Subordinated Instruments are specified as Tier 2 Subordinated Instruments in the relevant Final Terms.</i></p> <p>(a) <i>pari passu</i> among themselves and with (i) all other claims for principal in respect of Tier 2 Instruments which are not subordinated obligations under Articles 92.3º to 92.7º of the Insolvency Law, and (ii) any other subordinated obligations (<i>créditos subordinados</i>) which by law and/or by their terms, to the extent permitted by Spanish law, rank <i>pari passu</i> with the Issuer's obligations under the relevant Subordinated Instruments;</p> <p>(b) junior to (i) any unsubordinated obligations (<i>créditos ordinarios</i>) of the Issuer, (ii) any subordinated obligations (<i>créditos subordinados</i>) of the Issuer under Article 92.1º of the Insolvency Law, (iii) any claim for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations under Articles 92.3º to 92.7º of the Insolvency Law and (iv) any other subordinated obligations (<i>créditos subordinados</i>) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the relevant Subordinated Instruments; and</p> <p>(c) <i>senior</i> to (i) any claims for principal in respect of Additional Tier 1 Instruments of the Issuer, (ii) any subordinated obligations (<i>créditos subordinados</i>) under Articles 92.3º to 92.7º of the Insolvency Law and (iii) any other subordinated obligations (<i>créditos subordinados</i>) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments.</p> <p><b>Deed of covenant:</b></p> <p>The Instruments have the benefit of a deed of covenant dated 6 March 2017 (the “<b>Deed of Covenant</b>”).</p> <p><b>Taxation:</b></p> <p>All amounts payable in respect of the Instruments, the receipts and coupons by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, subject to Condition 10 on taxation, the Issuer shall pay such additional amounts as will result in receipt by the Holder of any Instrument or coupon of such amounts as would have been received by them had no such withholding or deduction been required.</p> <p>Under Spanish Law 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions (<i>Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito</i>), as amended and Royal Decree 1065/2007 (as amended among others by Royal Decree 1145/2011 of 29 July), the Issuer is required to provide to the Spanish tax authorities certain information relating to the Instruments. If The Bank of New York Mellon, London Branch (the “<b>Issue</b></p>
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	<p><b>and Paying Agent”)</b> fails to provide the Issuer with the required information, the Issuer will be required to withhold tax and may pay income in respect of the relevant Instruments net of the Spanish withholding tax applicable to such payments, generally at the rate of 19%.</p> <p><b>Events of default:</b></p> <p>For Ordinary Senior Instruments this includes non-payment, breach of other obligations, winding up, cessation of business, insolvency proceedings and arrangements with creditors of the Issuer.</p> <p>There are no events of default under the Second Ranking Senior Instruments and Subordinated Instruments which could lead to an acceleration of the Subordinated Instruments or the Second Ranking Senior Instruments, other than in the case of insolvency, winding-up or dissolution of the Issuer.</p> <p><b>Governing law:</b></p> <p>Save as described below, the Terms and Conditions, the Issue and Paying Agency Agreement and the Deed of Covenant and all non-contractual obligations arising out of or in connection with the Terms and Conditions, the Issue and Paying Agency Agreement and the Deed of Covenant are governed by and shall be construed in accordance with, English law. The conditions on the status of the Instruments and the Syndicate of the Holders of the Instruments are governed by, and shall be construed in accordance with, Spanish law.</p>
<b>C.9</b>	<p><b>Payment Features</b></p> <p><b><i>Programme summary:</i></b></p> <p>The Issue Date of the Instruments will be specified in the Final Terms and may not exceed the date of validity of this Base Prospectus. The nominal interest rate that will be received by investors will be set out in the relevant Final Terms and shall be the result of applying the Terms and Conditions specific to the relevant issue.</p> <p>Fixed Rate Instruments bear interest at the fixed rate(s) of interest specified in the relevant Final Terms. The rate of interest will remain constant or may be altered on certain reset dates specified in the relevant Final Terms.</p> <p>Floating Rate Instruments bear interest at a variable rate either determined (a) on the basis of a floating rate set out in the 2006 ISDA Definitions, or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service, together with the (positive or negative) margin (if any).</p> <p>Zero Coupon Instruments will be offered and sold at a discount to, or at 100 per cent. of, their principal amount. Zero Coupon Instruments do not bear interest and an investor will not receive any return on the Instruments until redemption.</p> <p>CMS-Linked Instruments bear interest (if any) at a rate determined by reference to one or more swap rates.</p> <p>If Step Up provisions are specified in the relevant Final Terms as being applicable, upon a decrease in the rating of the Ordinary Senior Instruments, the interest rate will be increased by the relevant percentage specified in the Final Terms, with effect from the following interest payment date.</p> <p>Applicable interest payment dates will be specified in the Final Terms. Instruments may be issued with any maturity and may be redeemable at the redemption amount specified in the relevant Final Terms, in each case subject to compliance with all applicable legal, regulatory and/or central bank requirements. Tier 2 Subordinated Instruments will have a maturity of not less than five years in accordance with applicable banking regulations.</p> <p>Early redemption will be permitted (i) for taxation reasons, (ii) in respect of Tier 2 Subordinated Instruments only, upon there being a change in the regulatory treatment of such Instruments and (iii) in respect of Second Ranking Senior Instruments and Senior Subordinated Instruments only, upon such Instruments being disqualified from being an instrument which meets the total loss-absorption capacity requirements or minimum requirements for eligible liabilities. In addition, the Instruments may be redeemed prior to their maturity date in certain circumstances, including pursuant to an Issuer call option or an investor put option. The terms under which Instruments may be redeemed early will be agreed between the Issuer and the relevant Dealer at the time of issue of the relevant Instruments and specified in the relevant Final Terms.</p> <p>The Syndicate of Holders of Instruments shall be entrusted with the defence of the rights and interests of Holders of Instruments.</p>

	<p><b>Issue specific summary:</b></p> <p>Interest Basis: [[ ] per cent. Fixed Rate]  [Reset Instruments]  [[<i>reference rate</i>] +/- [ ] per cent. Floating Rate]  [CMS-Linked: [<i>constant maturity swap rate appearing on the Relevant Screen Page</i>] +/- [ ] per cent]  [Floating Rate: [difference between] [LIBOR] [and] [EURIBOR] [and] [<i>Floating Rate Option</i>] [+/-] [multiplied by] [ ] per cent]  [Zero Coupon]</p> <p>Fixed Rate Instruments: [Applicable  (further particulars specified in item 15 of Part A to the Final Terms)]/[Not Applicable]</p> <p>Reset Instruments: [Applicable  (further particulars specified in item 16 of Part A to the Final Terms)]/[Not Applicable]</p> <p>Floating Rate Instruments: [Applicable  (further particulars specified in item 17 of Part A to the Final Terms)]/[Not Applicable]</p> <p>CMS-Linked Instruments: [Applicable  (further particulars specified in item 17 of Part A to the Final Terms)]/[Not Applicable]</p> <p>Zero Coupon Instruments: [Applicable (further particulars specified in item 18 of Part A to the Final Terms)]/[Not Applicable]</p> <p>Interest Payment Date(s): [ ] in each year [adjusted in accordance with [<i>Business Day Convention</i>]]/[not adjusted]</p> <p>Step Up Provisions: [Applicable with a Step Up Margin of [ ] per cent.]</p> <p>Maturity Date: [<i>Date or (for Floating Rate Instruments) Interest Payment Date falling in the relevant month and year</i>]</p> <p>Maturity Redemption Amount of each Instrument: [ ] per Instrument of [ ] Specified Denomination</p> <p>Call Option: [Applicable  (further particulars specified in item 19 of Part A to the Final Terms)]/[Not Applicable]</p> <p>Put Option: [Applicable  (further particulars specified in item 20 of Part A to the Final Terms)]/[Not Applicable]</p> <p>[Indication of yield: [Applicable  (further particulars specified in item 5 of Part B to the Final Terms)]/[Not Applicable]]</p> <p>Names and addresses of additional Paying Agent(s) (if any): [ ]</p> <p>Commissioner: [ ]</p>
<b>C.10</b>	<p><b>Derivative component on interest</b></p> <p>Not Applicable. The Instruments do not have a derivative component in the interest payment.</p>
<b>C.11</b>	<p><b>Listing and Admission to trading</b></p> <p><b>Programme summary:</b></p>

Each Series may be listed on the official list of the Irish Stock Exchange and traded on the regulated market of the Irish Stock Exchange and/or any other listing authority, stock exchange and/or quotation system (each, a “**Stock Exchange**”) (as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms) or may be unlisted. Under Spanish law, unlisted Instruments are subject to a different tax regime than that applicable to listed Instruments and, if issued under the Programme, such Instruments will be the subject of a supplement to the Base Prospectus.

**Issue specific summary:**

[Application has been made by the Issuer (or on its behalf) for the Instruments to be listed on [the Official List of the Irish Stock Exchange]/[any other regulated market]/[any unregulated market]/[any other listing authority] [any other stock exchange] [any other quotation system] and application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [the Regulated Market of the Irish Stock Exchange] [any other regulated market] [any other unregulated market] [any other listing authority] [any other stock exchange] [any other quotation system] with effect from [ .] [Not Applicable.]

## SECTION D – RISKS

Element	
<b>D.2</b>	<p><b>Key risks regarding the Issuer</b></p> <p>The main risks relating to the Santander Group operation are, amongst others:</p> <ul style="list-style-type: none"> <li>• The Group’s growth, asset quality and profitability may be adversely affected by volatile macroeconomic and political conditions.</li> <li>• Exposure to UK political developments, including the outcome of the UK referendum on membership of the European Union, could have a material adverse effect on the Group.</li> <li>• The Group is vulnerable to disruptions and volatility in the global financial markets.</li> <li>• The Group may suffer adverse effects as a result of economic and sovereign debt tensions in the Eurozone.</li> <li>• The Group is exposed to risk of loss from legal and regulatory proceedings.</li> <li>• The Group is subject to substantial regulation and regulatory and governmental oversight which could adversely affect its business, operations and financial condition.</li> <li>• The Group is subject to potential intervention by regulators or supervisors, particularly in response to customer complaints.</li> <li>• The Group is subject to review by taxing authorities, and an incorrect interpretation by the Group of tax laws and regulations may have a material adverse effect on the Group.</li> <li>• Changes in taxes and other assessments may adversely affect the Group.</li> <li>• The Group may not be able to detect or prevent money laundering and other financial crime activities fully or on a timely basis, which could expose the Group to additional liability and could have a material adverse effect on it.</li> <li>• Liquidity and funding risks are inherent in the Group’s business and could have a material adverse effect on the Group.</li> <li>• Credit, market and liquidity risk may have an adverse effect on the Group’s credit ratings and its cost of funds. Any downgrading in the Group’s credit rating would likely increase its cost of funding, require the Group to post additional collateral or take other actions under some of the Group’s derivative contracts and adversely affect its interest margins and results of operations.</li> <li>• The credit quality of the Group’s loan portfolio may deteriorate and its loan loss reserves could be insufficient to cover the Group’s actual loan losses, which could have a material adverse effect on the Group.</li> <li>• The value of the collateral securing the Group’s loans may not be sufficient, and the Group may be unable to realise the full value of the collateral securing its loan portfolio.</li> <li>• The Group is subject to counterparty risk in its banking business.</li> </ul>



	<ul style="list-style-type: none"> <li>• The Group's financial results are constantly exposed to market risk. The Group is subject to fluctuations in interest rates and other market risks, which may materially and adversely affect it and its profitability.</li> <li>• Market conditions have resulted and could result in material changes to the estimated fair values of the Group's financial assets. Negative fair value adjustments could have a material adverse effect on the Group's operating results, financial condition and prospects.</li> <li>• The Group is subject to market, operational and other related risks associated with its derivative transactions that could have a material adverse effect on it.</li> <li>• Failure to successfully implement and continue to improve the Group's risk management policies, procedures and methods, including its credit risk management system, could materially and adversely affect the Group, and the Group may be exposed to unidentified or unanticipated risks.</li> <li>• Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group.</li> <li>• Risks relating to data collection, processing and storage systems and security are inherent in the Group business.</li> <li>• The financial problems faced by the Group's customers could adversely affect it.</li> <li>• Changes in the Group's pension liabilities and obligations could have a material adverse effect on the Group.</li> <li>• The Group depends in part upon dividends and other funds from subsidiaries.</li> <li>• Increased competition, including from non-traditional providers of banking services such as financial technology providers, and industry consolidation may adversely affect the results of operations of the Group</li> <li>• The Group's ability to maintain its competitive position depends, in part, on the success of new products and services the Group offers its clients and the Group's ability to continue offering products and services from third parties, and the Group may not be able to manage various risks its faces as the Group expands its range of products and services that could have a material adverse effect on the Group.</li> <li>• If the Group is unable to manage the growth of its operations this could have an adverse impact on its profitability.</li> <li>• Goodwill impairments may be required in relation to acquired businesses.</li> <li>• The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel.</li> <li>• The Group relies on third parties and affiliates for important products and services.</li> <li>• Damage to the Group's reputation could cause harm to the Group's business prospects.</li> <li>• The Group engages in transactions with its subsidiaries or affiliates that others may not consider to be on an arm's-length basis.</li> <li>• Changes in accounting standards could impact reported earnings.</li> <li>• The financial statements of the Issuer are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position.</li> <li>• Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of negligence or fraud.</li> <li>• The Group's corporate disclosure may differ from disclosure regularly published by issuers of securities in other countries, including the United States.</li> <li>• Investors may find it difficult to enforce civil liabilities against the Group or its directors and officers.</li> </ul>
<b>D.3</b>	<b>Key risks regarding the Securities</b>
	<p><b>Programme summary:</b></p> <p>There are also risks associated with the Instruments and with the markets. These risks may include,</p>

amongst others:

***General risks in relation to the Instruments***

- Risks related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities
- The Insolvency Law, provides, among other things, that: (i) any claim may become subordinated if it is not reported to the insolvency administrators (*administradores concursales*) within a certain period, (ii) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, and (iii) interest (other than interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall cease to accrue as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated. In addition, recent amendments to the Insolvency Law have been implemented which, in certain instances, have the effect of modifying or impairing creditors' rights, including the ranking of its credits;
- Changes in European, English or Spanish law may affect the rights and effective remedies of Holders of Instruments, as well as the market value of the Instruments.
- The Instruments may be redeemed prior to maturity at the option of the Issuer or for taxation reasons.
- Prospective investors should make their own evaluations to determine whether an investment in the Instruments is appropriate in their particular circumstances and should consult with their legal, business and tax advisers accordingly.
- The trading market for debt securities (such as the Instruments) may be volatile and may be adversely impacted by many events.
- The terms of the Instruments contain very limited covenants and there are no restrictions on the amount or type of further securities or indebtedness which the Bank may incur.
- The terms of the Instruments contain a waiver of set-off rights.
- The Commissioner (which owes certain obligations to the Syndicate of Holders of Instruments) will be appointed by the Issuer and may also be an employee or officer of the Issuer.
- Potential conflicts of interest between the investor and The Bank of New York Mellon, London Branch or such other calculation agent as may be specified as Calculation Agent in the relevant Final Terms ("**Calculation Agent**").
- Because the Global Instruments are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.
- One or more independent credit rating agencies may assign credit ratings to the Instruments. The credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.
- Legal investment considerations may restrict certain investments.
- Taxation in Spain: Under Spanish Law, payments of income in respect of the listed Instruments will not be subject to Spanish withholding tax provided that the Issuer receives certain information concerning the Instruments. If such information is not received by the Issuer, as the case may, it will be required to apply Spanish withholding tax to any payment of interest in respect of the relevant Instruments, or income arising from the payment of Instruments issued below par.
- Transactions in the Instruments could be subject to the European financial transaction tax, if adopted.
- The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its interest

payments.

- The Issuer may issue Inverse Floating Rate Instruments which have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London inter-bank offer rate (“LIBOR”). The market values of those Instruments typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms).
- The Issuer may issue Zero Coupon Instruments, which will bear no interest and an investor will receive no return on such Instruments until redemption. Any investors holding these Instruments will be subject to the risk that the amortised yield in respect of the Instruments may be less than market rates.
- The Issuer may issue Instruments at a substantial discount or premium from their principal amount, including Zero Coupon Instruments. The market values of such Instruments tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the Instruments, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***Risks related to Subordinated Instruments and Second Ranking Senior Instruments***

- An investor in Subordinated Instruments assumes an enhanced risk of loss in the event of the Issuer’s insolvency or resolution.
- The Second Ranking Senior Instruments are second ranking senior obligations and are junior to certain obligations.
- The Subordinated Instruments and the Second Ranking Senior Instruments provide for limited events of default. Holders of Instruments may not be able to exercise their rights on an event of default in the event of the adoption of any early intervention or resolution measure under Law 11/2015.
- The Subordinated Instruments and the Second Ranking Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event.
- The qualification of the Second Ranking Senior Instruments as TLAC/MREL-Eligible Instruments is subject to uncertainty.
- The Subordinated Instruments and the Second Ranking Senior Instruments may be subject to substitution and/or variation without Holders consent.
- Second Ranking Senior Instruments are new types of instruments for which there is little trading history.

Additionally, the risks relating to investment in the Instruments depend on their features and may include, *inter alia*, risks relating to (but not limited to) operational/business risk, credit risk, liquidity risk, interest rate risk, regulatory risk, reputational risk, competition risk, unsecured obligations, market risk, hedging and potential conflicts of interest, tax liabilities, expenses and taxation, third party risk, structural risks relating to particular Instruments, including with respect to certain underlying, no claim against the reference item(s) to which the Instruments relate, exchange rate risks, settlement disruption, illegality and cancellation, time lag after redemption or exercise, settlement risk, possible illiquidity of Instruments, equity risk, underlying volatility risk, fund risk, failure to deliver due to illiquidity, inflation risk, modification, meetings, market disruption, optional redemption, a requirement to hold a minimum amount of Instruments, transfer restrictions and exchange, listing and legal regulation risk.

***Issue specific summary:***

[Key risks set out above to be included as necessary in relation to the issue of the Instruments.]

## SECTION E – OFFER

Element	
E.2b	Use of proceeds <i>Programme summary:</i>

	<p>The net proceeds of the issue of each tranche of Instruments will be used for the general funding purposes of the Group.</p> <p><b>Issue specific summary:</b></p> <p>The net proceeds from the issue of Instruments will be used [for the general funding purposes of the Group.]/[ ]</p>
E.3	<p><b>Terms and conditions of the offer:</b></p> <p><b>Programme summary:</b></p> <p><b>Denomination:</b> Instruments will be issued in such denominations as may be specified in the relevant Final Terms, subject to a minimum denomination of €1,000 or, if the Instruments are denominated in a currency other than euro, the equivalent in another currency at the date of issue. For each issue of Instruments, a minimum tradeable amount could be set out in the relevant Final Terms.</p> <p><b>Interest:</b> Instruments are interest-bearing. Interest may accrue at a fixed, reset or floating rate or other variable rate and may vary during the lifetime of the relevant Series.</p> <p><b>Issue Price:</b> Instruments may be issued at par or at a discount to par or a premium over par and on a fully paid basis, as specified in the relevant Final Terms. The issue price and the principal amount of the relevant tranche of Instruments will be determined before filing of the relevant Final Terms of each tranche on the basis of then prevailing market conditions.</p> <p><b>Maturity:</b> Instruments may be issued with any maturity subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Tier 2 Subordinated Instruments will have a maturity of not less than five years in accordance with applicable banking regulations.</p> <p>Where Instruments have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried on from an establishment maintained by the Issuer in the United Kingdom, such Instruments must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 by the Issuer.</p> <p><b>Redemption:</b> Instruments may be redeemable at the redemption amount specified in the relevant Final Terms subject to compliance with all applicable legal and/or regulatory requirements. Early redemption will be permitted for taxation reasons, but otherwise early redemption will be permitted only to the extent specified in the relevant Final Terms.</p> <p>Any early redemption of Subordinated Instruments and Second Ranking Senior Instruments is subject to the prior consent of the competent authorities and/or relevant resolution authorities, to the extent required, and they may not be redeemed at the option of the Holder of the relevant Instruments prior to their stated maturity, in accordance with applicable banking regulations.</p> <p><b>Purchase:</b> The Issuer and any of its respective subsidiaries or any third party designated by it, may at any time purchase Instruments in the open market or otherwise and at any price provided that, in the case of Definitive Instruments, all unmatured Coupons appertaining thereto are purchased therewith.</p> <p>In the case of Subordinated Instruments and of Second Ranking Senior Instruments, the purchase of the Instruments by the Issuer or any of its subsidiaries shall take place in accordance with applicable banking regulations and may be subject to the prior consent of the competent authorities and/or the relevant resolution authorities.</p> <p><b>Substitution and variation:</b> In certain circumstances, the Subordinated Instruments and the Second Ranking Senior Instruments may be substituted or their terms varied at the option of the Issuer, without the prior consent of the Holders.</p> <p><b>Clearing Systems:</b> Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.</p> <p><b>Terms and conditions of the offer:</b> If so specified in the relevant Final Terms, the Instruments may be offered to the public in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus (a “<b>Non-exempt Offer</b>”) in Ireland or any relevant Member State(s) where the Issuer intends to make the Public Offer which must be jurisdictions where the Base Prospectus and any supplements have been passported (in addition to the jurisdiction where approved and published).</p>

	<p>The terms and conditions of each offer of Instruments will be specified in the applicable Final Terms. Any investor intending to acquire or acquiring any Instruments in a Non-exempt Offer from an Authorised Offeror will do so, and offers and sales of such Instruments to an Investor by such Authorised Offeror will be made, in accordance with any terms and other arrangements in place between them.</p> <p><b>Issue specific summary:</b></p> <p>Item 9 of Part B of these Final Terms specifies the terms and conditions of the offer applicable to the Instruments.</p>
<b>E.4</b>	<p><b>Description of any interest of natural and legal persons involved in the issue/offer that is material to the issue/offer including conflicting interests</b></p> <p><b>Programme summary:</b></p> <p>The relevant Dealers may be paid fees in relation to any issue of Instruments under the Programme. Any such Dealer and its affiliates may also have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.</p> <p><b>Issue specific summary:</b></p> <p>[So far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.]/[ ]</p>
<b>E.7</b>	<p><b>Expenses charged to the investor by the Issuer or an Offeror</b></p> <p><b>Programme summary:</b></p> <p>The expenses and taxes to be charged to the subscriber or purchaser of the Instruments, if any, will be specified in the relevant Final Terms.</p> <p><b>Issue specific summary:</b></p> <p>[There are no expenses charged to the investor by the Issuer]/[The following expenses are to be charged to the investor by the [Issuer/[ ]]: <i>[Expenses set out in Final Terms to be included]</i>].</p>

## RISK FACTORS

*An investment in the Instruments may involve a high degree of risk. In purchasing Instruments, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Instruments. There are a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Instruments. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its businesses and ability to make payments due under the Instruments.*

*In addition, factors which are material for the purpose of assessing the market risk associated with Instruments issued under the Programme are detailed below. The factors discussed below regarding the risks of acquiring or holding any Instruments are not exhaustive, and additional risks and uncertainties that are not presently known to the Issuer or that the Issuer currently believes to be immaterial could also have a material impact on the Instruments.*

*Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### CONTENTS OF THE RISK FACTORS

- 1. Macro-Economic and Political Risks**
- 2. Risks Relating to the Issuer and the Group Business**
- 3. Risks in relation to the Instruments**

Investing in Instruments issued under the Programme involves certain risks. Prospective investors should consider, among other things, the following:

#### **1. Macro-Economic and Political Risks**

***The Group's growth, asset quality and profitability may be adversely affected by volatile macroeconomic and political conditions***

The Group's loan portfolio is concentrated in Continental Europe (in particular, Spain), the United Kingdom, Latin America and the United States. At 31 December 2016, Continental Europe accounted for 38% of the Group's total loan portfolio (Spain accounted for 19% of the Group's total loan portfolio), the United Kingdom (where the loan portfolio consists primarily of residential mortgages) accounted for 32%, Latin America accounted for 19% (of which Brazil represents 10% of the Group's total loan portfolio) and the United States accounted for 11%. Accordingly, the recoverability of these loan portfolios in particular, and the Group's ability to increase the amount of loans outstanding and its results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Continental Europe (in particular, Spain), the United Kingdom, Latin America and the United States. In addition, the Group is exposed to sovereign debt in these regions. A return to recessionary conditions in the economies of Continental Europe (in particular, Spain), the United Kingdom, some of the Latin American countries in which the Group operates or the United States, or continued recessionary conditions in Brazil, would likely have a significant adverse impact on the Group's loan portfolio and sovereign debt holdings and, as a result, on its financial condition, cash flows and results of operations. See "Description of the Issuer—6. Business Overview".

The Group's revenues are also subject to risk of loss from unfavourable political and diplomatic developments, social instability, and changes in governmental policies, including expropriation, nationalisation, international ownership legislation, interest-rate caps and tax policies, some or all of which have occurred in Latin America.

The economies of some of the countries where the Group operates have been affected in the past twelve months by a series of political events, including the UK's vote to leave the EU in June 2016, which caused

significant volatility (for more information, see “*Exposure to UK political developments, including the outcome of the UK referendum on membership of the European Union, could have a material adverse effect on the Group*”) and has given rise to increasing anti-EU sentiment and populist movements in other EU Member States. There can be no assurance that the European and global economic environments will not continue to be affected by political developments, including elections in 2017 in key EU Member States.

The economies of some of the countries where the Group operates, particularly in Latin America, have experienced significant volatility in recent decades. This volatility resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which the Group lends. In addition, some of the countries where the Group operates are particularly affected by commodities price fluctuations, which in turn may affect financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. Negative and fluctuating economic conditions, such as slowing or negative growth and a changing interest rate environment, impact the Group’s profitability by causing lending margins to decrease and credit quality to decline and leading to decreased demand for higher margin products and services. For instance, Brazil’s present high rate of inflation, compounded by high and increasing interest rates, declining consumer spending and increasing unemployment, have had and may continue to have a material adverse impact on the Brazilian economy as a whole as well as on the Group’s financial condition and earnings in Brazil, which represented 22% of the profit attributable to the Bank’s total operating areas in 2016 and 10% of the Group’s total loans as of 31 December 2016. In addition, the Group’s business in Brazil will continue to be adversely affected by recessionary conditions and political instability in that country.

There is uncertainty over the long-term effects of the monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world’s leading economies, including China. Furthermore, financial turmoil in emerging markets tends to adversely affect stock prices and debt securities prices of other emerging markets as investors move their money to more stable and developed markets. Continued or increased perceived risks associated with investing in emerging economies in general, or the emerging market economies where the Group operates in particular, could further dampen capital flows to such economies and adversely affect such economies, and as a result, could have an adverse impact on the Group’s business and results of operations.

The recent fall and subsequent fluctuation in oil prices may give rise to volatility in the global financial markets and further economic instability in oil-dependent regions, including emerging markets, to which the Group is exposed. In addition, the ability of borrowers in or exposed to the oil sector has been and may be further adversely affected by such price fluctuations.

The Group’s growth, asset quality and profitability may be adversely affected by volatile macroeconomic and political conditions.

***Exposure to UK political developments, including the outcome of the UK referendum on membership of the European Union, could have a material adverse effect on the Group***

On 23 June 2016, the UK held a non-binding referendum (the “**UK EU Referendum**”) on its membership in the EU, in which a majority voted for the UK to leave the EU. Immediately following the result, the UK and global stock and foreign exchange markets commenced a period of significant volatility, including a steep devaluation of the pound sterling, in addition to which there is now continuing uncertainty relating to the process, timing and negotiation of the UK’s exit from, and future relationship with, the EU.

On 2 October 2016, the UK Prime Minister announced that her government would commence the exit process by the end of March 2017. The UK Supreme Court ruled on 24 January 2017 that commencement of the exit process must be approved by the UK Parliament. On 1 February 2017, the House of Commons voted to give the Prime Minister the power to notify under Article 50(2) of the Treaty on European Union, the UK’s intention to withdraw from the EU. Once the exit process is triggered, a two-year period of negotiation will begin to determine the new terms of the UK’s relationship with the EU, after which period its EU membership will cease. These negotiations are expected to run in parallel to standalone bilateral negotiations with the numerous individual countries and multilateral counterparties with which the UK currently has trading arrangements by virtue of its membership of the EU. The timing of, and process for, such negotiations and the resulting terms of the UK’s future economic, trading and legal relationships are uncertain.

While the longer term effects of the UK EU Referendum are difficult to predict, these are likely to include further financial instability and slower economic growth as well as higher unemployment and inflation, in the

UK, continental Europe and the global economy, at least in the short to medium term. For instance, the UK could lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members and this could affect the attractiveness of the UK as a global investment centre and, as a result, could have a detrimental impact on UK growth. Potential further decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the Group's margins and adversely affect its profitability and prospects.

The UK EU Referendum has also given rise to calls for certain regions within the UK to preserve their place in the EU by separating from the UK, as well as the potential for other EU Member States to consider withdrawal. For example, the outcome of the UK EU Referendum was not supported by the majority of voters in Scotland, who voted in favour of remaining in the EU. This has revived the political debate on a second referendum on Scottish independence. These developments, or the perception that any of them could occur, may have a material adverse effect on economic conditions and the stability of financial markets, and could significantly reduce market liquidity and restrict the ability of key market participants to operate in certain financial markets.

Asset valuations, currency exchange rates and credit ratings may be particularly subject to increased market volatility. The major credit rating agencies have downgraded and changed their outlook to negative on the UK's sovereign credit rating following the UK EU Referendum. In addition, S&P Global Ratings and Moody's Investors Service affirmed the long-term credit ratings and changed the ratings outlooks of the operating companies of most major UK banks because of the medium term impact of political and market uncertainty. For more information, see "*—Credit, market and liquidity risk may have an adverse effect on the Group's credit ratings and its cost of funds. Any downgrade in the Group's credit rating would likely increase its cost of funding, require the Group to post additional collateral or take other actions under some of its derivative contracts and adversely affect its interest margins and results of operations*".

In addition, the Group is subject to substantial EU-derived regulation and oversight. There is now significant uncertainty as to the respective legal and regulatory environments in which the Bank's UK subsidiaries will operate when the UK is no longer a member of the EU, causing potentially divergent national laws and regulations across Europe should EU laws be replaced, in whole or in part, by UK laws on the same (or substantially similar) issues. For example, the Bank's UK subsidiaries are in the process of implementing a number of key restructuring and strategic initiatives, such as the ring-fencing of their retail banking activities, all of which will be carried out throughout this period of significant uncertainty. This may impact the prospects for successful execution and impose additional pressure on management. Operationally, the Group's UK subsidiaries and other financial institutions may no longer be able to rely on the European passporting framework for financial services and could be required to apply for authorisation in multiple EU jurisdictions, the costs, timing and viability of which is uncertain. This uncertainty, and any actions taken as a result of this uncertainty, as well as new or amended rules, may have a significant impact on the Group's operations, profitability and business. In addition, the lack of clarity of the impact of the UK EU Referendum on foreign nationals' long term residency permissions in the UK may make it challenging for the Bank's UK subsidiaries to retain and recruit adequate staff, which may adversely impact the Group's business.

The UK political developments described above, along with any further changes in government structure and policies, may lead to further market volatility and changes to the fiscal, monetary and regulatory landscape in which the Group is subject and could have a negative adverse effect on its financing availability and terms and, more generally, on its business, financial condition and results of operation.

### ***The Group is vulnerable to disruptions and volatility in the global financial markets***

In the past nine years, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity and greater volatility (such as volatility in spreads). Global economic conditions deteriorated significantly between 2007 and 2009, and many of the countries in which the Group operates fell into recession. Although most countries have begun to recover, this recovery may not be sustainable. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).



In particular, the Group faces, among others, the following risks related to the economic downturn:

- Reduced demand for the Group's products and services.
- Increased regulation of the Group's industry. Compliance with such regulation will continue to increase the Group's costs and may affect the pricing for its products and services, increase its conduct and regulatory risks related to non-compliance and limit the Group's ability to pursue business opportunities.
- Inability of the Group's borrowers to timely or fully comply with their existing obligations. Macroeconomic shocks may negatively impact the household income of its retail customers and may adversely affect the recoverability of its retail loans, resulting in increased loan losses.
- The process the Group uses to estimate losses inherent in its credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of the Group's borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, impact the reliability of the process and the sufficiency of the Group's loan loss allowances.
- The value and liquidity of the portfolio of investment securities that the Group holds may be adversely affected.
- Any worsening of global economic conditions may delay the recovery of the international financial industry and impact the Group's financial condition and results of operations.

Despite recent improvements in certain segments of the global economy, uncertainty remains concerning the future economic environment. Such economic uncertainty could have a negative impact on the Group's business and results of operations. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on the Group and on others in the financial services industry.

Increased volatility in the global financial markets could have a material adverse effect on the Group, including its ability to access capital and liquidity on financial terms acceptable to it, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates paid on deposits to attract more customers and become unable to maintain certain liability maturities. Any such increase in capital markets funding availability or costs or in deposit rates could have a material adverse effect on the Group's interest margins and liquidity.

If all or some of the foregoing risks were to materialise, this could have a material adverse effect on the Group's financing availability and terms and, more generally, on its results, financial condition and prospects.

***The Group may suffer adverse effects as a result of economic and sovereign debt tensions in the Eurozone***

Conditions in the capital markets and the economy generally in the Eurozone continue to show signs of fragility and volatility, with political tensions in Europe being particularly heightened in the past twelve months. In addition, interest rate differentials among Eurozone countries are affecting government finance and borrowing rates in those economies. These factors could have a material adverse effect on the Group's operating results, financial condition and prospects.

The UK EU Referendum caused significant volatility in the global stock and foreign exchange markets. It has also encouraged anti-EU and populist parties in other member states, raising the potential for other countries to seek to conduct referenda with respect to their continuing membership of the EU. On 4 December 2016, voters in Italy rejected constitutional reform proposals put forward by the Italian Prime Minister by way of referendum (the "**Italian Referendum**"), which was generally regarded as portraying an anti-EU sentiment. Following the results of the UK EU Referendum and the Italian Referendum, the risk of further instability in the Eurozone cannot be excluded, particularly in Germany, France and the Netherlands, which are due to hold elections in 2017.

In the past, the European Central Bank ("ECB") and European Council have taken actions with the aim of reducing the risk of contagion in the Eurozone and beyond and improving economic and financial stability. Notwithstanding these measures, a significant number of financial institutions throughout Europe have

substantial exposures to sovereign debt issued by Eurozone (and other) nations, which may be under financial stress. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be adversely affected, with wider possible adverse consequences for global financial market conditions.

The Group has direct and indirect exposure to financial and economic conditions throughout the Eurozone economies. Concerns relating to sovereign defaults or a partial or complete break-up of the European Monetary Union, including potential accompanying redenomination risks and uncertainties, have significantly increased in light of the political and economic factors mentioned above. A deterioration of the economic and financial environment could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels. This could materially and adversely affect the Group's operating results, financial position and prospects.

## **2. Risks Relating to the Issuer and the Group Business**

### ***The Group is exposed to risk of loss from legal and regulatory proceedings***

The Group faces risk of loss from legal and regulatory proceedings, including tax proceedings, that could subject the Group to monetary judgments, regulatory enforcement actions, fines and penalties. The current regulatory and tax enforcement environment in the jurisdictions in which the Group operates reflects an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, and may lead to material operational and compliance costs.

The Group is from time to time subject to certain claims and is a party to certain legal proceedings incidental to the normal course of its business, including in connection with conflicts of interest, lending activities, relationships with the Group's employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, the Group cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. The amount of the Group's reserves in respect of these matters is substantially less than the total amount of the claims asserted against the Group and, in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Group. As a result, the outcome of a particular matter may be material to the Group's operating results for a particular period.

### ***The Group is subject to substantial regulation and regulatory and governmental oversight which could adversely affect its business, operations and financial condition***

As a financial institution, the Group is subject to extensive regulation, which materially affects its businesses. The statutes, regulations and policies to which the Group is subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which the Group is subject may also change from time to time. Extensive legislation and implementing regulation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect the Group's business, including Spain, the United States, the EU, Latin America and other jurisdictions, and further regulations are in the process of being implemented. The manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which the Group operates, the Group may face higher compliance costs. Any legislative or regulatory actions and any required changes to the business operations of the Group resulting from such legislation and regulations, as well as any deficiencies in the Group's compliance with such legislation and regulation, could result in significant loss of revenue, limit the ability of the Group to pursue business opportunities in which it might otherwise consider engaging and provide certain products and services, affect the value of assets that it holds, require the Group to increase its prices and therefore reduce demand for its products, impose additional compliance and other costs on the Group or otherwise adversely affect its businesses. In particular, legislative or regulatory actions resulting in enhanced prudential standards, in particular with respect to capital and liquidity, could impose a significant regulatory burden on the Bank or on its bank subsidiaries and could limit the Bank's subsidiaries' ability to distribute capital and liquidity to the Bank, thereby negatively impacting the Bank. Future liquidity standards could require the Bank to maintain a greater proportion of its assets in highly-liquid but lower-

yielding financial instruments, which would negatively affect its net interest margin. Moreover, the regulatory authorities, as part of their supervisory function, periodically review the Bank's allowance for loan losses. Such regulators may require the Bank to increase its allowance for loan losses or to recognise further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Bank's management, could have an adverse effect on the Bank's earnings and financial condition. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Group.

The wide range of regulations, actions and proposals which most significantly affect the Bank, or which could most significantly affect the Bank in the future, relate to capital requirements, funding and liquidity, development of a fiscal and banking union in the EU and regulatory reforms in the United States, and are discussed in further detail below. These and other regulatory reforms adopted or proposed in the wake of the financial crisis have increased and may continue to materially increase the Group's operating costs and negatively impact the Group's business model. Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as the Bank that are deemed to be a global systemically important institution ("G-SII"). In addition, the volume, granularity, frequency and scale of regulatory and other reporting requirements necessitate a clear data strategy to enable consistent data aggregation, reporting and management. Inadequate management information systems or processes, including those relating to risk data aggregation and risk reporting, could lead to a failure to meet regulatory reporting requirements or other internal or external information demands and the Group may face supervisory measures as a result.

The main regulations and regulatory and governmental oversight that can adversely impact the Group include but are not limited to the following:

#### *Capital requirements, liquidity, funding and structural reform*

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges. Increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk associated with the possibility of failure to maintain required capital levels. As a Spanish financial institution, the Bank is subject to the Capital Requirements Regulation (Regulation (EU) No 575/2013) ("CRR") and the Capital Requirements Directive (Directive 2013/36/EU) ("CRD IV"), through which the EU began implementing the Basel III capital reforms from 1 January 2014, with certain requirements in the process of being phased in until 1 January 2019. While the CRD IV required national transposition, the CRR was directly applicable in all the EU member states. This regulation is complemented by several binding technical standards and guidelines issued by the European Banking Authority ("EBA"), directly applicable in all EU member states, without the need for national implementation measures either. The implementation of the CRD IV into Spanish law has largely taken place through Royal Decree Law 14/2013 and Law 10/2014, Bank of Spain Circular 2/2014 and Bank of Spain Circular 2/2016. Credit institutions, such as the Bank, are required, on a standalone and consolidated basis, to hold a minimum amount of regulatory capital of 8% of risk weighted assets (of which at least 4.5% must be Common Equity Tier 1 ("CET1") capital and at least 6% must be Tier 1 capital). In addition to the minimum regulatory capital requirements, the CRD IV also introduced capital buffer requirements that must be met with CET1 capital. The CRD IV introduces five new capital buffers: (1) the capital conservation buffer for unexpected losses, requiring additional CET1 of up to 2.5% of total weighted exposures; (2) the institution-specific counter-cyclical capital buffer, requiring additional CET1 of up to 2.5% of total weighted exposures; (3) the G-SIIs buffer of between 1% and 3.5% of CET1; (4) the other systemically important institutions buffer, which may be as much as 2% of CET1; and (5) the CET1 systemic risk buffer. Beginning in 2016, and subject to the applicable phase-in period, entities are required to comply with the "combined buffer requirement" (broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution) the systemic risk buffer, the G-SIIs buffer and the other systemically important institutions buffer, in each case as applicable to the institution).

The Bank will be required to maintain a capital conservation buffer of 2.5% and a systemically important institutions buffer of 1%, in each case considered on a fully loaded basis. However, as of the date of this Base Prospectus, due to the application of the phase-in period, the Bank is required to maintain a conservation buffer of 1.25% and a systemically important institutions buffer of 0.5%.

Article 104 of the CRD IV, as implemented by Article 68 of Law 10/2014, and similarly Article 16 of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the “**SSM Regulation**”), also contemplate that in addition to the minimum “Pillar 1” capital requirements (including, if applicable, any buffer capital as discussed above), supervisory authorities may impose further “Pillar 2” capital requirements to cover other risks, including those not considered to be fully captured by the minimum capital requirements under the CRD IV or to address macro-prudential considerations. This may result in the imposition of additional capital requirements on the Bank and/or the Group pursuant to this “Pillar 2” framework. Any failure by the Bank and/or the Group to maintain its “Pillar 1” minimum regulatory capital ratios and any “Pillar 2” additional capital requirements could result in administrative actions or sanctions, which, in turn, may have a material adverse impact on the Group’s results of operations.

The ECB is required to carry out, at least on an annual basis, assessments under the CRD IV of the additional “Pillar 2” capital requirements that may be imposed for each of the European banking institutions subject to the Single Supervisory Mechanism (the “**SSM**”). Any additional capital requirement that may be imposed on the Bank and/or the Group by the ECB pursuant to these assessments may require the Bank and/or the Group to hold capital levels similar to, or higher than, those required under the full application of the CRD IV. There can be no assurance that the Group will be able to continue to maintain such capital ratios.

In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of its supervisory review and evaluation process (“**SREP**”). Included in this were the EBA’s proposed guidelines for a common approach to determining the amount and composition of additional capital requirements implemented on 1 January 2016. Under these guidelines, national supervisors must set a composition requirement for the additional capital requirements to cover certain specified risks of at least 56% CET1 capital and at least 75% Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional capital requirements in respect of risks which are already covered by capital buffer requirements and/or additional macro-prudential requirements; and, accordingly, the above “combined buffer requirement” is in addition to the minimum capital requirement and to the additional capital requirement. In this regard, under Article 141 of the CRD IV, Member States of the EU must require that an institution that fails to meet the “combined buffer requirement” or the “Pillar 2” capital requirements described above, will be prohibited from paying any “discretionary payments” (which are defined broadly by the CRD IV as payments relating to CET1, variable remuneration and payments on Additional Tier 1 capital instruments), until it calculates its applicable restrictions and communicates them to the regulator and, once completed, such institution will be subject to restricted “discretionary payments”. The restrictions will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution since the last distribution of profits or “discretionary payment”. Such calculation will result in a “Maximum Distributable Amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. Articles 43 to 49 of Law 10/2014 and Chapter II of Title II of Royal Decree 84/2015 implement the above provisions in Spain. In particular Article 48 of Law 10/2014 and Articles 73 and 74 of Royal Decree 84/2014 deal with restrictions on distributions.

In connection with this, Banco Santander has announced that it has received from the ECB its decision regarding prudential minimum capital phase-in requirements for 2017, following the results of SREP. The ECB decision requires that the Group maintains a CET1 capital ratio of 7.75% on a consolidated basis. This 7.75% capital requirement includes: the minimum Pillar 1 requirement (4.5%); the Pillar 2 requirement (1.5%); the capital conservation buffer (1.25%); and the requirement from its consideration as a G-SII (0.5%). The ECB decision also requires that Banco Santander, S.A. maintains a CET1 capital ratio of at least 7.25% on an individual basis. This 7.25% capital requirement includes: the minimum Pillar 1 requirement (4.5%), the Pillar 2 requirement (1.5%) and the capital conservation buffer (1.25%). These capital requirements do not result in any limitations referred to in the CRR to distributions in the form of dividends, variable remuneration and coupon payments to holders of AT1 instruments.

In addition to the above, the CRR also includes a requirement for institutions to calculate a leverage ratio (“**LR**”), report it to their supervisors and to disclose it publicly from 1 January 2015 onwards. More precisely, Article 429 of the CRR requires institutions to calculate their LR in accordance with the methodology laid down in that article. In January 2014, the Basel Committee finalised a definition of how the LR should be prepared and set an indicative benchmark (namely 3% of Tier 1 capital). Such 3% Tier 1 LR has been tested during a monitoring period until 2017 when the Basel Committee will decide on the final calibration. Accordingly, the CRR does not currently contain a requirement for institutions to have a capital requirement

based on the LR though prospective investors should note the European Commission's proposal amending the CRR that are mentioned below. The European Commission's proposals contain a binding 3% CET1 LR requirement, which would be added to the CRR and would be applicable (subject to limited exceptions) to all institutions subject to the CRD IV from 1 January 2018. The potential for the introduction of a LR buffer for G-SIIs at some point in the future is also noted in the proposals.

On 9 November 2015, the Financial Stability Board (the "**FSB**") published its final principles and term sheet containing an international standard to enhance the loss absorbing capacity of G-SIIs such as the Bank. The final standard consists of an elaboration of the principles on loss absorbing and recapitalisation capacity of G-SIIs in resolution and a term sheet setting out a proposal for the implementation of these proposals in the form of an internationally agreed standard on total loss absorbing capacity ("**TLAC**") for G-SIIs. Once implemented in the relevant jurisdictions, these principles and terms will form a new minimum TLAC standard for G-SIIs, and in the case of G-SIIs with more than one resolution group, each resolution group within the G-SII. The FSB will undertake a review of the technical implementation of the TLAC principles and term sheet by the end of 2019. The TLAC principles and term sheet require a minimum TLAC requirement to be determined individually for each G-SII at the greater of (a) 16% of risk weighted assets as of 1 January 2019 and 18% as of 1 January 2022, and (b) 6% of the Basel III Tier 1 leverage ratio exposure measure as of 1 January 2019, and 6.75% as of 1 January 2022.

Furthermore, Article 45 of the European Bank Recovery and Resolution Directive (Directive 2014/59/EU) ("**BRRD**") provides that member states shall ensure that institutions meet, at all times, a minimum requirement for own funds and eligible liabilities ("**MREL**"). The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The EBA was in charge of drafting regulatory technical standards on the criteria for determining MREL (the "**MREL RTS**"). On 3 July 2015 the EBA published the final draft MREL RTS. In application of Article 45(2) of the BRRD, the current version of the MREL RTS is set out in a Commission Delegated Regulation (C(2016) 2976 final) that was adopted by the Commission on 23 May 2016.

The MREL requirement was scheduled to come into force by January 2016. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs. Therefore, it has proposed a long phase-in period of 48 months (four years) until 2020.

The European Commission committed to review the existing MREL rules with a view to provide full consistency with the TLAC standard by considering the findings of a report that the EBA is required to provide to the European Commission under Article 45(19) of the BRRD. On 19 July 2016, the EBA published an interim version of the report on implementation and design of the MREL framework where it stated that its provisional view is that the preferred option should be changing the reference base of MREL to risk weighted assets. The final report was published on 14 December 2016.

On 23 November 2016, the European Commission published a proposal for a European Directive amending the BRRD and a proposal for a European Regulation amending Regulation (EU) No. 806/2014 which was passed on 15 July 2014 and became effective from 1 January 2015 (the "**SRM Regulation**"). The main objective of these proposals is to implement the TLAC standard and to integrate the TLAC requirement into the general MREL rules (the "**TLAC/MREL Requirements**") thereby avoiding duplication from the application of two parallel requirements. As mentioned above, although TLAC and MREL pursue the same regulatory objective, there are, nevertheless, some differences between them in the way they are constructed. The European Commission is proposing to integrate the TLAC standard into the existing MREL rules and to ensure that both requirements are met with largely similar instruments, with the exception of the subordination requirement, which will be institution-specific and determined by the resolution authority. Under these proposals, institutions such as the Bank would continue to be subject to an institution-specific MREL requirement, which may be higher than the requirement of the TLAC standard.

The European Commission's proposals require the introduction of limited adjustments to the existing MREL rules ensuring technical consistency with the structure of any requirements for G-SIIs. In particular, technical amendments to the existing rules on MREL are needed to align them with the TLAC standard regarding inter alia the denominators used for measuring loss-absorbing capacity, the interaction with capital buffer requirements, disclosure of risks to investors, and their application in relation to different resolution strategies. Implementation of the TLAC/MREL Requirements is expected to be phased-in from 1 January 2019 (a 16% minimum TLAC requirement) to 1 January 2022 (a 18% minimum TLAC requirement).

Additionally, the 23 November 2016 proposal amending BRRD proposes the creation of a new asset class of “non-preferred” senior debt that should only be bailed-in after capital instruments but before other senior liabilities. This proposal anticipates that member states will transpose the proposed amendments into the BRRD in their national laws by approximately June 2017 and that banks to which the amendments apply will have to comply with the amended rules by approximately July 2017.

While the general goal of these proposals is now well understood, it is too early to confirm the exact amendments that will be introduced and consequently the precise impact on the Issuer.

Any failure by an institution to meet the applicable minimum TLAC/MREL Requirements is intended to be treated in the same manner as a failure to meet minimum regulatory capital requirements, where resolution authorities must ensure that they intervene and place an institution into resolution sufficiently early if it is deemed to be failing or likely to fail and there is no reasonable prospect of recovery.

Additionally, the Basel Committee is currently in the process of reviewing and issuing recommendations in relation to risk asset weightings which may lead to increased regulatory scrutiny of risk asset weightings in the jurisdictions who are members of the Basel Committee.

### *EU fiscal and banking union*

The project of achieving a European banking union was launched in the summer of 2012. Its main goal is to resume progress towards the European single market for financial services by restoring confidence in the European banking sector and ensuring the proper functioning of monetary policy in the Eurozone.

The banking union is expected to be achieved through new harmonised banking rules (the single rulebook) and a new institutional framework with stronger systems for both banking supervision and resolution that will be managed at the European level. Its two main pillars are the SSM and the Single Resolution Mechanism (“SRM”).

The SSM (comprised by both the ECB and the national competent authorities) is designed to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular direct supervision of the 126 largest European banks (including the Bank), on 4 November 2014. In preparation for this step, between November 2013 and October 2014, the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80% of Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures.

The SSM represents a significant change in the approach to bank supervision at a European and global level. The SSM results in the direct supervision of 126 financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions and is now one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 national competent authorities that are part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the approval of the Regulation (EU) No 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (the SSM Framework Regulation). In addition, this new body represents an extra cost for the financial institutions that funds it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost for the taxpayers and the real economy. The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund (“SRF”). Under the intergovernmental agreement (“IGA”) signed by 26 EU member states on 21 May 2014, contributions by banks raised at national level were transferred to the SRF. The new Single Resolution Board (“SRB”), which is the central decision-making body of the SRM, started operating on 1 January 2015 and has fully assumed its resolution powers on 1 January 2016. The SRB is responsible for managing the SRF and its mission is to ensure that credit institutions and other entities under its remit, which face serious difficulties, are resolved effectively with minimal costs to taxpayers and the real economy. From that date onwards the SRF is also in place, funded by contributions from European banks in accordance with the methodology

approved by the Council of the EU. The SRF is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8% bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD).

By allowing for the consistent application of EU banking rules through the SSM and the SRM, the banking union is expected to help resume momentum towards economic and monetary union. In order to complete such union, a single deposit guarantee scheme is still needed which may require a change to the existing European treaties. This is the subject of continued negotiation by European leaders to ensure further progress is made in European fiscal, economic and political integration.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations; in particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes which were published in the Official Journal of the EU on 12 June 2014. The BRRD was required to be implemented on or before 1 January 2015, although the bail-in tool only applies since 1 January 2016. The BRRD was partially implemented in Spain in June 2015 through Law 11/2015 of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms ("**Law 11/2015**") and Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 ("**Royal Decree 1012/2015**").

In addition, on 29 January 2014, the European Commission released its proposal on the structural reforms of the European banking sector that will impose new constraints on the structure of European banks. The proposal aims at ensuring the harmonisation between the divergent national initiatives in Europe. It includes a prohibition on proprietary trading similar to that contained in Section 619 of the Dodd-Frank Act (also known as the Volcker Rule) and a mechanism to potentially require the separation of trading activities (including market making), such as in the Financial Services (Banking Reform) Act 2013, complex securitisations and risky derivatives.

Moreover, regulations adopted on structural measures to improve the resilience of EU credit institutions may have a material impact on the Bank's business, financial condition and results of operations. These regulations, if adopted, may also cause the Group to invest significant management attention and resources to make any necessary changes.

#### *Other regulatory reforms adopted or proposed in the wake of the financial crisis*

On 16 August 2012, Regulation (EU) No 648/2012 on over-the-counter ("**OTC**") derivatives, central counterparties and trade repositories entered into force ("**EMIR**"). While a number of the compliance requirements introduced by EMIR already apply, the ESMA is still in the process of finalising some of the implementing rules mandated by EMIR. EMIR introduced a number of requirements, including clearing obligations for certain classes of OTC derivatives, exchange of initial and variation margin and various reporting and disclosure obligations. Although some of the particular effects brought about by EMIR are not yet fully foreseeable, many of its elements have led and may lead to changes which may negatively impact the Group's profit margins, require it to adjust its business practices or increase its costs (including compliance costs).

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No 600/2014 ("**MiFIR**") and Directive 2014/65/EU ("**MiFID II**")), introduces a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection's regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. MiFID II was initially intended to enter into effect on 3 January 2017. In order to ensure legal certainty and avoid potential market disruption, the European Commission has proposed delaying the effective date of MiFID II by 12 months until 3 January 2018.

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common Financial Transactions Tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and participating Member States may decide not to participate.

Separately, on 28 September 2011, the European Commission tabled a proposal for a European Council Directive on a common system of financial transaction tax amending Directive 2008/7/EC. See “—*Risk Factors-Transactions in the Instruments could be subject to the European financial transaction tax, if adopted*”.

#### *United States significant regulation*

The regulation in the United States of the financial services industry has experienced significant structural reforms since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) in 2010. The Dodd-Frank Act provided for, or authorised regulations providing for, among other things, the establishment of enhanced prudential standards applicable to certain systemically important financial institutions (SIFIs), including the U.S. operations of certain large foreign banking organisations (“**FBOs**”); establishment of resolution planning requirements for certain U.S. banking organisations and FBOs; prohibitions on engagement by certain banking entities in certain proprietary trading activities and restrictions on ownership or sponsorship of, or entering into certain credit-related transactions with related, covered funds (the “**Volcker Rule**”); more comprehensive regulation of OTC derivatives market; the establishment of a Consumer Financial Protection Bureau with broad authority to regulate the credit, savings, payment and other consumer financial products and services that the Group offers, and restrictions on the interchange fees earned through debit card transactions. U.S. regulatory authorities have implemented many of these statutorily authorised regulations in ways that significantly affected the Group’s revenues, costs and organisational structure in the United States and the scope of its permitted activities. Others of these regulations have yet to be fully implemented and with the new administration in the United States further change may be expected. The ongoing Dodd-Frank Act implementation and potential regulatory changes in connection with the new U.S. administration could result in loss of revenue, higher compliance costs, additional limits on the Group’s activities, constraints on its ability to enter into new businesses and other adverse effects on its businesses.

As a large FBO with significant U.S. operations, the Group is subject to enhanced prudential standards that required the Bank to, among other things, establish or designate a U.S. intermediate holding company (an “**IHC**”) and to transfer its entire ownership interest in substantially all of its U.S. subsidiaries to such IHC by 1 July 2016. The Bank designated its wholly-owned subsidiary Santander Holdings USA (“**SHUSA**”) as its U.S. IHC, effective 1 July 2016. As a U.S. IHC, SHUSA is subject to an enhanced supervision framework that includes, or will include, enhanced risk-based and leverage capital requirements, liquidity requirements, risk management and governance requirements and stress-testing requirements. Collectively, the enhanced prudential standards impose a significant regulatory burden on SHUSA, in particular with respect to capital and liquidity, which could limit its ability to distribute capital and liquidity to the Bank, thereby negatively affecting the Bank.

The Group is required under the Dodd-Frank Act to prepare and submit annually to the Federal Reserve Board and the Federal Deposit Insurance Corporation (“**FDIC**”) a plan (commonly called a “living will”) for the orderly resolution of the Group’s subsidiaries and operations that are domiciled in the United States in the event of future material financial distress or failure. In addition, the Group’s insured depository institution (“**IDI**”) subsidiary, Santander Bank, N.A., must submit a separate IDI resolution plan annually to the FDIC. These resolution plans require substantial effort, time and cost to prepare and are subject to review by the Federal Reserve Board and the FDIC, in the case of the Bank’s plan required under the Dodd-Frank Act, and by the FDIC only, in the case of the IDI plan. If, after reviewing the Group’s resolution plan required under the Dodd-Frank Act and any related re-submissions, the Federal Reserve Board and the FDIC jointly determine that the Group failed to cure identified deficiencies, they are authorised to impose more stringent capital, leverage or liquidity requirements, or restrictions on the Group’s growth, activities or operations, which could have an adverse effect on the Group’s business.

In October 2015, the U.S. federal bank regulatory agencies adopted final rules for uncleared swaps that will phase in variation margin requirements from 1 September 2016 through 1 March 2017 and initial margin requirements from 1 September 2016 through 1 September 2020, depending on the level of specified derivatives activity of the swap dealer and the relevant counterparty. The final rules of the U.S. federal bank regulatory agencies would generally apply to inter-affiliate transactions. While their ultimate impact remains uncertain, these rules and similar rules being considered by regulators in other jurisdictions, and the potential conflicts and inconsistencies between them, will likely increase the Group’s costs for engaging in swaps and other derivatives activities and present compliance challenges. The U.S. Securities and Exchange



Commission's ("SEC") will in the future adopt regulations establishing margin requirements for uncleared security-based swaps.

On 3 May 2016, the Federal Reserve Board proposed a new rule that would impose contractual requirements on certain qualified financial contracts ("QFCs") to which certain covered entities, including the U.S. operations the Bank, are parties. On 19 August 2016, the Office of the Comptroller of the Currency ("OCC") proposed a substantially similar rule that would apply to Santander Bank, N.A. and its subsidiaries. The QFCs covered by the proposals would include derivatives, securities lending transactions and short-term funding transactions such as repurchase agreements. If adopted as proposed, these rules could adversely affect the rights of the Bank's and Santander Bank, N.A.'s creditors or counterparties to these QFCs, which could increase the costs to the Bank of using these contracts.

Each of these aspects of the Dodd-Frank Act, as well as other aspects, such as the Volcker Rule, OTC derivatives regulation other changes in U.S. banking regulations, may directly and indirectly impact various aspects of the Group's business. The full spectrum of risks that the Dodd-Frank Act poses to the Group is not yet fully known; however, such risk could be material and the Group could be material and adversely affected by them.

#### *United States capital, liquidity and related requirements and supervisory actions*

As a U.S. IHC and bank holding company, SHUSA is subject to the U.S. Basel III capital rules, which implement in the United States the capital components of the Basel Committee's international capital and liquidity standards known as Basel III. In addition, as a U.S. bank holding company with \$50 billion or more of total consolidated assets, SHUSA is subject to a modified version of the quantitative liquidity coverage ratio requirement. The liquidity coverage ratio is one of the liquidity components of the international Basel III framework. These capital and liquidity requirements significantly affect the amount of capital and liquidity that SHUSA maintains to support its operations, and if SHUSA fails to meet these quantitative requirements, it could face increasingly stringent regulatory consequences, including but not limited to restrictions on its ability to distribute capital to the Bank.

In addition to these existing capital and liquidity requirements, the Federal Reserve Board proposed a rule on 30 October 2015 that would establish certain TLAC and long-term debt requirements in the United States generally consistent with the FSB's international TLAC standard. If finalised as proposed, the Group's compliance with a final TLAC rule could increase funding costs for SHUSA and the Bank.

Certain of the Group's U.S. subsidiaries, including SHUSA, the Group's U.S. IHC and a bank holding company, are subject to stress testing and capital planning requirements under regulations implementing the Dodd-Frank Act or other banking laws or policies. In June 2016, the Federal Reserve Board, as part of its Comprehensive Capital Analysis and Review ("CCAR") process, objected on qualitative grounds to SHUSA's capital plan. In its 2016 public report on CCAR, the Federal Reserve Board stated that although SHUSA had made progress improving certain aspects of its capital planning process, it continues to have material unresolved issues related to its capital planning process and supporting assumptions and analysis, including deficiencies in its risk management framework, internal controls, governance and oversight functions. As a result of these CCAR objections, SHUSA is not permitted to make any capital distributions without the Federal Reserve Board's approval, other than the continued payment of dividends on SHUSA's outstanding class of preferred stock, until a new capital plan is approved by the Federal Reserve Board. The deadline for SHUSA's next capital plan submission is in April 2017, and there is the risk that the Federal Reserve Board will object to SHUSA's next capital plan.

In addition, SHUSA is subject to supervisory actions in the United States related to the CCAR stress testing and capital planning processes. Specifically, on 15 September 2014, SHUSA and the Federal Reserve Bank of Boston ("**FRB Boston**") executed a written agreement relating to a subsidiary's declaration and payment of dividends in the second quarter of 2014 without the Federal Reserve Board's approval. Under the written agreement, SHUSA agreed to submit to the FRB Boston written procedures to strengthen board oversight of management regarding planned capital distributions by SHUSA and its subsidiaries. In addition, SHUSA agreed to subject future distributions to the prior written approval of the Federal Reserve Board and to take necessary actions to ensure that no such distributions are made.

### *Other supervisory actions and restrictions on U.S. activities*

In addition to the foregoing, U.S. bank regulatory agencies from time to time take supervisory actions under certain circumstances that restrict or limit a financial institution's activities. In some instances, the Group is subject to significant legal restrictions on its ability to publicly disclose these actions or the full details of these actions. Furthermore, as part of the regular examination process, the Group's U.S. banking regulators may advise the Group's U.S. banking subsidiaries to operate under various restrictions as a prudential matter. Under the U.S. Bank Holding Company Act, the Federal Reserve Board has the authority to disallow the Group and its U.S. banking subsidiaries from engaging in certain categories of new activities in the United States or acquiring shares or control of other companies in the United States. Such actions and restrictions currently applicable to the Group or its U.S. banking subsidiaries could adversely affect the Group's costs and revenues. Moreover, efforts to comply with non-public supervisory actions or restrictions could require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions could have a material adverse effect on the Group's business and results of operations, and the Group may be subject to significant legal restrictions on its ability to publicly disclose these matters or the full details of these actions. In addition to such confidential actions and restrictions, in July 2015, SHUSA became subject to a public enforcement action with the FRB Boston under which SHUSA entered into a written agreement to make enhancements with respect to, among other matters, board oversight of the consolidated organisation, risk management, capital planning and liquidity risk management.

### *Banking reform in the UK*

On 18 December 2013, the Financial Services (Banking Reform) Act (the "**Banking Reform Act**") was enacted in the UK. The Banking Reform Act implements the recommendations of the Independent Commission on Banking (ICB) and of the Parliamentary Commission on Banking Standards. Among other things, the Banking Reform Act establishes a ring-fencing framework under the Financial Services and Markets Act 2000 (FSMA) pursuant to which UK banking groups that hold significant retail deposits are required to separate their retail banking activities from their wholesale banking activities by 1 January 2019, establishes a new Payment Systems Regulator (the "**PSR**") and amends the Banking Act 2009 (the "**Banking Act**") to include a bail-in stabilisation power forming part of the special resolution regime.

On 7 July 2016, the PRA published a policy statement (PS20/16) entitled 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures' containing final ring-fencing rules ahead of the implementation date for ring-fencing on 1 January 2019. The PRA expects firms to finalize their ring-fencing plans and highlight any changes as a result of the policy statement to the PRA. The PRA will keep the policy under review to assess whether changes may be required as a result of any regulatory change following the UK's exit from the EU.

Finally, the Banking Reform Act introduced a new form of transfer scheme, the ring-fencing transfer scheme, under Part VII of FSMA to enable UK banks to implement the ring-fencing requirements. This is a court process that requires (i) the PRA to approve the scheme (in consultation with the FCA); (ii) the appropriate regulatory authority in respect of each transferee to provide a certificate of adequate financial resources in relation to that transferee; and (iii) an independent expert (approved by the PRA, after consultation with the FCA) to provide a scheme report stating whether any adverse effect on persons affected by the scheme is likely to be greater than is reasonably necessary to achieve the ring-fencing purposes of the scheme. The PRA published its final statement of policy on its approach to ring-fencing transfer schemes on 4 March 2016.

The Group's UK subsidiaries are subject to the ring-fencing requirement under the Banking Reform Act and, as a consequence, they will need to separate their core activities from their prohibited activities. The Group's UK subsidiaries continue to work closely with regulators on developing their business and operating model to comply with the ring-fencing requirements. In light of the changeable macro-environment, the board of Santander UK concluded that the Group could provide greater certainty for its customers with a 'wide' ring-fence structure, rather than the 'narrow' ring-fence structure originally envisaged as this will also allow the Group to maintain longer term flexibility. Under this revised model Santander UK plc, the ring-fenced bank, will serve the Group's retail, commercial and corporate customers. Abbey National Treasury Services plc will no longer constitute the non-ring fenced bank and its activities will be revised as part of the new ring-fenced model. The Group intends to complete the implementation of its ring-fence plans well in advance of the legislative deadline of 1 January 2019. The ring-fencing model that the Group's UK subsidiaries ultimately implement will depend on a number of factors including economic conditions in the UK and globally and will

entail a legal and organizational restructuring of the Group's UK subsidiaries' businesses and operations, including transfers of customers and transactions through a ring-fencing transfer scheme. In light of the scale and complexity of this process, the operational and execution risks may be material.

This restructuring and migration of customers and transactions could have a material impact on how the Group conducts its business in the UK. The Group is unable to predict with certainty the attitudes and reaction of its customers. The restructuring of the UK subsidiaries' business pursuant to the developing ring-fencing regime will take a substantial amount of time and cost to implement, the separation process and the structural changes which may be required could have a material adverse effect on its business, operating results, financial condition, profitability and prospects.

***The Group is subject to potential intervention by regulators or supervisors, particularly in response to customer complaints***

As noted above, the Group's business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These apply to business operations, affect financial returns, include reserve and reporting requirements, and prudential and conduct of business regulations. These requirements are set by the relevant central banks and regulatory authorities that authorise, regulate and supervise the Group in the jurisdictions in which it operates.

In their supervisory roles, the regulators seek to maintain the safety and soundness of financial institutions with the aim of strengthening the protection of customers and the financial system. The supervisors' continuing supervision of financial institutions is conducted through a variety of regulatory tools, including the collection of information by way of prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, these regulators have a more outcome-focused regulatory approach that involves more proactive enforcement and more punitive penalties for infringement. As a result, the Group faces increased supervisory scrutiny (resulting in increasing internal compliance costs and supervision fees) and in the event of a breach of its regulatory obligations, the Group is likely to face more stringent regulatory fines. Some of the regulators are focusing intently on consumer protection and on conduct risk and will continue to do so. This has included a focus on the design and operation of products, the behaviour of customers and the operation of markets. Such a focus could result in usury regulation that could restrict the Group's ability to charge certain levels of interest in credit transactions or in regulation that would prevent the Group from bundling products that it offers to its customers.

Some of the laws in the relevant jurisdictions in which the Group operates, give the regulators the power to make temporary product intervention rules either to improve a firm's systems and controls in relation to product design, product management and implementation, or to address problems identified with financial products. These problems may potentially cause significant detriment to consumers because of certain product features or governance flaws or distribution strategies. Such rules may prevent institutions from entering into product agreements with customers until such problems have been solved.

Some of the regulatory regimes in the relevant jurisdictions in which the Group operates, require the Group to be in compliance across all aspects of its business, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to comply with the relevant regulations, there would be a risk of an adverse impact on its business from sanctions, fines or other actions imposed by the regulatory authorities. Customers of financial services institutions, including the Group's customers, may seek redress if they consider that they have suffered a loss as a result of the mis-selling of a particular product, or through incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and the evolution of judgments by the relevant authorities, it is possible that an adverse outcome in some matters could harm the Group's reputation or have a material adverse effect on its operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing the Group's profitability.

***The Group is subject to review by taxing authorities, and an incorrect interpretation by the Group of tax laws and regulations may have a material adverse effect on the Group***

The preparation of the Group's tax returns requires the use of estimates and interpretations of complex tax laws and regulations and is subject to review by taxing authorities. The Group is subject to the income tax laws of Spain and the other jurisdictions in which the Group operates. These tax laws are complex and subject to different interpretations by the taxpayer and relevant governmental taxing authorities, which are sometimes

subject to prolonged evaluation periods until a final resolution is reached. In establishing a provision for income tax expense and filing returns, the Group must make judgments and interpretations about the application of these inherently complex tax laws. If the judgment, estimates and assumptions the Group uses in preparing its tax returns are subsequently found to be incorrect, there could be a material adverse effect on the Group's results of operations. In some jurisdictions, the interpretations of the taxing authorities are unpredictable and frequently involve litigation, which introduces further uncertainty and risk as to tax expense.

***Changes in taxes and other assessments may adversely affect the Group***

The legislatures and tax authorities in the tax jurisdictions in which the Group operates regularly enact reforms to the tax and other assessment regimes to which the Group and its customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms cannot be quantified and there can be no assurance that any such reforms would not have an adverse effect upon the Group's business.

***The Group may not be able to detect or prevent money laundering and other financial crime activities fully or on a timely basis, which could expose the Group to additional liability and could have a material adverse effect on it***

The Group is required to comply with applicable anti-money laundering ("AML"), anti-terrorism, anti-bribery and corruption, sanctions and other laws and regulations in the jurisdictions in which the Group operates. These laws and regulations require the Group, among other things, to conduct full customer due diligence (including sanctions and politically-exposed person screening), keep customer, account and transaction information up to date and have implemented effective financial crime policies and procedures detailing what is required from those responsible. The Group is also required to conduct AML training for its employees and to report suspicious transactions and activity to appropriate law enforcement following full investigation by its local AML team.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML, anti-bribery and corruption and sanctions laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

The Group has developed policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and other financial crime related activities. These require implementation and embedding within the Group's business effective controls and monitoring, which in turn requires on-going changes to systems and operational activities. Financial crime is continually evolving and, as noted, is subject to increasingly stringent regulatory oversight and focus. This requires proactive and adaptable responses from the Group so that it is able to deter threats and criminality effectively. As a global bank, the Group is particularly exposed to this risk. Even known threats can never be fully eliminated, and there will be instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the Group relies heavily on its employees to assist it by spotting such activities and reporting them, and its employees have varying degrees of experience in recognising criminal tactics and understanding the level of sophistication of criminal organisations. Where the Group outsources to third parties any of its customer due diligence, customer screening or anti financial crime operations, it remains responsible and accountable for full compliance and any breaches. If the Group is unable to apply the necessary scrutiny and oversight, there remains a risk of regulatory breach.

If the Group is unable to fully comply with applicable laws, regulations and expectations, its regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on the Group, including requiring a complete review of its business systems, day-to-day supervision by external consultants and ultimately the revocation of its banking license.

The reputational damage to the Group's business and global brand would be severe if it were found to have breached, AML, anti-bribery and corruption or sanctions requirements. The Group's reputation could also suffer if the Group is unable to protect its customers or its business from being used by criminals for illegal or improper purposes.

In addition, while the Group reviews its relevant counterparties' internal policies and procedures with respect to such matters, the Group, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate anti-money laundering AML procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the group's (and the Group's relevant counterparties') services as a conduit for money laundering (including illegal cash operations) without the Group's (and or the Group's relevant counterparties') knowledge. If the Group is associated with, or even accused of being associated with, or becomes a party to, money laundering, then the Group's reputation could suffer and/or the Group could become subject to fines, sanctions and/or legal enforcement (including being added to any "black lists" that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on the Group's operating results, financial condition and prospects.

Any such risks could have a material adverse effect on the operating results, financial condition and prospects of the Group.

***Liquidity and funding risks are inherent in the Group's business and could have a material adverse effect on the Group***

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to meet its obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While the Group implements liquidity management processes to seek to mitigate and control these risks, unforeseen systemic market factors make it difficult to eliminate completely these risks. Continued constraints in the supply of liquidity, including in inter-bank lending, has affected and may materially and adversely affect the cost of funding the Group's business, and extreme liquidity constraints may affect the Group's current operations and its ability to fulfil regulatory liquidity requirements, as well as limit growth possibilities.

Increases in prevailing market interest rates and in the Group's credit spreads can significantly increase the cost of its funding. Changes in the Group's credit spreads may be influenced by market perceptions of its creditworthiness. Changes to interest rates and the Group's credit spreads occur continuously and may be unpredictable and highly volatile.

The Group relies, and will continue to rely, primarily on commercial deposits to fund lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside the Group's control, such as general economic conditions and the confidence of commercial depositors in the economy and in the financial services industry, and the availability and extent of deposit guarantees, as well as competition between banks or with other products, such as mutual funds, for deposits. Any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing the Group's ability to access commercial deposit funding on appropriate terms, or at all, in the future. If these circumstances were to arise, this could have a material adverse effect on the Group's operating results, financial condition and prospects.

Central banks have taken extraordinary measures to increase liquidity in the financial markets as a response to the financial crisis. If current facilities were rapidly removed or significantly reduced, this could have an adverse effect on the Group's ability to access liquidity and on its funding costs.

The Group cannot assure that in the event of a sudden or unexpected shortage of funds in the banking system, it will be able to maintain levels of funding without incurring high funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, the Group could be materially adversely affected.

***Credit, market and liquidity risk may have an adverse effect on the Group's credit ratings and its cost of funds. Any downgrade in the Group's credit rating would likely increase its cost of funding, require the Group to post additional collateral or take other actions under some of its derivative contracts and adversely affect its interest margins and results of operations***

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. Rating agencies regularly evaluate the Group, and their ratings of its debt are based on a number of factors, including the Group's financial strength and conditions affecting the financial services industry generally. In addition, due

to the methodology of the main rating agencies, the Group's credit rating is affected by the rating of Spanish sovereign debt. If Spain's sovereign debt is downgraded, the Group's credit rating would also likely be downgraded by an equivalent amount.

Any downgrade in the Group's debt credit ratings would likely increase its borrowing costs and require the Group to post additional collateral or take other actions under some of its derivative contracts, and could limit the Group's access to capital markets and adversely affect its commercial business. For example, a ratings downgrade could adversely affect the Group's ability to sell or market certain of its products, engage in certain longer-term and derivatives transactions and retain its customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of the Group's derivative contracts and other financial commitments, the Group may be required to maintain a minimum credit rating or terminate such contracts or require the posting of collateral. Any of these results of a ratings downgrade could reduce the Group's liquidity and have an adverse effect on the Group, including its operating results and financial condition.

Banco Santander's long-term debt is currently rated investment grade by the major rating agencies—A3 stable outlook by Moody's Investors Service España, S.A., A- positive outlook by Standard & Poor's Ratings Services and A- stable outlook by Fitch Ratings Ltd. In June 2015, Moody's upgraded Banco Santander's rating from Baa1 to A3 in light of their new banking methodology and in February 2016, they modified the Group's outlook from positive to stable in line with the outlook of the Spanish sovereign debt. In October 2015, Standard & Poor's upgraded Banco Santander's rating from BBB+ to A- following the upgrade of the sovereign credit rating of Spain. In February 2017, Standard & Poor's revised the outlook from stable to positive reflecting the revised funding plans announced by the Group, which give Standard & Poor's comfort that the Group will build a substantial additional loss absorbing capacity buffer over the next two years.

Santander UK plc's ("**Santander UK**") long-term debt is currently rated investment grade by the major rating agencies: Aa3 with negative outlook by Moody's Investors Service, A with negative outlook by Standard & Poor's Ratings Services and A with stable outlook by Fitch Ratings.

Banco Santander (Brasil) S.A.'s ("**Santander Brazil**") long-term debt in foreign currency is currently rated BB with a negative outlook by Standard & Poor's Ratings Services, BB with negative outlook by Fitch Ratings Ltd. and Ba2 with a negative outlook by Moody's Investors Service. During the course of 2015 and the first half of 2016 the three major agencies lowered the rating as a result of the lowering of Brazil's sovereign credit rating.

The Group conducts substantially all of its material derivative activities through Banco Santander and Santander UK. The Group estimates that as of 31 December 2016, if all the rating agencies were to downgrade Banco Santander's long-term senior debt ratings by one notch the Group would be required to post up to €228 million in additional collateral pursuant to derivative and other financial contracts. A hypothetical two notch downgrade would result in a further requirement to post up to €38 million in additional collateral. The Group estimates that as of 31 December 2016, if all the rating agencies were to downgrade Santander UK's long-term credit ratings by one notch, and thereby trigger a short-term credit rating downgrade, this could result in contractual outflows from Santander UK's total liquid assets of £4.6 billion of cash and additional collateral that Santander UK would be required to post under the terms of secured funding and derivatives contracts. A hypothetical two notch downgrade would result in a further outflow of £0.4 billion of cash and collateral under secured funding and derivatives contracts.

While certain potential impacts of these downgrades are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of the Group's long-term credit rating precipitates downgrades to the Group's short-term credit rating, and assumptions about the potential behaviours of various customers, investors and counterparties. Actual outflows could be higher or lower than the preceding hypothetical examples, depending upon certain factors including which credit rating agency downgrades the Group's credit rating, any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from loss of unsecured funding (such as from money market funds) or loss of secured funding capacity. Although unsecured and secured funding stresses are included in the Group's stress testing scenarios and a portion of its total liquid assets is held against these risks, a credit rating downgrade could still have a material adverse effect on the Group.

In addition, if the Group was required to cancel its derivatives contracts with certain counterparties and was unable to replace such contracts, the Group's market risk profile could be altered.

There can be no assurance that the rating agencies will maintain the current ratings or outlooks. Failure to maintain favourable ratings and outlooks could increase the Group's cost of funding and adversely affect interest margins, which could have a material adverse effect on the Group.

***The credit quality of the Group's loan portfolio may deteriorate and its loan loss reserves could be insufficient to cover the Group's actual loan losses, which could have a material adverse effect on the Group***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's business. Non-performing or low credit quality loans have in the past negatively impacted the Group's results of operations and could do so in the future. In particular, the amount of the Group's reported non-performing loans may increase in the future as a result of growth in the Group's total loan portfolio, including as a result of loan portfolios that the Group may acquire in the future (the credit quality of which may turn out to be worse than the Group had anticipated), or factors beyond the Group's control, such as adverse changes in the credit quality of its borrowers and counterparties or a general deterioration in economic conditions in the regions where it operates or in global economic and political conditions. If the Group was unable to control the level of its non-performing or poor credit quality loans, this could have a material adverse effect on the Group.

The Group's loan loss reserves are based on its current assessment of and expectations concerning various factors affecting the quality of its loan portfolio. These factors include, among other things, the Group's borrowers' financial condition, repayment abilities and repayment intentions, the realisable value of any collateral, the prospects for support from any guarantor, government macroeconomic policies, interest rates and the legal and regulatory environment. Because many of these factors are beyond the Group's control and there is no precise method for predicting loan and credit losses, the Group cannot assure that its current or future loan loss reserves will be sufficient to cover actual losses. If the Group's assessment of and expectations concerning the above mentioned factors differ from actual developments, if the quality of the Group's total loan portfolio deteriorates, for any reason, or if the future actual losses exceed the Group's estimates of incurred losses, the Group may be required to increase its loan loss reserves, which may adversely affect it. Additionally, in calculating its loan loss reserves, the Group employs qualitative tools and statistical models which may not be reliable in all circumstances and which are dependent upon data that may not be complete. For further details regarding the Group's risk management policies, see *"Risk Factors-Failure to successfully implement and continue to improve the Group's risk management policies, procedures and methods, including its credit risk management system, could materially and adversely affect the Group, and the Group may be exposed to unidentified or unanticipated risks"*.

Mortgage loans are one of the Group's principal assets, comprising 46% of its loan portfolio as of 31 December 2016. The Group's exposure is concentrated in residential mortgage loans, especially in Spain and the United Kingdom. During late 2007, following an earlier period of increased demand, the housing market began to adjust downward in Spain and the United Kingdom as a result of excess supply (particularly in Spain) and higher interest rates. From 2008 to 2013, as economic growth stalled in Spain and the United Kingdom, persistent housing oversupply, decreased housing demand, rising unemployment, subdued earnings growth, greater pressure on disposable income, a decline in the availability of mortgage finance and the continued effect of global market volatility caused home prices to decline, while mortgage delinquencies and forbearances increased.

As a result of these and other factors, the Group's non-performing loans ("NPL") ratio increased from 0.94% at 31 December 2007, to 2.02% at 31 December 2008, to 3.24% at 31 December 2009, to 3.54% at 31 December 2010, to 3.90% at 31 December 2011, to 4.54% 31 December 2012 and to 5.64% at 31 December 2013. Although the trend changed during the last three years as the Group's NPL ratio decreased to 5.19% at 31 December 2014, to 4.36% at 31 December 2015 and to 3.93% at 31 December 2016, the Group can provide no assurance that its NPL ratio will not increase again as a result of the aforementioned and other factors. High unemployment rates, coupled with declining real estate prices, could have a material adverse impact on the Group's mortgage payment delinquency rates, which in turn could have a material adverse effect on its business, financial condition and results of operations.

Additionally, financial crisis led to the accumulation of illiquid assets with lower profitability than the Group's current targets. Such assets could negatively affect the Group's ability to reach out current profitability targets.

***The value of the collateral securing the loans of the Group may not be sufficient, and the Group may be unable to realise the full value of the collateral securing its loan portfolio***

The value of the collateral securing the Group's loan portfolio may fluctuate or decline due to factors beyond its control, including macroeconomic factors affecting Europe, the United States and Latin American countries. The value of the collateral securing the Group's loan portfolio may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of its loan portfolio is composed of real estate loans. The Group may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of its loans secured by such collateral. If any of the above were to occur, the Group may need to make additional provisions to cover actual impairment losses of its loans, which may materially and adversely affect its results of operations and financial condition.

***The Group is subject to counterparty risk in its banking business***

The Group is exposed to counterparty risk in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to the Group or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, clearing houses or other financial intermediaries.

The Group routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumours or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions the Group enters into expose it to significant credit risk in the event of default by one of its significant counterparties.

***The Group's financial results are constantly exposed to market risk. The Group is subject to fluctuations in interest rates and other market risks, which may materially and adversely affect it and its profitability***

Market risk refers to the probability of variations in the Group's net interest income or in the market value of its assets and liabilities due to volatility of interest rate, inflation, exchange rate or equity price. Changes in interest rates affect the following areas, among others, of its business:

- net interest income;
- the volume of loans originated;
- credit spreads;
- the market value of the Group's securities holdings;
- the value of loans and deposits; and
- the value of the Group's derivatives.

Interest rates are sensitive to many factors beyond the Group's control, including increased regulation of the financial sector, monetary policies and domestic and international economic and political conditions. Variations in interest rates could affect the interest earned on the Group's assets and the interest paid on its borrowings, thereby affecting its net interest income, which comprises the majority of its revenue, reducing the Group's growth rate and potentially resulting in losses. In addition, costs the Group incurs as it implements strategies to reduce interest rate exposure could increase in the future (which, in turn, will impact its results).

Increases in interest rates may reduce the volume of loans the Group originates. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in



outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of the Group's customers to prepay or refinance fixed-rate loans. Increases in interest rates may reduce the value of the Group's financial assets and may reduce gains or require the Group to record losses on sales of its loans or securities.

Due to the historically low interest rate environment in the Eurozone, in the UK and in the U.S. in recent years, the rates on many of the Group's interest-bearing deposit products have been priced at or near zero, limiting its ability to further reduce rates and thus negatively impacting the Group's margins. If the current low interest rate environment in the Eurozone, in the UK and in the U.S. persists in the long run, it may be difficult to increase the Group's net interest income, which will impact its results.

The Group is also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect the Group's earnings and value of its assets and securities. The recent volatility in the value of the pound sterling in the wake of the UK EU Referendum (see "*Risk Factors-Exposure to UK political developments, including the outcome of the UK referendum on membership of the European Union, could have a material adverse effect on the Group*") may persist as negotiations continue and could adversely impact the Group's UK customers and counterparties, as well as the overall results and prospects of its UK operations. The continued depreciation of the Latin American currencies against the U.S. dollar could make the Group's Latin American subsidiaries' foreign currency-linked obligations and funding more expensive and have similar consequences for its borrowers in Latin America.

The Group is also exposed to equity price risk in its investments in equity securities in the banking book and in the trading portfolio. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty and sovereign debt crisis has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in equity securities and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against its results. To the extent any of these risks materialise, the Group's net interest income or the market value of its assets and liabilities could be materially adversely affected.

***Market conditions have resulted and could result in material changes to the estimated fair values of the Group's financial assets. Negative fair value adjustments could have a material adverse effect on its operating results, financial condition and prospects***

In the past nine years, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. The Group has material exposures to securities, loans and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-prevailing market conditions, may result in negative changes in the fair values of the Group's financial assets and these may also translate into increased impairments. In addition, the value ultimately realised by the Group on disposal may be lower than the current fair value. Any of these factors could require the Group to record negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, the Group's valuation methodologies require it to make assumptions, judgments and estimates in order to establish fair value, and reliable assumptions are difficult to make and are inherently uncertain and valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, financial condition and prospects.

***The Group is subject to market, operational and other related risks associated with its derivative transactions that could have a material adverse effect on it***

The Group enters into derivative transactions for trading purposes as well as for hedging purposes. The Group is subject to market, credit and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost)

and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

Market practices and documentation for derivative transactions differ by country. In addition, the execution and performance of these transactions depend on the Group's ability to maintain adequate control and administration systems. Moreover, the Group's ability to adequately monitor, analyse and report derivative transactions continues to depend, largely, on its information technology systems. These factors further increase the risks associated with these transactions and could have a material adverse effect on the Group.

***Failure to successfully implement and continue to improve the Group's risk management policies, procedures and methods, including its credit risk management system, could materially and adversely affect the Group, and the Group may be exposed to unidentified or unanticipated risks***

The management of risk is an integral part of the Group's activities. The Group seeks to monitor and manage its risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While the Group employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating the Group's risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate.

Some of the Group's qualitative tools and metrics for managing risk are based upon its use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks. As a result, the Group's losses could be significantly greater than the historical measures indicate. In addition, the Group's quantified modeling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. The Group could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, if existing or potential customers or counterparties believe the Group's risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with the Group. This could have a material adverse effect on the Group's reputation, operating results, financial condition and prospects.

As a commercial bank, one of the main types of risks inherent in the Group's business is credit risk. For example, an important feature of the Group's credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer, taking into account both quantitative and qualitative factors, it is subject to human or IT systems errors. In exercising their judgment on current or future credit risk behaviour of the Group's customers, its employees may not always be able to assign an accurate credit rating, which may result in the Group's exposure to higher credit risks than indicated by its risk rating system.

Failure to effectively implement, consistently follow or continuously refine the Group's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Group, which could have a material adverse effect on it.

***Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group***

The Group's ability to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. The Group must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. The Group cannot assure that in the future it will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of its information technology infrastructure. Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group.

***Risks relating to data collection, processing and storage systems and security are inherent in the Group's business***

Like other financial institutions, the Group manages and holds confidential personal information of customers in the conduct of its banking operations, as well as a large number of assets. Accordingly, the Group's business depends on the ability to process a large number of transactions efficiently and accurately, and on its ability to rely on its digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential sensitive personal data and other information in the Group's computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Group's businesses and to its ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented such that its data and/or client records are incomplete, not recoverable or not securely stored. Although the Group works with its clients, vendors, service providers, counterparties and other third parties to develop secure data and information processing storage and transmission capabilities to prevent against information security risk, the Group routinely manages personal, confidential and proprietary information by electronic means, and the Group may be the target of attempted cyber-attack. If the Group cannot maintain an effective and secure electronic data and information, management and processing system, or it fails to maintain complete physical and electronic records, this could result in regulatory sanctions and serious reputational or financial harm to the Group.

The Group takes protective measures and continuously monitors and develops its systems to protect its technology infrastructure, data and information from misappropriation or corruption, but the Group's systems, software and networks nevertheless may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action, reputational harm and financial loss. There can be no absolute assurance that the Group will not suffer material losses from operational risk in the future, including those relating to any security breaches.

The Group has seen in recent years computer systems of companies and organisations being targeted, not only by cyber criminals, but also by activists and rogue states. The Group has been and continues to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could disrupt the Group's electronic systems used to service its customers. As attempted attacks continue to evolve in scope and sophistication, the Group may incur significant costs in order to modify or enhance its protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to its customers. If the Group fails to effectively manage its cyber security risk, for example by failing to update its systems and processes in response to new threats, this could harm its reputation and adversely affect its operating results, financial condition and prospects through the payment of customer compensation, regulatory penalties and fines and/or through the loss of assets. In addition, the Group may also be impacted by cyber-attacks against national critical infrastructures of the countries where it operates, for example, the telecommunications network. The Group's information technology systems are dependent on such national critical infrastructure and any cyber-attack against such critical infrastructure could negatively affect its ability to service its customers. As the Group does not operate such national critical infrastructure, it has limited ability to protect its information technology systems from the adverse effects of such a cyber-attack.

Although the Group has procedures and controls to safeguard personal information in its possession, unauthorised disclosures could subject the Group to legal actions and administrative sanctions as well as damages and reputational harm that could materially and adversely affect its operating results, financial condition and prospects. Further, the Group's business is exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter or prevent employee misconduct, and the precautions the Group takes to detect and prevent this activity may not always be effective. In addition, the Group may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorised access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of the Group's systems

could cause information, including data related to customer requests, to be lost or to be delivered to its clients with delays or errors, which could reduce demand for the Group's services and products, could produce customer claims and could materially and adversely affect the Group.

***The financial problems faced by the Group's customers could adversely affect it***

Market turmoil and economic recession could materially and adversely affect the liquidity, credit ratings, businesses and/or financial conditions of the Group's borrowers, which could in turn increase the Group's non-performing loan ratios, impair its loan and other financial assets and result in decreased demand for borrowings in general. In addition, the Group's customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect the Group's fee and commission income. The Group may also be adversely affected by the negative effects of the heightened regulatory environment on its customers due to the high costs associated with regulatory compliance and proceedings. Any of the conditions described above could have a material adverse effect on the Group's business, financial condition and results of operations.

***Changes in the Group's pension liabilities and obligations could have a material adverse effect on it***

The Group provides retirement benefits for many of its former and current employees through a number of defined benefit pension plans. The Group calculates the amount of its defined benefit obligations using actuarial techniques and assumptions, including mortality rates, the rate of increase of salaries, discount rates, inflation, the expected rate of return on plan assets, or others. The accounting and disclosures are based on International Financial Reporting Standards as adopted by the EU ("IFRS-EU") and on those other requirements defined by the local supervisors. Given the nature of these obligations, changes in the assumptions that support valuations, including market conditions, can result in actuarial losses which would in turn impact the financial condition of the Group's pension funds. Because pension obligations are generally long term obligations, fluctuations in interest rates have a material impact on the projected costs of the Group's defined benefit obligations and therefore on the amount of pension expense that the Group accrues.

Any increase in the current size of the deficit in the Group's defined benefit pension plans could result in its having to make increased contributions to reduce or satisfy the deficits, which would divert resources from use in other areas of the Group's business. Any such increase may be due to certain factors over which the Group has no or limited control. Increases in the Group's pension liabilities and obligations could have a material adverse effect on its business, financial condition and results of operations.

***The Group depends in part upon dividends and other funds from subsidiaries***

The substantial majority of the Group's operations are conducted through its financial services subsidiaries. As a result, the Group's ability to pay dividends, to the extent it decides to do so, depends in significant part on the ability of its subsidiaries to generate earnings and to pay dividends to the Group. Payment of dividends, distributions and advances by the Group's subsidiaries will be contingent upon its subsidiaries' earnings and business considerations and is or may be limited by legal, regulatory and contractual restrictions. Additionally, the Group's right to receive any assets of any of its subsidiaries as an equity holder of such subsidiaries, upon their liquidation or reorganisation, will be effectively subordinated to the claims of the Group's subsidiaries' creditors, including trade creditors.

***Increased competition, including from non-traditional providers of banking services such as financial technology providers, and industry consolidation may adversely affect the results of operations of the Group***

The Group faces substantial competition in all parts of its business, including in originating loans and in attracting deposits. The competition in originating loans comes principally from other domestic and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other lenders and purchasers of loans.

In addition, there has been a trend towards consolidation in the banking industry, which has created larger and stronger banks with which the Group must now compete. There can be no assurance that this increased competition will not adversely affect the growth prospects of the Group, and therefore its operations. The Group also faces competition from non-bank competitors, such as brokerage companies, department stores (for some credit products), leasing and factoring companies, mutual fund and pension fund management companies and insurance companies.

Non-traditional providers of banking services, such as internet based e-commerce providers, mobile telephone companies and internet search engines may offer and/or increase their offerings of financial products and services directly to customers. These non-traditional providers of banking services currently have an advantage over traditional providers because they are not subject to banking regulation. Several of these competitors may have long operating histories, large customer bases, strong brand recognition and significant financial, marketing and other resources. They may adopt more aggressive pricing and rates and devote more resources to technology, infrastructure and marketing. New competitors may enter the market or existing competitors may adjust their services with unique product or service offerings or approaches to providing banking services. If the Group is unable to successfully compete with current and new competitors, or if it is unable to anticipate and adapt its offerings to changing banking industry trends, including technological changes, the Group's business may be adversely affected. In addition, the Group's failure to effectively anticipate or adapt to emerging technologies or changes in customer behaviour, including among younger customers, could delay or prevent the Group's access to new digital-based markets, which would in turn have an adverse effect on its competitive position and business.

The rise in customer use of internet and mobile banking platforms in recent years could negatively impact the Group's investments in bank premises, equipment and personnel for its branch network. The persistence or acceleration of this shift in demand towards internet and mobile banking may necessitate changes to the Group's retail distribution strategy, which may include closing and/or selling certain branches and restructuring its remaining branches and work force. These actions could lead to losses on these assets and may lead to increased expenditures to renovate, reconfigure or close a number of the Group's remaining branches or to otherwise reform its retail distribution channel. Furthermore, the Group's failure to swiftly and effectively implement such changes to its distribution strategy could have an adverse effect on its competitive position.

Increasing competition could also require that the Group increases its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on the Group, including its profitability. It may also negatively affect the Group's business results and prospects by, among other things, limiting its ability to increase its customer base and expand its operations and increasing competition for investment opportunities.

If the Group's customer service levels were perceived by the market to be materially below those of its competitor financial institutions, the Group could lose existing and potential business. If the Group is not successful in retaining and strengthening customer relationships, the Group may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its operating results, financial condition and prospects.

***The Group's ability to maintain its competitive position depends, in part, on the success of new products and services the Group offers to its clients and its ability to continue offering products and services from third parties, and the Group may not be able to manage various risks it faces as it expands its range of products and services that could have a material adverse effect on the Group***

The success of the Group's operations and its profitability depends, in part, on the success of new products and services the Group offers to its clients and its ability to continue offering products and services from third parties. However, the Group cannot guarantee that its new products and services will be responsive to client demands, or that they will be successful. In addition, the Group's clients' needs or desires may change over time, and such changes may render its products and services obsolete, outdated or unattractive and the Group may not be able to develop new products that meet its clients' changing needs. The Group's success is also dependent on its ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behaviour. If the Group cannot respond in a timely fashion to the changing needs of its clients, it may lose clients, which could in turn materially and adversely affect the Group.

As the Group expands the range of its products and services, some of which may be at an early stage of development in the markets of certain regions where it operates, the Group will be exposed to new and potentially increasingly complex risks and development expenses. The Group's employees and risk management systems, as well as its experience and that of its partners may not be sufficient to enable it to properly manage such risks. In addition, the cost of developing products that are not launched is likely to

affect the results of operations of the Group. Any or all of these factors, individually or collectively, could have a material adverse effect on the Group.

While the Group has successfully increased its customer service levels in recent years, should these levels ever be perceived by the market to be materially below those of the Group's competitor financial institutions, it could lose existing and potential business. If the Group is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of the Group's activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its operating results, financial condition and prospects. For further detail on the Group's legal and regulatory risk exposures, please see "*Risk Factors—The Group is exposed to risk of loss from legal and regulatory proceedings*".

***If the Group is unable to manage the growth of its operations, this could have an adverse impact on its profitability***

The Group allocates management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring its businesses. From time to time, the Group evaluates acquisition and partnership opportunities that it believes offer additional value to its shareholders and are consistent with its business strategy. However, the Group may not be able to identify suitable acquisition or partnership candidates and its ability to benefit from any such acquisitions and partnerships will depend in part on its successful integration of those businesses. Any such integration entails significant risks such as unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims. The Group can give no assurances that its expectations with regards to integration and synergies will materialise. The Group also cannot provide assurance that it will, in all cases, be able to manage its growth effectively or deliver its strategic growth objectives. Challenges that may result from the Group's strategic growth decisions include its ability to:

- manage efficiently the operations and employees of expanding businesses;
- maintain or grow the Group's existing customer base;
- assess the value, strengths and weaknesses of investment or acquisition candidates, including local regulation that can reduce or eliminate expected synergies;
- finance strategic investments or acquisitions;
- align the Group's current information technology systems adequately with those of an enlarged group;
- apply the Group's risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively could have a material adverse effect on the Group's operating results, financial condition and prospects.

In addition, any acquisition or venture could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies.

Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond the Group's control. Any of these factors, individually or collectively, could have a material adverse effect on the Group.

***Goodwill impairments may be required in relation to acquired businesses***

The Group has made business acquisitions in recent years and may make further acquisitions in the future. It is possible that the goodwill which has been attributed, or may be attributed, to these businesses may have to be written-down if the Group's valuation assumptions are required to be reassessed as a result of any deterioration in their underlying profitability, asset quality and other relevant matters. Impairment testing in respect of goodwill is performed annually, more frequently if there are impairment indicators present, and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount. Goodwill impairment does not, however, affect the Group's regulatory capital. While no material impairment of goodwill was recognised at Group level in 2014, 2015 or 2016, there can be no assurances that the Group

will not have to write down the value attributed to goodwill in the future, which would adversely affect its results and net assets.

***The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel***

The Group's continued success depends in part on the continued service of key members of its senior executive team and other key employees. The ability to continue to attract, train, motivate and retain highly qualified and talented professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy and culture depends on the availability of skilled and appropriate management, both at its head office and at each of the Group's business units. If the Group or one of its business units or other functions fails to staff its operations appropriately or loses one or more of its key senior executives or other key employees and fails to replace them in a satisfactory and timely manner, the Group's business, financial condition and results of operations, including control and operational risks, may be adversely affected.

In addition, the financial industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on the Group's ability to hire or retain the most qualified employees. If the Group fails or is unable to attract and appropriately train, motivate and retain qualified professionals, its business may also be adversely affected.

***The Group relies on third parties and affiliates for important products and services***

Third party vendors and certain affiliated companies provide key components of the Group's business infrastructure such as loan and deposit servicing systems, back office and business process support, information technology production and support, internet connections and network access. Relying on these third parties and affiliated companies can be a source of operational and regulatory risk to the Group, including with respect to security breaches affecting such parties. The Group is also subject to risk with respect to security breaches affecting the vendors and other parties that interact with these service providers. As the Group's interconnectivity with these third parties and affiliated companies increases, it increasingly faces the risk of operational failure with respect to its systems. The Group may be required to take steps to protect the integrity of its operational systems, thereby increasing the Group's operational costs and potentially decreasing customer satisfaction. In addition, any problems caused by these third parties or affiliated companies, including as a result of them not providing the Group their services for any reason, or performing their services poorly, could adversely affect the Group's ability to deliver products and services to customers and otherwise conduct its business, which could lead to reputational damage and regulatory investigations and intervention. Replacing these third party vendors could also entail significant delays and expense. Further, the operational and regulatory risk the Group faces as a result of these arrangements may be increased to the extent that the Group restructures such arrangements. Any restructuring could involve significant expense to the Group and entail significant delivery and execution risk which could have a material adverse effect on the Group's business, operations and financial condition.

***Damage to the Group's reputation could cause harm to its business prospects***

Maintaining a positive reputation is critical to protect the Group's brand, to attract and retain customers, investors and employees and to conduct business transactions with counterparties. Damage to the Group's reputation can therefore cause significant harm to its business and prospects. Harm to the Group's reputation can arise from numerous sources, including, among others, employee misconduct, including the possibility of fraud perpetrated by the Group's employees, litigation or regulatory enforcement, failure to deliver minimum standards of service and quality, compliance failures, unethical behaviour, and the activities of customers and counterparties. Further, negative publicity regarding the Group may result in harm to its prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect the Group's reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift toward increasing regulatory supervision and enforcement has caused public perception of the Group and others in the financial services industry to decline.

The Group could suffer significant reputational harm if it fails to identify and manage potential conflicts of interest properly. The failure, or perceived failure, to adequately address conflicts of interest could affect the willingness of clients to deal with the Group, or give rise to litigation or enforcement actions against it.

Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the Group.

***The Group engages in transactions with its subsidiaries or affiliates that others may not consider to be on an arm's-length basis***

The Group and the Group's affiliates have entered into a number of services agreements pursuant to which they render services, such as administrative, accounting, finance, treasury, legal services and others.

Spanish law provides for several procedures designed to ensure that the transactions entered into with or among the Group's financial subsidiaries and/or affiliates do not deviate from prevailing market conditions for those types of transactions.

The Group is likely to continue to engage in transactions with its affiliates. Future conflicts of interests between the Bank and any of its affiliates, or among its affiliates, may arise, which conflicts may not be resolved in the Group's favour.

***Changes in accounting standards could impact reported earnings***

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the Group's consolidated financial statements. These changes can materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. For further information and developments in financial accounting and reporting standards, see Note 1 to the Group's consolidated financial statements.

***The financial statements of the Issuer are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position***

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgments and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, impairment of available-for-sale financial assets, deferred tax assets provision and pension obligation for liabilities.

If the judgment, estimates and assumptions the Group uses in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material effect on its results of operations and a corresponding effect on its funding requirements and capital ratios.

***Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of fraud***

Disclosure controls and procedures over financial reporting are designed to provide reasonable assurance that information required to be disclosed by the Group in reports filed or submitted under the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**") is accumulated and communicated to management, and recorded, processed, summarised and reported within the time periods specified in the SEC rules and forms.

These disclosure controls and procedures have inherent limitations which include the possibility that judgments in decision-making can be faulty and that breakdowns occur because of errors or mistakes. Additionally, controls can be circumvented by any unauthorised override of the controls. Consequently, the Group's businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions, civil claims and serious reputational or multinational financial harm. In recent years, a number of financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.



***The Group's corporate disclosure may differ from disclosure regularly published by issuers of securities in other countries, including the United States***

Issuers of securities in Spain are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in other countries, including the United States. In particular, for regulatory purposes, the Group currently prepares and will continue to prepare and make available to its shareholders statutory financial statements in accordance with IFRS-EU, which differ from U.S. Generally Accepted Accounting Principles in a number of respects. In addition, as a foreign private issuer, the Group is not subject to the same disclosure requirements in the United States as a domestic U.S. registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports, or the proxy rules applicable to domestic U.S. registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules under Section 16 of the Exchange Act. Accordingly, the information about the Group available to a prospective investor will not be the same as the information available to shareholders of a U.S. company and may be reported in a manner that it is not familiar with.

***Investors may find it difficult to enforce civil liabilities against the Group or its directors and officers***

The majority of the Group's directors and officers reside outside of the United States. In addition, all or a substantial portion of the Group's assets and the assets of its directors and officers are located outside of the United States. Although the Group has appointed an agent for service of process in any action against the Group in the United States with respect to the Group's ADSs, none of its directors or officers has consented to service of process in the United States or to the jurisdiction of any United States court. As a result, it may be difficult for investors to effect service of process within the United States on such persons. The Group's directors, officers and assets that are the subject of any claim or litigation may be located outside the jurisdiction of an investor. It may be difficult for investors to effect service of process within their jurisdiction on directors, and officers of the Group residing outside such jurisdiction.

Additionally, investors may experience difficulty in Spain enforcing foreign judgments obtained against the Group and its executive officers and directors, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of Spanish counsel, there is doubt as to the enforceability against such persons in Spain, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

### **3. Risks in relation to the Instruments**

#### **General risks relating to the Instruments**

***Risks related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities***

On 6 May 2014, the Council of the EU adopted the BRRD, which provides for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms.

The regime provided for by the BRRD is, among other things, stated to be needed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in unsound or failing credit institutions and investment firms (“institutions”) so as to ensure the continuity of the institution's critical financial and economic functions while minimising the impact of an institution's failure on the economy and financial system. On 18 June 2015, Spain approved Law 11/2015 to implement the BRRD in Spain, which has been developed through Royal Decree 1012/2015.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of the requirements necessary for maintaining its authorisation; its assets are, or are likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest. The resolution tools and powers are: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution

authorities to transfer all or part of the business of the firm to a “bridge institution” (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problematic assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down (including to zero) certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims including senior debt securities and subordinated debt securities to equity (the general bail-in tool), which equity could also be subject to any future application of the general bail-in tool.

The Spanish bail-in power is any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including, but not limited to (i) Law 11/2015, as amended from time to time, (ii) Royal Decree 1012/2015, as amended from time to time, (iii) the SRM Regulation, as amended from time to time, and (iv) any other instruments, rules or standards made in connection with either (i), (ii) or (iii), pursuant to which any obligation of an institution can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such institution or any other person (or suspended for a temporary period).

Condition 22 provides for the contractual recognition by the holders of the Instruments (the “**Holders**”) of conversion or write down upon bail-in.

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the bail-in tool, the sequence of any resulting write-down or conversion shall be as follows: (i) CET1 instruments; (ii) the principal amount of Additional Tier 1 instruments; (iii) the principal amount of Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 or Tier 2 instruments; and (v) eligible senior liabilities prescribed in Article 41 of Law 11/2015.

As a result, Additional Tier 1 instruments will be written down or converted before Tier 2 instruments or subordinated debt that does not qualify as Additional Tier 1 or Tier 2 instruments (any such Tier 2 instruments or subordinated debt would only be written down or converted if the reduction of Additional Tier 1 instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted and, accordingly, senior debt instruments would only be written down or converted if the reduction of subordinated instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted). This sequence is consistent with the one prescribed by Law 22/2003 dated 9 July 2003 (*Ley Concursal*) (the “**Insolvency Law**”) read in conjunction with Additional Provision 14.2° of Law 11/2015.

Under Article 92 of the Insolvency Law read in conjunction with Additional Provision 14.2° of Law 11/2015, the Issuer will meet subordinated claims after payment in full of unsubordinated claims, but before distributions to shareholders, in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated liabilities (firstly, those that do not qualify as Additional Tier 1 or Tier 2 instruments; secondly, those that qualify as Tier 2 instruments and thirdly, those that qualify as Additional Tier 1 instruments); (iii) interest (including accrued and unpaid interest due on the Instruments); (iv) fines; (v) claims of creditors which are specially related to the Issuer (if applicable) as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) claims arising from contracts with reciprocal obligations as referred to in Articles 61, 62, 68 and 69 of the Insolvency Law, wherever the court rules, prior to the administrators’ report of insolvency (*administración concursal*) that the creditor repeatedly impedes the fulfilment of the contract against the interest of the insolvency.

The bail-in tool contains an express safeguard designed to leave no creditor worse off than in the case of insolvency.

In addition to the general bail-in tool, the BRRD and Law 11/2015 provide for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments at the point of non-viability. The point of non-viability is the point at which the Bank of Spain, the Fund for the Orderly Restructuring of Banks (the “**FROB**”), the Single Resolution Board and/or any other entity with the authority to exercise any such tools and powers from time to time (each, a “**Relevant Resolution Authority**”) as appropriate, determines that the institution meets the conditions for resolution or will no longer be viable

unless the relevant capital instruments are written down or converted into equity or extraordinary public support is to be provided and without such support the Relevant Resolution Authority determines that the institution would no longer be viable. The point of non-viability of a group is the point at which the group infringes or there are objective elements to support a determination that the group, in the near future, will infringe its consolidated solvency requirements in a way that would justify action by the Relevant Resolution Authority in accordance with Article 38.3 of Law 11/2015. These additional measures may be imposed prior to or in combination with any exercise of any other resolution tool or power (where the conditions for resolution referred to above are met).

In accordance with Article 64.1(i) of Law 11/2015, the FROB has also the power to alter the amount of interest payable under debt instruments and other eligible liabilities of institutions subject to resolution proceedings and the date on which the interest becomes payable under the debt instrument (including the power to suspend payment for a temporary period).

The powers set out in the BRRD as implemented through Law 11/2015 and Royal Decree 1012/2015 will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Holders of the Instruments may be subject to write-down or conversion into equity on any application of the general bail-in tool, which may result in such Holders losing some or all of their investment. The exercise of any power under Law 11/2015 or any suggestion of such exercise could, therefore, materially adversely affect the rights of Holders, the price or value of their investment in the Instruments and/or the ability of the Bank to satisfy its obligations under the Instruments.

There may be limited protections, if any, that will be available to holders of securities subject to the bail-in power and to the broader resolution powers of the Relevant Resolution Authority. Accordingly, Holders may have limited or circumscribed rights to challenge any decision of the Relevant Resolution Authority to exercise its bail-in power.

There remains uncertainty as to how or when the bail-in power may be exercised and how it would affect the Group and the Instruments. The determination that all or part of the principal amount of the Instruments will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control. Although there are proposed pre-conditions for the exercise of the bail-in power, there remains uncertainty regarding the specific factors which the Relevant Resolution Authority would consider in deciding whether to exercise the bail-in power with respect to the financial institution and/or securities issued or guaranteed by that institution. In particular, in determining whether an institution is failing or likely to fail, the Relevant Resolution Authority shall consider a number of factors, including, but not limited to, an institution's capital and liquidity position, governance arrangements and any other elements affecting the institution's continuing authorisation. Moreover, as the final criteria that the Relevant Resolution Authority would consider in exercising any bail-in power are likely to provide it with discretion, Holders may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such bail-in power. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any bail-in power may occur which would result in a principal amount write off or conversion to equity. The uncertainty may adversely affect the value of Holders' investments in the Instruments and the price and trading behaviour of the Instruments may be affected by the threat of a possible exercise of any power under Law 11/2015 (including any early intervention measure before any resolution) or any suggestion of such exercise, even if the likelihood of such exercise is remote. Moreover, the Relevant Resolution Authority may exercise any such power without providing any advance notice to the Holders.

In addition, the preparation by the EBA of certain regulatory technical standards and implementing technical standards to be adopted by the European Commission and certain other guidelines is pending. These acts could be potentially relevant to determining when or how a Relevant Resolution Authority may exercise the bail-in powers and impose non-viability loss absorption. The pending acts include guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments, and on the rate of conversion of debt to equity in bail-in. No assurance can be given that, once adopted, these standards will not be detrimental to the rights of a Holder under, and the value of a Holder's investment in, the Instruments.

In addition to the BRRD, it is possible that the application of other relevant laws, such as the Basel Committee on Banking Supervision package of reforms to the regulatory capital framework for internationally active banks designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss and any amendments thereto or other similar regulatory proposals, including proposals by the FSB on cross-border recognition of resolution actions, could be used in

such a way as to result in the Instruments absorbing losses in the manner described above. Any actions by the Relevant Resolution Authority pursuant to the ones granted by Law 11/2015, or other measures or proposals relating to the resolution of institutions, may adversely affect the rights of Holders, the price or value of an investment in the Instruments and/or the Group's ability to satisfy its obligations under the Instruments.

### ***Risks relating to the Insolvency Law***

The Insolvency Law, which came into force on 1 September 2004 supersedes all pre-existing Spanish provisions which regulated the bankruptcy, insolvency (including suspension of payments) and any process affecting creditors' rights generally, including the ranking of its credits.

The Insolvency Law provides, among other things, that: (i) any claim may become subordinated if it is not reported to the insolvency administrators (*administradores concursales*) within one month from the last official publication of the court order declaring the insolvency (if the insolvency proceeding is declared as abridged, the term to report may be reduced to fifteen days), (ii) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, and (iii) interest (other than interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall cease to accrue as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated.

### ***Change of law***

The Terms and Conditions are subject to English law, except for Conditions 3 and 15 which are subject to Spanish law, as in effect as at the date of this Base Prospectus. Changes in European, English or Spanish laws or their official interpretation by regulatory authorities after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Instruments. Such changes in law or official interpretation of such laws may include changes in statutory, tax and regulatory regimes during the life of the Instruments, which may have an adverse effect on an investment in the Instruments. No assurance can be given as to the impact of any possible judicial decision or change to such laws or official interpretation of such laws or administrative practices after the date of this Base Prospectus.

In particular, in relation to the Senior Subordinated Instruments and the Second Ranking Senior Instruments (as defined below), on 23 November 2016, the European Commission published proposals for European Directives amending the BRRD and the CRD IV and proposals for European Regulations amending the SRM Regulation and CRR which aim at implementing the TLAC/MREL Requirements. Among others, the European Commission proposes to amend the BRRD in order to facilitate the creation of a new asset class of "non-preferred" senior debt which will be eligible to count as TLAC and MREL (for example, similar to the Second Ranking Senior Instruments). It cannot be ruled out that new Spanish legislation is approved expressly recognising the possibility that within the class of ordinary claims under Article 89.3 of the Insolvency Law, those that meet certain requirements could be considered of "second ranking" or that different sub-classes are created within such class of ordinary credits.

Furthermore, any change in the laws or regulations of Spain, Applicable TLAC/MREL Regulations (as defined in the Terms and Conditions) or the application or interpretation thereof may in certain circumstances result in the Bank having the option to redeem, substitute or vary the terms of the Senior Subordinated Instruments or the Second Ranking Senior Instruments (see "*—The Subordinated Instruments and the Second Ranking Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event*" and "*—The Subordinated Instruments and the Second Ranking Senior Instruments may be subject to substitution and/or variation without Holder consent*"). In any such case, the Senior Subordinated Instruments and the Second Ranking Senior Instruments would cease to be outstanding, be substituted or be varied, each of which actions could materially and adversely affect investors and frustrate investment strategies and goals.

Such legislative and regulatory uncertainty could affect an investor's ability to value the Instruments accurately and therefore affect the market price of the Instruments given the extent and impact on the Instruments of one or more regulatory or legislative changes.

***The Instruments may be redeemed prior to maturity at the option of the Issuer or for taxation reasons***

If so specified in the Final Terms, the Instruments may be redeemed at the option of the Issuer, as further described in Condition 5.06. The Issuer may choose to redeem the Instruments at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Instruments.

In addition, the Issuer may, at its option, redeem all, but not some only, of the Instruments, at any time at their early redemption amount, together with accrued but unpaid interest up to (but excluding) the date of redemption, for taxation reasons as further described in Condition 5.02.

In the case of Second Ranking Senior Instruments and Subordinated Instruments, redemption at the option of the Issuer or for taxation reasons is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority (as these terms are defined in the Terms and Conditions) if and as required therefor under Applicable Banking Regulations (as defined in the Terms and Conditions) and may only take place in accordance with Applicable Banking Regulations in force at the relevant time. See more detail in “*–The Subordinated Instruments and the Second Ranking Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event–*” below.

Early redemption features (including any redemption of the Instruments at the option of the Issuer pursuant to Condition 5.02 or for taxation reasons pursuant to Condition 5.06) is likely to limit the market value of the Instruments. During any period when the Issuer may redeem Instruments, the market value of those Instruments generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period or at any time where there is any actual increase in the likelihood that the Issuer will be able to redeem the Instruments early. The Issuer may be expected to redeem Instruments when their cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether or not a circumstance giving rise to the right to early redeem Instruments for taxation reasons will occur and so lead to the circumstances in which the Issuer is able to elect to redeem the Instruments, and if so whether or not the Issuer will elect to exercise such option to redeem the Instruments or any prior consent of the competent authority, if required, will be given. The Issuer may be expected to redeem the Instruments when its cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Suitability***

Prospective investors should determine whether an investment in the Instruments is appropriate in their particular circumstances and should consult with their legal, business and tax advisers to determine the consequences of an investment in the Instruments and to arrive at their own evaluations of the investment.

Each potential investor in any of the Instruments should determine the suitability of such investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and professional advisers, whether it:

- (i) has sufficient knowledge and expertise to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Base Prospectus, taking into account that the Instruments may only be a suitable investment for professional or institutional investors;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;

- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including where the currency for payments in respect of the Instruments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Instruments, including the provisions relating to their status, and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear applicable risks.

A potential investor should not invest in the Instruments unless it has the knowledge and expertise (either alone or with its financial and professional advisers) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the market value of the Instruments, and the impact of this investment on the potential investor's overall investment portfolio.

***The trading market for debt securities may be volatile and may be adversely impacted by many events***

The trading market for debt securities issued by banks is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in other Western and industrialised countries. There can be no assurance that events in Spain, the UK (including the UK EU Referendum), Europe, the United States or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Instruments or that economic and market conditions will not have any other adverse effect.

***The terms of the Instruments contain very limited covenants and there are no restrictions on the amount or type of further securities or indebtedness which the Bank may incur***

There is no negative pledge in respect of the Instruments and the Terms and Conditions place no restrictions on the amount or type of debt that the Issuer may issue that ranks senior to the Instruments, or on the amount or type of securities it may issue that rank *pari passu* with the Instruments. The issue of any such debt or securities may reduce the amount recoverable by Holders upon liquidation, dissolution or winding-up of the Issuer and may limit the ability of the Bank to meet its obligations in respect of the Instruments, and result in a Holder losing all or some of its investment in the Instruments.

In addition, the Instruments do not require the Issuer to comply with financial ratios or otherwise limit its ability or that of its subsidiaries to incur additional debt, nor do they limit the Issuer's ability to use cash to make investments or acquisitions, or the ability of the Issuer or its subsidiaries to pay dividends, repurchase shares or otherwise distribute cash to shareholders. Such actions could potentially affect the Issuer's ability to service its debt obligations, including those under the Instruments.

***The terms of the Instruments may contain a waiver of set-off rights***

The Terms and Conditions provide that, if so specified in the Final Terms, Holders of Instruments waive any set-off, netting or compensation rights against any right, claim, or liability the Issuer has, may have or acquire against any Holder, directly or indirectly, howsoever arising. As a result, Holders will not at any time be entitled to set-off the Issuer's obligations under the Instruments against obligations owed by them to the Issuer.

***Risks relating to the Commissioner***

Prospective investors should note that the Commissioner (which owes certain obligations to the Syndicate of Holders of Instruments) will be appointed by the Issuer and that it may be an employee or officer of the Issuer.

***Potential conflicts of interest between the investor and the Calculation Agent***

Potential conflicts of interest may arise between the Calculation Agent, if any, for a Tranche of Instruments and the Holders (including where a Dealer acts as a calculation agent), including with respect to certain discretionary determinations and judgments that such Calculation Agent may make pursuant to the Terms and Conditions of the Instruments that may influence the amount receivable upon redemption of the Instruments.

***Because the Global Instruments are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

Instruments issued under the Programme may be represented by one or more Global Instruments. Such Global Instruments will be deposited with a Common Depositary or Common Safekeeper, as applicable, for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Instrument, investors will not be entitled to receive Instruments in definite form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Instruments. While the Instruments are represented by one or more Global Instruments, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Instruments are represented by one or more Global Instruments the Issuer will discharge its payment obligations under the Instruments by making payments to the Common Depositary or paying agent (in the case of a NGN) for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Instrument must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Instruments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Instruments.

Holders of beneficial interests in the Global Instruments will not have a direct right to vote in respect of the relevant Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Instruments will not have a direct right under the Global Instruments to take enforcement action against the Issuer in the event of a default under the relevant Instruments but will have to rely upon their rights under the Deed of Covenant.

***Credit ratings may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to the Instruments. The credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the relevant Final Terms.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should consult its legal advisers to determine whether and to what extent (i) relevant Instruments are legal investments for it, (ii) the relevant Instruments can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase of any Instruments. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules. Neither the Issuer, the Dealers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Instruments by a prospective investor of the relevant Instruments, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

***Taxation in Spain***

Article 44 of Royal Decree 1065/2007 (as amended among others by Royal Decree 1145/2011 of 29 July) (“**Royal Decree 1065/2007**”) sets out the reporting obligations applicable to preferred securities and debt

instruments issued under Law 10/2014. The procedures apply to income deriving from preferred shares and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

According to the literal wording of Article 44.5 of Royal Decree 1065/2007, income derived from preferred shares or debt instruments to which Law 10/2014 applies originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another Organisation for Economic Co-operation Development (“OECD”) country (such as the Depository Trust Company, Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Paying Agent appointed by the Bank submits, in a timely manner, a statement to the Bank, the form of which is attached as Exhibit I, with the following information:

- (i) identification of the securities;
- (ii) income payment date (or refund if the securities are issued at discount or are segregated);
- (iii) total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated); and
- (iv) total amount of the income corresponding to each clearing system located outside Spain.

These obligations refer to the total amount paid to investors through each foreign clearing house. For these purposes, “income” means interest and the difference, if any, between the aggregate amount payable on the redemption of the Instruments and the issue price of the Instruments. In accordance with Article 44 of Royal Decree 1065/2007, the Issuer and Paying Agent should provide the Bank with the statement reflecting the relevant position at the close of business on the business day immediately prior to each interest payment date. In the event that on such date, the entity(ies) obliged to provide the declaration fail to do so, the Bank or the Paying Agent on its behalf will make a withholding at the general rate of 19 per cent. on the total amount of the return on the relevant Instruments otherwise payable to such entity. Notwithstanding the foregoing, the Bank has agreed that in the event that withholding tax were required by law due to the failure of the relevant Paying Agent to submit in a timely manner a duly executed and completed certificate pursuant to Law 10/2014 and Royal Decree 1065/2007 and any implementing legislation or regulation, the Bank will not pay any additional amounts with respect to any such withholding, as provided in Condition 10.

In the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Bank will notify the Holders of such information procedures and their implications, as the Bank may be required to apply withholding tax on Distributions (as defined in the Terms and Conditions) in respect of the Instruments if the Holders do not comply with such information procedures.

***Transactions in the Instruments could be subject to the European financial transaction tax, if adopted***

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transaction tax (the “**FTT**”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the “**Participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, impose a tax at generally not less than 0.1%, generally determined by reference to the amount of consideration paid, on certain dealings in the Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments should, however, be exempt. The mechanism by which the tax would be applied and collected is not yet known, but if the proposed directive or any similar tax is adopted, transactions in the Instruments would be subject to higher costs, and the liquidity of the market for the Instruments may be diminished.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Instruments where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.



On 11 October 2016, Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation, and Customs announced that the ten Participating Member States (excluding Estonia) agreed on certain important measures that will form the core engines of the FTT and indicated their intention to elaborate a draft legislation before the end of the year.

The FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the Participating Member States may decide to withdraw. Prospective Holders of Instruments are advised to seek their own professional advice in relation to the consequences of the FTT associated with subscribing for, purchasing, holding and disposing of the Instruments.

### ***Partly-paid Instruments***

The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of the payable interest payments.

### ***Inverse Floating Rate Instruments***

Inverse Floating Rate Instruments have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Instruments typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Instruments are more volatile because an increase in the reference rate not only decreases the interest rate of the Instruments, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Instruments.

### ***Zero Coupon Instruments***

The Issuer may issue Zero Coupon Instruments. Such Instruments will bear no interest and an investor will receive no return on the Instruments until redemption. Any investors holding these Instruments will be subject to the risk that the amortised yield in respect of the Instruments may be less than market rates.

### ***Instruments issued at a substantial discount or premium***

The market values of securities issued at a substantial discount or premium from their principal amount (such as a Zero Coupon Instrument) tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

## **Risks relating to Subordinated Instruments and Second Ranking Senior Instruments**

*The risks factors relating to Subordinated Instruments and Second Ranking Senior Instruments described below should be read together with the general risks factors relating to the Instruments described above.*

### ***An investor in Subordinated Instruments assumes an enhanced risk of loss in the event of the Issuer's insolvency or resolution***

The Issuer's obligations under the Subordinated Instruments (as defined in the Terms and Conditions) will be unsecured and subordinated obligations (*créditos subordinados*) of the Issuer and will rank junior to all unsubordinated obligations (*créditos ordinarios*) of the Issuer. Although Subordinated Instruments may pay a higher rate of interest than comparable Instruments which are not subordinated, there is a greater risk that an investor in Subordinated Instruments will lose all or some of its investment should the Issuer become (i) subject to resolution under the BRRD (as implemented through Law 11/2015 and Royal Decree 1012/2015) and the Subordinated Instruments become subject to the application of the Spanish bail-in power (including, in case they constitute Tier 2 instruments, non-viability loss absorption) or (ii) insolvent.

In the case of any exercise of the Spanish bail-in power by the Relevant Resolution Authority, the sequence of any resulting write-down or conversion of eligible instruments under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for the principal amount of Tier 2 instruments (such as the Tier 2 Subordinated

Instruments if they qualify as such as it is expected) to be written-down or converted into equity or other securities or obligations prior to the principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 instruments (which is expected to be the case of Senior Subordinated Instruments) in accordance with the hierarchy of claims provided in the Insolvency Law and for the latter to be written-down or converted into equity or other securities or obligations prior to any write-down or conversion of the principal amount or outstanding amount of any other eligible liabilities (such as the Ordinary Senior Instruments and Second Ranking Senior Instruments), in accordance with the hierarchy of claims provided in the Insolvency Law. Subordinated Instruments which constitute Tier 2 instruments may be subject to non-viability loss absorption, which may be imposed prior to or in combination with any exercise of the Spanish bail-in power. See “*Risks Related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities*”.

In the event of insolvency, after payment in full of unsubordinated claims, but before distributions to shareholders, under Article 92 of the Insolvency Law read in conjunction with Additional Provision 14.2° of Law 11/2015, the Issuer will meet subordinated claims after payment in full of unsubordinated claims, but before distributions to shareholders, in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated liabilities (firstly, those that do not qualify as Additional Tier 1 or Tier 2 instruments under Additional Provision 14.2°(a) of Law 11/2015 -which is expected to be the case of Senior Subordinated Instruments-, secondly, those that qualify as Tier 2 instruments under Additional Provision 14.2°(b) of Law 11/2015 -which is expected to be the case of Tier 2 Subordinated Instruments- and thirdly, Additional Tier 1 instruments under Additional Provision 14.2°(c) of Law 11/2015); (iii) interest (including accrued and unpaid interest due on the Subordinated Instruments); (iv) fines; (v) claims of creditors which are specially related to the Issuer (if applicable) as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) claims arising from contracts with reciprocal obligations as referred to in Articles 61, 62, 68 and 69 of the Insolvency Law, wherever the court rules, prior to the administrators’ report of insolvency (*administración concursal*) that the creditor repeatedly impedes the fulfilment of the contract against the interest of the insolvency.

***The Second Ranking Senior Instruments are second ranking senior obligations and are junior to certain obligations***

The Second Ranking Senior Instruments constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer according to Article 89.3 of Insolvency Law. According to the Terms and Conditions, upon the insolvency of the Issuer (and unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Article 92.1° or 92.3° to 92.7° of the Insolvency Law), but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), the Second Ranking Senior Instruments would rank (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities (as defined in the Terms and Conditions) and (b) *pari passu* with the claims in respect of Senior Parity Liabilities (as defined in the Terms and Conditions), and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer according to Article 92 of the Insolvency Law.

The Issuer’s Senior Higher Priority Liabilities would include, among other liabilities, its deposit obligations (other than the deposits obligations qualifying as preferred liabilities (*créditos con privilegio general*) under Additional Disposition 14.1° of Law 11/2015), its obligations in respect of derivatives and other financial contracts and its unsecured and unsubordinated debt securities that are not expressed to rank *pari passu* with the Second Ranking Senior Instruments. If the Issuer were wound up, liquidated or dissolved, according to the Terms and Conditions, the Issuer expects that a liquidator would apply the assets which are available to satisfy all claims in respect of its senior and unsecured liabilities, first to satisfy claims of all other creditors ranking ahead of Holders, including holders of Senior Higher Priority Liabilities, and then to satisfy claims in respect of the Second Ranking Senior Instruments (and other Senior Parity Liabilities). If the Issuer does not have sufficient assets to settle the claims of higher ranking creditors in full, the claims of the Holders under the Second Ranking Senior Instruments will not be satisfied. Holders will share equally in any distribution of assets available to satisfy all claims in respect of its senior and unsecured liabilities with the creditors under any other Senior Parity Liabilities if the Issuer does not have sufficient funds to make full payment to all of them.

In addition, if the Issuer enters into resolution, its eligible liabilities (including the Second Ranking Senior Instruments) will be subject to bail-in, meaning potential write-down or conversion into equity securities or other instruments. The sequence of any resulting write-down or conversion of eligible instruments under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for claims to be written-down or converted into equity in accordance with the hierarchy of claims provided in the Insolvency Law. Because the terms and conditions of the Second Ranking Senior Instruments provide that they are second ranking senior liabilities the Issuer expects them to be written down or converted in full after any subordinated obligations of the Issuer under article 92 of the Insolvency Law and before any of the Issuer's Senior Higher Priority Liabilities are written down or converted. See "*—Risks related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities*".

As a consequence, Holders of the Second Ranking Senior Instruments would bear significantly more risk than creditors of the Issuer's Senior Higher Priority Liabilities and could lose all or a significant part of their investment if the Issuer were to become (i) subject to resolution under the BRRD (as implemented through Law 11/2015 and Royal Decree 1012/2015) and the Second Ranking Senior Instruments become subject to the application of the bail-in or (ii) insolvent.

***The Subordinated Instruments and the Second Ranking Senior Instruments provide for limited events of default. Holders of Instruments may not be able to exercise their rights on an event of default in the event of the adoption of any early intervention or resolution measure under Law 11/2015***

Holders have no ability to accelerate the maturity of their Subordinated Instruments and Second Ranking Senior Instruments. The terms and conditions of the Subordinated Instruments and the Second Ranking Senior Instruments do not provide for any events of default, except in the case that an order is made by any competent court commencing insolvency proceedings against the Issuer or for its winding up or dissolution. Accordingly, in the event that any payment on the Subordinated Instruments or the Second Ranking Senior Instruments is not made when due, each Holder will have a claim only for amounts then due and payable on their Subordinated Instruments and Second Ranking Senior Instruments and, as provided for in the Terms and Conditions, a right to institute proceedings for the winding up or dissolution of the Issuer.

As mentioned above, the Issuer may be subject to a procedure of early intervention or resolution pursuant to the BRRD as implemented through Law 11/2015 and Royal Decree 1012/2015. Pursuant to Law 11/2015 the adoption of any early intervention or resolution procedure shall not itself constitute an event of default or entitle any counterparty of the Issuer to exercise any rights it may otherwise have in respect thereof. Any provision providing for such rights shall further be deemed not to apply, although this does not limit the ability of a counterparty to declare any event of default and exercise its rights accordingly where an event of default arises either before or after the exercise of any such procedure and does not necessarily relate to the exercise of any relevant measure or power which has been applied pursuant to Law 11/2015.

Any enforcement by a Holder of its rights under the Instruments upon the occurrence of an event of default following the adoption of any early intervention or any resolution procedure will, therefore, be subject to the relevant provisions of the BRRD and Law 11/2015 and Royal Decree 1012/2015 in relation to the exercise of the relevant measures and powers pursuant to such procedure, including the resolution tools and powers referred to above (see "*—Risks related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities*"). Any claims on the occurrence of an event of default will consequently be limited by the application of any measures pursuant to the provisions of Law 11/2015 and Royal Decree 1012/2015. There can be no assurance that the taking of any such action would not adversely affect the rights of Holders, the price or value of their investment in the Instruments and/or the ability of the Issuer to satisfy its obligations under the Instruments and the enforcement by a Holder of any rights it may otherwise have on the occurrence of any event of default may be limited in these circumstances.

***The Subordinated Instruments and the Second Ranking Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event***

The Issuer may, at its option, redeem all, but not some only, of the Subordinated Instruments or the Second Ranking Senior Instruments, as applicable, at any time at their early redemption amount, together with

accrued but unpaid interest up to (but excluding) the date of redemption, upon or following the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event (as these terms are defined in the Terms and Conditions).

The early redemption of the Second Ranking Senior Instruments or the Subordinated Instruments is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

The early redemption of the Senior Subordinated Instruments and the Second Ranking Senior Instruments that qualify as eligible liabilities may be subject in the future to the prior permission of the competent authority. The proposal for a regulation amending CRR published by the European Commission on 23 November 2016 (the “**Proposed CRR Amendment**”) provides that the redemption of eligible liabilities prior to the date of their contractual maturity is subject to the prior permission of the competent authority. According to this proposal, such consent will be given only if either of the following conditions are met:

- (i) on or before such redemption, the institution replaces the instruments with own funds or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (ii) the institution has demonstrated to the satisfaction of the competent authority that the own funds and eligible liabilities of the institution would, following such redemption, exceed the requirements laid down in the CRR, the CRD IV and the BRRD by a margin that the competent authority considers necessary.

It is not possible to predict whether or not the Senior Subordinated Instruments or the Second Ranking Senior Instruments will qualify as TLAC/MREL-Eligible Instruments (see “*The qualification of the Second Ranking Senior Instruments and the Senior Subordinated Instruments as TLAC/MREL-Eligible Instruments is subject to uncertainty*”) or if any further change in the laws or regulations of Spain, Applicable Banking Regulations, Applicable TLAC/MREL Regulations or in the application or official interpretation thereof will occur and so lead to the circumstances in which the Issuer is able to elect to redeem the Subordinated Instruments or the Second Ranking Senior Instruments, and if so whether or not the Issuer will elect to exercise such option to redeem the Subordinated Instruments or the Second Ranking Senior Instruments or any prior consent of the Regulator and/or the Relevant Resolution Authority, if required, will be given.

Early redemption features (including any redemption of the Instruments pursuant to Condition 5.03 or pursuant to Condition 5.04) is likely to limit the market value of the Instruments. During any period when the Issuer may redeem the Instruments, the market value of those Instruments generally will not rise substantially above the price at which they can be redeemed. The Issuer may be expected to redeem the Subordinated Instruments or the Second Ranking Senior Instruments when its cost of borrowing is lower than the interest rate on the Subordinated Instruments or the Second Ranking Senior Instruments. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Subordinated Instruments or the Second Ranking Senior Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***The qualification of the Second Ranking Senior Instruments and the Senior Subordinated Instruments as TLAC/MREL-Eligible Instruments is subject to uncertainty***

The Second Ranking Senior Instruments and the Senior Subordinated Instruments are intended to be TLAC/MREL-Eligible Instruments (as defined in the Terms and Conditions) under the Applicable TLAC/MREL Regulations. However, there is uncertainty regarding the final substance of the Applicable TLAC/MREL Regulations and how those regulations, once enacted, are to be interpreted and applied and the Issuer cannot provide any assurance that the Second Ranking Senior Instruments and the Senior Subordinated Instruments will be (or thereafter remain) TLAC/MREL-Eligible Instruments.

There currently are no European laws or regulations implementing the TLAC concept, which is set forth in the FSB TLAC Term Sheet (as defined in the Terms and Conditions). The European Commission has recently proposed directives and regulations intended to give effect to the FSB TLAC Term Sheet and to modify the requirements for MREL eligibility. While the Terms and Conditions may be consistent with the European

Commission's proposals, these proposals have not yet been interpreted and when finally adopted the final Applicable TLAC/MREL Regulations may be different from those set forth in these proposals.

Because of the uncertainty surrounding the substance of the final regulations implementing the TLAC requirements and their interpretation and application and any potential changes to the regulations giving effect to MREL, the Issuer cannot provide any assurance that the Second Ranking Senior Instruments and the Senior Subordinated Instruments will ultimately be TLAC/MREL-Eligible Instruments. If for any reasons they are not TLAC/MREL-Eligible Instruments or if they initially are TLAC/MREL-Eligible Instruments and subsequently become ineligible due to a change in Spanish law or Applicable TLAC/MREL Regulations, then a TLAC/MREL Disqualification Event (as defined in the Terms and Conditions) will occur, with the consequences indicated in the Terms and Conditions. See “—*The Subordinated Instruments and the Second Ranking Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event*” and “*The Subordinated Instruments and the Second Ranking Senior Instruments may be subject to substitution and/or variation without Holder consent*”.

***The Subordinated Instruments and the Second Ranking Senior Instruments may be subject to substitution and/or variation without Holder consent***

Subject as provided herein, in particular to the provisions of Condition 8, if a Capital Disqualification Event, a TLAC/MREL Disqualification Event, an Alignment Event or a circumstance giving rise to the right to early redeem the Subordinated Instruments or the Second Ranking Instruments for taxation reasons, occurs, the Issuer may, at its option, and without the consent or approval of the Holders, elect either (i) to substitute all (but not some only) of the Subordinated Instruments and the Second Ranking Senior Instruments or (ii) to modify the terms of all (but not some only) of such Subordinated Instruments and the Second Ranking Senior Instruments, in each case so that they are substituted for, or varied to, become, or remain Qualifying Instruments. While Qualifying Instruments generally must contain terms that are materially no less favourable to Holders as the original terms of the Subordinated Instruments and the Second Ranking Senior Instruments, there can be no assurance that the terms of any Qualifying Instruments will be viewed by the market as equally favourable, or that the Qualifying Instruments will trade at prices that are equal to the prices at which the Instruments would have traded on the basis of their original terms.

Further, prior to the making of any such substitution or variation, the Issuer shall not be obliged to have regard to the tax position of individual Holders or to the tax consequences of any such substitution or variation for individual Holders. No Holder shall be entitled to claim, whether from the Issue and Paying Agent, the Issuer, or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or variation upon individual Holders of Instruments.

***Second Ranking Senior Instruments are new types of instruments for which there is little trading history***

As at the date of this Base Prospectus, other than Santander, Spanish financial institutions have not issued any second ranking senior securities. Accordingly, there is little trading history for securities of Spanish financial institutions with this ranking. Market participants, including credit rating agencies, are in the initial stages of evaluating the risks associated with second ranking senior liabilities. The credit ratings assigned to second ranking senior securities such as the Second Ranking Senior Instruments may change as the rating agencies refine their approaches, and the value of such securities may be particularly volatile as the market becomes more familiar with them. It is possible that, over time, the credit ratings and value of second ranking senior securities such as the Second Ranking Senior Instruments will be lower than those expected by investors at the time of issuance of the Second Ranking Senior Instruments. If so, Holders may incur losses in respect of their investments in the Second Ranking Senior Instruments.

## DESCRIPTION OF THE ISSUER

### 1 Persons Responsible

- 1.1 All persons responsible for the information given in this Base Prospectus and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the Issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office**

Banco Santander, S.A., with registered office at Paseo de Pereda, numbers 9 to 12, 39004, Santander (Spain), accepts responsibility for the information contained in this Base Prospectus.

- 1.2 A declaration by those responsible for this Base Prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of this Base Prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in the part of this Base Prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import**

The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

### 2 Statutory Auditors

- 2.1 Names and addresses of the Issuer's auditors for the period covered by the historical financial information (together with their membership in a professional body)**

The non-consolidated and consolidated annual financial statements of the Issuer for the year ended 31 December 2016 were audited by PricewaterhouseCoopers Auditores S.L., the Group's current independent auditors. PricewaterhouseCoopers Auditores S.L is registered under number S0242 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*) and is a member of the *Instituto de Censores Jurados de Cuentas de España*. The registered office of PricewaterhouseCoopers Auditores S.L is Torre PwC, Paseo de la Castellana 259 B, 28046, Madrid, Spain.

The non-consolidated and consolidated annual financial statements of the Issuer for the year ended 31 December 2015 were audited by Deloitte, S.L., the Group's predecessor independent auditors. Deloitte, S.L. is registered under number S0692 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*) and is a member of the *Instituto de Censores Jurados de Cuentas de España*. The registered office of Deloitte, S.L. is Plaza Pablo Ruiz Picasso, 1, Madrid, Spain.

- 2.2 If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, details if material**

Deloitte S.L. was not re-appointed in the general shareholders' meeting held on 18 March 2016 and PricewaterhouseCoopers Auditores, S.L were appointed as new auditors of the Group for a period of three years.

### 3 Selected Financial Information

#### 3.1 Selected historical financial information regarding the Issuer prepared under IFRS-EU, presented, for each financial year for the period covered by the historical financial information, and any subsequent interim financial period, in the same currency as the financial information.

The consolidated balance sheet and income statement of the Group as of, and for the year ended, 31 December 2016 have been extracted without any adjustment from, and are qualified by reference to and should be read in conjunction with, the Issuer's consolidated financial statements in respect of such period.

The balance sheet and income statement of the Group as of, and for the year ended, 31 December 2015 are not audited as they are not the audited consolidated balance sheet and income statement of the Group for the year ended 31 December 2015. The balance sheet and income statement included in such sections have been prepared in accordance with the Circular 5/2015, of 28 October, of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) ("CNMV") and on the basis of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015, have been extracted from the audited consolidated financial statements of the Issuer for the year ended 31 December 2016 and are shown in this Base Prospectus for comparison purposes with the audited consolidated financial information for the year ended 31 December 2016. See Note 1.d of the audited consolidated financial statements of the Issuer for the year ended 31 December 2016 for further information.

#### *Consolidated balance sheet of the Issuer as of and for the years ended 31 December 2016 and 31 December 2015:*

ASSETS	2016 (audited)	2015 <sup>(*)</sup> (unaudited)
	(in millions of euros)	
<b>Cash, cash balances at central banks and others deposits on demand</b>	<b>76,454</b>	<b>77,751</b>
<b>Financial assets held for trading</b>	<b>148,187</b>	<b>146,346</b>
Derivatives	72,043	76,724
Equity instruments	14,497	18,225
Debt instruments	48,922	43,964
Loans and advances	12,725	7,433
Central banks	-	-
Credit institutions	3,221	1,352
Customers	9,504	6,081
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>38,145</i>	<i>34,026</i>
<b>Financial assets designated at fair value through profit or loss</b>	<b>31,609</b>	<b>45,043</b>
Equity instruments	546	630
Debt instruments	3,398	3,717
Loans and advances	27,665	40,696
Central banks	-	-
Credit institutions	10,069	26,403
Customers	17,596	14,293
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>2,025</i>	<i>-</i>
<b>Financial assets available-for-sale</b>	<b>116,774</b>	<b>122,036</b>
Equity instruments	5,487	4,849
Debt instruments	111,287	117,187
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>23,980</i>	<i>26,742</i>
<b>Loans and receivables</b>	<b>840,004</b>	<b>836,156</b>
Debt instruments	13,237	10,907
Loans and advances	826,767	825,249
Central banks	27,973	17,337
Credit institutions	35,424	37,438
Customers	763,370	770,474
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>7,994</i>	<i>1,697</i>
<b>Investments held-to-maturity</b>	<b>14,468</b>	<b>4,355</b>
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>	<i>2,489</i>	<i>-</i>
<b>Hedging derivatives</b>	<b>10,377</b>	<b>7,727</b>

<b>ASSETS</b>	<b>2016</b> <i>(audited)</i>	<b>2015<sup>(*)</sup></b> <i>(unaudited)</i>
	<i>(in millions of euros)</i>	
<b>Changes in the fair value of hedged items in portfolio hedges of interest rate risk</b>	<b>1,481</b>	<b>1,379</b>
<b>Investments</b>	<b>4,836</b>	<b>3,251</b>
<i>Joint ventures entities</i>	<i>1,594</i>	<i>1,592</i>
<i>Associated companies</i>	<i>3,242</i>	<i>1,659</i>
<b>Reinsurance assets</b>	<b>331</b>	<b>331</b>
<b>Tangible assets</b>	<b>23,286</b>	<b>25,320</b>
Property, plant and equipment:	20,770	19,335
<i>For own use</i>	<i>7,860</i>	<i>7,949</i>
<i>Leased out under an operating lease</i>	<i>12,910</i>	<i>11,386</i>
Investment property:	2,516	5,985
<i>Of which leased out under an operating lease</i>	<i>1,567</i>	<i>4,777</i>
<i>Memorandum items: acquired in financial lease</i>	<i>115</i>	<i>195</i>
<b>Intangible assets</b>	<b>29,421</b>	<b>29,430</b>
<i>Goodwill</i>	<i>26,724</i>	<i>26,960</i>
<i>Other intangible assets</i>	<i>2,697</i>	<i>2,470</i>
<b>Tax assets</b>	<b>27,678</b>	<b>27,814</b>
<i>Current tax assets</i>	<i>6,414</i>	<i>5,769</i>
<i>Deferred tax assets</i>	<i>21,264</i>	<i>22,045</i>
<b>Other assets</b>	<b>8,447</b>	<b>7,675</b>
<i>Insurance contracts linked to pensions</i>	<i>269</i>	<i>299</i>
<i>Inventories</i>	<i>1,116</i>	<i>1,013</i>
<i>Other</i>	<i>7,062</i>	<i>6,363</i>
<b>Non-current assets held for sale</b>	<b>5,772</b>	<b>5,646</b>
<b>TOTAL ASSETS</b>	<b>1,339,125</b>	<b>1,340,260</b>
(*) Presented for comparison purposes only. See Note 1.d of the audited consolidated financial statements of the Issuer for the year ended 31 December 2016.		

<b>LIABILITIES AND EQUITY</b>	<b>2016</b> <i>(audited)</i>	<b>2015<sup>(*)</sup></b> <i>(unaudited)</i>
	<i>(in millions of euros)</i>	
<b>Financial liabilities held for trading</b>	<b>108,765</b>	<b>105,218</b>
Derivatives	74,369	76,414
Short positions	23,005	17,362
Deposits	11,391	11,442
Central banks	1,351	2,178
Credit institutions	44	77
Customers	9,996	9,187
Marketable debt securities	-	-
Other financial liabilities	-	-
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>40,263</b>	<b>54,768</b>
Deposits	37,472	51,394
Central banks	9,112	16,486
Credit institutions	5,015	8,551
Customers	23,345	26,357
Marketable debt securities	2,791	3,373
Other financial liabilities	-	1
<i>Memorandum items: subordinated liabilities</i>	<i>-</i>	<i>-</i>
<b>Financial liabilities at amortised cost</b>	<b>1,044,240</b>	<b>1,039,343</b>
Deposits	791,646	795,679
Central banks	44,112	38,872
Credit institutions	89,764	109,209
Customers	657,770	647,598
Marketable debt securities	226,078	222,787
Other financial liabilities	26,516	20,877
<i>Memorandum items: subordinated liabilities</i>	<i>19,902</i>	<i>21,153</i>
<b>Hedging derivatives</b>	<b>8,156</b>	<b>8,937</b>
<b>Changes in the fair value of hedged items in portfolio hedges of interest rate risk</b>	<b>448</b>	<b>174</b>
<b>Liabilities under insurance contracts</b>	<b>652</b>	<b>627</b>
<b>Provisions</b>	<b>14,459</b>	<b>14,494</b>



<i>Provision for pensions and other employment defined benefit obligations</i>	6,576	6,356
<i>Provisions for other long term employee benefits</i>	1,712	1,916
<i>Provisions for taxes and other legal contingencies</i>	2,994	2,577
<i>Provisions for commitments and guarantees given</i>	459	618
<i>Other provisions</i>	2,718	3,027
<b>Tax liabilities</b>	<b>8,373</b>	<b>7,725</b>
Current tax liabilities	2,679	2,160
Deferred tax liabilities	5,694	5,565
<b>Other liabilities</b>	<b>11,070</b>	<b>10,221</b>
<b>Liabilities associated with non-current assets held for sale</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>1,236,426</b>	<b>1,241,507</b>
<b>Shareholders' equity</b>	<b>105,977</b>	<b>102,402</b>
<b>Capital</b>	<b>7,291</b>	<b>7,217</b>
<i>Called up paid capital</i>	7,291	7,217
<i>Unpaid capital which has been called up</i>	-	-
<i>Memorandum items: uncalled up capital</i>	-	-
<b>Share premium</b>	<b>44,912</b>	<b>45,001</b>
<b>Equity instruments issued other than capital</b>	<b>-</b>	<b>-</b>
<i>Equity component of compound financial instruments</i>	-	-
<i>Other equity instruments</i>	-	-
<b>Other equity</b>	<b>240</b>	<b>214</b>
<b>Accumulated retained earnings</b>	<b>49,953</b>	<b>46,429</b>
<b>Revaluation reserves</b>	<b>-</b>	<b>-</b>
<b>Other reserves</b>	<b>(949)</b>	<b>(669)</b>
<b>(-) Own shares</b>	<b>(7)</b>	<b>(210)</b>
<b>Profit attributable to shareholders of the parent</b>	<b>6,204</b>	<b>5,966</b>
<b>(-) Dividends</b>	<b>(1,667)</b>	<b>(1,546)</b>
<b>Other comprehensive income</b>	<b>(15,039)</b>	<b>(14,362)</b>
<b>Items not reclassified to profit or loss</b>	<b>(3,933)</b>	<b>(3,166)</b>
<i>Actuarial gains or (-) losses on defined benefit pension plans</i>	(3,931)	(3,165)
<i>Non-current assets classified as held for sale</i>	-	-
<i>Other recognised income and expense of investments in subsidiaries, joint ventures and associates</i>	(2)	(1)
<i>Other valuation adjustments</i>	-	-
<b>Items that may be reclassified to profit or loss</b>	<b>(11,106)</b>	<b>(11,196)</b>
<i>Hedge of net investments in foreign operations (Effective portion)</i>	(4,925)	(3,597)
<i>Exchange differences</i>	(8,070)	(8,383)
<i>Hedging derivatives. Cash flow hedges (Effective portion)</i>	469	171
<i>Financial assets available-for-sale</i>	1,571	844
<i>Debt instruments</i>	423	98
<i>Equity instruments</i>	1,148	746
<i>Non-current assets classified as held for sale</i>	-	-
<i>Other recognised income and expense of investments in subsidiaries, joint ventures and associates</i>	(151)	(231)
<b>Non-controlling interest</b>	<b>11,761</b>	<b>10,713</b>
<i>Other comprehensive income</i>	(853)	(1,227)
<i>Others items</i>	12,614	11,940
<b>EQUITY</b>	<b>102,699</b>	<b>98,753</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,339,125</b>	<b>1,340,260</b>
<b>Memorandum items</b>		
Contingent liabilities	44,434	39,834
Contingent commitments	231,962	221,738

(\*) Presented for comparison purposes only. See Note 1.d of the audited consolidated financial statements of the Issuer for the year ended 31 December 2016.

**Consolidated income statement of the Issuer as of and for the years ended 31 December 2016 and 31 December 2015**

	<b>(Debit)/Credit</b>	
	<b>2016</b>	<b>2015<sup>(*)</sup></b>
	<i>(audited)</i>	<i>(unaudited)</i>
	<i>(in millions of euros)</i>	
Interest income	55,156	57,198
Interest expense	(24,067)	(24,386)
<b>Net interest income</b>	<b>31,089</b>	<b>32,812</b>
Dividend income	413	455
Share of results of entities accounted for using the equity method	444	375
Commission income	12,943	13,042
Commission expense	(2,763)	(3,009)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	869	1,265
Gains or losses on financial assets and liabilities held for trading, net	2,456	(2,312)
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	426	325
Gains or losses from hedge accounting, net	(23)	(48)
Exchange differences, net	(1,627)	3,156
Other operating income	1,919	1,971
Other operating expenses	(1,977)	(2,235)
Income from assets under insurance and reinsurance contracts	1,900	1,096
Expenses from liabilities under insurance and reinsurance contracts	(1,837)	(998)
<b>Total income</b>	<b>44,232</b>	<b>45,895</b>
Administrative expenses	(18,737)	(19,302)
<i>Staff costs</i>	<i>(11,004)</i>	<i>(11,107)</i>
<i>Other general administrative expenses</i>	<i>(7,733)</i>	<i>(8,195)</i>
Depreciation and amortisation cost	(2,364)	(2,418)
Provisions or reversal of provisions	(2,508)	(3,106)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	(9,626)	(10,652)
<i>Financial assets measured at cost</i>	<i>(52)</i>	<i>(228)</i>
<i>Financial assets available-for-sale</i>	<i>11</i>	<i>(230)</i>
<i>Loans and receivables</i>	<i>(9,557)</i>	<i>(10,194)</i>
<i>Held-to-maturity investments</i>	<i>(28)</i>	<i>-</i>
<b>Profit from operations</b>	<b>10,997</b>	<b>10,417</b>
Impairment of investments in subsidiaries, joint ventures and associates, net	(17)	(1)
Impairment on non-financial assets, net	(123)	(1,091)
<i>Tangible assets</i>	<i>(55)</i>	<i>(128)</i>
<i>Intangible assets</i>	<i>(61)</i>	<i>(701)</i>
<i>Others</i>	<i>(7)</i>	<i>(262)</i>
Gains or losses on non-financial assets and investments, net	30	112
Negative goodwill recognised in results	22	283
Gains or losses on non-current assets held for sale classified as discontinued operations	(141)	(173)
<b>Profit or loss before tax from continuing operations</b>	<b>10,768</b>	<b>9,547</b>
Tax expense or income from continuing operations	(3,282)	(2,213)
<b>Profit for the period from continuing operations</b>	<b>7,486</b>	<b>7,334</b>
Profit or loss after tax from discontinued operations	-	-
<b>Profit for the period</b>	<b>7,486</b>	<b>7,334</b>
<i>Profit attributable to non-controlling interests</i>	<i>1,282</i>	<i>1,368</i>
<i>Profit attributable to the parent</i>	<i>6,204</i>	<i>5,966</i>
<b>Earnings per share</b>		
<i>Basic</i>	<i>0.41</i>	<i>0.40</i>
<i>Diluted</i>	<i>0.41</i>	<i>0.40</i>

(\*) Presented for comparison purposes only. See Note 1.d of the audited consolidated financial statements of the Issuer for the year ended 31 December 2016.

**3.2 If selected financial information for interim periods is provided, comparative data from the same period in the prior financial year must also be provided, except that the requirement**

**for comparative balance sheet data is satisfied by presenting the year-end balance sheet information**

Not applicable.

## **4 Risk Factors**

### **4.1 Prominent disclosure of risk factors that may affect the Issuer's ability to fulfil its obligations under the securities to investors in a section headed "Risk Factors" in the Base Prospectus**

See "*Risk Factors*" on pages 30 – 69 of this Base Prospectus.

## **5 Information about the Issuer**

### **5.1 History and development of the Issuer**

#### **5.1.1 *Legal and commercial name of the Issuer***

The name of the Issuer is Banco Santander, S.A. and it operates under the trading name "Santander".

#### **5.1.2 *The place of registration of the Issuer and its registration number***

The Issuer is registered in the Mercantile Registry of Cantabria in book 83, folio 1, sheet 9, entry 5519 and adapted its bylaws to conform with current legislation regarding limited liability companies by a document executed in Santander on 8 June 1992 before the Public Notary Mr. José María de Prada Díez, numbered 1316 in his records and registered in the Mercantile Registry of Cantabria in volume 448 of the Archive, folio 1, sheet number 1960, Adaptation entry one.

The current bylaws, which have been adapted to the reinstated text of the Companies Law approved by Royal Decree 1/2010, of July 2 (*Texto Refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de Julio*) (the "**Spanish Companies Law**"), were approved by the shareholders at the general shareholders' meeting held on 18 March 2016 and filed with the Office of the Mercantile Registry on 25 May 2016.

The Bank is also registered in the Special Register of Banks and Bankers under code number 0049.

#### **5.1.3 *The date of incorporation and the length of life of the Issuer, except where indefinite***

The Issuer was founded in the city of Santander by notarised document executed on 3 March 1856 before Mr. José Dou Martínez, ratified and partially amended by a further document dated 21 March 1857 before the court official of Santander Mr. José María Olarán and commenced trading on 20 August 1857.

The Bank was transformed to a Credit Company (*sociedad anónima de crédito*) by a public deed executed on 14 January 1875 that was recorded with the Mercantile Registry of the Government of the Province of Santander.

The Bank commenced trading at the time of its formation and according to Article 4.1 of the bylaws it will remain in existence for an indefinite period.

#### **5.1.4 *The domicile and legal form of the Issuer, the legislation under which the Issuer operates, its country of incorporation, and the address and telephone number of its registered office (or principal place of business if different from its registered office)***

The Bank is domiciled in Spain and has the legal form of a limited liability company (*sociedad anónima*).

The Issuer is a Spanish company which operates under the Spanish Companies Law. The Issuer is subject to special legislation applicable to credit entities and private banking in general, and the supervision, control and regulation of the Bank of Spain and the ECB.

The Bank was incorporated in Spain and has its registered office at Paseo de Pereda, numbers 9 to 12, 39004, Santander, Spain. The headquarters of the Bank are located at Ciudad Grupo Santander, Avda. de Cantabria s/n, 28660 Boadilla del Monte, in the province of Madrid. The telephone number of the principal operating headquarters of the Bank is +34 91 259 6520.

**5.1.5 Any recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency**

*Acquisitions, Dispositions, Reorganisations and Other Recent Events*

The Group's principal acquisitions and dispositions in 2016 and 2015 were as follows:

Santander Asset Management

On 16 November 2016, and once the agreement to integrate Santander Asset Management and Pioneer Investments was not completed, the Group announced that it had reached an agreement with Warburg Pincus LLC ("**Warburg Pincus**") and General Atlantic ("**GA**") under which Santander will acquire 50% of Santander Asset Management so that it will once again be a 100% owned unit of the Santander Group.

As part of the transaction, Santander, Warburg Pincus and GA agreed to explore different alternatives for the sale of its stake in Allfunds Bank, S.A. ("**Allfunds Bank**"), including a possible sale or an IPO.

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 offering represented 21.6% of SCUSA's share capital, of which 4.23% related to the ownership interest sold by the Group. Following this sale, the Group held 60.74% of the share capital of SCUSA (31 December 2014: 60.46%). Both Sponsor Auto Finance Holdings Series LP ("**Sponsor Holdings**") – an investee of funds controlled by Warburg Pincus, Kohlberg Kravis Roberts & Co. L.P. and Centerbridge Partners L.P. – and DDFS LLC ("**DDFS**") – a company controlled by Thomas G. Dundon, who holds the position of Chief Executive Officer of SCUSA – also reduced their ownership interest in SCUSA.

Since the ownership interests of the aforementioned shareholders were reduced below specified percentages following the offering, the shareholders' agreement previously entered into by the shareholders was terminated in accordance with its terms; this entailed the termination of the agreement 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 change of control, the Group fully consolidated its ownership interest in SCUSA and, on the date it obtained control, included all of SCUSA's assets and liabilities in its consolidated balance sheet at their fair value.

As a result of the aforementioned transaction, the Group recognised a net gain of €730 million in the consolidated income statement for 2014.

On 2 July 2015, the Group announced that it had reached an agreement to purchase the 9.65% ownership interest held by DDFS in SCUSA. Following this transaction, which is subject to the obtainment of the relevant regulatory authorisations, the Group will have an ownership interest of approximately 68.5% in SCUSA.

#### Agreement with Banque PSA Finance

The Group, through its subsidiary Santander Consumer Finance, 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 and insurance 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 January 2015 the related regulatory authorisations to commence activities in France and the United Kingdom were obtained and, accordingly, on 2 and 3 February 2015 the Group acquired 50% of Société Financière de Banque – SOFIB (currently PSA Banque France) and PSA Finance UK Limited for €462 million and €148 million, respectively.

On 1 May 2015, PSA Insurance Europe Limited and PSA Life Insurance Europe Limited (both insurance companies with registered offices in Malta) were incorporated on 1 May 2015 in which the Group contributed 50% of the share capital, amounting to €23 million. On 3 August 2015, the Group acquired a full ownership interest in PSA Gestão - Comércio E Aluguer de Veiculos, S.A. (a company with its registered office in Portugal) and the loan portfolio of the Portuguese branch of Banque PSA Finance for €10 million and €25 million, respectively. On 1 October 2015, PSA Financial Services Spain, E.F.C., S.A. (a company with registered its office in Spain) was incorporated, in which the Group contributed €181 million (50% of the share capital). This company owns 100% of the share capital of PSA Finance Suisse which is domiciled in Switzerland.

During 2016, have been obtained the necessary authorizations, by the regulators, to start activities in the rest of the countries covered by the framework agreement (Italy, the Netherlands, Austria, Belgium, Germany, Brazil and Poland). The Group's disbursement during 2016 amounted to €464 million to reach a 50% stake in the capital of each of the structures created in each geography, with the exception of PSA finance Arrendamento Mercantil SA where 100% of capital is acquired.

During 2016 the new businesses acquired have contributed €79 million to the Group's profit. Had the business combination taken place on 1 January 2016, the profit contributed to the Group in 2016 would have been approximately €118 million.

#### Agreement to acquire Carfinco

On 16 September 2014, the Issuer announced that it had reached an agreement to acquire 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 and 3.6% owned by certain members of the former management group. On 6 March 2015, Carfinco was acquired through the aforementioned holding company for €209 million, giving rise to goodwill of €162 million.

In 2015 this business contributed €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 €7 million.

#### Metrovacesa, S.A.

On 19 December 2012, the creditor entities that participated in a debt restructuring agreement for the Sanahuja group under which they received shares of Metrovacesa, S.A. ("**Metrovacesa**") as payment for that group's debt, announced that they reached an agreement to promote the delisting of the shares of Metrovacesa 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 general meeting, the entities made a delisting public takeover offer of €2.28 per share to the Metrovacesa shareholders that had not entered into the agreement. The Issuer participated in the delisting public takeover offer by acquiring an additional 1.95% of Metrovacesa for €44 million.

Following this transaction, as of 31 December 2013, the Group held an ownership interest of 36.82% in the share capital of Metrovacesa.

On 23 December 2014, the Group acquired 19.07% of Metrovacesa from Bankia, S.A. for €99 million, as a result of which the Group's stake increased to 55.89%, thus obtaining control over this company. After this transaction, Metrovacesa is fully consolidated with the Group (until then it was accounted for by the equity method).

Lastly, on 15 September 2015, the Group acquired 13.8% of Metrovacesa from Banco Sabadell, S.A. for €253 million, raising its ownership interest to 72.51%.

#### Acquisition of 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. ("**Santander Totta**"), the Portuguese subsidiary of Banco Santander, the commercial business of Banco Internacional do Funchal ("**Banif**") 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 (the commercial banking business) of the assets and liabilities of Banif for which the Group paid €150 million.

The acquisition of Banif's businesses positioned Santander Totta as Portugal's second privately-held bank, after BCP-Milenium, with a 14.5% market share in loans and deposits. Banif contributes 2.50% in market share and has a network of 150 branches and 400,000 customers.

This transaction has no material impact on the Group's capital.

#### 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.

On 16 March 2016, the parties agreed to leave aside the original investment structure and continue to work in good faith until 30 June 2016 on an alternative investment structure that would allow the sale by Santander of the 50% stake referred to above.

Finally, this deadline has expired, with no agreement reached.

#### Metrovacesa agreement

On 21 June 2016, Banco Santander reached an agreement with Merlin Properties, Socimi, S.A. ("**Merlin**"), together with the other shareholders of Metrovacesa, for the integration in the Merlin group, following the total spin-off of Metrovacesa, of Metrovacesa's property rental asset business in Merlin and Metrovacesa's residential rental business in Metrovacesa's current subsidiary, Testa Residencial, S.L.U. ("**Testa**") The other assets of Metrovacesa not integrated in the Merlin group as a result of the integration, consisting of a residual group of land assets for development and subsequent lease, will be transferred to a newly created company wholly owned by the current shareholders of Metrovacesa.

The integration was approved by the relevant authorities and the shareholders of Merlin and Metrovacesa at their respective general meetings on 15 September 2016. Subsequently, on 20 of October 2016, the deed of total division of Metrovacesa was granted in favour of the mentioned companies, and such deed was filed with the Mercantile Registry on 26 October 2016.

As a result of the integration, Santander Group has increased its participation to 21.95% of the equity capital of Merlin, 46.21% of direct participation in the equity capital of Testa and 70.27% in Metrovacesa Promoción y Arrendamiento, S.A.

The main impacts on the consolidated balance sheet of this division have been; decrease of approximately €3.8 billion in real estate investment, decrease of €621 million under minority interests and an increase in the heading of investments in joint ventures and associates participation of the businesses received in the associates Merlin and Testa, of €1,168 million and €307 million, respectively.

In addition, Banco Santander, together with other entities, is expected to make a contribution of assets to Testa in the first quarter of 2017, without significant changes in Santander's participation in that company.

#### SHUSA and SCUSA restatement of financial statements

On 23 September 2016, SHUSA and SCUSA announced that their audited financial statements for the years ended 31 December 2015, 2014 and 2013, and their previously issued unaudited financial statements contained in their Quarterly Reports on Form 10-Q for the quarters ended 31 March 2016, 2015 and 2014, 30 June 2015 and 2014, and 30 September 2015 and 2014 should no longer be relied upon and should be restated due to certain errors identified in these financial statements. These restatements result primarily from the correction of errors in the accounting for retail instalment contracts and the related allowance at SCUSA. In connection with detecting these errors, management of SCUSA and SHUSA concluded that there were additional material weaknesses in internal controls over financial reporting.

Based on SCUSA management's preliminary assessment, the expected cumulative impact of the errors is an increase to SCUSA's total equity of approximately 1%, as of 31 March 2016. SCUSA also believes these restatements will increase its previously reported net income for the fiscal quarter ended 31 March 2016, by approximately \$9 million. The impact on total equity and net income varies in each of the prior quarters, in some cases being positive and in others negative.

These errors are immaterial at the consolidated Group level and Banco Santander does not expect any impact on the Group's prior period financial statements or a material impact on the evaluation of the Group's internal controls over financial reporting. Any impact on the Group's results of operations for the remainder of the year in connection with reflecting corrections for the SCUSA errors is expected to be totally immaterial.

#### Commercial transformation plan

During the three-month period ended 30 June 2016, the Group arranged the commercial transformation plan and the construction of a simpler Corporate Centre that creates more value for subsidiaries. The measures covered in this plan represented a cost net of taxes of €475 million.

#### Visa stake disposal

On 21 June 2016, the Group disposed of its VISA Europe, LTD stake, classified as available for sale, obtaining a gain net of taxes of €227 million.

#### Contribution to SRF

The contribution to SRF has been registered by the Group at 30 June 2016 for a total amount net of taxes of €120 million; in 2015 the contribution was registered during the last quarter of the year.

#### Asset quality review and results of stress tests

On 26 October 2014, regarding the asset quality review ("AQR") carried out by the ECB and the EBA, the Group announced:

- that such review, carried out with reference to December 2013, affected 16 portfolios in 7 countries, accounting for more than 50% of the Group's risk assets.
- that the impact of the analysis on CET1 was not material (decrease of 0.04%). The NPL ratio of the reviewed portfolios increased by 0.14% post-AQR, which showed that coverage was appropriate and that risks were correctly classified.

Furthermore, with respect to the stress test exercise carried out by the EBA and the ECB which was applied to all countries where the Group operates and which covers a three-year period (2016–2018) with two scenarios (baseline and adverse), on 29 July 2016 the Group announced that the results were as follows:

Under the adverse scenario, Banco Santander's fully loaded CET1 ratio as of 31 December 2018 decreases 1.99%, to 8.2%, from the starting point of 10.2% as of 31 December 2015. In this adverse scenario, the CET1 ratio subject to Basel III transitional arrangements (phase-in) is 8.7% as of 31 December 2018, which implies a decrease of 4.02% from the starting 12.7%, due to the progressive coming into force of Basel III transitional deductions (2.03%).

Under the baseline scenario, Banco Santander's fully loaded CET1 ratio increases 2.99%, to 13.2%. With phase-in criteria, the CET1 ratio increases 0.53%.

#### SREP Prudential Minimum Requirements

On 29 November 2016, the Issuer announced that it had been informed by the ECB on its decision regarding prudential minimum capital requirements for 2017, following the results of the SREP. The decision requires that the Issuer maintains a CET1 ratio of at least 7.75% on a consolidated basis. This requirement compares to Santander's last reported consolidated CET1 ratio of 12.53% as of 31 December 2016. This CET1 capital requirement includes: the minimum Pillar 1 requirement (4.5%); the Pillar 2 requirement (1.5%); the capital conservation buffer (1.25%); and the requirement deriving from its consideration as a G-SII (0.5%).

#### *Capital Increases*

As of 31 December 2015, the Issuer's capital had increased by 1,850,077,920 shares, or 14.70% of its total capital as of 31 December 2014, to 14,434,492,579 shares as a result of the following transactions:

- *Capital increase:* On 8 January 2015 an extraordinary meeting of the board of directors took place to approve a capital increase with the exclusion of pre-emption rights for an amount of up to €7,500 million. The transaction was implemented through an accelerated book-building. The objective of this transaction was to accelerate the Group's plans to grow organically allowing it to increase both customer credit and market share in the Group's core geographies, and to take advantage of its business model. The Bank's capital was increased for a nominal amount of €606,796,117 through the issuance of 1,213,592,234 ordinary shares of Banco Santander (9.64% of the share capital before the capital increase) with a nominal value of €0.50 each. The price for the new shares was fixed at €6.18 per share. Consequently, the total amount of the capital increase was of €7,500,000,006.12 (€606,796,117 nominal amount and €6,893,203,889.12 share premium). The new shares were admitted to trade in the Spanish markets on 12 January 2015.
- *Scrip Dividend:* On 29 January 2015, 29 April 2015 and 4 November 2015, the Bank issued 262,578,993 shares, 256,046,919 shares and 117,859,774 shares (1.90%, 1.82% and 0.82% of the share capital, respectively), giving rise to capital increases of €131,289,496.50, €128,023,459.50 and €58,929,887, respectively.

As of 31 December 2016, the Bank's share capital had increased by 147,848,122 shares, or 1.02% of its total capital as of 31 December 2015, to 14,582,340,701 shares as a result of a free-of charge capital increase in the context of the scrip dividend scheme.

#### *Other Recent Events*

##### Interim dividends

At its meeting of 14 October 2016, the Bank's executive committee resolved to apply the Santander Dividendo Elección scrip dividend scheme on the dates on which the final dividend is traditionally paid, whereby the shareholders were offered the option of receiving an amount equivalent to said dividend, the gross amount of which was €0.045 per share, in shares or cash.

On 4 November 2016, the Bank announced that the holders of 89.11% of the bonus share rights have chosen to receive new shares. Thus, the definitive number of ordinary shares of €0.50 of face value issued in the free-of-charge capital increase is 147,848,122, corresponding to 1.02% of the share capital, and the amount of the capital increase is €73,924,061. After the free-of-charge capital increase, the share capital amounts to €7,291,170,350.50 represented by 14,582,340,701 ordinary shares of €0.50 of face value each. The value of the compensation corresponding to the holders of bonus share rights who have requested new shares amounts to



€578,825,397.63. The shareholders holding the remaining 10.89% of the bonus share rights have accepted the irrevocable commitment to purchase bonus share rights assumed by Banco Santander. Consequently, Banco Santander has acquired 1,571,705,815 rights for a total gross consideration of €70,726,761.68. Banco Santander has waived the bonus share rights so acquired.

On 1 February 2017 the Bank paid a third interim dividend out of 2016 profit, for a gross amount of €0.055 per share. The last day to trade shares with a right to collect this dividend was 27 January 2016. The ex-dividend date was 30 January 2017.

## 5.2 Investments

### 5.2.1 *A description of the principal investments made since the date of the last published financial statements*

Not applicable.

### 5.2.2 *Information concerning the Issuer's principal future investments, on which its management bodies have already made firm commitments*

At the date of this Base Prospectus, the Group does not have any other firm investment commitments.

### 5.2.3 *Information regarding the anticipated sources of funds needed to fulfil commitments referred to in item 5.2.2.*

Not applicable.

## 6 Business Overview

### 6.1 Principal activities

#### 6.1.1 *A description of the Issuer's principal activities stating the main categories of products sold and/or services performed*

As of 31 December 2016, the Group had a market capitalisation of €72.3 billion, shareholders' equity of €90.9 billion and total assets of €1,339.1 billion. The Group had €1,079.2 billion in customer funds under management (includes customer deposits, marketable debt securities and other customer funds under management) at that date. As of 31 December 2016, the Group had 57,259 employees and 4,805 branch offices in Continental Europe, 25,688 employees and 844 branches in the United Kingdom, 86,312 employees and 5,818 branches in Latin America, 17,509 employees and 768 branches in the United States and 1,724 employees in Corporate Activities.

The Group is a financial group operating principally in Spain, the United Kingdom, other European countries, Brazil and other Latin American countries and the United States, offering a wide range of financial products.

In Latin America, the Group has majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay. In accordance with the criteria established by IFRS-EU, the structure of the Group's operating business areas has been segmented into two levels:

**First (or geographic) level.** The activity of the Group's operating units is segmented by geographical areas. This coincides with the Group's first level of management and reflects its positioning in the world's main currency areas.

The reported segments are:

- **Continental Europe.** This covers all retail banking business and corporate banking in this region. This segment includes the following units: Spain, Portugal, Poland, Santander

Consumer Finance (which includes the consumer business in Europe, including that of Spain, Portugal and Poland) and Real Estate Operations in Spain.

- **United Kingdom.** This includes retail and corporate banking conducted by the various units and branches of the Group in the country.
- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries.
- **United States.** This includes the intermediate holding company (SHUSA) and its subsidiaries: Santander Bank National Association, Banco Santander Puerto Rico, SCUSA, BSI, Santander Investment Securities Inc. and the Santander branch in New York.

**Second (or business) level.** This segments the activity of the Group's operating units by type of business. The reported segments are:

- **Commercial Banking.** This area covers all customer banking businesses (except those of Corporate Banking, managed through the Global Customer Relationship Model). Also included in this business area are the results of the hedging positions taken in each country within the scope of the relevant local asset liability committees ("ALCO") portfolio.
- **Santander Global Corporate Banking.** This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally, both trading and distribution to customers (after the appropriate distribution with Commercial Banking customers), as well as equities business.
- **Real Estate Operations in Spain.** This business includes loans to customers in Spain whose activity is mainly real estate development, equity stakes in real estate companies and foreclosed assets.

In addition to these operating units, which report by geographic area and by businesses, the Group continues to maintain the Corporate Centre. This 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 and securitisations.

As the Group's holding entity, the Corporate Centre manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates provisions of a varied nature and amortisation of goodwill. 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. Finally, the Group also includes in this area significant Group non-recurring income and expense.

For purposes of the Group's financial statements, the Group has calculated the results of operations of the various units of the Group listed below using these criteria. As a result, the data set forth herein may not coincide with the data published independently by each unit individually.

#### **First level (or geographic):**

##### ***Continental Europe***

Continental Europe is the largest business area of the Santander Group by assets. At the end of 2016, it accounted for 37% of total managed customer funds, 38% of total loans to customers and 32% of profit attributed to the Bank's total operating areas.

The area had 4,805 branches and 57,259 employees (direct and assigned) of which 3,169 were temporary employees, at the end of 2016.

The Euro area's gross domestic product ("GDP") grew moderately in 2016, by approximately 1.7%, below 2015 levels. Nevertheless, the area was resilient when taking into account the

adverse developments occurring during the year. Although deflation risk appears to be abating, prices rose at a pace below the 2% target, spurring the ECB to reduce interest rates to new lows.

In 2016, this segment obtained profit attributable to the Bank of €2,599 million, an increase of €381 million or 17% as compared to 2015, mainly due to the decrease of €700 million in impairment on financial assets. Return on equity (“**ROE**”) stood at 7.93%.

### *Spain*

The Group has a solid retail presence in Spain (2,911 branches) which is reinforced with global businesses in key products and segments (corporate banking, private banking, asset management, insurance and cards). The Group had a total of 23,017 employees (direct and assigned), all of which were hired on a full time basis.

The Spanish economy grew roughly 3.2%, again underpinned by domestic demand. The labour market revived notably, reducing the unemployment rate to 19%. Growth was also supported by moderate inflation, a foreign trade surplus and the improved public deficit.

In this environment, the Group made progress in its commercial transformation and in attaining its objectives. The 1|2|3 strategy is the driving force of this transformation and is enabling the Group to increase customer loyalty, boost activity and improve customers’ satisfaction and their risk profile.

The NPL ratio was 5.41%, a 112 basis points decrease as compared to 2015. The coverage ratio stood at 48% in 2016 and 2015.

### *Portugal*

The Group’s main Portuguese retail and investment banking operations are conducted by Santander Totta.

In December 2015, Santander became the second private bank in the country with the acquisition of most of the assets and liabilities of Banif for €150 million.

At the end of 2016, Portugal had 657 branches and 6,306 employees (direct and assigned), of which 44 employees were temporary.

The Portuguese economy has been losing momentum since the second half of 2015. GDP growth fell slightly, from 1.6% in 2015 to 1.3% (estimated) in 2016, with a constant domestic demand and a falling unemployment rate. Inflation was similar to 2015, at 0.6%, thereby continuing to support growth in income.

In line with the calendar established, in October 2016, the technological and operational integration of Banif activities was completed. As a result, all branch offices are now operating under the same technological platform. This development has made the Bank’s loan portfolio more balanced and allowed it to gain market share in the companies segment.

The NPL ratio increased at the end of 2016 to 8.81% as compared to 7.46% at the end of 2015 and the coverage ratio stood at 64% compared to 99% in December 2015, both ratios affected by the acquisition of Banif’s portfolios.

### *Poland*

At the end of 2016, Poland had 658 branches and 12,001 employees (direct and assigned), of which 1,910 employees were temporary.

Growth in the Polish economy slowed in 2016 (estimated 2.8% as compared to 3.9% in 2015), with inflation falling 0.6% on average in 2016, although December saw a turnaround to positive figures (0.8% year on year). The National Bank of Poland was able to hold the benchmark interest rate at 1.5% throughout the year, while the exchange rate saw a depreciation of 3% against euro.

The NPL ratio decreased 88 basis points to 5.42% and the coverage ratio decreased to 61% from 64% in 2015.

### *Santander Consumer Finance*

The Group's consumer financing activities are conducted through its subsidiary Santander Consumer Finance and its group of companies. Most of the activity of Santander Consumer Finance relates to auto financing, personal loans, credit cards, insurance and customer deposits. These consumer financing activities are mainly focused on Germany, Spain, Italy, Norway, Poland, Finland and Sweden. Santander Consumer Finance also conducts business in the UK, France, Portugal, Austria and the Netherlands, among others.

In 2016 the main European markets in which Santander Consumer Finance operates presented growth in their economies ranging from 0.9% in Italy to 3.2% in Spain.

In 2016, Santander Consumer Finance continued to focus on its business model, with strong geographic diversification, higher efficiency than its peers, and a risk control and recoveries system that allows it to maintain high credit quality. Management focus was on the following:

- Completing the agreements with Banque PSA Finance to create joint ventures in 11 countries. In 2015, the joint ventures in Spain, Portugal, United Kingdom, France and Switzerland were set up. In 2016, the Group incorporated six more countries: Italy, the Netherlands, Belgium, Germany, Austria and Poland.
- Increasing vehicle financing and consumer financing and extending agreements with the main dealers/retailers

At the end of 2016, this unit had 567 branches and 14,928 employees (direct and assigned), of which 929 employees were temporary.

The NPL ratio decreased 74 basis points to 2.68%, while the coverage ratio stood at 109% in 2016.

### *Real Estate Operations in Spain*

The segment includes loans to real-estate developers, for which a specialized management model is applied, as well as the interest in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB) and the remaining Metrovacesa assets, the assets of the previous real-estate fund and foreclosed assets. As of the end of 2014, the stake in Metrovacesa was consolidated by global integration. See “—5.1 History and Development of the Issuer and the Group— 5.1.5— Metrovacesa, S.A.”.

The Group's strategy in recent years has been directed at reducing these assets, mainly loans and foreclosed assets. Net loans totalled €1,990 million, which was 29% less than in 2015 and accounted for 0.3% of the Group's loans and less than 1% of those of Santander Spain.

In 2016, this segment had €326 million of losses attributable to the Bank, a €94 million decrease in losses as compared to 2015, mainly due to the lower need for write-downs.

### *United Kingdom*

As of 31 December 2016, the United Kingdom accounted for 28% of the total managed customer funds of the Group's operating areas. Furthermore, it accounted for 32% of total loans to customers and 21% of profit attributed to the Bank's total operating areas.

At the end of 2016, the Group had 844 branches and 25,688 employees (direct and assigned) in the UK, of which 286 employees were temporary.

The UK economy grew an estimated 2.0% in 2016. The Bank of England mitigated the impact of the uncertainty caused by the UK EU Referendum, reducing the benchmark rate by 25 basis points in August 2016 and holding it at 0.25% for the remainder of the year. The Bank of England also added a considerable quantitative easing package to support growth.

The unemployment rate continued to fall to 4.8% in October 2016, while inflation rose 1.6% in December 2016 compared with December 2015 and the pound sterling saw a 14% depreciation against the euro compared with 2015.

In 2016, Santander UK contributed €1,680 million of profit attributable to the Bank, a €291 million or 15% decrease (a decrease of 4% excluding the exchange rate impact) as compared to 2015. It was affected by the new 8% bank corporation tax surcharge. Stripping out this impact, operating profit before tax rose 8%, excluding the exchange rate impact, mainly due to fee income growth, increased cost discipline and good credit performance, partially offset by pressure on interest income.

As of 31 December 2016, loans and advances to customers decreased by 11% (an increase of 4% excluding the exchange rate impact), and customer deposits decreased 9% (an increase of 7% excluding the exchange rate impact). The NPL ratio decreased 11 basis points to 1.41% and the coverage ratio decreased to 33% from 38% in 2015. The ROE was 10.25%.

### ***Latin America***

As of 31 December 2016, the Group had 5,818 branches and 86,312 employees (direct and assigned) in Latin America, of which 1,400 were temporary employees. As of that date, Latin America accounted for 26% of the total managed customer funds, 19% of total loans to customers and 42% of profit attributed to the Bank's total operating areas.

The Group's Latin American banking business is principally conducted by the following banking subsidiaries:

<b>Subsidiary</b>	<b>Percentage held at 31 December 2016</b>
Banco Santander (Brasil), S.A.	89.38
Banco Santander Chile	67.12
Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	75.07
Banco Santander de Negocios Colombia S.A.	100.00
Banco Santander, S.A. (Uruguay)	100.00
Banco Santander Perú, S.A.	100.00
Banco Santander Río, S.A. (Argentina)	99.30

The Group engages in a full range of retail banking activities in Latin America, although the range of its activities varies from country to country. The Group seeks to take advantage of whatever particular business opportunities local conditions present.

The Group's significant position in Latin America is attributable to its financial strength, high degree of diversification (by countries, businesses, products, etc.) and the breadth and depth of its franchise. The Santander Group has the region's largest international franchise.

Overall GDP in Latin America fell for the second year in a row, as trends were highly varied across the different countries in terms of GDP, interest rates and markets. However, the Group believes that the shift in economic policy in Argentina and Brazil and, in general, progress toward adjusting inflation and the foreign deficit have allowed the region to lay the groundwork for recovery.

In general, the environment was not favourable for the business, primarily due to the across-the-board devaluation of currencies and, in particular, shrinking of Brazil's GDP.

Profit attributable to the Bank from Latin America in 2016 was €3,386 million, a €193 million or 6% increase as compared to 2015 (an increase of 19% excluding the exchange rate impact). Total income increased by €9 million. Excluding the exchange rate impact total income increased by €1,731 million driven mainly by net interest income, fees and commissions and Gains/losses on financial assets and liabilities. Administrative expenses and depreciation and amortisation decreased by €214 million or 3%; however, excluding the exchange rate impact they grew 8% as a result of salary agreements, dollar indexed expenses and investment. Growth was moderate excluding the inflation and the exchange rates impacts.

As of 31 December 2016, loans and advances to customers increased by 14%, however, excluding the exchange rate impact they increased by 4%. Customer deposits increased by 17% as compared to 2015; nevertheless, excluding the exchange rate impact customer deposits increased by 7%. The NPL ratio stood at 4.81% and the coverage ratio at 87% at 31 December 2016. The ROE was 15.02%.

Detailed below are the performance highlights of the main Latin American countries in which the Group operates:

#### *Brazil*

Santander Brazil is the country's third largest private sector bank by assets and the largest foreign bank in the country. The institution operates in the main regions, with 3,431 branches and points of banking attention, 46,728 employees (direct and assigned), all of which were hired on a full time basis.

In 2016, the Brazilian economy completed its second consecutive year of recession. Nevertheless, the inflation (6.3% at the 2016-year end) did not exceed the upper target limit (6.5%). Forecast inflation for 2017 and 2018 should be closer to the central bank's 4.5% target, which has allowed the benchmark interest rate of 14.25% to slip to 13.75% toward the end of the year. This points to a downward trend, which began in January 2017 with a new 75 basis points cut placing the benchmark rate at 13%.

The exchange rate rallied considerably during the year, closing 2016 at €1 equalling 3.43 Brazilian Real (BRL), as compared to BRL 4.31 in 2015.

In this difficult political and economic environment, Santander Brazil continued its transformation process, while growing customers and results.

At 31 December 2016, the NPL ratio was 5.90% as compared to 5.98% one year earlier while the coverage ratio stood at 93%.

#### *Mexico*

Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander, is one of the leading financial services companies in Mexico. Santander is the third largest banking group in Mexico by business volume. As of 31 December 2016, it had 1,389 branches throughout the country, 17,608 employees (direct and assigned), of which 1,223 were temporary.

In an effort to increase customer loyalty, the Bank developed various measures among which was a three-year €15,000 million investment plan announced in December 2016 to continue improving the franchise and the Group's systems.

The Mexican economy slowed somewhat in 2016 (estimated 2.3% as compared to 2.6% in 2015), due to a challenging external environment, which spurred adjustments to fiscal policy and a tightening of monetary policy. Furthermore, the depreciation of the exchange rate led the Bank of Mexico to raise its benchmark rate from 3.25% to 5.75% during 2016. Inflation climbed from 2.1% to 3.3%, while unemployment stayed stagnant at an average of 3.8% for the year. The peso depreciated 13% against the dollar to 21.8 Mexican pesos, impacted by oil prices in the first few months of the year and the heightened uncertainties of possible changes in the trade and migration policies of the U.S. in the latter part of 2016.

At 31 December 2016, the NPL ratio decreased by 62 basis points to 2.76% while the coverage ratio was 104%.

#### *Chile*

Banco Santander Chile is the leading bank in Chile in terms of assets, with a particular focus on retail activity (individuals and SMEs). As of 31 December 2016, Banco Santander Chile had 435 branches and 11,999 employees (direct and assigned), all of which were hired on a full time basis.

The Chilean economy saw less buoyant GDP growth in 2016 (estimated 1.6% as compared to 2.3% in 2015), with inflation falling to 3% and unemployment at 6.5%. The slowdown in growth was primarily due to the international context and the mining industry's adaptation to a more moderate price environment.

The year-end exchange rate was 708 Chilean pesos equals €1, for an appreciation of 9% during the year. At 31 December 2016, the Central Bank of Chile's benchmark rate stood at 3.5%, at the same level as at the 2015 close.

At 31 December 2016, the NPL ratio decreased by 57 basis points to 5.05% while the coverage ratio was 59%.

#### *Argentina*

Banco Santander Río, S.A. (Argentina) is the country's leading private sector bank in terms of assets and loans. At 31 December 2016, the Group had 453 branches and 7,940 employees in Argentina, of which 151 were temporary.

In 2016, Argentina responded firmly to the macroeconomic imbalances and the microeconomic distortions, by shoring up its institutional framework. Adjustment measures led to a 2% contraction in GDP, although at the same time laid the groundwork for controlling inflation and public deficit, in order to return to a path of growth.

The benchmark interest rate fell from 33% to 24.5%, while the Argentinean peso depreciated strongly against the euro.

The Group's strategy in 2016 continued to centre on growing customer business, paying particular attention to loyalty and profitability.

#### *Uruguay*

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. Overall, the Group had 108 branches and 1,761 employees, of which 26 were temporary.

The economy grew 0.5% (1.0% in 2015) and inflation was 9.2% (9.4% in 2015), above the official target of between 3% and 7%. The peso ended 2016 at 30.6 Uruguayan pesos per euro, an appreciation of 6%.

In 2016, lending rose in target segments and products (SMEs and consumer business) as well as consumer credit.

#### *Peru*

As of 31 December 2016, Banco Santander Perú, S.A. had 1 branch and 161 employees. The unit's activity is focused on corporate banking and the country's big companies, as well as continuing to provide services to the Group's global customers.

An auto finance company continued to consolidate its activity in Peru. This company has a specialized business model, centred on service and with market shares that enable customers to acquire a new vehicle via most of the brands and dealerships in the country.

GDP growth slowed to 3.9%, domestic demand dropped sharply, inflation stood at around 3.4% and the currency depreciated 6% against the euro. Public debt stood at 23% of GDP, one of the lowest in the region, and the country's reserves totalled \$61 billion (more than 30% of GDP). The system's loans and deposits grew 4% and 2%, respectively.

#### *Colombia*

The operation in Colombia focuses on growing business with Latin American companies, multinational companies, international desk and big and medium-sized local companies, contributing treasury solutions, risk hedging, foreign trade, financing working capital and confirming, as well as developing investment banking and capital market products.

## ***United States***

At the end of 2016, the Group had 768 branches and 17,509 employees (direct and assigned), none of them temporary.

The U.S. economy grew an estimated 1.6% in 2016, partly due to the slow growth at the start of the year. This did not prevent, however, the unemployment rate falling to 4.7%, a level regarded as almost full employment, and core inflation of 1.8%. The outcome of the U.S. election helped to strengthen the dollar to €1/\$1.05 (\$1.09 at the end of 2015) and spurred the markets.

In this context, in which the economy was already showing some strengthening, the Federal Reserve raised its key rate in December to 0.75% from 0.50% and pointed to gradual hikes in 2017.

The U.S. segment includes the intermediate holding company (IHC) and its subsidiaries: Santander Bank National Association, Banco Santander Puerto Rico, SCUSA, BSI, Santander Investment Securities Inc. and the Santander branch in New York.

Santander U.S. is focused on a series of strategic priorities aimed at improving the profitability of Santander, optimizing the vehicle financing business and expanding the GCB business with U.S.-based customers, maximizing the interconnectivity offered by being part of a global group.

Santander U.S. continued to progress in 2016 in complying with its regulatory obligations. The creation of the holding was completed, unifying the main units in the country under the same management and governance structure in order to manage risk more effectively.

The U.S. segment accounted for 9% of the total managed customer funds, 11% of total loans to customers and 5% of profit attributed to the Bank's total operating areas.

Profit attributable to the Bank from U.S. in 2016 was €395 million, a €283 million or 42% decrease as compared to 2015. Significant investments were made in technology to enhance customer experience and improve risk management and capital planning in order to comply with regulatory obligations, causing costs to remain high. Santander also repurchased costly liabilities, which had a negative impact on gains on financial transactions. SCUSA shifted its business towards a lower risk profile (with a negative impact on revenues). Administrative expenses and depreciation and amortization increased by €172 million or 6% in 2016 compared to 2015 with certain non-recurring assets. These factors and an increase in provisions, partly due to those made in the first quarter for oil and gas related business, produced a 42% fall in the attributable profit. The results were not affected significantly by the impact of exchange rates.

As of 31 December 2016, loans and advances to customers increased by 1% (a decrease of 2% excluding the exchange rate impact), and customer deposits increased 7% (an increase of 4% excluding the exchange rate impact).

For 2016, ROE was 2.92% and the NPL ratio increased 7% to 2.28%. The coverage ratio stood at 214% at year-end.

### **Second or business level:**

#### ***Commercial Banking***

Commercial Banking's profit attributable to the Bank in 2016 decreased by €557 million or 8% to €6,297 million. The sharp rise in the tax charge left attributable profit virtually unchanged in constant euros. The income statement was characterized by the spur of net interest income, good performance of fee income in almost all units, discipline in costs and lower loan-loss provisions.

In 2016, Commercial Banking generated 87% of the operating areas' total income and 78% of profit attributable to the Parent bank. This segment had 178,253 employees as of 31 December 2016.

In 2016 Santander continued to make progress with its program for transforming commercial banking focusing on (i) customer loyalty and satisfaction, (ii) digital transformation of the



Group's channels, products and services and (iii) operational excellence of the Group's processes.

In order to improve customer loyalty and satisfaction continuously, the following measures were adopted in 2016, among others:

- The 1|2|3 strategy in Spain, Portugal and the United Kingdom which continued the good pace of opening accounts.
- Consolidation of value propositions for individual customers in Mexico and Chile.
- A pioneer digital platform launched in Mexico, which integrates a fully digital offer of banking services and financial education; a financial app that Germany offers its customers to manage their savings and the investment centre launched by Santander UK which enables customers to manage their investments online.
- The launch of the Select Global Value offer, which complements the local offer with non-financial services and makes available to customers a homogeneous and exclusive service in all countries where the Group operates.
- The continuous evolution of plans for SMEs in all countries.

In order to create a simpler bank for its customers, the Group continued to foster the digital transformation and multi channels:

- Santander Mexico already has 1.3 million digital customers. SuperMóvil enables them to access all services from any mobile device and with the same password.
- In Brazil, more than 6 million customers already access the Group's channels through biometric identification. Of note was the launch of the new commercial model for the consumer finance segment.
- In Spain, Santander Personal was launched as a specialized and personalized attention channel, while in Poland the Group launched the new online bank with a Customer Attention section that allows personal attention.
- Various payment solutions were launched such as, in Spain, the Wallet app that allows payments to be made from a mobile phone in any establishment, the contactless wristband for payments, the Apple Pay service and Bizum which allows direct P2P payments; or in Brazil the Santander Way app which provides card users with speed, control and security.
- Progress was also made in transforming branches under the Smart Red program. Spain, Brazil, Mexico, the United Kingdom and Argentina have already inaugurated new branch models, Portugal already has specialized spaces for companies and Chile inaugurated the first WorkCafé, a novel branch format where customers can take advantage of their visits to use the co-working zone. New ATMs, which enable customers to carry out basic operations simply and agilely, also continued to be installed at a good pace.
- The NEO CRMs were consolidated as the reference CRM tool in the market, with new improvements in Santander Río, Poland, Mexico and the United Kingdom.

The satisfaction and experience of the Group's customers is one of the Group's priorities, which is why the Group continues to work on improving operational excellence, with new processes that are simpler, more efficient and omnichannel, developed with Agile methodology, and also on improving the quality of service.

### ***Santander Global Corporate Banking***

This area covers the Group's corporate banking, treasury and investment banking activities throughout the world.

Global Corporate Banking generated 13% of total income and 26% of the profit attributable to the Bank in 2016. This segment had 8,032 employees as of 31 December 2016.

Profit attributable to the Bank in 2016 was €2,089 million, an increase of €463 million or 28% as compared to 2015. Total income increased 10% in 2016 compared 2015, with growth in all products. Excluding the exchange rate impact, Global Transaction Banking increased 13% against a backdrop of containment of spreads and low interest rates, Financing Solutions and Advisory 1%, reflecting the soundness of the various businesses, and Global Markets 21% (good performance in Europe and particularly the Americas).

Administrative expenses and depreciation and amortisation decreased by €107 million or 5% due to the efficiency plans implemented, particularly in Spain and the United States and Impairment on financial assets decreased by €28 million or 4% (flat excluding the exchange rate impact).

Global Corporate Banking has three major areas:

- **Global Transaction Banking** (which includes cash management, trade finance and basic financing and custody),
- **Financing Solutions and Advisory** (which includes the units that originate and distribute corporate loans or structured financing, the teams that originate bonds and securitisation, the corporate finance units (mergers and acquisitions, primary equity markets, investment solutions for corporate clients via derivatives), as well as asset and capital structuring) and
- **Global Markets** (which include the sale and distribution of fixed income and equity derivatives, interest rates and inflation, the trading and hedging of exchange rates, short-term money markets for the Group's corporate and retail clients, management of books associated with distribution, brokerage of equities, and derivatives for investment and hedging solutions).

The main lines of action were:

- Progress in changing the Group's model toward a business lighter in capital, with the creation of an area solely dedicated to optimization of assets and capital in order to strengthen the division's distribution capacity.
- Creation of an innovation area to drive new solutions and meet the challenge of new non-banking players. The Group is involved in various blockchain technology projects to position it in the financial sector's transformations that this technology could introduce. In GTB receivables, big-data is used for risk scoring of companies based on information sources available in the market.
- Strengthening the Group's leadership position in Latin America, where the Group is the leader in export finance, debt capital markets (DCM), equity capital markets (ECM), mergers and acquisitions (M&A) and project finance.
- Progress in facilitating the international connectivity of retail and commercial banking customers.

#### ***Real Estate Operations in Spain***

See above under “*First level (or geographic)—Continental Europe—Real Estate Operations in Spain.*”

#### ***Corporate Centre***

The Corporate Centre had Losses attributable to the Bank of €1,856 million in 2016, as compared to losses of €2,093 million in 2015.

Total income was lower due to decreased gains on centralized management of certain risks (primarily exchange rate risk and interest rate risk). Administrative expenses and depreciation and amortisation decreased by 33%, due to the restructuring carried out in the second quarter of the year and the ongoing corporate simplification process launched in 2015. At the end of 2016 this area had 1,724 employees.

The Group subsidiaries' 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 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 the Group to be among the most efficient in the sector.
- By sharing best commercial practices, launching global commercial initiatives and driving digitalization, the Corporate Centre contributes to the Group's revenue growth.

It also develops functions related to financial management and capital.

The financial management functions are: (i) 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; (ii) interest rate risk is also actively managed in order 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; and (iii) strategic management of the exposure to exchange rates.

Lastly, and marginally, the Corporate Centre reflects the stakes of a financial nature that the Group makes under its policy of optimizing investments.

#### **6.1.2 *An indication of any significant new products and/or activities***

##### *Policies*

As a result of the transformation of the compliance function into its new target operating model ("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 Bank.

- 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.

## **6.2 Principal markets**

The 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, SCUSA, Banco Santander Puerto Rico, BSI'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 segments 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.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of total income.

## **6.3 The basis for any statements made by the Issuer regarding its competitive position**

Not applicable.

## 7 Organisational Structure

Banco Santander is the parent company of the Group which was comprised at 31 December 2016 of 715 companies that consolidate by the global integration method. In addition, there were 183 companies that were accounted for by the equity method.

The Issuer is not dependent upon any other entity within the Group.

## 8 Trend Information

### 8.1 Include a statement that there has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements. In the event that the Issuer is unable to make such a statement, provide details of this material adverse change

There has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole since 31 December 2016 (being the date of the most recently published audited financial statements).

### 8.2 Information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for at least the current financial year

The global financial services sector is likely to remain competitive with a large number of financial service providers and alternative distribution channels. Additionally, consolidation in the sector (through mergers, acquisitions or alliances) is likely to occur as other major banks look to increase their market share, combine complementary businesses or strengthen their balance sheets. In addition, regulatory changes will take place in the future that the Group expects will increase the overall level of regulation in the markets.

The following are the most important trends, uncertainties and events that are reasonably likely to have a material adverse effect on the Group or that would cause the disclosed financial information not to be indicative of its future operating results or the Group's financial condition:

#### *Economic and Industry Conditions*

- general economic or industry conditions in Spain, the UK, other European countries, the U.S., Brazil, other Latin American countries and the other areas in which the Group's has significant business activities or investments;
- exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk and equity price risk;
- a worsening of the economic environment in Spain, the UK, other European countries, Brazil, other Latin American countries, and the U.S., and an increase of the volatility in the capital markets;
- the effects of a continued decline in real estate prices, particularly in Spain and the UK;
- monetary and interest rate policies of the ECB and various central banks;
- inflation or deflation;
- the effects of non-linear market behaviour that cannot be captured by linear statistical models, such as the VaR model the Group uses;
- changes in competition and pricing environments;
- the inability to hedge some risks economically;
- the adequacy of loss reserves;
- acquisitions or restructurings of businesses that may not perform in accordance with the Group's expectations;

- changes in demographics, consumer spending, investment or saving habits;
- potential losses associated with prepayment of the Group's loan and investment portfolio, declines in the value of collateral securing its loan portfolio, and counterparty risk; and
- changes in competition and pricing environments as a result of the progressive adoption of the internet for conducting financial services and/or other factors;

***Political and Governmental Factors***

- political stability in Spain, the UK, other European countries, Latin America and the U.S.;
- changes in Spanish, UK, EU, Latin American, U.S. or other jurisdictions' laws, regulations or taxes, including changes in regulatory capital and liquidity requirements; and
- increased regulation in light of the global financial crisis;

***Transaction and Commercial Factors***

- damage to the Group's reputation;
- the Group's ability to integrate successfully its acquisitions and the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters while the Group integrates these acquisitions; and
- outcome of the Group's negotiations with business partners and governments; and

***Operating Factors***

- potential losses associated with an increase in the level of non-performance by counterparties to other types of financial instruments;
- technical difficulties and/or failure to improve or upgrade the Group's information technology;
- changes in the Group's ability to access liquidity and funding on acceptable terms, including as a result of changes in its credit spreads or a downgrade in its credit ratings or those of the Group's more significant subsidiaries;
- the Group's exposure to operational losses (for example, failed internal or external processes, people and systems);
- changes in the Group's ability to recruit, retain and develop appropriate senior management and skilled personnel;
- the occurrence of force majeure, such as natural disasters, that impact the Group's operations or impair the asset quality of the Group's loan portfolio; and
- the impact of changes in the composition of the Group's balance sheet on future net interest income.

**9 Profit Forecasts or Estimates**

Not applicable. The Issuer has not included a profit forecast or profit estimate in this Base Prospectus.

**10 Administrative, Management and Supervisory Bodies**

**10.1 Names, business addresses and functions in the Issuer of the following persons, and an indication of the principal activities performed by them outside the Issuer where these are significant with respect to the Issuer:**

- (a) members of the administrative, management or supervisory bodies;
- (b) partners with unlimited liability, in the case of a limited partnership with a share capital

The bylaws of the Issuer (Article 41) provide that the maximum number of directors is 22 and the minimum number 14.

The board of directors of the Issuer is presently made up of 15 directors.

The following table displays the composition, position and structure of the board of directors and its committees.

For this sole purpose, the business address of each of the persons listed below is: Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid.

<i>Board of directors</i>	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk supervision, regulation and compliance committee	International committee	Innovation and technology committee	Executive	Non-executive	Date of first appointment	Date of re-election
Executive chairman Ms. Ana Botín-Sanz de Sautuola y O'Shea	C					C	C			04.02.1989	10.06.1991 09.05.1994 12.05.1997 06.03.1999 04.03.2000 21.06.2003 17.06.2006 17.06.2011 28.03.2014
Chief executive officer Mr. José Antonio Álvarez										25.11.2014	-
Vice-chairman Mr. Bruce Carnegie-Brown			C	C	C				I	25.11.2014	18.03.2016
Vice-chairman Mr. Rodrigo Echenique Gordillo										07.10.1988	30.06.1989 08.06.1992 08.05.1995 23.06.1998 06.03.1999 04.03.2000 21.06.2003 17.06.2006 17.06.2011 28.03.2014
Vice-chairman Mr. Matías Rodríguez Inciarte										07.10.1988	30.06.1989 08.06.1992 08.05.1995 23.06.1998 06.03.1999 04.03.2000 21.06.2003 18.06.2005 19.06.2009 30.03.2012 27.03.2015

Vice-chairman Mr. Guillermo de la Dehesa Romero									E	24.06.2002	18.06.2005 19.06.2009 22.03.2013 27.03.2015
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**Members:**

Ms. Homaira Akbari									I	27.09.2016	-
Mr. Ignacio Benjumea Cabeza de Vaca									E	30.06.2015	-
Mr. Javier Botín-Sanz de Sautuola y O'Shea <sup>(1)</sup>									P	25.07.2004	18.06.2005 11.06.2010 22.03.2013 18.03.2016
Ms. Sol Daurella Comadrán <sup>(2)</sup>									I	25.11.2014	18.03.2016
Mr. Carlos Fernández González									I	25.11.2014	27.03.2015
Ms. Esther Giménez-Salinas i Colomer									I	30.03.2012	28.03.2014
Ms. Belén Romana García		C							I	22.12.2015	-
Ms. Isabel Tocino Biscarolasaga									I	26.03.2007	11.06.2010 22.03.2013 18.03.2016
Mr. Juan Miguel Villar Mir <sup>(2)</sup>									I	07.05.2013	27.03.2015

**General secretary and secretary of the board:**

Mr. Jaime Pérez Renovales <sup>(3)</sup>										01.09.2015	-
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**C: Chairman of the committee P: Proprietary I: Independent E: External, neither proprietary nor independent**

Notes:

- (1) Non-executive proprietary director. See detailed information in sections C.1.3 and H of the 2016 annual corporate governance report.
- (2) The Santander Group holds risk positions with companies in which the independent director is or has been significant shareholder or director, through various instruments, such as syndicated loans, long-term bilateral loans, bilateral loans for the financing of working capital, leases or guarantee lines.

In the assessment of this director's 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 the Santander Group for the benefit of companies where he/she is or was significant shareholder or director and with support concluded that such financing did not constitute a significant business relationship (as defined in Article 529.duodecies.4.e) of the Spanish Companies Law) for the purpose of this director's classification as independent. Specifically, among the reasons considered by the appointments committee and the board there was that 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, that the business relationship of said companies with Santander Group was in line with the market share of the Santander Group in the relevant market (which implies that such business relationships are those which would be ordinarily expected for an entity with one of the leaders of the markets in which such entity operates) and that certain established materiality levels were not triggered (e.g. the 2% and 5% of income relative to gross revenues figures set as independence materiality thresholds by the applicable NYSE and Nasdaq regulations; or the indebtedness in excess of 25% of assets figure that is defined as "significant borrowing" under Canada's Bank Act in order to preclude independence). Spanish regulations do not provide for any specific materiality tests. In addition, the independence status of the director has been confirmed by the relevant supervisory authorities.

At its meeting of 12 February 2016, the board adopted a proposal put forward by the appointments committee 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 as they satisfy the requirements of Article 529 duodecies.4 of the Spanish Companies Law.

- (3) Not director.

**Principal Activities Outside the Issuer**

The current directors of the Issuer at the date hereof carry out among others the following functions in other companies:

Name or corporate name of director	Name of company	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	The Coca-Cola Company	Non-executive director
Mr. Bruce Carnegie-Brown	Moneysupermarket.com Group PLC	Non-executive chairman
	Jardine Lloyd Thompson Group PLC	Non-executive director
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	Non-executive director



Name or corporate name of director	Name of company	Position
Mr. Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	Non-executive vice chairman
Mr. Rodrigo Echenique Gordillo	Inditex, S.A.	Non-executive director
Ms. Homaira Akbari	Veolia Environment, S.A.	Non-executive director
	Landstar System, Inc.	Non-executive director
	Gemalto N.V.	Non-executive director
Ms. Sol Daurella Comadrán	Coca-Cola European Partners, plc	Non-executive chairman
Mr. Carlos Fernández González	Inmobiliaria Colonial, S.A.	Non-executive director
	AmRest Holdings SE	Supervision committee member
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	Non-executive director
	Enagás, S.A.	Non-executive director
	Naturhouse Health, S.A.	Non-executive director
Mr. Juan Miguel Villar Mir	Abertis Infraestructuras, S.A.	Representative of Grupo Villar Mir S.A.U. (proprietary vice chairman) <sup>(1)</sup>
Ms. Belén Romana García	Aviva plc	Non-executive director

Notes:

(1) Resigned as director with effect from 31 January 2017

## 10.2 Administrative, management, and supervisory bodies conflicts of interests

There are no potential conflicts of interests between any duties owed to the Issuer by the directors and their private interests and/or other duties.

With regard to situations of conflict of interest, as stipulated in Article 30 of the regulations of the board (the “**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 may be involved. If the conflict arises from a transaction, the director shall not be allowed to conduct it unless the board, following a report from the appointments committee, approves such transaction.

The director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers, and the body responsible for resolving conflicts of interest is the board of directors itself.

In 2016, there were 95 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees.

The breakdown of the 95 cases is as follows: on 28 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and to appoint members of board committees or other committees at Group or related companies; on 51 occasions the matter under consideration related to remuneration or granting loans or credits; on nine occasions the matter concerned the discussion of financing or investment proposals or other risk transactions in favour of companies related to any director; on five occasions the abstention concerned the annual verification of the status of directors carried out by the appointments committee, pursuant to Article 6.3 of the Regulations of the Board; and on two occasions the abstention concerned the approval of a related-party transaction.

## 11 Board Practices

### 11.1 Details relating to the Issuer’s audit committee, including the names of committee members and a summary of the terms of reference under which the committee operates

The audit committee was created primarily in order to evaluate the systems in place for information control and accounts oversight, to safeguard the independence of the financial auditor and to review the control and compliance systems of the Issuer and the Group whilst reporting to the board of directors on its conduct and findings of these matters.

The committee is composed of no less than three and no more than seven members. As of the date of this Base Prospectus there are four members: Mr. Carlos Fernández González, Ms. Isabel Tocino

Biscarolasaga, Mr. Juan Miguel Villar Mir, and its chairman Ms. Belén Romana García; the secretary (not a member) is Mr. Jaime Pérez Renovales. Members of the audit committee are selected by the board with reference to their knowledge, aptitude and experience in accounting, auditing and risk management matters. All the current members of the audit committee are external and independent. The audit committee must be chaired by an independent member of the board who must have knowledge and experience in accounting, auditing and risk management. Since 26 April 2016, the audit committee is chaired by Ms. Belén Romana García, while Mr. Juan Miguel Villar-Mir, the previous chairman, remains as a member of such committee.

**11.2 A statement as to whether or not the Issuer complies with its country of incorporation's corporate governance regime(s). In the event that the Issuer does not comply with such a regime a statement to that effect must be included together with an explanation regarding why the Issuer does not comply with such regime**

Banco Santander complies with the Spanish corporate governance regime. The Issuer has included in its 2016 annual corporate governance report, which can be found on the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)), a detailed explanation of its compliance with the various recommendations on corporate governance.

## **12 Major Shareholders**

**12.1 To the extent known to the Issuer, state whether the Issuer is directly or indirectly owned or controlled and by whom, and describe the nature of such control, and describe the measures in place to ensure that such control is not abused**

As of 31 December 2016, 1.20% of the Bank's share capital was held by members of the board of directors.

The Bank is not aware of any person which exerts or may exert control over the Bank within the terms of Article 5 of the consolidated text of the Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (*texto refundido de la Ley de Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) as amended (the "Spanish Securities Market Law").

**12.2 A description of any arrangements, known to the Issuer, the operation of which may at a subsequent date result in a change in control of the Issuer**

Banco Santander is not aware of any arrangements, the operation of which may, at a date subsequent to that of the date hereof, result in a change in control of the Issuer.

## **13 Financial Information Concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses**

**13.1 Historical financial information**

See "*Documents Incorporated by Reference—Issuer Annual Financial Information and Form 20-F*".

**13.2 Financial statements**

The Issuer prepares audited non-consolidated under Spanish Generally Accepted Accounting Principles (GAAP) and consolidated annual financial statements under the IFRS-EU. The English translations of the audited consolidated annual financial statements for the years ended 31 December 2016 and 2015 are incorporated by reference under paragraph 1 of "*Documents Incorporated by Reference*".

### **13.3 Auditing of historical annual financial information**

**13.3.1 *A statement that the historical financial information has been audited. If audit reports on the historical financial information have been refused by the statutory auditors or if they contain qualifications or disclaimers, such refusal or such qualifications or disclaimers must be reproduced in full and the reasons given***

The non-consolidated and consolidated annual financial statements of the Issuer for the 2015 financial year were audited by the independent audit firm Deloitte, S.L. There are no qualifications of the auditors in relation to the non-consolidated and consolidated annual financial statements of the Issuer for the 2015 financial year.

The non-consolidated and consolidated annual financial statements of the Issuer for the 2016 financial year were audited by the independent audit firm PricewaterhouseCoopers Auditores, S.L. There are no qualifications of the auditors in relation to the non-consolidated and consolidated annual financial statements of the Issuer for the 2016 financial year.

The audited non-consolidated and consolidated financial statements of the Issuer for each of the years ended 31 December 2016 and 31 December 2015 have been filed with the CNMV.

**13.3.2 *An indication of other information in this Base Prospectus which has been audited by the auditors***

No other information relating to the Issuer included in this Base Prospectus has been audited by Deloitte, S.L. or PricewaterhouseCoopers Auditores, S.L.

**13.3.3 *Where financial data in this Base Prospectus is not extracted from the Issuer's audited financial statements state the source of the data and state that the data is unaudited***

Save for the information deriving from the balance sheet and income statements of the Group, the geographical segments (first level) (comprising Continental Europe, United Kingdom, Latin America and United States) and the business segments (secondary level) and the information on the NPL ratios and coverage ratios, which have been obtained from the notes of the audited consolidated financial statements of the Issuer for the years ended 31 December 2015 and 2016, the information contained in sections 6.1 ("*Business Overview*") and 19 ("*Alternative Performance Measures*") of "*Description of the Issuer*" is not audited and was obtained from the internal accounting records or from the management financial information of the Issuer.

In addition, the balance sheet and income statement of the Group for the year ended 31 December 2015 contained in section B.12 of "*Summary*" and section 3 ("*Key Financial Information*") of "*Description of the Issuer*" are not audited as they are not the audited consolidated balance sheet and income statement of the Group for the year ended 31 December 2015. The balance sheet and income statement included in such sections have been prepared in accordance with the Circular 5/2015, of 28 October, of the CNMV and on the basis of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015, have been extracted from the audited consolidated financial statements of the Issuer for the year ended 31 December 2016 and are shown in this Base Prospectus for comparison purposes with the audited consolidated financial information for the year ended 31 December 2016. See Note 1.d of the audited consolidated financial statements of the Issuer for the year ended 31 December 2016 for further information.

### **13.4 Age of latest financial information**

**13.4.1 *The last year of audited financial information may not be older than 18 months from the date of this Base Prospectus.***

The date of the most recent annual consolidated audited financial information of the Issuer is 31 December 2016.

### **13.5 Interim and other financial information**

Not applicable.

### 13.6 Legal and arbitration proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Banco Santander is aware) which may have, or have had in the previous twelve months, significant effects on the Issuer and/or the Group's financial position or profitability.

The following is a summary of certain legal proceedings affecting the Group. Banco Santander believes that it has made adequate reserves related to the costs anticipated to be incurred in connection with these and other legal proceedings and believes that liabilities related to such proceedings should not have a significant effect on the Issuer and/or the Group's financial position or profitability.

Banco Santander's general policy is to record provisions for tax and legal proceedings in which it assesses the chances of loss to be probable and it does not record provisions when the chances of loss are possible or remote. The Issuer determines, on a case by case basis, amounts to be provided as its best estimate of the expenditure required to settle the corresponding claim based, among others, based on the analysis and legal opinion of internal and external counsel or by considering the historical average amount of loss of such category of lawsuits.

*Wherever possible the proceedings listed below are quantified. However, in view of the inherent difficulty of predicting the outcome of contentious matters the Bank is unable sometimes to quantify the potential loss or practical consequences if a judgment were ordered against it and accordingly no specific amount is attributed to such claims.*

#### **Tax-related proceedings**

As of the date of this Base Prospectus, the main tax-related proceedings concerning the Group are as follows:

- Legal actions filed by Santander Brazil 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 11727/2008, 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 Santander Brazil) and other Group entities claiming their right to pay the Brazilian Programa de Integração Social ("PIS") and Contribuição para o Financiamento da Seguridade Social ("COFINS") social contributions only on the income from the provision of services. In the case of Santander Brazil, 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 Santander Brazil, 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 declaração") 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 Santander Brazil), 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. Santander Brazil filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a program of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the program and withdrew the legal actions brought by them were exempted from paying late-payment interest. In November 2013 Santander Brazil partially availed itself of this program 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.

- Santander Brazil 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, as defined below) 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.
- Santander Brazil 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, Santander Brazil 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. A provision was recognised in connection with the amount of the estimated loss.
- In December 2008 the Brazilian tax authorities issued an infringement notice against Santander Brazil in relation to income tax Imposto de Renda de Pessoa Jurídica (“**IRPJ**”) and Contribuição Social sobre o Lucro Líquido das Pessoas Jurídicas (“**CSLL**”) for 2002 to 2004. The tax authorities took the view that Santander Brazil did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Santander Brazil). Santander Brazil 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. Santander Brazil 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. Santander Brazil 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 Mobiliários Ltda. (“**DTVM**”) (currently Produban Serviços de Informática S.A.) and Santander Brazil 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 Santander Brazil 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 Santander Brazil an unfavourable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavourable decisions were obtained by Santander Brazil 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), Santander Brazil 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 Santander Brazil 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, Santander Brazil 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 Santander Brazil, 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 Santander Brazil 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 Santander Brazil 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 Santander Brazil, but accepting the amortisation performed after the merger. On the advice of its external legal counsel, Santander Brazil lodged an appeal against this decision at the Federal Tax Office and obtained a favourable decision in July 2015. Such decision was appealed by the Brazilian tax authorities before the CARF who in their favour. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.
- Santander Brazil 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 SHUSA) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 in connection with a Trust created by SHUSA in relation to financing transactions carried out with an international bank. SHUSA considered that, in accordance with applicable tax legislation, it was 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 were to be favourable to the interests of SHUSA, the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. On 13 November 2015, the District Court Judge found in favour of SHUSA, ordering the amounts paid over with respect to 2003 to 2005 to be refunded. The U.S. Government appealed the decision at the U.S. Court of Appeals for the First Circuit and on 16 December 2016 said Court reversed the District Court’s decision as to the economic substance of the Trust transaction and the foreign tax credits claimed for the Trust transaction, and remanded to the District Court for judgment on the refund claim and for a trial limited to the penalties issue. SHUSA is currently considering options available. The estimated loss relating to this litigation was provided for.
- In 2007 the European Commission opened an investigation to the Kingdom of Spain into State aids in connection with Article 12.5 of the preceding Revised Text of the Corporate Tax Law. The Commission adopted, in that regard, the Decision 2011/5/CE of 28 of October 2009, about the acquisition in the 2011/282/UE of 12 January 2011, operations of non-UE investees, ruling that the deduction pursuant to Article 12.5 constituted an illegal State aid. These decisions were subject to appeal by Banco Santander and other companies before the EU General Court. In November 2014, the General Court delivered judgement overriding such decisions, being this judgement subject to cassation appeal before the European Court of Justice by the Commission. In December 2016 the European Court of Justice has delivered judgement upholding the cassation

appeal and commanding the return of the file to the General Court, who shall deliver a new judgement assessing the other annulment pleas raised by the petitioners, which, likewise will be subject to an appeal in cassation before the Court of Justice. The Group, in accordance with the advice from its external lawyers, has not recognised provisions for these litigations since they are considered to be a contingent liability.

As of the date of this Base Prospectus certain other less significant tax-related proceedings were also in progress.

#### ***Non tax-related proceedings***

As of 31 December 2016, 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.

In August 2010, the UK Financial Services Authority (FSA) (now the Financial Conduct Authority (“FCA”)) published a Policy Statement on the valuation and compensation of claims for PPI. The policy established rules that changed the bases for the analysis and treatment of the claims for PPI sales and increased the amounts to be paid to customers whose claims were ratified.

On 2 August 2016, the FCA issued a new consultative document (CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation). The document describes the FCA’s proposal to address the PPI claims following the UK Supreme Court’s ruling on the Plevin v. Paragon Personal Finance Ltd case (Plevin) and includes the recommendation that the period for filing claims should be extended by two years from June 2017, which is later than proposed in CP 15/39 issued by the FCA in November 2015. The document also includes proposals on the calculation of compensation in claims related to Plevin, including considerations on how the participation in benefits should be reflected in the calculation of commissions. These proposed changes may have an impact on the amounts expected to be paid in the future. The definitive policy was expected to be published in December 2016; however, the FCA has announced that the results of the consultation will be delayed until the first quarter of 2017 due to the comments received. In order to determine the amount of the provision, the principles set out in CP 16/20 have been applied to the current assumptions, including the potential impact on the provision in December 2016.

A provision for conduct remediation has been recognised in respect of the misspelling of PPI policies in the UK. This provision has been calculated using the following key assumptions which have required the management to use its judgement:

- number of claims - estimated number of claims;
- percentage of claims lost - estimated percentage of claims that are or will be favourable to the customer; and
- average cost - estimated amount to be paid to customers, including compensation for direct loss plus interest.

These assumptions are based on the following information:

- Full analysis of causes of the claims, probability of success, and the possibility of this probability varying in future;
- Activity recorded with regard to the number of claims received;
- Amount of compensation paid to customers, together with a forecast of the probability of this varying in future;
- The impact on complaints levels of proactive customer contact;
- The effect media coverage and time bar are expected to have on the complaints inflows.

These assumptions are kept under review and regularly compared to the customer information (claims received, percentage of successful claims, impact of changes in the percentage of successful claims and assessment of the customers potentially affected) to ensure their validity.

The most important factor in calculating the provision is the number of claims. The percentage of successful claims is relatively constant and the cost of claims can be predicted with reasonable certainty due to the high number of claims and the uniform characteristics of the customers affected. In calculating the provision, the total number of claims that could be received has been estimated. Experience indicates that claims may be received during a certain number of years.

#### *2016 compared to 2015*

An additional £114 million provision charge was made in the fourth quarter of 2016, which represents the best estimate of future PPI, including Plevin related claims costs. With the FCA consultation expected to close in the first quarter of 2017, the Group has assessed the adequacy of the Group's provision and applied the principles published in the August 2016 FCA consultation paper to the Group's current assumptions. The remaining provision for PPI redress and related costs amounted to £457 million, which includes a £30 million charge made in the third quarter of 2016 for a specific portfolio under a past business review and £114 million in the fourth quarter of 2016 mentioned above.

Monthly utilisation during the year, excluding the impact of past business review activity, was slightly higher than the 2015 average and in line with Group's assumptions. The Group will continue to review its provision levels in respect of recent claims experience and once the final FCA guidance is published.

#### *2015 compared to 2014*

When assessing the adequacy of the Group's provision, the Group has applied the November 2015 FCA consultation paper, including the Plevin case, to the Group's current assumptions. This application has resulted in an additional £450 million provision charge for the fourth quarter of 2015, which represents Group's best estimate of the remaining redress and costs. The additional provision is predicated on the probable two-year deadline by which customers would need to make their PPI complaints and the anticipated increase in claim volumes as a result of the finite claim period.

Monthly utilisation, excluding pro-active customer contact, during 2015 was £10 million per month (including related costs), against an average of £9 million in 2014. While the Group saw a reduction in PPI redress costs in the first half of the year, the Group has seen an increase in the third quarter in line with industry trends, with the fourth quarter remaining flat.

The following table shows the main factors to calculate the provisions and the future forecast as well as the sensitivity analysis in the face of future changes:

	<b>Accumulated at 31 December 2016</b>	<b>Future forecast (unaudited figures)</b>	<b>Sensitivity analysis: increases/decreases in provision</b>
Claims received (000) <sup>(1)</sup> .....	1.209	1.058	25 = £9m
Claims received for proactive contact (000)	394	15	25 = £19m
% Response to complaints received by proactive contact....	35%	90%	1% - £0,4m
% Of claims accepted by the Entity <sup>(2)</sup> .....	57%	69%	1% - £6m
<b>Average compensation by accepted claim .....</b>	<b>£1,692</b>	<b>£535</b>	<b>£100 = £73m</b>

#### *Notes:*

(1) It excludes those invalid claims where the claimant did not have a PPI policy.

(2) It includes both claims received directly from customers and those contacted proactively by the Entity.

- *Delforca 2008 litigation:* Dispute arising from equity swaps entered into by Delforca 2008, Sociedad de Valores, S.A. (formerly Gaesco Bolsa Sociedad de Valores, S.A.) ("**Delforca 2008**") on shares of Inmobiliaria Colonial. An initial arbitration ruled in favour of the Bank, but this ruling was annulled due to issues regarding the president of the tribunal and one of the items of evidence presented by Delforca 2008. Faced with a second arbitration initiated by the Bank, and after the latter had obtained a preventive attachment in its favour (currently waived), Delforca 2008 declared bankruptcy. Prior to this, Delforca 2008 and its parent, Mobiliaria Monesa, S.A., launched other lawsuits claiming damages due to the Bank's actions before civil courts in Madrid, later shelved, and in Santander, currently stayed on preliminary civil ruling grounds.



During the insolvency proceeding, Barcelona Commercial court no. 10 ordered the stay of the arbitration proceeding, the termination of the arbitration agreement, the lack of recognition of the contingent claim and a breach by the Bank, and dismissed the Bank's request to conclude the proceeding due to the non-existence of insolvency. Following the appeals filed by the Bank, the Barcelona Provincial Appellate Court revoked all these decisions, except that relating to the rejection of the conclusion of the proceeding, which gave rise to the resumption of the arbitration process. Delforca 2008 appealed against the decisions confirming the validity of the arbitration agreement and the recognition of the contingent claim in favour of the Bank. Furthermore, Delforca 2008 and its parent have requested from the judge of the insolvency case the repayment of the security deposit executed by the Bank to settle the swaps. This proceeding has been stayed on preliminary civil ruling grounds. The creditors' meeting has been postponed until the Bank's claim is upheld or dismissed, against which Delforca 2008 has lodged an appeal. The Bank has not recognised any provisions in this connection.

- *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 and, subsequently, at the Federal Supreme Court. The High Employment Court confirmed the judgment against the bank, whereas the Federal Supreme Court 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 Federal Supreme Court in plenary session. The Federal Supreme Court recently handed down a decision on a matter relating to a third party that upholds one of the main arguments put forward by the Bank. The Bank has not recognised any provision in this connection.
- *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 set the limitation period for these class actions at five years, as claimed by the banks, rather than twenty 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 High Court of Justice and the Federal Supreme Court with which the matter is expected to be definitively settled. In August 2010, the High Court of Justice 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 Federal Supreme Court issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter. Various appeals for the Federal Supreme Court are currently being considered in which various matters relating to this case are discussed.
- *Banco Occidental de Descuento litigation*: 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. ("**Banco Occidental de Descuento**") against the Bank for US\$150 million in principal plus US\$4.7 million in interests, 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 filed by Banco Occidental de Descuento, 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 filed an appeal to the Constitutional Court. The Bank has not recognised any provisions in this connection.

- *Lehman Group litigation:* 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.

As of 31 December 2016, 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.

- *Madoff Securities:* The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC by the SEC took place in December 2008. The exposure of customers of the Group through the Optimal Strategic U.S. Equity ("**Optimal Strategic**") subfund was €2,330 million, of which €2,010 million related to institutional investors and international private banking customers, and the remaining €320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors.

As of 31 December 2016, 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.

- *Swaps by Santander Totta:* 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 entered into between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

The swaps under debate included swaps entered into by Santander Totta 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 entered into prior to 2008, that is before the start of the financial crisis, and had been executed without incident.

In view of this situation, Santander Totta 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 Santander Totta 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. Santander Totta 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 4 March 2016, the Court handed down a judgment in which it upheld all the matters raised by the Bank and declared all the swap agreements to be valid and binding. The transport companies appealed against this decision. The Appellate Court dismissed the appeal through a decision handed down on 13 December 2016, in which it stated that a cassation appeal cannot be filed

against this decision. The transport companies have filed an appeal against this decision at the Supreme Court.

Santander Totta and its legal advisers consider that the entity acted at all times in accordance with applicable legislation and under the terms of the swaps. As a result, the Group has not recognised any provisions in this connection.

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 2016, 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.

### **13.7 Significant change in the Issuer's financial or trading position**

There has been no significant change in the financial or trading position of the Santander Group since 31 December 2016 (being the date of the most recently published audited financial information of the Issuer).

## **14 Additional Information**

### **14.1 Share capital**

**14.1.1** *The amount of the issued capital, the number and classes of the shares of which it is composed with details of their principal characteristics, the part of the issued capital still to be paid up, with an indication of the number, or total nominal value, and the type of the shares not yet fully paid up, broken down where applicable according to the extent to which they have been paid up*

As of the date of this Base Prospectus, the Issuer has a total share capital which is fully issued and paid up of €7,291,170,350.50 divided into 14,582,340,701 shares with a nominal value of €0.50. All shares are of the same class and issue with the same rights attached.

### **14.2 Memorandum and articles of association.**

**14.2.1** *The register and the entry number therein, if applicable, and a description of the Issuer's objects and purposes and where they can be found in the memorandum and articles of association*

The Issuer's corporate purpose is:

- (i) the conduct of activities and operations and the provision of services of any kind which are typical of the banking business in general and which are permitted under current law; and
- (ii) the acquisition, possession, enjoyment and dispositions of all types of securities, as set out at Article 2 of the bylaws of the Issuer.

## **15 Material Contracts**

At the date of this Base Prospectus, no contracts had been entered into that were not in the ordinary course of business of the Issuer and which could result in any member of the Santander Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Holders.

## 16 Third-Party Information and Statement by Experts and Declarations of any Interest

- 16.1** Where a statement or report attributed to a person as an expert is included in this Base Prospectus, provide such person's name, business address, qualifications and material interest if any in the Issuer. If the report has been produced at the Issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part of this Base Prospectus

Not applicable.

- 16.2** Where information has been sourced from a third-party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third-party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, the issuer shall identify the source(s) of the information

Not applicable.

## 17 Documents on Display

For so long as any of the Instruments are outstanding, the following documents may be inspected free of charge by physical or electronic means at the registered office of the Issuer, at the offices of each of the Issue and Paying Agent and of the Paying Agents specified at the end of this Base Prospectus:

- (i) the bylaws (*estatutos*) of the Issuer; and
- (ii) the information incorporated by reference herein under "*Documents Incorporated by Reference*".

The documents listed in (i) and (ii) above shall be published on electronic form (pdf copies) on the website of Banco Santander ([www.bancosantander.com](http://www.bancosantander.com)). Each of the Final Terms shall be published on electronic form (pdf copies) on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)).

## 18 Credit Ratings

In accordance with the last available public information, the Issuer has been rated by the rating agencies as follows:

Rating Agency	Short	Long	Perspective
Fitch Ratings <sup>(1)</sup>	F2	A-	Stable
Moody's <sup>(2)</sup>	P-2	A3	Stable
Standard & Poor's <sup>(3)</sup>	A-2	A-	Positive
DBRS <sup>(4)</sup>	R-1 (Low)	A	Stable
Scope Ratings <sup>(5)</sup>	S-1	A+	Stable
GBB-Rating <sup>(6)</sup>		DD-	Stable

The Instruments to be issued under the Programme are expected to be rated by the rating agencies as follows:

Rating Agency	Short-term Ordinary Senior Instruments	Long-term Ordinary Senior Instruments	Second Ranking Senior Instruments	Subordinated Instruments
Fitch Ratings <sup>(1)</sup>	F2	A-	A-	BBB+
Moody's <sup>(2)</sup>	P-2	A3	Baa2	Baa2
Standard & Poor's <sup>(3)</sup>	A-2	A-	BBB+	BBB

Notes:

- (1) Fitch Ratings España, S.A.U.

- (2) Moody's Investor Service España, S.A.
- (3) Standard & Poor's Credit Market Services Europe Limited.
- (4) DBRS Ratings Limited.
- (5) Scope Ratings GmbH
- (6) GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH.

Tranches of Instruments may be rated or unrated and, if rated, such ratings will be specified in the relevant Final Terms and such rating will not necessarily be the same as the rating assigned to the Issuer, the Programme or the Instruments already issued under the Programme. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the relevant Final Terms.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

## **19 Alternative Performance Measures**

The Issuer considers the following metrics to constitute Alternative Performance Measures as defined in the ESMA Guidelines introduced on 3 July 2016 (ESMA Guidelines) on Alternative Performance Measures, that are not required by, or presented in accordance with, IFRS-EU.

The Issuer considers that these metrics provide useful information for investors, securities analysts and other interested parties in order to better understand the Group's business, financial position, profitability, results of operations, the quality of its loan portfolio, the amount of equity per share and their progression over time.

Such measures should, however, not be considered as a substitute to profit or loss attributable to the Group or any other performance measures derived in accordance with IFRS-EU or as an alternative to cash flow from operating, investing and financing activities as a measure of the Group's liquidity.

Other companies in the industry may calculate similarly titled measures differently, such that disclosure of similarly titled measures by other companies may not be comparable with that of the Issuer and the Group. Investors are advised to review these alternative performance measures in conjunction with the Group's audited consolidated financial statements and accompanying notes which are incorporated by reference in this Prospectus.

Terms relating to profitability and return on investment measure the ratio of results on capital, assets and risk-weighted assets in accordance with the definitions set out in the table below. The efficiency ratio makes it possible to measure the amount of general administrative expenses (personnel and others) and amortisation expenses necessary to generate income.

Terms relating to the non-performance of loans measure the quality of the loan portfolio and the percentage of the non-performing portfolio that is covered by provisions for defaults, in accordance with the definitions set out in the table below.

**Profitability and efficiency**

RoE	Return on average equity: result attributed to the Group / average net assets Average net assets defined as average of equity + reserves + retained profit + valuation adjustments (excluding minority interests)
RoTE	Return on tangible equity: result attributed to the Group (average equity + reserves + retained profit + valuation adjustments (excluding minority interests) – goodwill – intangible assets)
RoA	Return on average total assets: consolidated profit / average total assets
RoRWA	Return on risk-weighted assets: consolidated profit / average of risk-weighted assets
Efficiency (including depreciation)	Operating costs / gross margin Operating costs defined as general administrative costs + depreciation

**Credit risk**

NPL ratio	Non-performing loans and advances to customers and contingent liabilities (excluding country risk) / loans and receivables Loans and receivables defined as total loans and advances to customers and contingent liabilities excluding country risk
Coverage ratio	Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk) / Non-performing loans and advances to customers and contingent liabilities (excluding country risk)
Cost of loans and receivables	Total allocations to provisions for impairment of loans and receivables in the last 12 months / Average of loans and receivables

**Capitalisation**

Shareholders' equity per share (euro)	Shareholders' equity / number of shares (deducting own shares) Shareholders' equity calculated as the total own funds + valuation adjustments (excluding minority interests)
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*Notes:*

- The averages included in the denominators of the RoE, RoTE, RoA and RoRWA are calculated taking 13 months from December to the preceding December in the case of data to December
- The average that is included in the denominator of the cost of loans and receivables is calculated taking the last 12 months
- The risk-weighted assets included in the denominator of the RoRWA are calculated according to the criteria defined in the CRR
- Terms relating to capitalisation measure information on the amount of equity per share, in accordance with the definition set out in the table below.

**Reconciliation of Alternative Performance Measures** (in millions of euros, except for percentages):

	2016	2015
<b>Profitability and efficiency</b>		
<b>RoE</b> .....	<b>7.0%</b>	<b>6.6%</b>
Profit attributed to the Group .....	6,204	5,966
Average net assets .....	88,741	90,220
<b>RoTE</b> .....	<b>10.4%</b>	<b>10.0%</b>
Profit attributed to the Group .....	6,204	5,966
(Average of equity + reserves + retained profit + valuation adjustments (excluding minority interests) – goodwill – intangible assets) .....	59,769	59,734
<b>RoA</b> .....	<b>0.6%</b>	<b>0.5%</b>
Consolidated profit .....	7,486	7,334
Average total assets .....	1,337,661	1,345,657
<b>RoRWA</b> .....	<b>1.3%</b>	<b>1.2%</b>
Consolidated profit .....	7,486	7,334
Average of risk-weighted assets .....	580,415	603,000
<b>Efficiency (including depreciation)</b> .....	<b>48%</b>	<b>47%</b>
Operating costs .....	21,101	21,720
General administrative costs .....	18,737	19,302
Depreciation .....	2,364	2,418
Gross margin .....	44,232	45,895
<b>Credit risk</b>	<b>2016</b>	<b>2015</b>
<b>NPL ratio</b> .....	<b>3.9%</b>	<b>4.4%</b>
Non-performing loans and advances to customers and contingent liabilities (excluding country risk) .....	33,643	37,094
Non-performing loans and advances to customers .....	32,573	36,133
Other non-performing loans and advances (mainly contingent risks) <sup>(1)</sup> .....	1,070	961
Loans and receivables (total loans and advances to customers and contingent liabilities excluding country risk) .....	855,510	850,909
Loans and advances to customers .....	814,863	817,365
Other (mainly contingent risks) <sup>(1)</sup> .....	40,647	33,544
<b>Coverage ratio</b> .....	<b>73.8%</b>	<b>73.1%</b>
Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk) .....	24,835	27,121
Provisions for loans and advances to customers .....	24,393	26,517
Other provisions (mainly for contingent risks) <sup>(1)</sup> .....	442	604
Non-performing loans and advances to customers and contingent liabilities (excluding country risk) .....	33,643	37,094
<b>Cost of loans and receivables</b> .....	<b>1.18%</b>	<b>1.25%</b>
Allocations to provisions for impairment of loans and receivables in last 12 months .....	9,518	10,108
Average of loans and receivables .....	806,595	806,284
<b>Capitalisation</b>	<b>2016</b>	<b>2015</b>
<b>Shareholders' equity per share (euro)</b> .....	<b>6.2</b>	<b>6.1</b>
Shareholders' equity .....	90,939	88,040
Own funds .....	105,977	102,402
Valuation adjustments (excluding minority interests) .....	-15,039	-14,362
Number of shares (deducting own shares) .....	14,582	14,434

Notes:

- (1) Under "Other" contingent risks that are considered as loans and receivables are included and country risk is deducted. These items do not directly reconcile with information published by the Group.

	2016			2015		
	%	Gross margin	Operating expenses	%	Gross margin	Operating expenses
<b>Efficiency</b>						
Continental Europe	53.0	12,806	6,781	52.5	12,830	6,736
United Kingdom	51.0	5,816	2,967	52.6	6,382	3,356
Latin America	41.0	18,764	7,692	42.1	18,757	7,906
United States	42.4	7,533	3,197	38.8	7,999	3,025

  

	2016			2015		
	%	Profit attributable to the Group	Average equity	%	Profit attributable to the Group	Average equity
<b>ROE</b>						
Continental Europe	7.93	2,599	32,765	7.13	2,218	31,113
United Kingdom	10.25	1,680	16,404	11.5	1,971	17,133
Latin America	15.02	3,386	22,541	14.7	3,193	21,714
United States	2.92	395	13,512	6.05	678	11,213

  

	2016			2015		
	%	NPLs and advances to customers and contingent liabilities (excluding country risk)	Calculable risk (total loans and advances to customers and contingent liabilities excluding country risk)	%	NPLs and advances to customers and contingent liabilities (excluding country risk)	Calculable risk (total loans and advances to customers and contingent liabilities excluding country risk)
<b>NPL ratio</b>						
<b>Continental Europe</b>	<b>5.92</b>	<b>19,638</b>	<b>331,706</b>	<b>7.27</b>	<b>23,355</b>	<b>321,395</b>
Spain	5.41	9,361	172,974	6.53	11,293	173,02
Santander Consumer Finance	2.68	2,357	88,061	3.42	2,625	76,688
Poland	5.42	1,187	21,902	6.3	1,319	20,951
Portugal	8.81	2,691	30,540	7.46	2,380	31,922
<b>United Kingdom</b>	<b>1.41</b>	<b>3,585</b>	<b>255,049</b>	<b>1.52</b>	<b>4,292</b>	<b>282,182</b>
<b>Latin America</b>	<b>4.81</b>	<b>8,333</b>	<b>173,150</b>	<b>4.96</b>	<b>7,512</b>	<b>151,302</b>
Brazil	5.90	5,286	89,572	5.98	4,319	72,173
Mexico	2.76	819	29,682	3.4	1,096	32,463
Chile	5.05	2,064	40,864	5.62	1,980	35,213
<b>United States</b>	<b>2.28</b>	<b>2,088</b>	<b>91,709</b>	<b>2.13</b>	<b>1,934</b>	<b>90,727</b>

  

	2016			2015		
	%	Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk)	NPLs and advances to customers and contingent liabilities (excluding country risk)	%	Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk)	NPLs and advances to customers and contingent liabilities (excluding country risk)
<b>Coverage ratio</b>						
<b>Continental Europe</b>	<b>60.0</b>	<b>11,781</b>	<b>19,638</b>	<b>64.17</b>	<b>14,987</b>	<b>23,355</b>
Spain	48.3	4,517	9,361	48.10	5,432	11,293
Santander Consumer Finance	109.1	2,573	2,357	109.10	2,864	2,625
Poland	61.0	724	1,187	63.97	844	1,319
Portugal	63.7	1,714	2,691	99.02	2,357	2,380
<b>United Kingdom</b>	<b>32.9</b>	<b>1,178</b>	<b>3,585</b>	<b>38.19</b>	<b>1,639</b>	<b>4,292</b>
<b>Latin America</b>	<b>87.3</b>	<b>7,276</b>	<b>8,333</b>	<b>79.00</b>	<b>5,932</b>	<b>7,512</b>
Brazil	93.1	4,921	5,286	83.73	3,616	4,319
Mexico	103.8	850	819	90.60	993	1,096
Chile	59.1	1,220	2,064	53.86	1,066	1,980
<b>United States</b>	<b>214.4</b>	<b>4,477</b>	<b>2,088</b>	<b>225.02</b>	<b>4,354</b>	<b>1,935</b>



## DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated by reference in and to form part of, this Base Prospectus and will be published on the website of Banco Santander (www.santander.com):

1. The audited annual consolidated financial statements of the Issuer prepared under IFRS-EU for the years ended 31 December 2016 and 31 December 2015

[http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D981%5C565%5CInforme\\_y\\_Cuentas\\_Consolidadas\\_ingles\\_web.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278735269125&ssbinary=true](http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D981%5C565%5CInforme_y_Cuentas_Consolidadas_ingles_web.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278735269125&ssbinary=true)

<http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D495%5C915%5CInforme+de+Auditoria+ENG+ACCE.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278727909574&ssbinary=true>

2. The audited annual consolidated financial statements of the Issuer in Form 20-F of the Issuer prepared under International Financial Reporting Standards as issued by the International Accounting Standard Board (IFRS-IASB) for the year ended 31 December 2015

<http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D863%5C410%5C135658A.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278721205279&ssbinary=true>

Any information not specified in the cross-reference tables set out below but which is included in the documents from which the information incorporated by reference has been derived, is for information purposes only and is not incorporated by reference because it is not relevant for the investor.

### ***Issuer Annual Financial Information and Form 20-F***

The tables below set out the relevant page references in the English language translations of the audit and financial statements reports of the Issuer for the years ended 31 December 2016 and 31 December 2015 (the “**2016 Financial Statements**” and the “**2015 Financial Statements**”, respectively) where the following information incorporated by reference in this Base Prospectus can be found:

<b>Information incorporated by reference in this Base Prospectus</b>	<b>2016 Financial Statements page reference<sup>(1)</sup></b>
1. Auditor’s report on consolidated financial statements for the year ended 31 December 2016.....	1-2 <sup>(2)</sup>
2. Audited consolidated balance sheets at 31 December 2016 and the comparative consolidated financial information of the Issuer at 31 December 2015 and 31 December 2014.....	BS 1-2 <sup>(3)</sup>
3. Audited consolidated income statements for the year ended 31 December 2016 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2015 and 31 December 2014.....	IC 1 <sup>(4)</sup>
4. Audited consolidated statements of recognised income and expense for the year ended 31 December 2016 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2015 and 31 December 2014.....	IE 1 <sup>(5)</sup>
5. Audited consolidated statements of changes in total equity for the year ended 31	CTE 1-3 <sup>(6)</sup>

<b>Information incorporated by reference in this Base Prospectus</b>	<b>2016 Financial Statements page reference<sup>(1)</sup></b>
December 2016 and the comparative for the years ended 31 December 2015 and 31 December 2014.....	
6. Audited consolidated cash flow statements for the year ended 31 December 2016 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2015 and 31 December 2014.....	CF 1 <sup>(7)</sup>
7. Notes to the consolidated financial statements for the year ended 31 December 2016 .....	N 1-294 <sup>(8)</sup>

*Notes:*

- (1) Not all the pages of the 2016 Financial Statements are paginated continuously. See Notes below for detailed indications on where the relevant sections incorporated by reference in this Base Prospectus are located.
- (2) Page references are to the page numbers of the auditor's report which precedes the 2016 Financial Statements, located immediately after the front cover page (the front cover page is not paginated).
- (3) "BS" corresponds to the section entitled "Consolidated Balance Sheets as of 31 December 2016, 2015 and 2014" of the 2016 Financial Statements located immediately after the auditor's report (see note (2) above) and the cover page entitled "Consolidated Financial Statements and Director's Report for the year ended 31 December 2016" and the page references are to the *number* of pages of such section as pages are not paginated.
- (4) "IC" corresponds to the section entitled "Consolidated Income Statements for the years ended 31 December 2016, 2015 and 2014" of the 2016 Financial Statements located immediately after the section entitled "Consolidated Balance Sheets as of 31 December 2016, 2015 and 2014" (see note (3) above) and page references are to the *number* of pages of such section as pages are not paginated.
- (5) "IE" corresponds to the section entitled "Consolidated statements of recognised income and expense for the years ended 31 December 2016, 2015 and 2014" of the 2016 Financial Statements located immediately after the section entitled "Consolidated Income Statements for the years ended 31 December 2016, 2015 and 2014" (see note (4) above) and page references are to the *number* of pages of such section as pages are not paginated.
- (6) "CTE" corresponds to the section entitled "Consolidated statements of changes in total equity for the years ended 31 December 2016, 2015 and 2014" of the 2016 Financial Statements located immediately after the section entitled "Consolidated statements of recognised income and expense for the years ended 31 December 2016, 2015 and 2014" (see note (5) above) and page references are to the *number* of pages of such section as pages are not paginated.
- (7) "CF" corresponds to the section entitled "Consolidated statements of cash flows for the years ended 31 December 2016, 2015 and 2014" of the 2016 Financial Statements located immediately after the section entitled "Consolidated statements of changes in total equity for the years ended 31 December 2016, 2015 and 2014" (see note (6) above) and page references are to the *number* of pages of such section as pages are not paginated.
- (8) "N" corresponds to the section entitled "Notes to the consolidated financial statements for the year ended 31 December 2016" of the 2016 Financial Statements located immediately after the section entitled "Consolidated statements of cash flows for the years ended 31 December 2016, 2015 and 2014" (see note (7) above) and page references are to the page numbers appearing in the bottom right corner of each page in such section.

<b>Information incorporated by reference in this Base Prospectus</b>	<b>2015 Financial Statements page reference</b>
1. Auditor's report on consolidated financial statements for the year ended 31 December 2015 .....	1-2
2. Audited consolidated balance sheets for the year ended 31 December 2015 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2014 and 31 December 2013 .....	10-11
3. Audited consolidated income statements for the year ended 31 December 2015 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2014 and 31 December 2013 .....	12
4. Audited consolidated statements of recognised income and expense for the year ended 31 December 2015 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2014 and 31 December 2013 .....	13

<b>Information incorporated by reference in this Base Prospectus</b>	<b>2015 Financial Statements page reference</b>
5. Audited consolidated statements of changes in equity for the year ended 31 December 2015 and the comparative consolidated cash flow statement of the Issuer for the year ended 31 December 2014 and 31 December 2013.....	14-15
6. Audited consolidated cash flow statements for the year ended 31 December 2015 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2014 and 31 December 2013.....	16
7. Notes to the consolidated financial statements for the year ended 31 December 2015 .....	17-206

The table below sets out the relevant page references in Form 20-F of the Issuer for the year ended 31 December 2015 (“**2015 Form 20-F**”) where the following information incorporated by reference in this Base Prospectus can be found:

<b>Information incorporated by reference in this Base Prospectus</b>	<b>2015 Form 20-F page reference</b>
Report of Deloitte, S.L.....	F-1
Consolidated balance sheets as of 31 December 2015, 2014 and 2013 .....	F-2
Consolidated income statements for the years ended 31 December 2015, 2014 and 2013 ...	F-3
Consolidated statements of recognised income and expense for the years ended 31 December 2015, 2014 and 2013.....	F-4
Consolidated statements of changes in total equity for the years ended 31 December 2015, 2014 and 2013 .....	F-5 to F-7
Consolidated statement of cash flows for the years ended 31 December 2015, 2014 and 2013 .....	F-8
Notes to the consolidated financial statements.....	F-9 to F-337

## **GENERAL DESCRIPTION OF THE PROGRAMME**

The Programme is a programme for the issuance of debt instruments up to an aggregate principal amount of EUR 25,000,000,000 to be issued on a continuing basis and will be placed by one or more Dealers appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. Under the Programme, the Issuer may issue fixed, reset or floating rate Instruments and CMS-Linked Instruments, including subordinated and unsubordinated Instruments. Instruments may be issued with any maturity subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. The Bank of New York Mellon, London Branch will act as Issue and Paying Agent, The Bank of New York Mellon (Luxembourg) S.A. will act as Registrar and A&L Listing Limited will act as Irish Listing Agent.

## THE INSTRUMENTS

### 1 Persons Responsible

- 1.1 All persons responsible for the information given in the Base Prospectus and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the Issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office**

Banco Santander, S.A., with registered office at Paseo de Pereda, numbers 9 to 12, 39004, Santander (Spain), accepts responsibility for the information contained in the section headed "*The Instruments*".

- 1.2 A declaration by those responsible for the Base Prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in the Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of the Base Prospectus that the information contained in the part of the Base Prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import**

The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in the section headed "*The Instruments*" is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

### 2 Risk Factors

- 2.1 Prominent disclosure of risk factors that are material to the securities being offered and/or admitted to trading in order to assess the market risk associated with these securities in a section headed "Risk Factors" in the Base Prospectus**

See "*Risk Factors*" on pages 30 – 69 of this Base Prospectus.

### 3 Essential Information

- 3.1 Interest of natural and legal persons involved in the issue/offer**

**A description of any interest, including conflicting ones that is material to the issue/offer, detailing the persons involved and the nature of the interest**

Save as described in paragraph 5.4.3 and in the relevant Final Terms, so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.

- 3.2 Reasons for the offer and use of proceeds**

**Reasons for the offer if different from making profit and/or hedging certain risks. Where applicable, disclosure of the estimated total expenses of the issue/offer and the estimated net amount of the proceeds. These expenses and proceeds shall be broken into each principal intended use and presented by order of priority of such uses. If the Issuer is aware that the anticipated proceeds will not be sufficient to fund all the proposed uses, state the amount and sources of other funds needed**

The net proceeds of the issue of each Tranche of Instruments will be used for the general funding purposes of the Group.

The estimated total expenses of the issue/offer and the estimated net amount of the proceeds will be specified in the relevant Final Terms.

## **4 Information Concerning the Securities to be Offered/Admitted to Trading**

### **4.1 A description of the type and the class of the securities being offered and/or admitted to trading, including the ISIN (International Security Identification Number) or other such security identification code**

See “*Terms and Conditions of the Instruments*”.

The maximum aggregate principal amount of Instruments which may be outstanding at any one time is €25,000,000,000 (or its equivalent in other currencies).

No Instruments may be issued under the Programme which have a minimum denomination of less than €1,000 (or equivalent in another currency).

The ISIN and common codes will be included in the Final Terms.

### **4.2 Legislation under which the securities have been created**

Save as described below, the Terms and Conditions, the Issue and Paying Agency Agreement and the Deed of Covenant and all non-contractual obligations arising out of or in connection with the Terms and Conditions, the Issue and Paying Agency Agreement and the Deed of Covenant are governed by and shall be construed in accordance with, English law. The conditions on the status of the Instruments and the Syndicate of the Holders of the Instruments are governed by, and shall be construed in accordance with, Spanish law.

### **4.3 An indication of whether the securities are in registered form or bearer form and whether the securities are in certificated form or book-entry form. In the latter case, name and address of the entity in charge of keeping the records**

The Instruments may be Bearer Instruments or Registered Instruments. Bearer Instruments may be issued in NGN form and Registered Instruments may be held under the NSS to allow Eurosystem eligibility.

Unless otherwise specified in the Final Terms, each Tranche of Bearer Instruments having an original maturity of more than one year and that is being issued in compliance with the U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) will initially be represented by a Temporary Global Instrument and each Tranche of Bearer Instruments having an original maturity of one year or less will initially be represented by a Permanent Global Instrument which, in each case, will (i) if the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg; or (ii) if the Global Instruments are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a Common Depositary for, Euroclear and Clearstream, Luxembourg, or as otherwise agreed between the Issuer and the relevant Dealer. Interests in temporary Global Instruments will be exchangeable for interests in a permanent Global Instrument or, if so stated in the relevant Final Terms, for Definitive Instruments after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership. If specified in the relevant Final Terms, interests in permanent Global Instruments will be exchangeable for Definitive Instruments.

Registered Instruments will be represented by Individual Certificates, one Individual Certificate being issued in respect of each Holder’s entire holding of Registered Instruments of one Series and may be represented by a Global Registered Instrument. Registered Instruments which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Registered Instrument is not to be held under the NSS, in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee for both or (ii) if the Global Registered Instrument is to be held under the NSS, in the name of a nominee of the Common Safekeeper and the relevant Individual Certificate(s) will be delivered to the appropriate depositary, a Common Depositary or Common Safekeeper, as the case may be.

The provisions governing the exchange of interests in Global Instruments for other Global Instruments and Definitive Instruments are described in “*Summary of Provisions Relating to the Instruments while in Global Form*”.

#### 4.4 Currency of the securities issue

Instruments may be denominated in any currency subject to compliance with all applicable legal and/or regulatory requirements and/or central bank requirements.

#### 4.5 Ranking of the securities being offered and/or admitted to trading, including summaries of any clauses that are intended to affect ranking or subordinate the security to any present or future liabilities of the issuer

##### *a) Senior Instruments*

The payment obligations of the Issuer under Instruments which specify their status as Ordinary Senior Instruments (“**Ordinary Senior Instruments**”) or as Second Ranking Senior Instruments (“**Second Ranking Senior Instruments**”), together with the Ordinary Senior Instruments “**Senior Instruments**”) in the relevant Final Terms constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer and, upon the insolvency of the Issuer (and unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Article 92.1º or 92.3º to 92.7º of the Insolvency Law”), but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), rank:

- (i) in the case of Ordinary Senior Instruments, *pari passu* and rateably without preference among themselves and with all other unsecured and unsubordinated indebtedness (*créditos ordinarios*) of the Issuer, present or future (other than Second Ranking Senior Instruments and claims in respect of Senior Parity Liabilities which will rank junior to them as set out in (ii) below) and senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer; and
- (ii) in the case of Second Ranking Senior Instruments (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities and (b) *pari passu* with the claims in respect of Senior Parity Liabilities, and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer.

##### *b) Subordinated Instruments*

The payment obligations of the Issuer under Instruments which specify their status as Subordinated Instruments in the relevant Final Terms (“**Subordinated Instruments**”, which may be, in turn, Senior Subordinated Instruments (“**Senior Subordinated Instruments**”) or Tier 2 Subordinated Instruments (“**Tier 2 Subordinated Instruments**”), as specified in the relevant Final Terms) on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Issuer according to Article 92.2º of the Insolvency Law and, in accordance with Additional Provision 14.2º of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer (unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Articles 92.3º to 92.7º of the Insolvency Law) rank:

- (i) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Senior Subordinated Liabilities of the Issuer:

*This would be expected to be the case if the Subordinated Instruments are specified as Senior Subordinated Instruments in the relevant Final Terms.*

- (a) *pari passu* among themselves and with (i) all other claims for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations (*créditos subordinados*) under Articles 92.3º to 92.7º of the Insolvency Law, and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Issuer’s obligations under the relevant Subordinated Instruments;
- (b) junior to (i) any unsubordinated obligations (*créditos ordinarios*) of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) of the Issuer which become subordinated pursuant to article 92.1º of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer’s obligations under the relevant Subordinated Instruments; and

- (c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments or Tier 2 Instruments, (ii) any subordinated obligations (*créditos subordinados*) under Articles 92.3º to 92.7º of the Insolvency Law, (iii) any other subordinated obligations (*créditos subordinados*) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments; and
- (ii) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Tier 2 Instruments of the Issuer:

*This would be expected to be the case if the Subordinated Instruments are specified as Tier 2 Subordinated Instruments in the relevant Final Terms.*

- (a) *pari passu* among themselves and with (i) all other claims for principal in respect of Tier 2 Instruments which are not subordinated obligations under Articles 92.3º to 92.7º of the Insolvency Law, and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Issuer's obligations under the relevant Subordinated Instruments;
- (b) junior to (i) any unsubordinated obligations (*créditos ordinarios*) of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) of the Issuer under Article 92.1º of the Insolvency Law, (iii) any claim for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations under Articles 92.3º to 92.7º of the Insolvency Law and (iv) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the relevant Subordinated Instruments; and
- (c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) under Articles 92.3º to 92.7º of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments.

#### **4.6 A description of the rights attached to the securities, including any limitations of those rights, and procedure for the exercise of those rights**

Each Tranche will be the subject of Final Terms which, for the purposes of that Tranche only, supplements the Terms and Conditions as set out in "*Terms and Conditions of the Instruments*" and must be read in conjunction with the Base Prospectus. The Terms and Conditions applicable to any particular Tranche of Instruments are the Terms and Conditions of the Instruments as amended, modified or varied by the relevant Final Terms. See "*Pro Forma Final Terms*". Ordinary Senior Instruments will have the benefit of events of default as described in Condition 6.

#### **4.7 The nominal interest rate and provisions relating to interest payable:**

Instruments will be either interest bearing or Zero Coupon Instruments, which will not bear interest. Interest may accrue on interest bearing Instruments at a fixed rate, reset rate or a floating rate. See Condition 4.

The reference rates for interest bearing Instruments could be (i) the London inter-bank offered rate (**LIBOR**) and (ii) the Euro Interbank Offered Rate (**EURIBOR**).

##### **- The date from which interest becomes payable and the due dates for interest**

Other than Zero Coupon Instruments, Instruments will bear interest from (and including) their Issue Date or from such other date specified in the relevant Final Terms (Interest Commencement Date). Interest will be payable in arrear on each Interest Payment Date specified in the relevant Final Terms and on the date Maturity Date.

##### **- The time limit on the validity of claims to interest and repayment of principal**

Claims for payment of principal will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years. See Condition 12.



**Where the rate is not fixed, description of the underlying on which it is based and of the method used to relate the two and an indication where information about the past and the further performance of the underlying and its volatility can be obtained.**

In the case of Floating Rate Instruments, the relevant rates will be determined by The Bank of New York Mellon, London Branch or such other persons as may be specified in the relevant Final Terms in its capacity as Calculation Agent by reference to a page on an information vending service (if Screen Rate Determination is specified in the Final Terms) in accordance with Condition 4C.03, or if ISDA Determination is specified in the Final Terms, in accordance with Condition 4C.04.

In the case of CMS-Linked Instruments, the relevant rates will be determined by The Bank of New York Mellon, London Branch or such other persons as may be specified in the relevant Final Terms in its capacity as Calculation Agent by reference to the constant maturity swap rate specified in the relevant Final Terms.

- **A description of any market disruption or settlement disruption events that affect the underlying**

Not applicable.

- **Adjustment rules with relation to events concerning the underlying**

Not applicable.

- **Name of the calculation agent**

The Bank of New York Mellon, London Branch or such other calculation agent as may be specified as Calculation Agent in the relevant Final Terms.

**If the security has a derivative component in the interest payment, provide a clear and comprehensive explanation to help investors understand how the value of their investment is affected by the value of the underlying instrument(s), especially under the circumstances when the risks are most evident**

Not applicable.

#### **4.8 Maturity date and arrangements for the amortisation of the loan, including the repayment procedures. Where advance amortisation is contemplated, on the initiative of the Issuer or of the holder, it shall be described, stipulating amortisation terms and conditions**

Instruments may be redeemable at the redemption amount specified in the relevant Final Terms subject to compliance with all applicable legal and/or regulatory requirements. See Condition 5 and Condition 11.

Tier 2 Subordinated Instruments will have a maturity of not less than five years or as otherwise permitted by Applicable Banking Regulations.

Where Instruments have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried on from an establishment maintained by the Issuer in the United Kingdom, such Instruments must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (as amended, “FSMA”) by the Issuer.

#### **4.9 An indication of yield. Describe the method whereby that yield is calculated in summary form**

The yield will be calculated as follows:

The expected interest for the investor of each issue of Instruments shall be calculated in accordance to the provisions of this Base Prospectus and shall be specified in the relevant Final Terms.

There is a wide range of methods to calculate the internal rate of return. In this regard, and as an example, below it is provided the formula for calculating the internal rate of return with explicit interest issued under this Base Prospectus, which shall be calculated in accordance with the following formula:

$$P_0 = \sum_{j=1}^n \frac{F_j}{\left(1 + \left(\frac{i}{100}\right)\right)^{\frac{d}{Base}}}$$

whereby:

$P_0$  = Price of the Instrument.

$F_j$  = Cash-flows along the Instrument's life.

$i$  = Annual Effective Interest Rate (annual IRR) for the investor.

$d$  = Number of days between the date of payment and the time where each cash-flow is generated.

$n$  = Number of cash-flows of the Issuance.

Base = shall be the calculation basis for each issuance, and shall provide the number of days in which the year is divided for the purpose of calculating the interest rate on an annual basis.

#### **4.10 Representation of debt security holders including an identification of the organisation representing the investors and provisions applying to such representation. Indication of where the public may have access to the contracts relating to these forms of representation**

The Holders of the Instruments of the relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Holders of the Instruments (the “**Regulations**”). The Regulations shall contain the rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer and shall be attached to the relevant Public Deed of Issuance (as defined in the Terms and Conditions). A set of pro forma Regulations is included in the Issue and Paying Agency Agreement.

A Commissioner will be appointed for each Syndicate.

Provisions for meetings of the Syndicate of Holders of the Instruments will be contained in the Regulations and the Issue and Paying Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the Holders of the Instruments of any Series or Coupons, amend the Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to the Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Holders of Instruments. See Condition 15.

The Issue and Paying Agency Agreement, together with the Dealership Agreement and the Deed of Covenant may be inspected at the registered office of the Issuer and at the offices of the Irish Listing Agent, in each case at the address specified at the end of this Base Prospectus.

#### **4.11 In the case of new issues, a statement of the resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued**

The establishment of the Programme was authorised by means of the resolutions adopted by the executive committee of the Issuer on 27 February 2017.

The issue of the Instruments under the Programme has been authorised by means of the resolutions adopted by (i) the general shareholders' meeting of the Issuer on 18 March 2016, (ii) the board of directors of the Issuer on such same date and (iii) the executive committee of the Issuer on 27 February 2017.

**4.12 In the case of new issues, the expected issue date of the securities**

The relevant Issue Date shall be specified in the relevant Final Terms.

**4.13 A description of any restrictions on the free transferability of the securities**

See “*The Instruments—5.2 (Plan of Distribution and Allotment)*”.

**4.14 In respect of the country of registered office of the Issuer and the country(ies) where the offer being made or admission to trading is being sought:**

- **Information on taxes on the income from the securities withheld at source**
- **Indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source**

**Taxation and information about the Instruments in connection with payments**

***The proposed financial transactions tax (FTT)***

On 14 February 2013, the European Commission published the Commission’s Proposal for a Directive for an FTT in the Participating Member States. However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, impose a tax at generally not less than 0.1%, generally determined by reference to the amount of consideration paid, on certain dealings in Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments should, however, be exempt. The mechanism by which the tax would be applied and collected is not yet known, but if the proposed directive or any similar tax is adopted, transactions in the Instruments would be subject to higher costs, and the liquidity of the market for the Instruments may be diminished.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in Instruments where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The Council of the EU on Economic and Financial Affairs indicated in June 2016 that work on the FTT would continue during the second half of 2016. On 11 October 2016, Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation, and Customs announced that the ten Participating Member States (excluding Estonia) agreed on certain important measures that will form the core engines of the FTT and indicated their intention to elaborate a draft legislation before the end of the year.

The FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the Participating Member States may decide to withdraw. Prospective Holders are advised to seek their own professional advice in relation to the consequences of the FTT associated with subscribing for, purchasing, holding and disposing of the Instruments.

## **Taxation in Spain**

*The following is a general description of certain Spanish tax considerations relating to the Instruments. It does not purport to be a complete analysis of all tax considerations relating to the Instruments. Prospective purchasers of Instruments should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Instruments and receiving any payments under the Instruments. The information contained within this section is based upon the law as in effect on the date of this document and is subject to any change in law that may take effect after such date.*

*In the event of an issue of unlisted Instruments, the applicable tax regime will be set out in the relevant Final Terms.*

### **Introduction**

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this document:

- (a) of general application, First Additional Provision of Law 10/2014 and Royal Decree 1065/2007;
- (b) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax (“**IIT**”), Law 35/2006 of 28 November, on the IIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended, and Royal Decree 439/2007, of 30 March, promulgating the IIT Regulations, along with Law 19/1991, of 6 June, on Net Wealth Tax, as amended and Law 29/1987, of 18 December on the Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (“**CIT**”), Law 27/2014, of 27 November, on CIT and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (“**NRIT**”), Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the NRIT Law, as amended, and Royal Decree 1776/2004 of 30 July promulgating the NRIT Regulations, along with Law 19/1991, of 6 June, on Net Wealth Tax as amended and Law 29/1987, of 18 December, on the Inheritance and Gift Tax.

Whatever the nature and residence of the beneficial owner, the acquisition and transfer of Instruments will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

### **Individuals with Tax Residency in Spain**

#### ***Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)***

Both interest payments periodically received and income derived from the transfer, redemption or repayments of the Instruments constitute a return on investment obtained from the transfer of a person’s own capital to third parties in accordance with the provisions of Section 25 of the IIT Law, and therefore must be included in the investor’s IIT savings taxable base pursuant to the provisions of the aforementioned law and generally taxed at a flat rate of 19% on the first EUR 6,000; (ii) 21% from EUR 6,001 up to EUR 50,000 and 23% for any amount in excess of EUR 50,000.

According to Section 44.5 of Royal Decree 1065/2007, and in the opinion of the Issuer, the Issuer will pay interest without withholding to individual Holders who are resident for tax purposes in Spain provided that the information about the Instruments required by Exhibit I is submitted, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation. In addition, income obtained upon transfer, redemption or exchange of the Instruments may also be paid without withholding.

Notwithstanding the above withholding tax at the applicable tax rate of 19% may have to be deducted by other entities (such as depositaries, custodians or financial entities) provided that such entities are resident for tax purposes in Spain or have a permanent establishment in Spain.

Amounts withheld may be credited against the final IIT liability.

### ***Reporting Obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Holders of the Instruments who are individuals resident in Spain for tax purposes.

### ***Net Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals with tax residency in Spain are subject to Net Wealth Tax during the tax year 2017 to the extent that their net worth exceeds €700,000. Therefore, they should take into account the value of the Instruments which they hold as at 31 December 2017, the applicable rates ranging between 0.2% and 2.5%. The Autonomous Communities may have different provisions on this respect.

### ***Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Instruments by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The applicable tax rates currently range between 7.65% and 81.6% depending on relevant factors.

## **Legal Entities with Tax Residency in Spain**

### ***Corporate Income Tax (Impuesto sobre Sociedades)***

Both interest received periodically and income derived from the transfer, redemption or repayment of the Instruments are subject to CIT at the current general tax rate of 25% in accordance with the rules for this tax.

In accordance with Section 44.5 of Royal Decree 1065/2007, and in the opinion of the Issuer, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold tax on income payments to Spanish CIT taxpayers provided that the information about the Instruments required by Exhibit I is submitted, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, in the case of Instruments held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Instruments or income obtained upon the transfer, redemption or repayment of the Instruments, may be subject to withholding tax at the generally applicable rate of 19%, if the Instruments do not comply with exemption requirements specified in the Reply to the Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 in which case the required withholding will be made by the depositary or custodian.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

### ***Reporting Obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Holders who are legal persons or entities resident in Spain for tax purposes.

### ***Net Wealth Tax (Impuesto sobre el Patrimonio)***

Legal entities resident in Spain for tax purposes are not subject to Net Wealth Tax.

### ***Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Instruments by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax but must include the market value of the Instruments in their taxable income for Spanish CIT purposes.

## **Individuals and Legal Entities with no tax residency in Spain**

### ***Non-resident Income Tax (Impuesto sobre la renta de No Residentes)***

#### ***(a) With permanent establishment in Spain***

If the Instruments form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from

such Instruments are, generally, the same as those previously set out for Spanish CIT taxpayers. See “*Taxation in Spain—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*”. Ownership of the Instruments by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

(b) *With no permanent establishment in Spain*

Both interest payments received periodically and income derived from the transfer, redemption or repayment of the Instruments, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Instruments, through a permanent establishment in Spain, are exempt from NRIT.

In order for the exemption to apply, it is necessary to comply with certain information obligations relating to the Instruments, in the manner detailed under “—*Information about the Instruments in Connection with Payments*” as laid down in section 44 of Royal Decree 1065/2007. If these information obligations are not complied within the manner indicated, the Issuer will withhold at the general rate of 19% and the Issuer will not pay additional amounts.

Holders not resident in Spain for tax purposes and entitled to exemption from NRIT but where the Issuer does not timely receive the information about the Instruments in accordance with the procedure described in detail as set forth in Exhibit I hereto would have to apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish NRIT Law.

***Reporting Obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Holders who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Instruments through a permanent establishment in Spain.

***Net Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject during the tax year 2017 to Net Wealth Tax, the applicable rates ranging between 0.2% and 2.5%.

However, non-Spanish resident individuals will be exempt from Net Wealth Tax in respect of the Instruments which income is exempt from NRIT as described above.

Non-Spanish resident legal entities are not subject to Wealth Tax.

***Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Instruments by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax. In such case, the provisions of the relevant double tax treaty will apply.

Non-Spanish resident legal entities which acquire ownership or other rights over the Instruments by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), except as provided in any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of tax residence of the Holder.

**Tax Rules for Instruments not listed on an Organised Market in an OECD Country**

***Withholding on Account of IIT, CIT and NRIT***

If the Instruments are not listed on an organised market in an OECD country on any Payment Date, interest or income from redemption or repayment obtained by Holders in respect of the Instruments will be subject to withholding tax at the general rate of 19%, except in the case of Holders which are: (a) resident in a Member State of the EU other than Spain and obtain the interest income either directly or through a permanent establishment located in another Member State of the EU, provided that such Holders (i) do not obtain the interest income on the Instruments through a permanent establishment in Spain and (ii) are not resident of, or

are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991, of 5 July, as amended) or (b) resident for tax purposes of a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to interest payable to any Holder.

### ***Net Wealth Tax (Impuesto sobre el Patrimonio)***

See “*Taxation in Spain Individuals with Tax Residency in Spain–Net Wealth Tax (Impuesto sobre el Patrimonio)*” and “*Taxation in Spain–Individuals and legal entities with no tax residency in Spain – Net Wealth Tax (Impuesto sobre el Patrimonio)*”.

### **Information about the Instruments in Connection with Payments**

As described above, interest and other income paid with respect to the Instruments will not be subject to Spanish withholding tax unless the procedures for delivering to the Issuer the information described in Exhibit I of this Base Prospectus are not complied with.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007 (“**Section 44**”).

In accordance with Section 44, the following information with respect to the Instruments must be submitted to the Issuer before the close of business on the Business Day (as defined in the Terms and Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Instruments (each, a “**Payment Date**”) is due.

Such information comprises:

- (a) the identification of the Instruments with respect to which the relevant payment is made;
- (b) the date on which the relevant payment is made;
- (c) the total amount of the relevant payment;
- (d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain.

In particular, the Issue and Paying Agent must certify the information above about the Instruments by means of a certificate in the Spanish language, an English language form of which is attached as Exhibit I of this Base Prospectus.

In light of the above, the Issuer and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer on each Payment Date, such Issuer will withhold tax at the then-applicable rate, generally 19% from any payment in respect of the relevant Instruments. The Issuer will not pay any additional amounts with respect to any such withholding.

If, before the tenth day of the month following the month in which interest is paid, the Issue and Paying Agent provides such information, the Issuer, will reimburse the amounts withheld.

**Prospective Holders of Instruments should note that neither the Issuer nor any of the Dealers accepts any responsibility relating to the procedures established for the collection of information concerning the Instruments. Accordingly, neither the Issuer nor any of the Dealers will be liable for any damage or loss suffered by any Holder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding. See “*Risk Factors - Risks in relation to the Instruments - Taxation*”.**

*Set out below is Exhibit I. The information set out in Exhibit I has been translated from the original Spanish and has been presented in this document in English only as the language of this Base Prospectus is English. However, only the Spanish language text of Exhibit I is recognised under Spanish law. In the event of any discrepancy between the English language translation of the information in Exhibit I appearing herein, and the Spanish language information appearing in the corresponding certificate provided by the Issue and Paying Agent to the Issuer, the Spanish language information shall prevail.*

## EXHIBIT I

**Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes**

**Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes**

Mr. (*name*), with tax identification number (...)<sup>1</sup>, in the name and on behalf of (*entity*), with tax identification number (....)<sup>1</sup> and address in (...) as (*function - mark as applicable*):

- (a) Management Entity of the Public Debt Market in book entry form.
- (b) Entity that manages the clearing and settlement system of securities resident in a foreign country.
- (c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.
- (d) Paying Agent appointed by the issuer.

Makes the following statement, according to its own records:

**1** In relation to paragraphs 3 and 4 of Article 44:

- 1.1 Identification of the securities.....
- 1.2 Income payment date (or refund if the securities are issued at discount or are segregated)
- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

**2** In relation to paragraph 5 of Article 44.

- 2.1 Identification of the securities.....
- 2.2 Income payment date (or refund if the securities are issued at discount or are segregated) .....
- 2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)
- 2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.
- 2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.
- 2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

I declare the above in ..... on the.... of ..... of ....

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<sup>1</sup> In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.



## **Irish Taxation**

*The following is a summary of the Irish withholding tax treatment of the Instruments. It is based on the laws and practice of the Revenue Commissioners currently in force in Ireland as at the date of this Base Prospectus and may be subject to change. The summary does not purport to be a comprehensive description of all of the Irish tax considerations that may be relevant to a decision to purchase, own or dispose of the Instruments. The summary does not constitute tax or legal advice and the comments below are of a general nature only and it does not discuss all aspects of Irish taxation that may be relevant to any particular Holder of Instruments. Prospective investors in the Instruments should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Instruments and the receipt of payments thereon under any laws applicable to them.*

### **Withholding Tax**

Irish withholding tax applies to certain payments including payments of:

- Irish source yearly interest (yearly interest is interest that is capable of arising for a period in excess of one year);
- Irish source annual payments (annual payments are payments that are capable of being made for a period in excess of one year and are pure income-profit in the hands of the recipient); and
- Distributions (including interest that is treated as a distribution under Irish law) made by companies that are resident in Ireland for the purposes of Irish tax;

at the standard rate of income tax (currently 20 per cent).

On the basis that the Issuer is not resident in Ireland for the purposes of Irish tax, nor does the Issuer operate in Ireland through a branch or agency with which the issue of the Instruments is connected, nor are the Instruments held in Ireland through a depository or otherwise located in Ireland, then to the extent that payments of interest or annual payments arise on the Instruments, such payments should not be regarded as payments having an Irish source for the purposes of Irish taxation. In addition, the mere offering of Instruments to Irish investors will not cause any payments to have an Irish source.

Accordingly, the Issuer or any paying agent acting on behalf of the Issuer should not be obliged to deduct any amount on account of these Irish withholding taxes from payments made in connection with the Instruments.

Separately, for as long as the Instruments are quoted on a stock exchange, a purchaser of the Instruments should not be obliged to deduct any amount on account of Irish tax from a payment made by it in connection with the purchase of the Instruments.

### **Encashment Tax**

Payments on any Instruments paid by a paying agent in Ireland or collected or realised by an agent in Ireland acting on behalf of the beneficial owner of Instruments will be subject to Irish encashment tax at the standard rate of Irish tax (currently 20 per cent), unless it is proved, on a claim made in the required manner to the Revenue Commissioners of Ireland, that the beneficial owner of the Instruments entitled to the interest or distribution is not resident in Ireland for the purposes of Irish tax and such interest or distribution is not deemed, under the provisions of Irish tax legislation, to be income of another person that is resident in Ireland.

## Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Instruments, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Instruments that have a fixed term and are not treated as equity for U.S. federal income tax purposes, issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding on foreign passthru payments unless materially modified after such date. However, if additional notes (as described under “*Terms and Conditions—Further Issues*”) that are not distinguishable from previously issued Instruments are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Instruments, including the Instruments offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding. Prospective purchasers should consult their own tax advisors regarding how these rules may apply to their investment in the Instruments.

## **5 Terms and Conditions of the Offer**

### **5.1 Conditions, offer statistics, expected timetable and action required to apply for the offer**

#### **5.1.1 *Conditions to which the offer is subject***

See – “*Terms and Conditions of the Instruments*”.

Under this Base Prospectus, different type of Instruments can be issued (Ordinary Senior Instruments, Second Ranking Senior Instruments and Subordinated Instruments, which can be, in turn, Senior Subordinated Instruments and Tier 2 Subordinated Instruments as specified in the Final Terms). These issuances shall be made within the following twelve months since the date of approval of the Base Prospectus by the Central Bank of Ireland.

If so specified in the relevant Final Terms, the Instruments may be offered to the public in a Non-Exempt Offer (as defined in 5.2.1) in one or more specified Public Offer Jurisdictions.

The terms and conditions of each offer of Instruments will be specified in the applicable Final Terms.

#### **5.1.2 *Total amount of the issue/offer; if the amount is not fixed, description of the arrangements and time for announcing to the public the definitive amount of the offer***

The total amount of the issue/offer will be specified in the Final Terms. The issuances of Instruments under this Base Prospectus could be underwritten by one or more Dealers, which will be specified in the relevant Final Terms for each issue. In case a certain issue is underwritten by one or more Dealers, the amount not subscribed at the end of the subscription period shall be underwritten on the last day by the Dealers. If the issuance is not underwritten, the outstanding total amount shall be reduced to the amount effectively requested by the investors.

#### **5.1.3 *The time period, including any possible amendments, during which the offer will be open and description of the application process***

To be specified in the Final Terms.

#### **5.1.4 *A description of the possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.***

If an issue contemplates the possibility to reduce subscriptions, this will be specified in the Final Terms.

#### **5.1.5 *Details of the minimum and/or maximum amount of application, (whether in number of securities or aggregate amount to invest)***

In case of issuances exclusively addressed for qualified investors, the minimum denomination amount will be €100,000 or its equivalent in another currency. The minimum denomination amount for retail investors will amount to €1,000 or its equivalent in another currency, unless otherwise provided in the relevant Final Terms.

#### **5.1.6 *Method and time limits for paying up the securities and for delivery of the securities***

To be specified in the Final Terms.

#### **5.1.7 *A full description of the manner and date in which results of the offer are to be made public***

If applicable with respect to Non-exempt Offers (as defined in 5.2.1), the total number of Instruments to be issued and the final level of subscription will be determined based on market demand for the Instruments during the relevant offering period of such Instruments and will be notified to investors by way of publication on the Issuer’s website, filed with the Irish Central

Bank and be made available at the registered office of the Issuer and such other entities as specified in the Final Terms, on or prior to the Issue Date.

**5.1.8 *The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised***

Not applicable.

**5.2 Plan of distribution and allotment**

**5.2.1 *The various categories of potential investors to which the securities are offered. If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.***

***European Economic Area***

From 1 January 2018, unless the Final Terms in respect of any Instruments specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments.

Prior to 1 January 2018, and from that date if the Final Terms in respect of any Instruments specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus (as defined in the Dealership Agreement, as defined below), as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Instruments to the public in that Relevant Member State:

- (a) if the Final Terms or Drawdown Prospectus in relation to the Instruments specify that an offer of those Instruments may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Instruments which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, *provided that* any such prospectus which is not a Drawdown Prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms,

as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Instruments referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive;

For the purposes of this provision, the expression an “**offer of Instruments to the public**” in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU).

### ***United States of America***

#### *Regulation S Category 2; TEFRA.*

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealership Agreement, it will not offer, sell or (in the case of Bearer Instruments) deliver the Instruments of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of such Tranche, as determined, and certified to the Issuer and the relevant Dealer, by the Issue and Paying Agent. or in the case of Instruments issued on a syndicated basis, the Lead Manager, within the United States or to or for the account or benefit of U.S. persons, and only in accordance with Rule 903 of Regulation S (the “**distribution compliance period**”). Each Dealer has further agreed that it will have sent to each dealer to which it sells Instruments during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Instruments, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering of such Tranche) may violate the registration requirements of the Securities Act.

The Instruments are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Instruments outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Instruments, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) *No deposit-taking*: in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

### ***Spain***

The Instruments may not be offered, sold or distributed, nor may any subsequent resale of Instruments be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law (*Royal Legislative Decree 4/2015, of 23 October, for the approval of the consolidated text of the Securities Market Law*), as amended and restated, or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Instruments.

Neither the Instruments nor the Base Prospectus have been registered with the CNMV and therefore the Base Prospectus is not intended for any public offer of the Instruments in Spain.

### ***Japan***

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Switzerland***

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, the Instruments may not be offered,

sold or advertised, directly or indirectly, in, into or from Switzerland, except (i) in case of Instruments that constitute structured products within the meaning of the Swiss Collective Investment Schemes Act to qualified investors as defined in the Swiss Collective Investment Schemes Act and (ii) in case of any other Instruments, to a finite number of hand-picked and individually approached potential investors and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Instruments have been prepared with regard to the standards for prospectuses under Article 652a or 1156 Swiss Code of Obligations (“CO”) or for a simplified prospectus or prospectus under the Swiss Collective Investment Schemes Act, and therefore does not constitute a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the CO or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Instruments may be publicly distributed or otherwise made publicly available in, into or from Switzerland.

### **Italy**

The offering of the Instruments has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation. The Dealers have represented and agreed that there may be no offer, sale or delivery of the Instruments or distribution of copies of the Base Prospectus (including, without limitation, any supplement to the Prospectus) or any other document relating to the Instruments in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “Financial Services Act”) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any such offer, sale or delivery of the Instruments or distribution of copies of the Base Prospectus (including, without limitation, any supplement to the Base Prospectus) or any other document relating to the Instruments in the Republic of Italy under (a) or (b) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy requests some information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

### **General**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, to the best of its knowledge and belief, it has complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) after the date hereof in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

**5.2.2 *Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made***

If applicable with respect to Non-exempt Offers, prospective Holders will be notified by the relevant Dealer(s) and or if applicable the Authorised Offeror in accordance with the arrangements in place between such Dealer(s) or Authorised Offeror and its customers.

**5.3 Pricing**

**5.3.1 *An indication of the expected price at which the securities will be offered. Indicate the amount of any expenses and taxes specifically charged to the subscriber or purchaser***

Instruments may be issued at par, at a discount to par or a premium over par.

If applicable with respect to Non-exempt Offers, and unless otherwise specified in the Final Terms, the Issuer will offer and sell the Instruments to the Dealer(s) (and no one else) at the relevant issue price of the Instruments less, if applicable, a total commission. The Dealer(s) and Authorised Offerors will offer and sell the Instruments to their customers in accordance with the arrangements in place between each such Dealer and its customers (including the Authorised Offerors) or each such Authorised Offeror and its customers by reference to the issue price and the market conditions prevailing at the time. The amount of expenses and taxes specifically charged to the subscriber or purchaser will be specified in the Final Terms.

**5.4 Placing and underwriting**

**5.4.1 *Name and address of the co-ordinator(s) of the global offer and of single parts of the offer and, to the extent known to the issuer or to the offeror, of the placers in the various countries where the offer takes place***

See paragraph 5.4.3 below.

**5.4.2 *Name and address of any paying agents and depository agents in each country***

The names and addresses of each of the Paying Agents and of the Registrar are specified at the end of this Base Prospectus.

**5.4.3 *Name and address of the entities agreeing to underwrite the issue on a firm commitment basis, and name and address of the entities agreeing to place the issue without a firm commitment or under “best efforts” arrangements. Indication of the material features of the agreements, including the quotas. Where not all of the issue is underwritten, a statement of the portion not covered. Indication of the overall amount of the underwriting commission and of the placing commission***

Instruments may be sold from time to time by the Issuer to any one or more of Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc., Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc, Natixis, Nomura International plc, Société Générale, The Royal Bank of Scotland plc (trading as NatWest Markets), UBS Limited and UniCredit Bank AG (the “**Dealers**”). Instruments may also be sold by the Issuer directly to institutions who are not Dealers. The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated 6 March 2017 (as amended or supplemented from time to time, the



“**Dealership Agreement**”) and any relevant subscription agreement relating to the Instruments and made between the Issuer and the Dealers.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments. The address of each of the Dealers is specified at the end of this Base Prospectus. The names and addresses of the Manager(s) of any particular issue of Instruments shall be specified in the relevant Final Terms.

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Instruments issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients or as principal in order to manage their exposure, their general market risk, or trading activities.

In addition, in the ordinary course of their business activities, certain of the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates which have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Instruments issued under the Programme. Any such positions could adversely affect future trading prices of Instruments issued under the Programme. Certain of the Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

#### **5.4.4 *When the underwriting agreement has been or will be reached***

To be specified in the Final Terms.

## **6 Admission to Trading and Dealing Arrangements**

### **6.1 An indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in question. This circumstance must be mentioned, without creating the impression that the admission to trading will necessarily be approved. If known, give the earliest dates on which the securities will be admitted to trading**

Instruments may be:

- (a) listed on the Official List of the Irish Stock Exchange and admitted to trading on the regulated market of the Irish Stock Exchange;
- (b) listed or admitted, as the case may be, on other or further stock exchange(s) or markets as indicated in the applicable Final Terms in relation to each Series; or
- (c) neither listed nor admitted to trading on any market.

It is expected that each Tranche of Instruments which is to be admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Irish Stock Exchange’s regulated market will be

admitted separately as and when issued, subject only to the issue of a Global Instrument initially representing the Instruments of such Tranche.

Application will be made to the Irish Stock Exchange for Instruments issued under the Programme to be admitted to the Official List and for such Instruments to be admitted to trading on the Irish Stock Exchange's regulated market.

**6.2 All the regulated markets or equivalent markets on which, to the knowledge of the Issuer, securities of the same class of the securities to be offered or admitted to trading are already admitted to trading**

The Issuer has securities of the same class as certain Instruments to be issued under the Programme admitted to trading on the regulated markets of the Luxembourg Stock Exchange and the Euronext Amsterdam Stock Exchange and on the unregulated market of the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange (*Scoach*).

**6.3 Name and address of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity through bid and offer rates and description of the main terms of their commitment**

To be specified in the Final Terms.

## **7 Additional Information**

**7.1 If advisors connected with an issue are mentioned in the Base Prospectus, a statement of the capacity in which the advisors have acted**

The legal advisers and capacity in which they act are specified at the end of this Base Prospectus.

**7.2 An indication of other information in the Base Prospectus which has been audited or reviewed by statutory auditors and where auditors have produced a report. Reproduction of the report or, with permission of the competent authority, a summary of the report**

No such information is included.

**7.3 Where a statement or report attributed to a person as an expert is included in the Base Prospectus, provide such persons' name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part of the Base Prospectus**

No such statement or report is included.

**7.4 Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information**

No such information is included.

**7.5 Credit ratings assigned to an issuer or its debt securities at the request or with the cooperation of the issuer in the rating process. A brief explanation of the meaning of the ratings if this has previously been published by the rating provider**

Tranches of Instruments may be rated or unrated and, if rated, such ratings will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the relevant Final Terms.

The long term debt rating categories used by Moody's, Standard & Poors, Fitch Ratings and DBRS are as follows:

<b>Credit Rating Agency</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Fitch</b>	<b>DBRS</b>
Investment Category	Aaa Aa A Baa	AAA AA A BBB	AAA AA A BBB	AAA AA A BBB
Especulative Category	Ba B Caa Ca C	BB B CCC CC C	BB B CCC CC C	BB B CCC CC C

Moody's assigns numeric modifiers 1, 2 and 3 to each generic ratings classification from Aa through B. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Fitch and Standard & Poor's applies a plus (+) or minus (-) sign in categories AA through CCC to show relative standing within the major rating categories.

DBRS applies the terms "High" and "Low", respectively, in the categories AA and B which shows the relevant position in each category.

The short term debt rating categories used by these agencies are as follows:

<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Fitch</b>	<b>DBRS</b>
Prime-1	A-1	F1	R-1
Prime-2	A-2	F2	R-2
Prime-3	A-3	F3	R-3
	B	B	R-4
	C	C	R-5

Standard & Poor's and Fitch both apply a plus sign (+) within the categories A-1 and F1.

DBRS applies the terms "High" and "Low", respectively, in the categories R-1 and R-2 which shows the relevant position in each category.

A rating is not a recommendation to buy, sell or hold Instruments and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*The following, except for paragraphs in italics, is the text of the terms and conditions (the “**Terms and Conditions**”) that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Instruments in definitive form (if any) issued in exchange for the Global Instruments(s) and Global Registered Instrument(s) representing each Series. Either (i) the full text of these Terms and Conditions together with the relevant provisions of Part A of the Final Terms or (ii) these Terms and Conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Instruments or on the Individual Certificates relating to such Registered Instruments. All capitalised terms that are not defined in these Terms and Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Instruments or Individual Certificates, as the case may be.*

The Instruments of each Tranche will be issued following the execution of a public deed (*escritura pública*) (the “**Public Deed of Issuance**”) to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Cantabria on, prior to or after the Issue Date, and which shall contain, among other information, the Terms and Conditions. The Instruments will be issued in accordance with an issue and paying agency agreement (the “**Issue and Paying Agency Agreement**”, which expression shall include any amendments or supplements thereto) dated 6 March 2017 and made between Banco Santander, S.A. (the “**Issuer**”), The Bank of New York Mellon, London Branch in its capacity as issue and paying agent (the “**Issue and Paying Agent**” which expressions shall include any successor to The Bank of New York Mellon, London Branch in its capacity as such and together any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement, the “**Paying Agent**”) and The Bank of New York Mellon (Luxembourg) S.A. in its capacity as registrar (the “**Registrar**”, which expression shall include any successor to The Bank of New York Mellon (Luxembourg) S.A. in its capacity as such). For the purposes of making determinations or calculations of interest rates, interest amounts, redemption amounts or any other matters requiring determination or calculation in accordance with the Terms and Conditions of any Series of Instruments (as defined below), the Issuer may appoint a Calculation Agent (as defined under Condition 4E.05) for the purposes of such Instruments, in accordance with the provisions of the Issue and Paying Agency Agreement, and such Calculation Agent shall be specified in the applicable Final Terms. The Issuer has executed and delivered a deed of covenant dated 6 March 2017 (the “**Deed of Covenant**”). Copies of the Issue and Paying Agency Agreement and the Deed of Covenant are, or will be, available for inspection free of charge during normal business hours at the specified office of each of the Paying Agents and the Registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a “**Series**”), and each Series may comprise one or more tranches (“**Tranches**” and each, a “**Tranche**”) of Instruments. Each Tranche will be the subject of a Final Terms (each, a “**Final Terms**”), a copy of which will be available for inspection free of charge during normal business hours at the specified office of the Issue and Paying Agent and the Registrar, as the case may be, and, in the case of a Tranche of Instruments listed on the regulated market of the Irish Stock Exchange and if the rules of such market so require, shall be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)). In the case of a Tranche of Instruments in relation to which application has not been made for admission for listing on any listing authority, stock exchange and/or quotation system, copies of the Final Terms will only be available for inspection by a Holder of or, as the case may be, an Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments.

References in these Terms and Conditions to “**Instruments**” are to Instruments of the relevant Series and any references to “**Coupons**” (as defined in Condition 1.02) and “**Receipts**” (as defined in Condition 1.02) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the “**Final Terms**” are to the Final Terms or Final Terms(s) prepared in relation to the Instruments of the relevant Tranche or Series.

In respect of any Instruments, references herein to these “**Terms and Conditions**” are to these terms and conditions as amended, modified or varied by the Final Terms.

## 1 Form, Denomination and Title

- 1.01 The Instruments are issued in bearer form (“**Bearer Instruments**”) or in registered form (“**Registered Instruments**”) in each case in the Specified Denomination(s) shown hereon.
- 1.02 Bearer Instruments are serially numbered and are issued with interest coupons (“**Coupons**”), and, where appropriate, talons for further Coupons (a “**Talon**”) attached, save in the case of Zero Coupon Instruments in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Terms and Conditions are not applicable. Instalment Instruments are issued with one or more receipts for the payment of instalments of principal (the “**Receipts**”) attached.
- 1.03 Registered Instruments are represented by registered certificates (“**Individual Certificates**”) and, save as provided in Condition 2.03, each Individual Certificate shall represent the entire holding of Registered Instruments by the same Holder.
- 1.04 Title to the Bearer Instruments and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Instruments shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Issue and Paying Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the Holder (as defined below) of any Instrument, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Individual Certificate representing it) or its theft or loss (or that of the related Individual Certificate) and no person shall be liable for so treating the Holder.
- 1.05 In these Terms and Conditions, “**Holder**” means the bearer of any Bearer Instruments, Receipt, Coupon or Talon or the person in whose name a Registered Instrument is registered (as the case may be), and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Instruments.

## 2 No Exchange of Instruments and Transfers of Registered Instruments

- 2.01 **No Exchange of Instruments:** Registered Instruments may not be exchanged for Bearer Instruments. Bearer Instruments of one Specified Denomination may not be exchanged for Bearer Instruments of another Specified Denomination. Bearer Instruments may not be exchanged for Registered Instruments.
- 2.02 **Transfer of Registered Instruments:** One or more Registered Instruments may be transferred upon the surrender (at the specified office of the Registrar) of the Individual Certificate representing such Registered Instruments to be transferred, together with the form of transfer endorsed on such Individual Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar may reasonably require. In the case of a transfer of part only of a holding of Registered Instruments represented by one Individual Certificate, a new Individual Certificate shall be issued to the transferee in respect of the part transferred and a further new Individual Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Instruments and entries on the Register will be made subject to the detailed regulations concerning transfers of Instruments set out in the Issue and Paying Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Holders. A copy of the current regulations will be made available by the Registrar to any Holders upon request.
- 2.03 **Exercise of Options or Partial Redemption in Respect of Registered Instruments:** In the case of an exercise of an Issuer’s or Holder’s option in respect of, or a partial redemption of, a holding of Registered Instruments represented by a single Individual Certificate, a new Individual Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Instruments of the same holding having different terms, separate Individual Certificates shall be issued in respect of those Instruments of that holding that have the same terms. New Individual Certificates shall only be issued against surrender of the existing Individual Certificates to the Registrar. In the case of a transfer of Registered Instruments to a person who is already a Holder of Registered Instruments, a new

Individual Certificate representing the enlarged holding shall only be issued against surrender of the Individual Certificate representing the existing holding.

- 2.04 **Delivery of New Individual Certificates:** Each new Individual Certificate to be issued pursuant to Conditions 2.02 or 2.03 shall be available for delivery within three business days of receipt of the form of transfer or redemption notice (under Condition 5.08) and surrender of the Individual Certificate for exchange. Delivery of the new Individual Certificate(s) shall be made at the specified office of the Registrar to whom delivery or surrender of such form of transfer, redemption notice (under Condition 5.08) or Individual Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the form of transfer, redemption notice (under Condition 5.08) or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Individual Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Paying Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2.04, “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar to whom such request for exchange or form of transfer shall have been delivered.
- 2.05 **Transfer Free of Charge:** Transfers of Instruments and Individual Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar may require).
- 2.06 **Closed Periods:** No Holder may require the transfer of a Registered Instrument to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Instrument, (ii) during the period of 15 days before any date on which Instruments may be called for redemption by the Issuer at its option pursuant to Condition 5.05, (iii) after any such Instrument has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

### 3 Status of the Instruments

#### *Status of Senior Instruments*

- 3.01 The payment obligations of the Issuer under Instruments which specify their status as Ordinary Senior Instruments (“**Ordinary Senior Instruments**”) or as Second Ranking Senior Instruments (“**Second Ranking Senior Instruments**”), together with the Ordinary Senior Instruments “**Senior Instruments**”) in the relevant Final Terms constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer and, upon the insolvency of the Issuer (and unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Article 92.1º or 92.3º to 92.7º of Law 22/2003 dated 9 July 2003 (*Ley Concursal*) (the “**Insolvency Law**”)), but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), rank:
- (i) in the case of Ordinary Senior Instruments, *pari passu* and rateably without preference among themselves and with all other unsecured and unsubordinated indebtedness (*créditos ordinarios*) of the Issuer, present or future (other than Second Ranking Senior Instruments and claims in respect of Senior Parity Liabilities which will rank junior to them as set out in (ii) below) and senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer; and
  - (ii) in the case of Second Ranking Senior Instruments (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities and (b) *pari passu* with the claims in respect of Senior Parity Liabilities, and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer.

Claims in respect of Second Ranking Senior Instruments are intended to constitute Statutory Second Ranking Senior Liabilities ranking below Statutory Ordinary Senior Liabilities pursuant to any Senior Ranking Amendment Legislation (to the extent permitted by such Senior Ranking Amendment Legislation) but ahead of claims in respect of present and future subordinated obligations (*créditos subordinados*) of the Issuer.

Without prejudice to Condition 8, if the Senior Ranking Amendment Legislation (if any) makes it a condition for Statutory Second Ranking Senior Liabilities or other instruments comprising the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class (such as

the Second Ranking Senior Instruments), upon the insolvency (*concurso*) of the Issuer, to rank below the obligations under any Statutory Ordinary Senior Liabilities or the rest of unsubordinated and unsecured liabilities (*créditos ordinarios*) (such as those under all Senior Higher Priority Liabilities), that the relevant contractual documentation in respect of Statutory Second Ranking Senior Liabilities or other instruments comprising the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class, explicitly refers to their ranking relative to the Statutory Ordinary Senior Liabilities or the rest of unsubordinated and unsecured liabilities (*créditos ordinarios*), the Holders (by virtue of their subscription and/or purchase and holding of the relevant Second Ranking Senior Instruments) will be deemed to have irrevocably accepted the status of the Second Ranking Senior Instruments described above for the purpose of the Senior Ranking Amendment Legislation.

*Claims of Holders of Senior Instruments in respect of interest accrued but unpaid as of the commencement of any insolvency procedure in respect of the Issuer shall constitute subordinated claims (créditos subordinados) against the Issuer ranking in accordance with the provisions of Article 92.3° of the Insolvency Law and no further interest shall accrue from the date of the declaration of insolvency of the Issuer.*

*The obligations of the Issuer under the Senior Instruments are subject to the Bail-in Power.*

For the purposes of the Terms and Conditions:

**“Senior Higher Priority Liabilities”** means the unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer (which will include, among others, the Ordinary Senior Instruments), other than those under Second Ranking Senior Instruments and Senior Parity Liabilities;

**“Senior Parity Liabilities”** means any other unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer which, by law and/or by their terms, rank *pari passu* with the Issuer’s obligations under the Second Ranking Senior Instruments at that time;

**“Senior Ranking Amendment Legislation”** means, if and as applicable, a Spanish piece of legislation that expressly provides for the possibility that, upon the insolvency (*concurso*) of a Regulated Entity issuer of debt securities (i) the obligations under certain unsubordinated and unsecured liabilities (*créditos ordinarios*) (the **“Statutory Second Ranking Senior Liabilities”**) may rank below those of other unsubordinated and unsecured liabilities (*créditos ordinarios*) with higher priority ranking (the **“Statutory Ordinary Senior Liabilities”**), or (ii) different sub-classes within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class are contractually agreed;

**“Statutory Ordinary Senior Liabilities”** has the meaning given to it in the definition of Senior Ranking Amendment Legislation; and

**“Statutory Second Ranking Senior Liabilities”** has the meaning given to it in the definition of Senior Ranking Amendment Legislation.

### ***Status of the Subordinated Instruments***

3.02 The payment obligations of the Issuer under Instruments which specify their status as Subordinated Instruments in the relevant Final Terms (**“Subordinated Instruments”**, which may be, in turn, Senior Subordinated Instruments (**“Senior Subordinated Instruments”**) or Tier 2 Subordinated Instruments (**“Tier 2 Subordinated Instruments”**), as specified in the relevant Final Terms) on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Issuer according to Article 92.2° of the Insolvency Law and, in accordance with Additional Provision 14.2° of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer (unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Articles 92.3° to 92.7° of the Insolvency Law) rank:

- (i) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Senior Subordinated Liabilities of the Issuer:

*This would be expected to be the case if the Subordinated Instruments are specified as Senior Subordinated Instruments in the relevant Final Terms.*

- (a) *pari passu* among themselves and with (i) all other claims for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations (*créditos subordinados*) under Articles 92.3° to 92.7° of the Insolvency Law, and (ii) any other

subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Issuer's obligations under the relevant Subordinated Instruments;

- (b) junior to (i) any unsubordinated obligations (*créditos ordinarios*) of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) of the Issuer which become subordinated pursuant to article 92.1º of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the relevant Subordinated Instruments; and
  - (c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments or Tier 2 Instruments, (ii) any subordinated obligations (*créditos subordinados*) under Articles 92.3º to 92.7º of the Insolvency Law, (iii) any other subordinated obligations (*créditos subordinados*) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments; and
- (ii) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Tier 2 Instruments of the Issuer:

*This would be expected to be the case if the Subordinated Instruments are specified as Tier 2 Subordinated Instruments in the relevant Final Terms.*

- (a) *pari passu* among themselves and with (i) all other claims for principal in respect of Tier 2 Instruments which are not subordinated obligations under Articles 92.3º to 92.7º of the Insolvency Law, and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Issuer's obligations under the relevant Subordinated Instruments;
- (b) junior to (i) any unsubordinated obligations (*créditos ordinarios*) of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) of the Issuer under Article 92.1º of the Insolvency Law, (iii) any claim for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations under Articles 92.3º to 92.7º of the Insolvency Law and (iv) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the relevant Subordinated Instruments; and
- (c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) under Articles 92.3º to 92.7º of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments.

*The obligations of the Issuer under the Subordinated Instruments are subject to the Bail-in Power.*

For the purposes of the Terms and Conditions:

**“Applicable Banking Regulations”** means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator, in each case to the extent then in effect in Spain (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group);

**“Additional Tier 1 Instrument”** means any contractually subordinated obligation (*créditos subordinados*) of the Issuer according to Article 92.2º of the Insolvency Law, ranking as an additional tier 1 instrument (*instrumentos de capital adicional de nivel I*) under Additional Provision 14.2º(c) of Law 11/2015;

**“Bail-in Power”** means any power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Kingdom of Spain, relating to (i) the



transposition of the BRRD (including but not limited to, Law 11/2015, Royal Decree 1012/2015 and any other implementing regulations) as amended or superseded from time to time, (ii) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (as amended or superseded from time to time, the “**SRM Regulation**”) and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of a Regulated Entity (or an affiliate of such Regulated Entity) can be reduced, cancelled, suspended, modified, or converted into shares, other securities, or other obligations of such Regulated Entity (or affiliate of such Regulated Entity);

“**BRRD**” means Directive 2014/59/EU of 15 May establishing the framework for the recovery and resolution of credit institutions and investment firms or such other directive as may come into effect in place thereof, as implemented into Spanish law by Law 11/2015 and RD 1012/2015, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

“**CRD IV**” means any, or any combination of, the CRD IV Directive, the CRR, and any CRD IV Implementing Measures;

“**CRD IV Directive**” means 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, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended from time to time, or such other directive as may come into effect in place thereof;

“**CRD IV Implementing Measures**” means any rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Issuer (on a stand alone basis) or the Group (on a consolidated basis) and which prescribe the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital or the minimum requirement for own funds and eligible liabilities, as the case may be, of the Issuer (on a stand alone basis) or the Group (on a consolidated basis);

“**CRR**” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms, as amended from time to time, or such other regulation as may come into effect in place thereof;

“**Group**” means the Issuer and its consolidated subsidiaries;

“**Law 11/2015**” means Law 11/2015 of 18 June on recovery and resolution of credit institutions and investment firms, as amended from time to time;

“**RD 1012/2015**” means Royal Decree 1012/2015 of 6 November implementing Law 11/2015;

“**Regulated Entity**” means any entity to which BRRD, as implemented in the Kingdom of Spain (including but not limited to, Law 11/2015, Royal Decree 1012/2015 and any other implementing regulations) and as amended or superseded from time to time, or any other Spanish piece of legislation relating to the Bail-in Power, applies, which includes, certain credit institutions, investment firms, and certain of their parent or holding companies;

“**Regulator**” means the European Central Bank or such other or successor governmental authority exercising primary bank supervisory authority from time to time, in each case with respect to prudential matters in relation to the Issuer and/or the Group;

“**Senior Subordinated Liabilities**” means any contractually subordinated obligation (*créditos subordinados*) of the Issuer according to Article 92.2° of the Insolvency Law, ranking as subordinated debt which is not an Additional Tier 1 Instrument or a Tier 2 Instrument (*deuda subordinada que no sea capital adicional de nivel 1 o 2*) under Additional Provision 14.2°(a) of Law 11/2015; and

“**Tier 2 Instrument**” means any contractually subordinated obligation (*créditos subordinados*) of the Issuer according to Article 92.2° of the Insolvency Law, ranking as a tier 2 instrument (*instrumentos de capital de nivel 2*) under Additional Provision 14.2°(b) of Law 11/2015.

## 4 Interest

Instruments may be interest-bearing. The Final Terms in relation to each Tranche of Instruments shall specify which of Condition 4A, 4B, 4C or 4D shall be applicable and Condition 4E will be applicable to each Tranche of Instruments save for where Condition 4D applies, and further save, in each case, to the extent inconsistent with the relevant Final Terms. In relation to any Tranche of Instruments, the relevant Final Terms may specify actual amounts of interest payable rather than, or in addition to, a rate or rates at which interest accrues.

### 4A Interest — Fixed Rate

*This Condition 4A applies to Fixed Rate Instruments only. The applicable Final Terms contain provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4A for full information on the manner in which interest is calculated on Fixed Rate Instruments.*

Instruments in relation to which this Condition 4A applies and the relevant Final Terms specify as being applicable shall bear interest from (and including) their Issue Date or from such other Interest Commencement Date as may be specified in the relevant Final Terms at the rate or rates per annum equal to the Rate of Interest specified in the relevant Final Terms (or otherwise, as specified in the relevant Final Terms). Such interest will be payable in arrear on each Interest Payment Date specified in the relevant Final Terms and on the date Maturity Date. Interest in respect of a period of less than one year will be calculated on such basis as may be specified in Condition 4E.02 and the relevant Final Terms.

### 4B Interest — Reset Instruments

*This Condition 4B applies to Reset Instruments only. The applicable Final Terms contain provisions applicable to the determination of reset rate interest and must be read in conjunction with this Condition 4B for full information on the manner in which interest is calculated on Reset Instruments.*

#### **Rates of Interest and Interest Payment Dates**

4B.01 Instruments in relation to which this Condition 4B applies and the relevant Final Terms specify as being applicable shall bear interest:

- (A) from (and including) their Issue Date or from such other date as may be specified in the relevant Final Terms until (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;
- (B) from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (C) for each Subsequent Reset Period thereafter (if any), at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

the relevant Rate of Interest being payable, in each case, on each Interest Payment Date specified in the relevant Final Terms and on the Maturity Date. The Interest Amount in respect of a period of less than one year will be calculated on such basis as may be specified in Condition 4E.02 and the relevant Final Terms.

For the purposes of these Terms and Conditions:

**“First Margin”** means the margin specified as such in the applicable Final Terms;

**“First Reset Date”** means the date specified in the applicable Final Terms as adjusted (if so specified in the applicable Final Terms) as if the relevant Reset Date was an Interest Payment Date;

**“First Reset Period”** means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

**“First Reset Rate of Interest”** means, in respect of the First Reset Period and subject to Condition 4B.02, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin;

**“Initial Rate of Interest”** has the meaning specified in the applicable Final Terms;

**“Mid-Swap Rate”** means, in relation to a Reset Determination Date and subject to Condition 4B.02, either:

- (i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,which appears on the Relevant Screen Page (as specified in the applicable Final Terms) or such replacement page on that service which displays the information; or
- (ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards), of the bid and offered swap rate quotations for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,which appear on the Relevant Screen Page (as specified in the applicable Final Terms) or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

**“Reset Business Day”** means a day on which commercial banks are open for business and foreign exchange markets settle payments in any Reset Business Centre specified in the relevant Final Terms;

**“Reset Date”** means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

**“Reset Determination Date”** means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Reset Business Day prior to the first day of each such Subsequent Reset Period;

**“Reset Period”** means the First Reset Period or a Subsequent Reset Period, as the case may be;

**“Second Reset Date”** means the date specified in the applicable Final Terms as adjusted (if so specified in the applicable Final Terms) as if the relevant Reset Date was an Interest Payment Date;

**“Subsequent Margin”** means the margin specified as such in the applicable Final Terms;

**“Subsequent Reset Date”** means the date or dates specified in the applicable Final Terms as adjusted (if so specified in the applicable Final Terms) as if the relevant Reset Date was an Interest Payment Date;

**“Subsequent Reset Period”** means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date; and

**“Subsequent Reset Rate of Interest”** means, in respect of any Subsequent Reset Period and subject to Condition 4B.02, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin.

#### **4B.02 *Fallbacks***

If on any Reset Determination Date, the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum of the relevant Mid-Market Swap Rate Quotation (rounded, if necessary, to the nearest 0.001 per cent (0.0005 per cent. being rounded upwards)) and the First or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be (i) the rate determined on the previous Reset Determination Date (if any) or (ii) determined by the Calculation Agent following consultation with the Issuer.

For the purposes of this Condition 4B.02:

**“Mid-Market Swap Rate”** means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration specified in the relevant Final Terms (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

**“Mid-Market Swap Rate Quotation”** means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

**“Mid-Swap Floating Leg Benchmark Rate”** means EURIBOR if the Specified Currency is euro or LIBOR if the Specified Currency is not euro; and

**“Reference Banks”** means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

#### **4C Interest — Floating Rate Instruments and CMS-Linked Instruments**

*This Condition 4C applies to Floating Rate Instruments and CMS-Linked Instruments. The applicable Final Terms contain provisions applicable to the determination of interest in respect of such Instruments and must be read in conjunction with this Condition 4C for full information on the manner in which interest is calculated on Floating Rate Instruments and CMS-Linked Instruments.*

4C.01 Instruments in relation to which this Condition 4C applies and the relevant Final Terms specify as being applicable, shall bear interest at the rate or rates per annum (or otherwise, as specified in the relevant Final Terms) determined in accordance with this Condition 4C. The Rate of Interest payable from time to time in respect of Floating Rate Instruments and CMS-Linked Instruments will be determined in the manner specified in the applicable Final Terms.

4C.02 Such Instruments shall bear interest from (and including) their Issue Date or from such other Interest Commencement Date as may be specified in the relevant Final Terms. Such interest will be payable in arrear on each Interest Payment Date and on the Maturity Date. The Interest Amount in respect of a period of less than one year will be calculated on such basis as may be specified in Condition 4E.02 and the relevant Final Terms.

##### **4C.03 Screen Rate Determination**

If “**Screen Rate Determination**” is specified in the relevant Final Terms as the manner in which the Rate of Interest (the “**Screen Rate**”) is to be determined, the Rate of Interest applicable to such Instruments for each Interest Period will be determined by the Calculation Agent (as defined in Condition 4E.05) on the following basis:

- (A) if the Reference Rate (as defined in Condition 11C) is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page (as defined in Condition 11C) as of the Relevant Time (as defined in Condition 11C) on the relevant Interest Determination Date (as defined in Condition 11C);
- (B) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (C) if, in the case of (A) above, such rate does not appear on that page or, in the case of (B) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (1) request the principal Relevant Financial Centre (as defined in Condition 11C) office of each of the Reference Banks (as defined in Condition 11C) to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date offered to leading banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (2) determine the arithmetic mean of such quotations; and
- (D) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Relevant Financial Centre (or in the case of Instruments denominated in euro, in such financial centre(s) as the Calculation Agent may select), selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Relevant Financial Centre or local time at such other financial centre(s) as aforesaid) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time and the Screen Rate for such Interest Period shall be the rate or (as the case may be) the arithmetic mean so determined,

provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Screen Rate will be the rate or (as the case may be) the arithmetic mean last determined in relation to the Instruments in respect of a preceding Interest Period determined by the Calculation Agent following consultation with the Issuer.

**4C.04 ISDA Determination:** If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest applicable to the Instruments for each Interest Period will be the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the 2006 Definitions of the International Swaps and Derivatives Association, Inc. (the “**ISDA Definitions**”)) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

**4C.05 Rate of Interest:** The Rate of Interest in relation to the Instruments shall be determined as follows:

- (A) If “Margin Plus Rate” is specified as applicable in the applicable Final Terms, the Rate of Interest will be equal to the Margin plus the Screen Rate or ISDA Rate, as applicable;
- (B) If “Specified Percentage Multiplied by Rate” is specified in the applicable Final Terms, the Rate of Interest will be equal to the Specified Percentage multiplied by the Screen Rate or ISDA Rate, as applicable; or
- (C) If “Difference in Rates” is specified in the applicable Final Terms, the Rate of Interest will be equal to the Specified Percentage multiplied by the difference between Rate 1 and Rate 2, each of Rate 1 and Rate 2 to be determined in accordance with Condition 4C.03 or with Condition 4C.04 as specified in the relevant Final Terms.

**4C.06 Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then, subject to Condition 4E.01, the Rate of Interest shall in no event be greater than the Maximum Rate of Interest or be less than the Minimum Rate of Interest so specified. Where the Rate of Interest is determined to be higher than the Maximum Rate of Interest or lower than the Minimum Rate of Interest, such higher rate shall be deemed to be equal to such Maximum Rate of Interest and such lower rate shall be deemed to be equal to such Minimum Rate of Interest, as applicable.

**4C.07 CMS Linked Interest Provisions:** If the CMS-Linked Interest Instruments Provisions are specified in the relevant Final Terms as being applicable, the Rate of Interest applicable to the Instruments for each Interest Period will be calculated by reference to a constant maturity swap rate specified in the relevant Final Terms and the relevant provisions of this Condition 4C will apply as though references to Floating Rate Instruments were references to CMS-Linked Instruments where “Screen Rate Determination” and “Margin Plus Rate” are applicable.

#### **4D Interest — Zero Coupon Instruments**

*This Condition 4D applies to Zero Coupon Instruments only. The applicable Final Terms contain provisions applicable to the determination of zero coupon interest and must be read in conjunction with this Condition 4D for full information on the manner in which interest is calculated on Zero Coupon Instruments.*

Instruments in relation to which this Condition 4D applies and the relevant Final Terms specify as being applicable shall not bear interest. Where such Zero Coupon Instrument is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount (Zero Coupon) (as defined in Condition 5.05). As from the Maturity Date, the Rate of Interest for any overdue principal of such an Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 5.05).

#### **4E Interest — Supplemental Provision**

##### **4E.01 Step Up Provisions:**

- (a) This Condition 4E.01 applies to Ordinary Senior Instruments if the Step Up Provisions are specified in the relevant Final Terms as being applicable. If so applicable, the rate of interest payable on Ordinary Senior Instruments will be subject to adjustment from time to time, as follows:
  - (i) subject to paragraph (iii) below, from and including the first Interest Payment Date following the date a Step Down Rating Change occurs, the rate of interest payable on the Ordinary Senior Instruments shall be the Initial Interest Rate. For the avoidance of doubt, the rate of interest payable on the Ordinary Senior Instruments shall remain at the Initial Interest Rate notwithstanding any further increase in the rating assigned to the Senior Instruments above BBB-/Baa3 (or equivalent);
  - (ii) subject to paragraph (iii) below, from and including the first Interest Payment Date following the date a Step Up Rating Change occurs, the rate of interest payable on the Ordinary Senior Instruments shall be the Initial Interest Rate plus the applicable Step Up Margin specified in the relevant Final Terms (together, the “**Increased Rate of Interest**”). For the avoidance of doubt, the rate of interest payable on the Ordinary Senior Instrument shall remain at the Increased Rate of Interest notwithstanding any further decrease in the rating of the Senior Instruments below BB+/Ba1 (or equivalent); and

- (iii) if, within the same Interest Period, at least one Step Up Rating Change and at least one Step Down Rating Change occurs (A) where the majority of Rating Agencies announce a Step Down Rating Change, paragraph (i) above shall apply, (B) where the majority of Rating Agencies announce a Step Up Rating Change, paragraph (ii) above shall apply and (C) otherwise, the rate of interest payable on the Ordinary Senior Instrument shall neither be increased nor decreased.
- (b) Notwithstanding any other provision of this Condition 4E.01, there shall be no adjustment in the rate of interest applicable to the Ordinary Senior Instruments (1) on the basis of any rating assigned to the Senior Instrument by any rating agency other than on a basis solicited by or on behalf of the Issuer even if at the relevant time such rating is the only rating then assigned to the Ordinary Senior Instruments and (2) at any time after notice of redemption has been given pursuant to Conditions 5.06 or 5.07.
- (c) There shall be no limit on the number of times that adjustments to the rate of interest payable on the Senior Instruments may be made pursuant to this Condition 4E.01 during the term of the Ordinary Senior Instruments, provided always that at no time during the term of the Ordinary Senior Instruments will the rate of interest payable on the Ordinary Senior Instruments be less than the Initial Interest Rate or more than the Increased Rate of Interest.
- (d) In the event the rate of interest payable on the Ordinary Senior Instruments is the (ii) Increased Rate of Interest, any Maximum Rate of Interest or Minimum Rate of Interest specified hereon shall be increased by the Step Up Margin specified hereon and (ii) Initial Interest Rate as a result of a Step Down Rating Change, the Maximum Rate of Interest and the Minimum Rate of Interest shall be restored to the Maximum Rate of Interest and the Minimum Rate of Interest specified hereon.
- (e) If the rating designations employed by any of Moody's, Fitch or S&P are changed from those which are described in this Condition 4E.01, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 4E.01 shall be read accordingly.
- (f) The Issuer will cause the occurrence of an event giving rise to an adjustment in the rate of interest payable on the Ordinary Senior Instruments pursuant to this Condition 4E.01 to be notified to the Issue and Paying Agent and notice thereof to be given in accordance with Condition 16 as soon as possible after the occurrence of the relevant event.

In these Terms and Conditions:

**"Initial Interest Rate"** means the initial Rate of Interest either specified or calculated in accordance with the provisions hereon;

**"Fitch"** means Fitch Ratings Ltd. or any of its affiliates or successor;

**"Moody's"** means Moody's Investors Service Limited or any of its affiliates or successor;

**"Rating Agencies"** means Moody's, Fitch, S&P or any other rating agency selected by the Issuer from time to time to assign a credit rating to the relevant Ordinary Senior Instruments (a **"Substitute Rating Agency"**) and **"Rating Agency"** means any one of them;

**"S&P"** means Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its affiliates or successor;

**"Step Down Rating Change"** means the public announcement by any Rating Agency assigning a credit rating to the Ordinary Senior Instruments of an increase in or a confirmation of the rating of the Ordinary Senior Instruments to or as BBB-/Baa3 (or equivalent) or better; and

**"Step Up Rating Change"** means the public announcement by any Rating Agency assigning a credit rating to the Ordinary Senior Instruments of a decrease in or a confirmation of the rating of the Ordinary Senior Instruments to or as BB+/Ba1 (or equivalent) or below.

- 4E.02 The Calculation Agent will, as soon as practicable after determining the Rate of Interest in relation to each Interest Period, calculate the Interest Amount. The Interest Amount payable per Calculation Amount in respect of any Instrument for any Interest Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the relevant Final Terms, and the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period, in

which case the amount of interest payable per Calculation Amount in respect of such Instrument for such Interest Period shall equal such Interest Amount (or be calculated in accordance with such formula). In respect of any period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

In this condition 4E.02:

**“Interest Amount”** means: (i) in respect of an Interest Period, the amount of interest payable per Calculation Amount for that Interest Period and which, in the case of Fixed Rate Instruments, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount specified in the relevant Final Terms as being payable on the Interest Payment Date ending the relevant Interest Period; and (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

***Interest Payment Date Conventions and other Calculations***

4E.02(a) **Business Day Convention:** The Final Terms in relation to each Series of Instruments shall specify which of the following conventions shall be applicable, namely:

- (i) the **“FRN Convention”**, in which case interest shall be payable in arrear on each date (each an Interest Payment Date) which numerically corresponds to the date of issue or such other Interest Commencement Date as may be specified in the relevant Final Terms or, as the case may be, the preceding Interest Payment Date in the calendar month which is the number of months specified in the relevant Final Terms after the calendar month in which such date of issue or such Interest Commencement Date as aforesaid or, as the case may be, the preceding Interest Payment Date occurred *provided that*:
  - (a) if there is no such numerically corresponding day in the calendar month in which an Interest Payment Date should occur, then the relevant Interest Payment Date will be the last day which is a Business Day (as defined in Condition 11C.03) in that calendar month;
  - (b) if an Interest Payment Date would otherwise fall on a day which is not a Business Day, then the relevant Interest Payment Date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (c) if such date of issue or such other date as aforesaid or the preceding Interest Payment Date occurred on the last day in a calendar month which was a Business Day, then all subsequent Interest Payment Dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which such date of issue or such other date as aforesaid or, as the case may be, the preceding Interest Payment Date occurred;
- (ii) the **“Modified Following Business Day Convention”**, in which case interest shall be payable in arrear on each Interest Payment Date specified in the relevant Final Terms *provided that*, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, the relevant Interest Payment Date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case the relevant Interest Payment Date will be the first preceding day which is a Business Day;
- (iii) the **“Following Business Day Convention”** in which case interest shall be payable in arrear on each Interest Payment Date specified in the relevant Final Terms *provided that*, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, the relevant Interest Payment Date will be the first following day which is a Business Day; or
- (iv) **“No Adjustment”** in which case the relevant date shall not be adjusted in accordance with any Business Day Convention.

4E.03(b) **“Day Count Fraction”** means, in respect of the calculation of an amount for any period of time (**“Calculation Period”**), such day count fraction as may be specified in the Final Terms and:



- (i) if “**Actual/Actual**” or “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/Actual (ICMA)**” is so specified hereon,  
 if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and  
 if the Calculation Period is longer than one Determination Period, the sum of:
  - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified in in the relevant Final Terms or, if none is so specified, the Interest Payment Date(s);

- (iv) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**” “**360/360**” or “**Bond Basis**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“ $Y_1$ ” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“ $Y_2$ ” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“ $M_1$ ” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“ $M_2$ ” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“ $D_1$ ” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case  $D_1$  will be 30; and

“ $D_2$ ” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30.

- (vii) if “**30E/360 (ISDA)**” is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Termination Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

Each period beginning on (and including) the Issue Date or such Interest Commencement Date as aforesaid and ending on (but excluding) the first Interest Payment Date and each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an “**Interest Period**”.

#### ***Notification of Rates of Interest, Interest Amounts and Interest Payment Dates***

4E.04 The Calculation Agent will cause each Rate of Interest, Interest Payment Date, final day of a Calculation Period, Interest Amount or other item, as the case may be, determined or calculated by it to be notified to the Issuer and the Issue and Paying Agent. The Issue and Paying Agent will cause all such determinations or calculations to be notified to the other Paying Agents and, in the case of Registered Instruments, the Registrar (from whose respective specified offices such information will be available) and to the Holders in accordance with Condition 16 as soon as practicable after such determination or calculation but in any event not later than the fourth London Banking Day thereafter or, if earlier, in the case of notification to any listing authority, stock exchange and/or quotation

system, the time required by the rules of any such listing authority, stock exchange and/or quotation system. The Issue and Paying Agent will cause all such determinations or calculations to be notified to the Irish Stock Exchange no later than the first day of each Interest Period. The Calculation Agent will be entitled to amend any Interest Amount or Interest Payment Date or final day of a Calculation Period (or to make appropriate alternative arrangements by way of adjustment) without prior notice in the event of the extension or abbreviation of any relevant Interest Period or Calculation Period and such amendment will be notified in accordance with the first two sentences of this Condition 4E.04.

- 4E.05 The determination by the Calculation Agent of all items falling to be determined by it pursuant to these Terms and Conditions shall, in the absence of manifest error, be final and binding on all parties.

**“Calculation Agent”** means the Issue and Paying Agent or such other person specified in the relevant Final Terms as the party responsible for calculating the Rate of Interest and the Interest Amount and such other amount(s) as may be specified in the relevant Final Terms.

#### ***Accrual of Interest***

- 4E.06 Interest shall accrue on the principal amount of each Instrument or, in the case of an Instalment Instrument, on each instalment of principal, (in each case other than a Zero Coupon Instrument) on the paid up principal amount of such Instrument or otherwise as indicated in the Final Terms from the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment thereof) unless upon (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment) due presentation or surrender thereof, payment in full of the principal amount or the relevant instalment or, as the case may be, redemption amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue thereon (as well after as before any demand or judgment) at the rate then applicable to the principal amount of the Instruments or such other rate as may be specified in the relevant Final Terms (the **“Default Rate”**) until the earlier of (i) the date on which, upon due presentation of the relevant Instrument (if required), the relevant payment is made or (ii) (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment) the seventh day after the date on which notice is given to the Holders in accordance with Condition 16 that the Issue and Paying Agent or the Registrar (as the case may be) has received the funds required to make such payment (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

## **5 Redemption and Purchase**

#### ***Redemption at Maturity***

- 5.01 Unless previously redeemed, or purchased and cancelled, each Instrument shall be finally redeemed at its maturity redemption amount (the **“Maturity Redemption Amount”**) (which shall be its principal amount or such other Maturity Redemption Amount as may be specified in the relevant Final Terms or, in the case of Instalment Instruments, in such number of instalments and in such amounts as may be specified in the relevant Final Terms) on the Maturity Date specified in the relevant Final Terms. Tier 2 Subordinated Instruments will have a maturity of not less than five years or as otherwise permitted in accordance with Applicable Banking Regulations in force at the relevant time.

#### ***Early Redemption for Taxation Reasons***

- 5.02 If, in relation to any Series of Instruments, as a result of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application or interpretation of any such laws or regulations, including a decision of any court or tribunal, which change or amendment becomes effective on or after the Issue Date of such Instruments, (a) in making any payments on the Instruments, the Issuer has paid or will or would be required to pay additional amounts as provided in Condition 10 or (b) in the case of Subordinated Instruments and Second Ranking Senior Instruments, the Issuer is no longer entitled to claim a deduction in respect of any payments in relation to the Subordinated Instruments or the Second Ranking Senior Instruments in computing its taxation liabilities or the value of such deduction to the Issuer would be materially reduced, or (c) in the case of Subordinated Instruments and Second Ranking Senior Instruments, the applicable tax treatment of the Subordinated Instrument or the Second Ranking Senior Instruments changes and such circumstances are evidenced by the delivery by the Issuer to the Issue and Paying Agent and the Commissioner of (x) a certificate signed by two

Authorised Signatories stating that the relevant circumstances giving rise to the right to redeem prevail and describing the facts leading thereto, (y) an opinion of independent legal advisers of national recognised standing or other national tax adviser experienced in such matters to the effect that the relevant circumstances prevail and (z) in the case of Subordinated Instruments and Second Ranking Senior Instruments, a copy of the Regulator's and/or Relevant Resolution Authority's consent (if and as required therefor under Applicable Banking Regulations) to the redemption, to the extent required, the Issuer may, at its option and having given no less than 30 nor more than 60 calendar days' notice to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 16, the Holders of the Instruments (which notice shall be irrevocable and shall specify the date fixed for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the "**Early Redemption Amount (Tax)**") (which shall be their principal amount or at such other Early Redemption Amount (Tax) as may be specified in the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption *provided, however*, that no such notice of redemption may be given earlier than 90 calendar days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer (i) would be obliged to pay additional amounts, (ii) would no longer be entitled to claim a deduction or the amount of such deduction would be materially reduced or (iii) would be obliged to apply the applicable tax treatment.

In the case of Second Ranking Senior Instruments and Subordinated Instruments, redemption for taxation reasons is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(4) of the CRR provides that the Regulator may only permit the redemption of Tier 2 Subordinated Instruments before the fifth anniversary of the Issue Date for taxation reasons if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR, there is a change in the applicable tax treatment of the instruments and the institution demonstrates to the satisfaction of the Regulator that such change is material and was not reasonably foreseeable at the Issue Date.*

For the purposes of these Terms and Conditions:

"**Relevant Resolution Authority**" means the *Fondo de Resolución Ordenada Bancaria* (FROB), the Single Resolution Board ("**SRB**") established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Bail-in Power from time to time; and

### ***Early Redemption due to Capital Disqualification Event***

- 5.03 If, in the case of Tier 2 Subordinated Instruments only, a Capital Disqualification Event occurs as a result of a change (or any pending change which the Regulator considers sufficiently certain) in Spanish law or Applicable Banking Regulations becoming effective on or after the Issue Date, the Issuer may, at its option and having given not less than 30 nor more than 60 calendar days' notice to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 16, the Holders of the Tier 2 Subordinated Instruments (which notice shall be irrevocable and shall specify the date fixed for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the Tier 2 Subordinated Instruments.

Tier 2 Subordinated Instruments redeemed pursuant to this Condition 5.03 will be redeemed at their early redemption amount (the "**Early Redemption Amount (Capital Disqualification Event)**") (which shall be their principal amount or a such other Early Redemption Amount (Capital Disqualification Event) as may be specified in the relevant Final Terms) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Redemption of Tier 2 Subordinated Instruments for regulatory reasons pursuant to this Condition 5.03 is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(4) provides that the Regulator may only permit the redemption of Tier 2 Subordinated Instruments before the fifth anniversary of the Issue Date for regulatory reasons if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) (as described below), there is a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Regulator considers such change to be sufficiently certain and the institution demonstrates to the satisfaction of the Regulator that the regulatory classification was not reasonably foreseeable at the Issue Date.*

For the purposes of these Terms and Conditions:

**“Capital Disqualification Event”** means the determination by the Issuer after consultation with the Regulator that the Tier 2 Subordinated Instruments are not eligible for inclusion in whole or, to the extent not prohibited by Applicable Banking Regulations, in part, in the Tier 2 Capital of the Issuer or the Group pursuant to Applicable Banking Regulations or any other regulations applicable in Spain from time to time (other than as a result of any applicable limitation on the amount of such capital as applicable to the Issuer); and

**“Tier 2 Capital”** means tier 2 capital (*capital de nivel 2*) as provided under the Applicable Banking Regulations.

#### ***Early Redemption due to TLAC/MREL Disqualification Event***

- 5.04 If, in the case of Senior Subordinated Instruments and Second Ranking Senior Instruments only, following the TLAC/MREL Requirement Date, a TLAC/MREL Disqualification Event has occurred and is continuing, then the Issuer may, at its option and having given not less than 30 nor more than 60 days’ notice to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 16, the Holders of the relevant Instruments (as applicable) (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the relevant Instruments (as applicable). Upon the expiry of such notice, the Issuer shall redeem the relevant Instruments (as applicable).

Senior Subordinated Instruments and Second Ranking Senior Instruments redeemed pursuant to this Condition 5.04 will be redeemed at their early redemption amount (the **“Early Redemption Amount (TLAC/MREL Disqualification Event)”**) (which shall be their principal amount or such other Early Redemption Amount (TLAC/MREL Disqualification Event) as may be specified in or determined in accordance with the relevant Final Terms) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Redemption of Second Ranking Senior Instruments and Senior Subordinated Instruments for regulatory reasons pursuant to this Condition 5.04 is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

For the purposes of these Terms and Conditions:

**“Applicable TLAC/MREL Regulations”** means, at any time, the laws, regulations, requirements, guidelines and policies then in effect in the Kingdom of Spain giving effect to the MREL and the principles set forth in the FSB TLAC Term Sheet or any successor principles then applicable to the Issuer and/or the Group, including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies giving effect to the MREL and the principles set forth in the FSB TLAC Term Sheet or any successor principles then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group);

**“EC Proposals”** means the European Commission’s proposals to amend and supplement certain provisions of the CRD IV Directive, the CRR, the SRM Regulation and the BRRD;

**“FSB TLAC Term Sheet”** means the Total Loss-absorbing Capacity (TLAC) term sheet set forth in the document dated 9 November 2015 published by the Financial Stability Board, entitled “Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution,” as amended from time to time;

“**MREL**” means the “minimum requirement for own funds and eligible liabilities” for credit institutions under the BRRD, set in accordance with Article 45 of the BRRD (as transposed in Spain), Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016, supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities, or any successor requirement under EU legislation and relevant implementing legislation and regulation in Spain;

“**TLAC/MREL Disqualification Event**” means at any time, on or following the TLAC/MREL Requirement Date, that all or part of the outstanding nominal amount of the Senior Subordinated Instruments or the Second Ranking Senior Instruments does not fully qualify as TLAC/MREL-Eligible Instruments of the Issuer and/or the Group, except where such non-qualification (i) was reasonably foreseeable as at the relevant Issue Date of the relevant Instruments or (ii) is due solely to the remaining maturity of the relevant Instruments (as applicable) being less than any period prescribed for TLAC/MREL-Eligible Instruments by the Applicable TLAC/MREL Regulations or (iii) is as a result of the relevant Instruments (as applicable) being bought back by or on behalf of the Issuer or a buy back of the relevant Instruments which is funded by or on behalf of the Issuer.

For the purpose of paragraph (i) of this definition, the circumstances where any non-qualification of the Senior Subordinated Instruments and Second Ranking Senior Instruments as TLAC/MREL-Eligible Instruments shall not be “reasonably foreseeable” shall, without limitation, be deemed to include where such non-qualification arises as a result of (a) any legislation which gives effect to the EC Proposals in the Kingdom of Spain differing in any respect from the form of the EC Proposals as published by the European Commission on 23 November 2016 (the “**Draft EC Proposals**”) (including if the EC Proposals are not implemented in full in the Kingdom of Spain), or (b) the official interpretation or application of the Draft EC Proposals or the EC Proposals as implemented in the Kingdom of Spain (including any interpretation or pronouncement by any relevant court, tribunal or authority) differing in any respect from the manner in which the Draft EC Proposals have been reflected in these Terms and Conditions.

“**TLAC/MREL-Eligible Instrument**” means an instrument that complies with the TLAC/MREL Requirements;

“**TLAC/MREL Requirement Date**” means the time from which the Issuer and/or the Group is obliged to meet any TLAC/MREL Requirements; and

“**TLAC/MREL Requirements**” means the total loss-absorbing capacity requirements and/or minimum requirement for own funds and eligible liabilities applicable to the Issuer and/or the Group under the Applicable TLAC/MREL Regulations.

#### ***Early Redemption (Zero Coupon Instruments)***

5.05

- (a) The early redemption amount payable in respect of any Zero Coupon Instrument (the “**Early Redemption Amount (Zero Coupon)**”) upon redemption of such Instrument pursuant to Condition 5.02, Condition 5.03, Condition 5.04, Condition 5.06 or Condition 5.08 or upon it becoming due and payable as provided in Condition 6 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified hereon.
- (b) Subject to the provisions of sub-paragraph (c) below, the “**Amortised Face Amount**” of any such Instrument shall be the scheduled Maturity Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is set out in the relevant Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.
- (c) If the Early Redemption Amount (Zero Coupon) payable in respect of any such Instrument upon its redemption pursuant to Condition 5.02, Condition 5.03, Condition 5.04, Condition 5.06 or Condition 5.08 or upon it becoming due and payable as provided in Condition 6 is not paid when due, the Early Redemption Amount (Zero Coupon) due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (b) above, except that such sub-paragraph shall have effect as though the date on which the Instrument becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-

paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Maturity Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 4E.

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

### ***Optional Early Redemption (Call)***

- 5.06 If Call Option is specified in the relevant Final Terms as being applicable, then the Issuer may, having given not less than 30 calendar days' notice (or such lesser period as may be specified in the relevant Final Terms) to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 16, the Holders of the Instruments (which notice shall be signed by two duly Authorised Signatories, shall be irrevocable and shall specify the date for redemption) and subject to such conditions as may be specified in the relevant Final Terms, redeem all (but not, unless and to the extent that the relevant Final Terms specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Early Redemption Amount (Call)**") (which shall be their principal amount or such other Early Redemption Amount (Call) as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption.

In the case of Second Ranking Senior Instruments and Subordinated Instruments, redemption at the option of the Issuer pursuant to this Condition 5.06 is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(1) of the CRR provides that the Regulator will give its consent to a redemption of Tier 2 Subordinated Instruments in such circumstances provided that either of the following conditions is met:*

- (a) on or before such redemption of the Tier 2 Subordinated Instruments, the institution replaces the Tier 2 Subordinated Instruments with own funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the institution; or*
  - (b) the institution has demonstrated to the satisfaction of the Regulator that its own funds would, following such redemption, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV Directive by a margin that the Regulator may consider necessary on the basis of Article 104(3) of the CRD IV Directive.*
- 5.07 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 5.06:
- (a) in the case of Bearer Instruments, the Instruments to be redeemed shall be drawn by lot, with the intervention of the relevant Commissioner and before a Notary Public who will take the minutes, in such European city as the Issue and Paying Agent may specify, or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair; and
  - (b) in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) pro rata to their principal amounts, subject always as aforesaid and provided always that the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments may be listed and/or quoted.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.02 to 2.06 which

shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

#### ***Optional Early Redemption (Put)***

- 5.08 If Put Option is specified in the relevant Final Terms as being applicable to the Ordinary Senior Instruments, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the Early Redemption Date(s) specified in the relevant Final Terms at its put early redemption amount (the “**Early Redemption Amount (Put)**”) (which shall be its principal amount or such other Early Redemption Amount (Put) as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption. In order to exercise such option, the Holder must, not less than 60 calendar days before the date so specified (or such other period as may be specified in the relevant Final Terms), deposit the relevant Instrument together with any unmatured Coupons appertaining thereto with, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed redemption notice in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

This Condition 5.08 shall not apply in the case of Subordinated Instruments and Second Ranking Senior Instruments and holders of Subordinated Instruments and Second Ranking Senior Instruments may not redeem such Subordinated Instruments and Second Ranking Senior Instruments prior to the Maturity Date.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.02 to 2.09 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The Holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of an exercise by the Issuer of its option to redeem such Instrument under Conditions 5.06.

#### ***Redemption by Instalments***

- 5.09 Unless previously redeemed, purchased and cancelled as provided in this Condition 5, each Instrument which provides for Instalment Dates and Instalment Amounts in the relevant Final Terms will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Instrument shall be reduced by the Instalment Amount for all purposes.

#### ***Cancellation of Redeemed Instruments***

- 5.10 All unmatured Instruments and Coupons and unexchanged Talons redeemed (*amortizados*) will be cancelled forthwith and may not be reissued or resold.

#### ***Purchase of Instruments***

- 5.11 The Issuer and any of its respective subsidiaries or any third party designated by it, may at any time purchase Instruments in the open market or otherwise and at any price *provided that* all unmatured Coupons appertaining thereto are purchased therewith.

In the case of Second Ranking Senior Instruments and Subordinated Instruments, the purchase of the relevant Instruments by the Issuer or any of its subsidiaries shall take place in accordance with Applicable Banking Regulations in force at the relevant time and will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority, if and as required.

*Under the current Applicable Banking Regulations an institution requires the prior permission of the Regulator (Article 77(b) of the CRR) to effect the repurchase of tier 2 instruments, and these may not be repurchased before five years after the date of issuance (Article 63(j) of the CRR).*



***Further Provisions applicable to Redemption Amount and Instalment Amounts***

- 5.12 The provisions of Condition 4E.04 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent.
- 5.13 References herein to “**Redemption Amount**” shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Early Redemption Amount (Capital Disqualification Event), Early Redemption Amount (TLAC/MREL Disqualification Event), Early Redemption Amount (Zero Coupon), Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms.

***Notices***

- 5.14 Notices of early redemption (whether full or partial) of Instruments shall be given in accordance with Condition 16.

***Notification of Irish Stock Exchange***

- 5.15 The Issuer shall notify the Irish Stock Exchange of any early redemption (whether full or partial) of Instruments.

**6 Events of Default**

***Events of Default for Ordinary Senior Instruments***

- 6.01 Unless otherwise specified in the relevant Final Terms, if, in the case of Ordinary Senior Instruments, any of the following events occurs and is continuing (each an “**Event of Default**” solely in respect of Ordinary Senior Instruments), such Event of Default shall be an acceleration event in relation to the Ordinary Senior Instruments of any Series, namely:
- (i) *Non-payment*: if default is made in the payment of any interest or principal due in respect of the Ordinary Senior Instruments of the relevant Series and such default continues for a period of seven Business Days; or
  - (ii) *Breach of other obligations*: if the Issuer fails to perform or observe any of its other obligations under or in respect of the Ordinary Senior Instruments of the relevant Series, or the Issue and Paying Agency Agreement and (except in any case where such failure is incapable of remedy when no such continuation as is hereinafter mentioned will be required) the failure continues for a period of 30 days following the service by the relevant Commissioner (as defined in Condition 15 below) on the Issuer of a notice requiring the same to be remedied; or
  - (iii) *Winding up*: if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in any such case for the purpose of reconstruction or a merger or amalgamation which has been previously approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments or a merger with another financial institution in this case even without being approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments, *provided that* any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer at the time of such merger); or
  - (iv) *Cessation of business*: if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of a reorganisation (except in any such case for the purpose of a reconstruction or a merger or amalgamation which has been previously approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments or a merger with another financial institution in this case even without being approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments, *provided that* any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer, as the case may be, at the time of such merger), or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class thereof) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

- (v) *Insolvency proceedings*: if (a) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or in relation to the whole or a part of its undertaking or assets, or an encumbrancer takes possession of the whole or a part of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of its undertaking or assets and (b) in any case is not discharged within 14 days; or
- (vi) *Arrangements with creditors*: if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors).

6.02 If any Event of Default shall occur in relation to any Series of Ordinary Senior Instruments, the relevant Commissioner, acting upon a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments of the relevant Series, in respect of all the Ordinary Senior Instruments of a relevant Series, or any Holder of a Senior Instrument in respect of such Senior Instrument and *provided that* such Holder does not contravene the resolution of the relevant Syndicate (if any) may, by written notice to the Issuer, at the specified office of the Issue and Paying Agent, declare that such Senior Instrument or Instruments and all interest then accrued on such Senior Instrument or Instruments shall (when permitted by applicable Spanish law) be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the “**Early Termination Amount**”) (which shall be its principal amount or such other Early Termination Amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Ordinary Senior Instruments under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Senior Instrument or Instruments to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Ordinary Senior Instruments of the relevant Series shall have been cured.

#### ***Events of Default for Subordinated Instruments and Second Ranking Senior Instruments***

6.03 Save as provided below, there are no events of default under the Subordinated Instruments and the Second Ranking Senior Instruments which could lead to an acceleration of the Subordinated Instruments and the Second Ranking Senior Instruments.

However, if an order is made by any competent court commencing insolvency proceedings against the Issuer or if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in any such case for the purpose of a reconstruction, a merger or an amalgamation which has been previously approved by a resolution of the Syndicate of Holders of Instruments or a merger with another financial institution, whether or not approved by the Syndicate of Holders of Instruments, provided that any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer at the time of such merger) and such order is continuing, then any Instrument may, unless there has been a resolution to the contrary by the Syndicate of Holders of Instruments, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Issue and Paying Agent, be declared immediately due and payable, whereupon the principal amount of such Instruments together with any accrued and unpaid interest thereon to the date of payment shall become immediately due and payable without further action or formality.

Notwithstanding the above, if default is made in the payment of any interest or principal due in respect of the Instruments and such default continues for a period of seven days then, (i) the Commissioner, acting upon a resolution of the Syndicate of Holders of Instruments, in respect of all Second Ranking Senior Instruments, or (ii) unless there has been a resolution to the contrary by the Syndicate of Holders of Instruments (which resolution shall be binding on all Holders), any Holder in respect of the Second Ranking Senior Instruments held by such Holder, may institute proceedings for the winding up or dissolution of the Issuer but may take no further or other action in respect of such default.

In addition, (i) the Commissioner, acting upon a resolution of the Syndicate of Holders of Instruments, or (ii) unless there has been a resolution to the contrary by the Syndicate of Holders of Instruments (which resolution shall be binding on all Holders), any Holder in respect of the Instruments held by such Holder, may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Instruments, provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Instruments sooner than the same would otherwise have been payable by it or any damages.

Neither a cancellation of the Instruments, a reduction, in part or in full, of the principal amount of the Instruments or any accrued and unpaid interest on the Instruments, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the Bail-in Power by the Relevant Resolution Authority with respect to the Issuer, nor the exercise of any Bail-in Power by the Relevant Resolution Authority with respect to the Instruments will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Holders to any remedies (including equitable remedies), which are hereby expressly waived.

## **7 Waiver of Set-off**

If this Condition 7 is specified in the relevant Final Terms as being applicable to the Instruments, no Holder may at any time exercise or claim any Waived Set-Off Rights against any right, claim, or liability the Issuer has or may have or acquire against such Holder, directly or indirectly, howsoever arising (and, for the avoidance of doubt, including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any sort, whether or not relating to such Instrument) and each Holder shall be deemed to have waived all Waived Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Instruments is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer and accordingly any such discharge shall be deemed not to have taken place.

For the avoidance of doubt, nothing in this Condition is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Holder of any Instrument but for this Condition.

For the purposes of these Terms and Conditions:

“**Waived Set-Off Rights**” means any and all rights of or claims of any Holder for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Instrument.

## **8 Substitution and Variation of Subordinated Instruments and Second Ranking Senior Instruments**

If this Condition 8 is specified in the relevant Final Terms as being applicable to the Subordinated Instruments or the Second Ranking Senior Instruments, and a Capital Disqualification Event, a TLAC/MREL Disqualification Event, an Alignment Event or a circumstance giving rise to the right of the Issuer to redeem the Subordinated Instruments or Second Ranking Senior Instruments for taxation reasons under Condition 5.02 occurs and is continuing, the Issuer may substitute all (but not some only) of the Subordinated Instruments or of the Second Ranking Senior Instruments (as the case may be) or modify the terms of all (but not some only) of the Subordinated Instruments or of the Second Ranking Senior Instruments (as the case may be), without any requirement for the consent or approval of the Holders, so that they are substituted for, or varied to, become, or remain, Qualifying Instruments, subject to having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 16, the Registrar and the Issue and Paying Agent (which notice shall be irrevocable and shall specify the date for substitution or, as applicable, variation), and subject to obtaining the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and in accordance with Applicable Banking Regulations in force at the relevant time.

Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Holders can inspect or obtain copies of the new terms and conditions of the

Subordinated Instruments or the Second Ranking Senior Instruments. Such substitution or variation will be effected without any cost or charge to the Holders.

Holders shall, by virtue of subscribing and/or purchasing and holding any Subordinated Instruments or Second Ranking Senior Instruments, be deemed to accept the substitution or variation of the terms of the Subordinated Instruments and the Second Ranking Senior Instruments (as applicable) and to grant to the Issuer full power and authority to take any action and/or to execute and deliver any document in the name and/or on behalf of the Holders which is necessary or convenient to complete the substitution or variation of the terms of the Subordinated Instruments and the Second Ranking Senior Instruments (as applicable), as applicable.

In these Terms and Conditions:

An “**Alignment Event**” is deemed to have occurred if, in the case of Second Ranking Senior Instruments, following the implementation of the Senior Ranking Amendment Legislation or an amendment thereof, the terms and conditions of Statutory Second Ranking Senior Liabilities or the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class, are different in any respect from the Conditions. Further, an Alignment Event will be deemed to have occurred if the Senior Ranking Amendment Legislation requires that only securities issued on or following a certain date which is after the Issue Date may qualify as Statutory Second Ranking Senior Liabilities or as the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class;

“**Qualifying Instruments**” means, at any time, any securities denominated in the Specified Currency and issued directly by the Issuer that have terms not otherwise materially less favourable to the Holders than the terms of the Subordinated Instruments and the Second Ranking Senior Instruments (as applicable) provided that the Issuer shall have delivered a certificate signed by two Authorised Signatories to that effect to the Issue and Paying Agent and the Commissioner not less than five Business Days prior to (x) in the case of a substitution of the Subordinated Instruments and the Second Ranking Senior Instruments pursuant to this Condition 8, the issue date of the relevant securities or (y) in the case of a variation of the Subordinated Instruments and the Second Ranking Senior Instruments pursuant to this Condition 8, the date such variation becomes effective, provided that such securities shall:

- (i) (a) in the case of Senior Subordinated Instruments and Second Ranking Senior Instruments, if the TLAC/MREL Requirement Date has occurred, contain terms which comply with the then current requirements for TLAC/MREL-Eligible Instruments as embodied in the Applicable TLAC/MREL Regulations, and (b) in the case of Tier 2 Subordinated Instruments, contain terms which comply with the then current requirements for their inclusion in the Tier 2 Capital of the Issuer; and
- (ii) carry the same rate of interest as the Subordinated Instruments or the Second Ranking Senior Instruments (as applicable) prior to the relevant substitution or variation pursuant to this Condition 8; and
- (iii) have the same denomination and aggregate outstanding principal amount as the Subordinated Instruments or the Second Ranking Senior Instruments (as applicable) prior to the relevant substitution or variation pursuant to this Condition 8; and
- (iv) have the same date of maturity and the same dates for payment of interest as the Subordinated Instruments or the Second Ranking Senior Instruments (as applicable) prior to the relevant substitution or variation pursuant to this Condition 8; and
- (v) have at least the same ranking as set out in Condition 3; and
- (vi) not, immediately following such substitution or variation, be subject to a Capital Disqualification Event, a TLAC/MREL Disqualification Event, an Alignment Event and/or an early redemption right for taxation reasons according to Condition 5.02; and
- (vii) be listed or admitted to trading on any stock exchange as selected by the Issuer, if the Subordinated Instruments or the Second Ranking Senior Instruments (as applicable) were listed or admitted to trading on a stock exchange immediately prior to the relevant substitution or variation pursuant to this Condition 8.

## 9 Waiver of Rights of Second Ranking Senior Instruments

In the case of Second Ranking Senior Instruments only, each Holder will be deemed to have waived in insolvency (*concurso*) and resolution scenarios applicable to the Issuer, by virtue of its subscription and/or purchase and holding of any Instrument, any and all claims, compensation and rights that it may otherwise have and whether arising under statute or as a matter of contract, tort or otherwise (collectively, “**Compensation Rights**”) if and to the extent that the amounts and/or other assets receivable by such Holder as a result of the Compensation Rights attributable to that Second Ranking Senior Instrument would otherwise exceed the amounts and/or other assets which a holder of a Notional Security would be entitled to in such insolvency (*concurso*) or, as applicable, resolution scenario (to such extent, “**Relevant Compensation Rights**”).

If and to the extent that its waiver of Relevant Compensation Rights is not otherwise effective, by virtue of its subscription and/or purchase and holding of any Instrument, each Holder shall, without the need for any further step or action on the part of any person, assign (and be treated as having assigned) irrevocably such Relevant Compensation Rights and any amounts and/or any certificates of entitlement or other assets attributable to such Relevant Compensation Rights (including any claim for damages) received or receivable by it to the relevant insolvency administrator or resolution authority or, if necessary, the Commissioner or the Issue and Paying Agent (or such other person as is nominated by them for such purposes) as nominee for creditors in respect of Senior Higher Priority Liabilities.

In addition, if and to the extent that such waiver and assignment are not otherwise effective and a Holder receives any amounts in respect of such Relevant Compensation Rights from any person, such Holder shall immediately (in the case of compensation received in cash) pay an amount in cash equal to such amount or (in the case of compensation received in the form of securities or other non-cash assets) deliver such assets (and, in either case, any certificate of entitlement relating thereto) so received to the relevant insolvency administrator or resolution authority or, if necessary, the Commissioner or the Issue and Paying Agent (or their nominee, as the case may be) to be applied as they (or their nominee) sees fit and, until such time as such payment or delivery is made, shall (in the case of cash compensation) hold an amount equal to such amount in cash or (in the case of compensation in the form of securities or other non-cash assets) hold such assets in trust for the relevant insolvency administrator or resolution authority or, if necessary, the Commissioner or the Issue and Paying Agent (or their nominee, as the case may be).

In these Terms and Conditions:

“**Corresponding Amount**” means an aggregate principal amount equal to the aggregate principal amount of the relevant Second Ranking Senior Instruments plus the aggregate principal amount of all other Senior Parity Liabilities; and

“**Notional Security**” means, in respect of a Second Ranking Senior Instrument, a notional security with the same principal amount as such Instrument and with the same rate of interest and accrued rights as such Instrument, being one of a notional class of securities in the Issuer, which class is in the Corresponding Amount and ranks as set out in Condition 3.03, i.e. junior to the claims of Senior Higher Priority Liabilities but senior to the claims of holders of all subordinated obligations (*créditos subordinados*) of the Issuer in issue.

## 10 Taxation

10.01 All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Instruments, the Receipts and the Coupons by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Holder of any Instrument or Coupon of such amounts as would have been received by them had no such withholding or deduction been required.

10.02 The Issuer shall not be required to pay any additional amounts as referred to in Condition 10.01 in relation to any payment in respect of any Instrument or Coupon:

- (i) to, or to a third party on behalf of, a Holder of an Instrument or Coupon who is liable for such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by

reason of his having some connection with the Relevant Jurisdiction other than the mere holding of such Instrument or Coupon; or

- (ii) to, or to a third party on behalf of, a Holder in respect of whose Instruments the Issuer does not receive such information as may be required in order to comply with the applicable Spanish tax reporting obligations; or
- (iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
- (iv) to, or to a third party on behalf of, individuals resident for tax purposes in the Relevant Jurisdiction; or
- (v) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish corporation tax if the Spanish tax authorities determine that the Instruments do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

In addition, additional amounts will not be payable with respect to any taxes that are imposed in respect of any combination of the items set forth above.

Notwithstanding any other provision of these Terms and Conditions, any amounts to be paid on the Instruments by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

## 11 Payments

### 11A Payments — Bearer Instruments

11A.01 This Condition 11A is applicable to Bearer Instruments.

11A.02 Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of a partial redemption which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

11A.03 Payment of amounts in respect of interest on Bearer Instruments will be made:

- (i) in the case of Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Instruments at the specified office of any of the Paying Agents outside (unless Condition 11A.04 applies) the United States; and
- (ii) in the case of Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 11A.04 applies) the United States.

11A.04 Payments of amounts due in respect of interest on the Bearer Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 11A.03 will not be made at the specified office of any Paying Agent in the United States (as defined in the Code and U.S. Treasury Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law, without involving, in the opinion of the Issuer, any adverse tax, legal or regulatory consequence to the Issuer. If parts (a) and (b) of the

previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

11A.05 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day (as defined in Condition 11C.03) and a local banking day (as defined in Condition 11C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day (or as otherwise specified in the relevant Final Terms) and, thereafter will be entitled to receive payment on a Relevant Financial Centre Day and a local banking day and no further payment on account of interest or otherwise shall be due in respect of such delay or adjustment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 4E.06.

11A.06 Each Instrument initially delivered with Coupons attached thereto should be presented and, save in the case of partial payment which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment, surrendered for final redemption together with all unmatured Coupons and Talons appertaining thereto, failing which:

- (i) in the case of Instruments which bear interest at a fixed rate or rates (other than Reset Instruments), the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the redemption amount paid bears to the total redemption amount due excluding, for this purpose, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such final redemption amount;
- (ii) in the case of Instruments which bear interest at, or at a margin above or below, a floating rate or which are Reset Instruments, all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them; and
- (iii) in the case of Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 11A.06 notwithstanding, if any Instruments which bear interest at a fixed rate or rates should be issued with a maturity date and a fixed rate or fixed rates such that, on the presentation for payment of any such Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the amount otherwise due for payment, then, upon the due date for redemption of any such Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to an Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

11A.07 In relation to Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 11A.04 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of this Condition 11. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the due date for the payment of interest on which the final Coupon comprised in the relative Coupon sheet matures.

11A.08 For the purposes of these Terms and Conditions, the “**United States**” means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

## 11B. Payments — Registered Instruments

11B.01 This Condition 11B is applicable to Registered Instruments.

11B.02 Payment of amounts (whether principal, a redemption amount or otherwise and including accrued interest) due in respect of Registered Instruments on the final redemption of Registered Instruments will be made against presentation and, save in the case of partial payment of the amount due upon final redemption by reason of insufficiency of funds, surrender of the relevant Registered Instruments at the specified office of the Registrar. If the due date for payment of the final redemption amount of any Registered Instrument is not both a Relevant Financial Centre Day (as defined in Condition 11C.03) and a local banking day (as defined in Condition 11C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and, thereafter will be entitled to receive payment by cheque on any local banking day, and, will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 4E.06.

11B.03 Payment of amounts (whether principal, a redemption amount, interest or otherwise) due (other than in respect of the final redemption of Registered Instruments) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at close of business (local time in the place of the specified office of the Registrar) on the business day (as defined in Condition 2.04) before the due date for such payment for the Instruments (the “**Record Date**”).

11B.04 Notwithstanding the provisions of Condition 11C.02, payment of amounts (whether principal, a redemption amount, interest or otherwise) due (other than in respect of final redemption of Registered Instruments) in respect of Registered Instruments will be made by cheque and posted to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the business day (as defined in Condition 2.04) not later than the relevant date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 4E.06.

## 11C Payments — General Provisions

11C.01 Save as otherwise specified herein, this Condition 11C is applicable in relation to both Bearer Instruments and Registered Instruments.

11C.02 Payments of amounts due (whether principal, a redemption amount, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due by (a) cheque or (b) at the option of the payee, transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 10, be subject in all cases to any applicable fiscal or other laws and regulations.

11C.03 For the purposes of these Terms and Conditions, save as otherwise defined, the following terms shall have the meaning set out below:

“**Authorised Signatory**” means any director of the Issuer (or any signatory authorised to act on its behalf);

“**Business Day**” means a day:



- in relation to Instruments denominated or payable in euro which is a TARGET Business Day; and
- in relation to Instruments payable in any other currency, on which commercial banks are open for business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant currency; and, in either case,
- on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the Relevant Financial Centre;

“**CMS-Linked Instruments**” means Instruments the payment of interest of which is linked to a constant maturity swap rate as specified in the relevant Final Terms.

“**Instalment Amount**” has the meaning given in the relevant Final Terms;

“**Instalment Dates**” has the meaning given in the relevant Final Terms;

“**Interest Determination Date**” means, with respect to an interest rate and Interest Period, the date specified in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Period if the Relevant Currency is sterling (ii) or the day falling two London Banking Days prior to the first day of such Interest Period if the Relevant Currency is not sterling, or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Period if the Relevant Currency is Euro;

“**local banking day**” means a day (other than a Saturday and Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon;

“**London Banking Day**” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

“**Margin**” has the meaning given in the relevant Final Terms;

“**Maturity Date**” has the meaning given in the relevant Final Terms;

“**Maximum Rate of Interest**” has the meaning given in the relevant Final Terms;

“**Minimum Rate of Interest**” has the meaning given in the relevant Final Terms;

“**person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Reference Banks**” means four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate. The Reference Banks shall not include the Calculation Agent;

“**Reference Rate**” means one of (i) the London inter-bank offered rate (“**LIBOR**”) and (ii) the Euro Interbank Offered Rate (“**EURIBOR**”), as specified in the relevant Final Terms;

“**Relevant Financial Centre**” means such financial centre or centres as may be specified in the relevant Final Terms. If no financial centre or centres is specified in the relevant Final Terms, this term will have the meaning given to “**Financial Centre**” in Section 1.5 in the ISDA Definitions in respect of the Relevant Currency;

“**Relevant Financial Centre Day**” means, in the case of any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre (which in the case of Australian dollars shall be Melbourne and which in the case of New Zealand dollars shall be Wellington) and in any other place specified in the relevant Final Terms and in the case of payment in euro, a day which is a TARGET Business Day;

“**Relevant Currency**” means the currency specified as Specified Currency in the relevant Final Terms or, if none is specified, the currency in which the Instruments are denominated;

“**Relevant Jurisdiction**” means the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Instruments;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Time**” has the meaning given in the relevant Final Terms;

“**Specified Denomination**” means, in relation to any Instruments, the denomination of such Instruments specified as such in the relevant Final Terms and expressed as a currency amount;

“**Specified Percentage**” has the meaning given in the relevant Final Terms;

“**TARGET Business Day**” means any day on which the TARGET2 System, or any successor thereto, is open for the settlement of payments in euro; and

“**TARGET2 System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) payment system which utilises a single shared platform and which was launched on 19 November 2007.

11C.04 For the purposes of these Terms and Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent, or as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders of Instruments and Coupons, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 16.

11C.05 Unless the context otherwise requires, any reference in these Terms and Conditions to “**principal**” shall include any premium payable in respect of an Instrument, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and “**interest**” shall include all amounts payable pursuant to Condition 4 and any other amounts in the nature of interest payable to these Terms and Conditions.

## 12 Prescription

12.01 Claims against the Issuer for payment of principal and interest in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date for payment thereof.

12.02 In relation to Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 11A.06 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 12 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

## 13 The Paying Agents, the Registrars and the Calculation Agent

13.01 The initial Paying Agents and Registrars and their respective initial specified offices are specified in these Terms and Conditions. The Calculation Agent in respect of any Instruments shall be specified in the Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent) or the Registrar or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar or another Calculation Agent *provided that* it will at all times maintain (i) an Issue and Paying Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city, (iv) so long as the Instruments are listed on any stock exchange and/or quotation system, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar each with a specified office in such place as may be required by the rules of such listing authority, stock exchange and/or quotation system, (v) in the circumstances described in Condition 11A.04, a Paying Agent with a specified office in New York City, and (vi) a Calculation Agent where

required by the Terms and Conditions applicable to any Instruments with a specified office located in such place (if any) as may be required by the Terms and Conditions. The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Paying Agents, the Registrar or the Calculation Agent will be given promptly by the Issuer to the Holders of the Instruments in accordance with Condition 16.

- 13.02 The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

## 14 Replacement of Instruments

If any Instrument or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent as may be specified in the relevant Final Terms (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments), subject to all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments are listed and/or quoted, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Issue and Paying Agent, the relevant Paying Agent or, as the case may be, the Registrar may require. Mutilated or defaced Instruments and Coupons must be surrendered before replacements will be delivered therefor.

## 15 Syndicate of Holders of the Instruments and Modification

The Holders of the Instruments of the relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Holders of the Instruments (the “**Regulations**”). The Regulations shall contain the rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer and shall be attached to the relevant Public Deed of Issuance. A set of pro forma Regulations is included in the Issue and Paying Agency Agreement.

A Commissioner will be appointed for each Syndicate.

Provisions for meetings of the Syndicate of Holders of the Instruments will be contained in the Regulations and the Issue and Paying Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Holders of Instruments.

For the purposes of these Terms and Conditions,

“**Commissioner**” means the trustee (*comisario*) as this term is defined under the Spanish Corporations Law (*Ley de Sociedades de Capital*) of each Syndicate of Holders of the Instruments; and

“**Syndicate**” means the syndicate (*sindicato*) as this term is described under the Spanish Corporations Law (*Ley de Sociedades de Capital*).

## 16 Notices

### *To Holders of Bearer Instruments*

- 16.01 Notices to Holders of Bearer Instruments, will be valid if published in a leading English language daily newspaper of general circulation in London (which is expected to be the Financial Times) or on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) (so long as such Instruments are listed on the Irish Stock Exchange and the rules of that exchange so require) or, in either case if such publication is not

practicable, if published in a leading English language daily newspaper having general circulation in Europe.

Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the first date on which publication is made). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

#### ***To Holders of Registered Instruments***

16.02 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth day after the date of such mailing or, if posted from another country, on the fifth such day. With respect to Registered Instruments listed on the Irish Stock Exchange, any notices to Holders must also be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) (so long as such Instruments are listed on the Irish Stock Exchange and the rules of that exchange so require) and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

#### ***Notice of a General Meeting of the Syndicate of Holders***

16.03 Notice of a General Meeting of Holders of Instruments of the Relevant Series must be given in accordance with the Regulations.

#### ***To Commissioners***

16.04 Copies of any notice given to any Holders of the Instruments will be also given to the Commissioner of the Syndicate of Holders of the Instruments of the relevant Series.

#### ***Notices by any Holder of Instruments***

16.05 Notices to be given by any Holder of Instruments shall be in writing and given by lodging the same, together with the relative Instrument, with the Issue and Paying Agent.

### **17 Further Issues**

The Issuer may, from time to time without the consent of the Holders of any Instruments or Coupons, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Instruments of any particular Series.

### **18 Currency Indemnity**

The currency in which the Instruments are denominated or, if different, payable, as specified in the relevant Final Terms (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer in respect of the Instruments, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of an Instrument or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge by the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of an Instrument or Coupon in respect of such Instrument or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Instrument or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Instruments or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of an Instrument or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

## **19 Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

## **20 Law and Jurisdiction**

### ***Governing Law***

20.01 Save as described below, the Instruments and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Conditions 3 and 15 shall be governed by, and shall be construed in accordance with, Spanish law.

### ***Jurisdiction***

20.02 The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Instruments and accordingly any legal action or proceedings arising out of or in connection with any Instruments (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

### ***Service of Process***

20.03 The Issuer irrevocably appoints Banco Santander, S.A., London Branch at 2 Triton Square, Regent’s Place, London, NW1 3AN as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Holders of such appointment in accordance with Condition 16. Nothing shall affect the right to serve process in any manner permitted by law.

## **21 Rights of Third Parties**

No person shall have any right to enforce any term or condition of any Series of Instruments under the Contracts (Rights of Third Parties) Act 1999.

## **22 Bail-in**

### ***Acknowledgement***

22.01 Notwithstanding any other term of the Instruments or any other agreement, arrangement or understanding between the Issuer and the Holders, by its subscription and/or purchase and holding of the Instruments, each Holder (which for the purposes of this Condition 22 includes each holder of a beneficial interest in the Instruments) acknowledges, accepts, consents and agrees:

- (i) to be bound by the effect of the exercise of the Bail-in Power by the Relevant Resolution Authority, which may include and result in any of the following, or some combination thereof:
  - the reduction of all, or a portion, of the Amounts Due on a permanent basis;
  - the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or another person (and the issue to the Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Instruments, in which case the Holder agrees to accept in lieu of its rights under the Instruments any such shares, other securities or other obligations of the Issuer or another person;

- the cancellation of the Instruments or Amounts Due;
  - the amendment or alteration of the maturity of the Instruments or amendment of the Interest Amount payable on the Instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
- (ii) that the terms of the Instruments are subject to, and may be varied, if necessary, to give effect to, the exercise of the Bail-in Power by the Relevant Resolution Authority.

***Payment of Interest and Other Outstanding Amounts Due***

22.02 No repayment or payment of the Amounts Due will become due and payable or be paid after the exercise of the Bail-in Power by the Relevant Resolution Authority with respect to the Issuer unless, at the time such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations in effect in the Kingdom of Spain and the European Union applicable to the Issuer or other members of the Group.

***Notice to Holders***

22.03 Upon the exercise of any Bail-in Power by the Relevant Resolution Authority with respect to the Instruments, the Issuer will make available a written notice to the Holders as soon as practicable regarding such exercise of the Bail-in Power. The Issuer will also deliver a copy of such notice to the Agents for information purposes.

***Duties of the Agents***

22.04 Upon the exercise of any Bail-in Power by the Relevant Resolution Authority, (a) the Agents shall not be required to take any directions from Holders, and (b) the Issue and Paying Agency Agreement shall impose no duties upon any of the Agents whatsoever, in each case with respect to the exercise of any Bail-in Power by the Relevant Resolution Authority.

***Proration***

22.05 If the Relevant Resolution Authority exercises the Bail-in Power with respect to less than the total Amounts Due, unless any of the Agents is otherwise instructed by the Issuer or the Relevant Resolution Authority, any cancellation, write-off or conversion made in respect of the Instruments pursuant to the Bail-in Power will be made on a pro-rata basis.

***Conditions Exhaustive***

22.06 The matters set forth in this Condition 22 shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and any holder of an Instrument.

For the purposes of the Terms and Conditions:

“**Amounts Due**” means the principal amount, together with any accrued but unpaid interest, and Additional Amounts, if any, due on the Instruments. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Bail-in Power by the Relevant Resolution Authority.

## SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

### **Bearer Instruments**

Each Tranche of Instruments in bearer form (Bearer Instruments) will initially be in the form of either a temporary global instrument in bearer form (the Temporary Global Instrument), without interest coupons, or a permanent global instrument in bearer form (the Permanent Global Instrument), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Instrument or, as the case may be, Permanent Global Instrument (each a Global Instrument) which is not intended to be issued in new global note (NGN) form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Instruments with a depositary or a Common Depositary for Euroclear and/or Clearstream Luxembourg and/or any other relevant clearing system and each Global Instrument which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Instruments with a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg.

In the case of each Tranche of Bearer Instruments, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”)) (the “TEFRA C Rules”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “TEFRA D Rules”) are applicable in relation to the Instruments or, if the Instruments do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

### ***Temporary Global Instrument exchangeable for Permanent Global Instruments***

If the relevant Final Terms specifies the form of Instruments as being “Temporary Global Instrument exchangeable for a Permanent Global Instrument”, then the Instruments will initially be in the form of a Temporary Global Instrument which will be exchangeable, in whole or in part, for interests in a Permanent Global Instrument, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Instruments upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Instrument unless exchange for interests in the Permanent Global Instrument is improperly withheld or refused. In addition, interest payments in respect of the Instruments cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Instrument is to be exchanged for an interest in a Permanent Global Instrument, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Instrument, duly authenticated and, in the case of an NGN, effectuated, to the bearer of the Temporary Global Instrument or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Instrument in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Instrument to or to the order of the Issue and Paying Agent; and
- (ii) receipt by the Issue and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Instruments represented by the Permanent Global Instrument shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership *provided, however*, that in no circumstances shall the principal amount of Instruments represented by the Permanent Global Instrument exceed the initial principal amount of Instruments represented by the Temporary Global Instrument.

If:

- (a) the Permanent Global Instrument has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Instrument has requested exchange of an interest in the Temporary Global Instrument for an interest in a Permanent Global Instrument; or
- (b) an Event of Default occurs in accordance with the Terms and Conditions,

the bearer of the Temporary Global Instrument may from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Temporary Global Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a) or (b) above has occurred. Such election shall be made by notice to the Issue and Paying Agent and presentation of this Temporary Global Instrument to or to the order of the Issue and Paying Agent. Upon each such notice being given, this Temporary Global Instrument shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

***Permanent Global Instrument exchangeable for Definitive Instruments***

If the relevant Final Terms specifies the form of Instruments as being “Permanent Global Instrument exchangeable for Definitive Instruments”, then the Instruments will initially be in the form of a Permanent Global Instrument which will be exchangeable in whole, but not in part, for Bearer Instruments in definitive form (Definitive Instruments):

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Instrument”, then if either of the following events occurs:
  - (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or
  - (b) any of the circumstances described in Condition 6 occurs.

Whenever the Permanent Global Instrument is to be exchanged for Definitive Instruments, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Instruments, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of Instruments represented by the Permanent Global Instrument to the bearer of the Permanent Global Instrument against the surrender of the Permanent Global Instrument to or to the order of the Issue and Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Instruments have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Instrument for Definitive Instruments; or
- (b) the Permanent Global Instrument was originally issued in exchange for part only of a Temporary Global Instrument representing the Instruments and such Temporary Global Instrument becomes void in accordance with its terms; or
- (c) an Event of Default occurs in accordance with the Terms and Conditions,

the bearer of the Permanent Global Instrument may from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Permanent Global Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a), (b) or (c) above has occurred. Such election shall be made by notice to the Issue and Paying Agent and presentation of the Permanent Global Instrument to or to the order of the Issue and Paying Agent. Upon each such notice being given, the Permanent Global Instrument shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

***Temporary Global Instrument exchangeable for Definitive Instruments***

If the relevant Final Terms specifies the form of Instruments as being “Temporary Global Instrument exchangeable for Definitive Instruments” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Instruments will initially be in the form of a Temporary Global Instrument which will be exchangeable, in whole but not in part, for Definitive Instruments not earlier than 40 days after the issue date of the relevant Tranche of the Instruments.



If the relevant Final Terms specifies the form of Instruments as being “Temporary Global Instrument exchangeable for Definitive Instruments” and also specifies that the TEFRA D Rules are applicable, then the Instruments will initially be in the form of a Temporary Global Instrument which will be exchangeable, in whole or in part, for Definitive Instruments not earlier than 40 days after the issue date of the relevant Tranche of the Instruments upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Instruments cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Instrument is to be exchanged for Definitive Instruments, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Instruments, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Instrument to the bearer of the Temporary Global Instrument against the surrender of the Temporary Global Instrument to or to the order of the Issue and Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Instruments have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Instrument for Definitive Instruments; or
- (b) an Event of Default occurs in accordance with the Terms and Conditions,

the bearer of the Temporary Global Instrument may from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Temporary Global Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a) or (b) above has occurred. Such election shall be made by notice to the Issue and Paying Agent and presentation of this Temporary Global Instrument to or to the order of the Issue and Paying Agent. Upon each such notice being given, this Temporary Global Instrument shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

#### ***Terms and Conditions applicable to the Instruments***

The terms and conditions applicable to any Definitive Instrument will be endorsed on that Instrument and will consist of the terms and conditions set out under “Terms and Conditions of the Instruments” below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Instrument will differ from those terms and conditions which would apply to the Instrument were it in definitive form to the extent described under “Summary of Provisions Relating to the Instruments while in Global Form” below.

#### ***Legend concerning United States persons***

Where TEFRA D is specified in the applicable Final Terms, each Bearer Instrument (other than a Temporary Global Instrument) having a maturity of more than one year, Coupon, Receipt and Talon will bear the following legend:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.”

#### **Registered Instruments**

Each Tranche of Instruments in registered form (Registered Instruments) will be represented by either:

- (i) individual certificates in registered form (Individual Certificates); or
- (ii) one or more global certificates (Global Registered Instruments),

in each case as specified in the relevant Final Terms.

Each Global Registered Instrument will either be: (a) in the case of an Instrument which is not to be held under the NSS, registered in the name of a Common Depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Instrument will be deposited on or about the issue date with the Common Depositary and will be

exchangeable for Individual Certificates in accordance with its terms; or (b) in the case of an Instrument to be held under the NSS, be registered in the name of a Common Safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Instrument will be deposited on or about the issue date with the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg and will be exchangeable for Individual Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Instruments as being “Individual Certificates”, then the Instruments will at all times be represented by Individual Certificates issued to each Holder in respect of their respective holdings.

***Global Registered Instrument exchangeable for Individual Certificates***

If the relevant Final Terms specifies the form of Instruments as being “Global Registered Instrument exchangeable for Individual Certificates”, then the Instruments will initially be represented by one or more Global Registered Instruments each of which will be exchangeable in whole, but not in part, for Individual Certificates

- (i) if the relevant Final Terms specifies “in the limited circumstances described in the Global Registered Instrument”, then if either of the following events occurs:
  - (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or
  - (b) if any of the circumstances described in Condition 6 occurs.

Whenever a Global Registered Instrument is to be exchanged for Individual Certificates, each person having an interest in a Global Registered Instrument must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Certificates (including the name and address of each person in which the Instruments represented by the Individual Certificates are to be registered and the principal amount of each such person’s holding).

Whenever a Global Registered Instrument is to be exchanged for Individual Certificates, the Issuer shall procure that Individual Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Instrument within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Instrument to the Registrar of such information as is required to complete and deliver such Individual Certificates against the surrender of the Global Registered Instrument at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Issue and Paying Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled to the Issue and Paying Agency Agreement and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Instrument; or
- (b) an Event of Default occurs in accordance with the Terms and Conditions,

the Holder of the Instruments represented by the Global Registered Instrument may (subject as provided below) from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Global Registered Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a) or (b) above has occurred. Such election shall be made by notice to the Issue and Paying Agent by the Holder of the Instruments represented by the Global Registered Instrument specifying the nominal amount of Instruments represented by the Global Registered Instrument in respect of which Direct Rights shall arise under the Deed of Covenant. Upon each such notice being given, the Global Registered Instrument and the corresponding entry in the Register shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

### ***Terms and Conditions applicable to the Instruments***

The terms and conditions applicable to any Individual Certificate will be endorsed on that Individual Certificate and will consist of the terms and conditions set out under “Terms and Conditions of the Instruments” below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Instrument will differ from those terms and conditions which would apply to the Instrument were it in Individual Certificate form to the extent described under “*Summary of Provisions Relating to the Instruments while in Global Form*” below.

## **Summary of Provisions relating to the Instruments while in Global Form**

### ***Clearing System Account Holders***

In relation to any Tranche of Instruments represented by a Global Instrument, references in the Terms and Conditions of the Instruments to “Holder” are references to the bearer of the relevant Global Instrument which, for so long as the Global Instrument is held by a depositary or a Common Depositary, in the case of a CGN, or a Common Safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or Common Depositary or, as the case may be, Common Safekeeper.

In relation to any Tranche of Instruments represented by one or more Global Registered Instruments, references in the Terms and Conditions of the Instruments to “Holder” are references to the person in whose name the relevant Global Registered Instrument is for the time being registered in the Register which, for so long as the Global Registered Instrument is held by or on behalf of a depositary or a Common Depositary or a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or Common Depositary or Common Safekeeper or a nominee for that depositary or Common Depositary or Common Safekeeper. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Instrument or a Global Registered Instrument (each an “**Account Holder**”) must look solely to Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Account Holder’s share of each payment made by the Issuer to the holder of such Global Instrument or Global Registered Instrument and in relation to all other rights arising under such Global Instrument or Global Registered Instrument. The extent to which, and the manner in which, Account Holders may exercise any rights arising under a Global Instrument or Global Registered Instrument will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Instruments are represented by a Global Instrument or Global Registered Instrument, Account Holders shall have no claim directly against the Issuer in respect of payments due under the Instruments and such obligations of the Issuer will be discharged by payment to the holder of such Global Instrument or Global Registered Instrument.

### ***Conditions applicable to Global Instruments***

Each Global Instrument and Global Registered Instrument will contain provisions which modify the Terms and Conditions of the Instruments as they apply to the Global Instrument or Global Registered Instrument. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Instrument or Global Registered Instrument which, according to the Terms and Conditions of the Instruments, require presentation and/or surrender of an Instrument, certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Instrument or Global Registered Instrument to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Instruments. On each occasion on which a payment of principal or interest is made in respect of the (i) Global Instrument, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg and (ii) Global Registered Instrument, the Issuer shall procure that if such Instrument is held under the NSS, the payment is entered into pro rata in the records of Euroclear and Clearstream Luxembourg.

*Payment Business Day:* In the case of a Global Instrument or a Global Registered Instrument, the requirement under the Terms and Conditions for a day of payment to be a local banking day shall not apply.

*Payment Record Date:* Each payment in respect of a Global Registered Instrument will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Registered Instrument is being held is open for business.

*Exercise of put option:* In order to exercise the option contained in Condition 5.07 the bearer of a Permanent Global Instrument or the holder of a Global Registered Instrument must, within the period specified in the Terms and Conditions for the deposit of the relevant Instrument and put notice, give written notice of such exercise to the Issue and Paying Agent specifying the principal amount of Instruments in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 5.05 in relation to some only of the Instruments, the Permanent Global Instrument or Global Registered Instrument may be redeemed in part in the principal amount specified by the Issuer in accordance with the Terms and Conditions and the Instruments to be redeemed will not be selected as provided in the Terms and Conditions but in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

*Notices:* notwithstanding Condition 16, while all the instruments are represented by a Permanent Global Instrument (or by a Permanent Global Instrument and/or a Temporary Global Instrument) or a Global Registered Instrument and the Permanent Global Instrument is (or the Permanent Global Instrument and/or the Temporary Global Instrument are), or the Global Registered Instrument is deposited with a depositary or a Common Depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a Common Safekeeper, notices to Holders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 16 on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## PRO FORMA FINAL TERMS

*Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

Final Terms dated [ ]

Banco Santander, S.A.

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Instruments*]  
under the €25,000,000,000 Programme for the Issuance of Debt Instruments

[The Instruments are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (IMD), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>1</sup>

[The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Instruments in Ireland or any other Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC), as amended, (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Instruments. Accordingly, any person making or intending to make an offer of the Instruments may only do so in:

- (i) circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or
- (ii) those Public Offer Jurisdictions mentioned in Paragraph 38 of Part A below, provided such person is one of the persons mentioned in Paragraph 38 of Part A below and that such offer is made during the Offer Period specified for such purpose therein and that any conditions relevant to the use of the Base Prospectus are complied with.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in any other circumstances.]<sup>2 3</sup>

[The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Instruments in Ireland or any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC), as amended, (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Instruments. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus

<sup>1</sup> [Legend to be included on front of the Final Terms (i) for offers concluded on or after 1 January 2018 if the Instruments potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason or (ii) for offers concluded before 1 January 2018 at the option of the parties, in which case the selling restriction “Prohibition of Sales to EEA Retail Investors” should be specified as “Applicable”.]

<sup>2</sup> [Include this legend where a non-exempt offer of Instruments is anticipated.]

<sup>3</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in any other circumstances].<sup>4</sup>

The Base Prospectus together with the relevant Final Terms have been published on the websites on the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the Central Bank of Ireland (<http://www.centralbank.ie>) in an agreed electronic format.

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<sup>4</sup> [Include this legend only where an exempt offer of Instruments is anticipated. In addition, in the case of listing the Instruments on an unregulated market or unlisted Instruments, any references to the Prospectus Directive will be removed.]

## PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Terms and Conditions**”) set forth in the Base Prospectus dated 6 March 2017 [and the Supplement[s] to the Base Prospectus dated [ ] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU)) (the “**Prospectus Directive**”). [This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]]<sup>5</sup> [A summary of the individual issue is annexed to this Final Terms.]<sup>6</sup> Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 6 March 2017 [as so supplemented]. [The Base Prospectus [and the Supplement[s] to the Base Prospectus] [is] [are] available for viewing at the head office of the Issuer (being Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain), the offices of the Issue and Paying Agent, The Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of each Paying Agent and copies may be obtained from the addresses specified above. The Base Prospectus has been published on the websites on the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the Central Bank of Ireland (<http://www.centralbank.ie>).]

*Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*

- |    |                                  |                                                                                                                                                                                  |
|----|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Issuer:                          | Banco Santander, S.A.                                                                                                                                                            |
| 2  | (i) Series Number:               | [ ]                                                                                                                                                                              |
|    | [(ii)] Tranche Number:           | [ ]                                                                                                                                                                              |
|    |                                  | [(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]                                                    |
| 3  | Specified Currency:              | [ ]                                                                                                                                                                              |
| 4  | Aggregate Principal Amount:      | [ ]                                                                                                                                                                              |
|    | [(i) Series:                     | [ ]                                                                                                                                                                              |
|    | [(ii) Tranche:                   | [ ]                                                                                                                                                                              |
| 5  | Issue Price:                     | [ ] per cent. of the Aggregate Principal Amount [plus accrued interest from [date] (if applicable)] / [ ] per cent per Instrument of [ ] Specified Denomination                  |
| 6  | Specified Denominations:         | [ ]                                                                                                                                                                              |
| 7  | Calculation Amount:              | [the Specified Denomination]                                                                                                                                                     |
| 8  | (i) Issue Date:                  | [ ]                                                                                                                                                                              |
|    | (ii) Interest Commencement Date: | [ ] [Issue Date]                                                                                                                                                                 |
| 9  | Maturity Date:                   | [Date or (for Floating Rate — Instruments) Interest Payment Date falling in the relevant month and year]                                                                         |
| 10 | Interest Basis:                  | [[ ]% Fixed Rate]<br>[Reset Instruments]<br>[Floating Rate: [difference between] [LIBOR] [and] [EURIBOR] [and] [insert Floating Rate Option] [+/-] [multiplied by] [ ] per cent] |

<sup>5</sup> [In the case of listing the Instruments on an unregulated market or unlisted Instruments, this language will be removed.]

<sup>6</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

- [Zero Coupon]  
[CMS-Linked: *[constant maturity swap rate appearing on the Relevant Screen Page]* +/- [ ] per cent]
- 11 Redemption/Payment Basis: [Redemption at par]  
[Instalment]
- 12 Put/Call Options: [Not Applicable]  
[Call Option]  
[Call Option – Capital Disqualification Event]  
[Call Option – TLAC/MREL Disqualification Event]  
[Put Option]<sup>7</sup>  
[(further particulars specified below)]
- 13 [(i)] Status of the Instruments: [Ordinary Senior Instruments/Second Ranking Senior Instruments/Subordinated Instruments-Senior Subordinated Instruments/Subordinated Instruments-Tier 2 Subordinated Instruments]  
[*The Subordinated Instruments-Tier 2 Subordinated Instruments are intended to constitute Tier 2 Instruments of the Issuer*]  
[[ (ii) ] [Date [Executive Committee] approval for issuance of Instruments obtained: (*N.B. Only relevant where Executive Committee (or similar) authorisation is required for the particular tranche of Instruments*)]
- 14 Method of distribution: [Syndicated/Non-syndicated]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 15 Fixed Rate Instrument Provisions [Applicable/Not Applicable] (*If applicable, Condition 4A of the Terms and Conditions of the Instruments will apply*)  
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [for the [ ] Interest Period][*repeat information if necessary*]  
[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] [in each year] [adjusted in accordance with [*Business Day Convention*]]
- (iii) Fixed Coupon Amount[(s)]: [ ] per [ ] Specified Denomination [for the [ ] Interest Period]  
[*repeat information if necessary*]
- (iv) Day Count Fraction: [30/360]/[360/360]/[Bond Basis]  
[30E/360]/ [EuroBond Basis]  
[Actual/Actual]/ [Actual/Actual (ISDA)]  
[Actual/365 (Fixed)][  
[Actual/Actual (ICMA)]  
[Actual/360]  
[30E/360 (ISDA)]
- [(v)] Determination Dates: [ ] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*).  
(*N.B. only relevant where Day Count Fraction is Actual/Actual*)

<sup>7</sup> [Not applicable in the case of Subordinated Instruments and Second Ranking Senior Instruments.]



		(ICMA)]
	(vi) Party responsible for calculating the Rate of Interest and/or Interest Amount (if not the [Issue and Paying Agent])	[ ]
	(vii) Step Up Provisions:	[Applicable/Not Applicable]
	— Step Up Margin:	[ ] per cent.
16	Reset Instrument Provisions	[Applicable/Not Applicable] (If applicable, Condition 4B of the Terms and Conditions of the Instruments will apply) (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Initial Rate of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) First Margin:	[+/-][ ] per cent. per annum
	(iii) Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(iv) Interest Payment Date(s):	[ ] in each year [adjusted in accordance with [Business Day Convention]/[not adjusted].
	(v) Fixed Coupon Amount up to (but excluding) the First Reset Date:	[ ] per [ ] specified denomination [for the [ ] Interest Period] [repeat information if necessary]
	(vi) First Reset Date:	[ ] [adjusted in accordance with [Business Day Convention]/[not adjusted].
	(vii) Second Reset Date:	[ ]/[Not Applicable] [adjusted in accordance with [Business Day Convention]/[not adjusted].
	(viii) Subsequent Reset Date(s):	[ ] [and [ ] ] [adjusted in accordance with [Business Day Convention]/[not adjusted].
	(ix) Relevant Screen Page:	[ ]
	(x) Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-swap Rate]
	(xi) Mid-Swap Maturity:	[ ]
	(xii) Fixed Leg Swap Duration:	[ ]
	(xiii) Day Count Fraction:	[30/360]/[360/360]/[Bond Basis] [30E/360]/ [EuroBond Basis] [Actual/Actual]/ [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/Actual (ICMA)] [Actual/360] [30E/360 (ISDA)]
	(xiv) [Determination Dates:	[ ] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon).  (N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]
	(xv) Reset Business Centre:	[ ]

	(xvi)	Party responsible for calculating the Rate of Interest and/or Interest Amount (if not the [Issue and Paying Agent])	
	(xvii)	Step Up Provisions:	[Applicable/Not Applicable]
		— Step Up Margin:	[ ] per cent.
17		Floating Rate and CMS-Linked Instrument Provisions	[Applicable/Not Applicable]
			<i>(If applicable, Condition 4C of the Terms and Conditions of the Instruments will apply)</i>
			<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i)	Interest Payment Date(s):	[ ] in each year [adjusted in accordance with [Business Day Convention]
	(ii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(iii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Issue and Paying Agent]):	[ ]
	(iv)	Margin Plus Rate:	[Applicable] [Not Applicable]
	(v)	Specified Percentage Multiplied by Rate:	[Applicable] [Not Applicable]
	(vi)	Difference in Rates:	[Applicable] [Not Applicable]
		— Rate 1:	[Screen Rate Determination] [ISDA Determination]
		— Rate 2:	[Screen Rate Determination] [ISDA Determination]
	(vii)	Screen Rate Determination	
		— Reference Rate:	[LIBOR][EURIBOR][constant maturity swap rate]
		— Interest Determination Date(s):	[ ]
		— Relevant Screen Page:	[For example, Reuters LIBOR 01/ EURIBOR 01]
		— Relevant Time:	[For example, 11.00 a.m. London time/Brussels time]
	(viii)	ISDA Determination:	
		— Floating Rate Option:	[ ]
		— Designated Maturity:	[ ]
		— Reset Date:	[ ]
	(ix)	Margin(s):	[+/-] [ ] per cent. per annum
	(x)	Minimum Rate of	[ ] per cent. per annum

	Interest:	
(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
(xii)	Day Count Fraction:	[30/360]/[360/360]/[Bond Basis] [30E/360]/ [EuroBond Basis] [Actual/Actual]/ [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/Actual (ICMA)] [Actual/360] [30E/360 (ISDA)]
(xiii)	Specified Percentage:	[ ] per cent.
(xiv)	Constant maturity swap rate:	[ ]
(xv)	Step Up Provisions:	[Applicable/Not Applicable]
	— Step Up Margin:	[ ] per cent.
18	Zero Coupon Instrument Provisions	[Applicable/Not Applicable] <i>(If applicable, Condition 4D of the Terms and Conditions of the Instruments will apply)</i> <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Amortisation Yield:	[ ] per cent per annum
(ii)	Day Count Fraction relating to Early Redemption Amounts:	[30/360]/[360/360]/[Bond Basis] [30E/360]/ [EuroBond Basis] [Actual/Actual]/ [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/Actual (ICMA)] [Actual/360] [30E/360 (ISDA)]

#### PROVISIONS RELATING TO REDEMPTION

19	Call Option:	[Applicable/Not Applicable] <i>(The clearing systems require a minimum of 5 business days' notice if such an option is to be exercised)</i>
(i)	Early Redemption Amount (Call) of each Instrument:	[ ] per Instrument of [ ] specified denomination
(iii)	Notice period	[ ] days
20	Put Option	[Applicable/Not Applicable] <sup>8</sup> <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Early Redemption Date(s):	[ ]
(ii)	Early Redemption Amount (Put) of each Instrument:	[ ] per Instrument of [ ] specified denomination

<sup>8</sup> [Not applicable in the case of Subordinated Instruments and Second Ranking Senior Instruments.]

- (iii) Notice period ☐ ☐
- 21 Maturity Redemption ☐ ☐ per Instrument of ☐ Specified Denomination]  
Amount of each Instrument
- 22 Early Redemption Amount, Early Redemption Amount (Tax), Early Redemption Amount (Capital Disqualification Event) and Early Redemption Amount (TLAC/MREL Disqualification Event)  
Early Redemption Amount(s) ☐ ☐  
of each Instrument payable  
on redemption for (1)  
taxation reasons, (2) on a  
Capital Disqualification  
Event (if applicable), (3) on a  
TLAC/MREL  
Disqualification Event (if  
applicable) or (4) on event of  
default:

#### GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

- 23 Form of Instruments: Bearer Instruments:  
[Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments on ☐ days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]  
[Temporary Global Instrument exchangeable for Definitive Instruments]  
[Permanent Global Instrument exchangeable for Definitive Instruments on ☐ days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]  
Registered Instruments:  
[Global Registered Instrument exchangeable for Individual Certificates in the limited circumstances specified in the Global Registered Instrument]  
[Global Registered Instrument (US\$/€☐ nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]  
[Individual Certificates]
- 24 New Global Note: ☐ ☐ [Yes] [No]
- 25 Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): ☐ ☐ [Yes] [No] ☐ ☐
- 26 Relevant Financial Centre: ☐ ☐
- 27 Relevant Financial Centre Day: ☐ ☐
- 28 Amount of each instalment (Instalment Amount), date on which each payment is to be made (Instalment Date): ☐ ☐ [Not Applicable] ☐ ☐
- 29 Commissioner: ☐ ☐
- 30 Waiver of Set-off: ☐ ☐ [Applicable/Not Applicable]

31 Substitution and Variation: [Applicable/Not Applicable]

## DISTRIBUTION

- 32 (i) If syndicated, names [and addresses] of Managers [and underwriting commitments]: *(For a non-exempt offer, include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)* [Not Applicable]
- (ii) [Date of [Subscription Agreement]] [ ]<sup>9</sup>
- 33 If non-syndicated, name and address of Dealer/Manager: [ ]<sup>10</sup>
- 34 Stabilisation Manager: [Not Applicable] [ ]
- 35 [Indication of the overall amount of the underwriting commission and of the placing commission:] [[ ] per cent. of the Aggregate Nominal Amount] [None]]<sup>11</sup>
- 36 US Selling Restrictions: (Categories of potential investors to which the Instruments are offered) [Reg. S Compliance Category 2; TEFRA C/TEFRA D/ TEFRA not applicable]
- 37 Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]  
*(If the offer of the Instruments is concluded prior to 1 January 2018, or on and after that date the Instruments clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Instruments will be concluded on or after 1 January 2018 and the Instruments may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified)*
- 38 Public Offer: [Not Applicable]<sup>12</sup> / [An offer of the Instruments may be made by [the relevant Dealer[(s)] appointed in the Final Terms] [and/or] [specify names and addresses of the financial intermediaries/placers receiving specific consent] ([the] [each an] “**Authorised Offeror**”) other than pursuant to Article 3(2) of the Prospectus Directive in [specify Ireland or any relevant Member State(s) where the Issuer intends to make the Public Offer which must be jurisdictions where the Base Prospectus and any supplements have been passported (in addition to the jurisdiction where approved and published)] (the “**Public Offer Jurisdiction[s]**”) during [the period of twelve months from the date of approval of the Base Prospectus]/ [the period from [Insert, for example, one business day after satisfaction of all regulatory requirements of such Member State(s)] until [specify date or a formula such as “the Issue Date” or “the date which falls [ ] Business Days thereafter”]] (the “**Offer Period**”). Copies of these Final Terms will be provided to the competent [authorities] [authority] in the Public Offer Jurisdiction[s].  
(Consider walk-away rights if extending Offer Period beyond the Issue Date)

<sup>9</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

<sup>10</sup> [Inclusion of address applicable only to securities with a denomination of less than EUR 100,000.]

<sup>11</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

<sup>12</sup> [If not applicable, deleting the remaining placeholders of this paragraph 38, and paragraph 9 of Part B below.]

## PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for the issue [and] [the making of a public offer in the Public Offer Jurisdiction[s]] [and admission to trading on [*regulated market*]] of the Instruments described herein pursuant to the €25,000,000,000 Programme for the Issuance of Debt Instruments of Banco Santander, S.A.

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[*Relevant third party information*] has been extracted from [*source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

## CONFIRMED

**BANCO SANTANDER, S.A.**

By:

---

*Authorised Signatory*

Date

## PART B — OTHER INFORMATION

### 1 LISTING AND ADMISSION TO TRADING

[Application has been made by the Issuer (or on its behalf) for the Instruments to be listed on [the Official List of the Irish Stock Exchange]/[any other regulated market]<sup>13</sup>/[any unregulated market]/[any other listing authority] [any other stock exchange] [any other quotation system] and application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [the Regulated Market of the Irish Stock Exchange] [any other regulated market] [any other unregulated market] [any other listing authority] [any other stock exchange] [any other quotation system] with effect from [ ].]<sup>14</sup> [Not Applicable.]

### 2 RATINGS

The Instruments to be issued have been rated:

[S&P: [ ]]

[Moody's: [ ]]

[Fitch: [ ]]

[[Other]: [ ]]

[These credit ratings have been issued by Standard & Poor's Credit Market Services Europe Limited, [Moody's Investor Services España, S.A.] [and Fitch Ratings España, S.A.U.] [other].

Each of [Standard & Poor's Credit Market Services Europe Limited], [Moody's Investor Services España, S.A.] [,][and] [Fitch Ratings España, S.A.U.] [and] [Specify Other] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such each of [Standard & Poor's Credit Market Services Europe Limited], [Moody's Investor Services España, S.A.] [,][and] [Fitch Ratings España, S.A.U.] [and] [Specify Other] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

[A list of rating agencies registered under the CRA Regulation can be found at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>.]

[[Insert the legal name of the relevant credit rating agency entity] is not established [in the European Union] and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). [Insert the legal name of relevant credit rating agency entity] is therefore not included in the list of credit rating agencies published by the European Securities and Market Authority on its website in accordance with such Regulation].

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

*(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

*(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below.)*

[Save as discussed in paragraph 5.4 (*Placing and Underwriting*) of the Base Prospectus for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Instruments has

<sup>13</sup> [In the case of listing the Instruments on an unregulated market, this language and any references to the Prospectus Directive will be removed.]

<sup>14</sup> [In the case of unlisted Instruments, this language and any references to the Prospectus Directive will be removed.]

an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

#### 4 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer [ ]  
*(See [“Use of Proceeds”] wording in Base Prospectus, if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here. )*  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*<sup>15</sup>
- [(ii) Estimated net proceeds: [ ]<sup>16</sup>
- [(iii) Estimated total expenses: [ ]  
*[Include breakdown of expenses]*<sup>17</sup>

#### 5 [Fixed Rate Instruments only— YIELD

Indication of yield: [ ]  
 As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]]

#### 6 [Floating Rate Instruments only — HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR/[*relevant Floating Rate Option*]] rates can be obtained from [Reuters].]<sup>18</sup>

#### 7 [CMS Linked Instruments Only – HISTORIC RATES<sup>19</sup>

Details of historic swap rates can be obtained from [Reuters].]

#### 8 OPERATIONAL INFORMATION

ISIN: [ ]  
 Common Code: [ ]  
 WKN: [ ] [Not applicable]  
 Any other clearing system other than Euroclear and Clearstream Banking, *société anonyme* and the relevant identification numbers: [Clearstream Banking AG] [ ] [Not applicable]  
 Delivery: Delivery [against/free of] payment

<sup>15</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

<sup>16</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

<sup>17</sup> [For securities of at least EUR 100,000 only the estimated total expenses related to admission to trading should be included.]

<sup>18</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

<sup>19</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]



Names and addresses of additional Paying Agent(s) (if any):	[ ]
Intended to be held in a manner which would allow Eurosystem eligibility:	<p>[Yes. Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][<i>include this text for registered Instruments</i>] and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][if “yes” selected and the Instruments are deposited with an ICSD, the Instruments must be issued in NGN form]</p> <p>[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Instruments are capable of meeting them the Instruments may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][<i>include this text for registered Instruments</i>]. Note that this does not necessarily mean that the Instruments will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p>

## 9 TERMS AND CONDITIONS OF THE OFFER<sup>20</sup>

[Applicable]/[Not applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)  
[The Instruments will be offered to the public in [each] [the] Public Offer Jurisdiction in accordance with the arrangements listed below]

Offer Price:	[Issue Price] [ ]
Conditions to which the offer is subject:	[ ]
Description of the application process:	[ ]
Description of possibility to reduce subscriptions:	[Not Applicable. The terms of the Public Offer do not provide for any reduction of subscriptions.][ ]
Manner for refunding excess amounts paid by applicants:	[Not Applicable. The terms of the Public Offer do not provide for any refunds of excess amounts paid by applicants.][ ]
Details of the minimum and/or maximum amount of application:	Minimum amount of application: [ ][Not Applicable] Maximum amount of application: [ ][Not Applicable]
Details of the method and time limits for paying up and delivering the Instruments:	[ ]
Manner in and date on which results of the offer are to be made public:	[ ]
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	[Not Applicable] [According to Terms and Conditions’ Section 5.1.8]

<sup>20</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

Categories of potential investors to which the Instruments are offered and whether tranche(s) have been reserved for certain countries:	This is disclosed in the Base Prospectus.
Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	<input type="checkbox"/> [Not Applicable]
Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	<input type="checkbox"/> [Not Applicable]
Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place.	<input type="checkbox"/> [None/give details] <input type="checkbox"/> [The Authorised Offerors are identified in Part [A-39] above] <input type="checkbox"/>

### [ANNEX –ISSUE SPECIFIC SUMMARY]

*(Issuer to annex issue specific summary to the final terms on a drawdown)*<sup>21</sup>

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<sup>21</sup> [Applicable only to securities with a denomination of less than EUR 100,000.]

#### REGISTERED OFFICE OF THE ISSUER

**Banco Santander, S.A.**  
Paseo de Pereda 9-12  
39004 Santander  
Spain

#### HEAD OFFICE OF THE ISSUER

**Banco Santander, S.A.**  
Ciudad Grupo Santander  
Avda. de Cantabria s/n  
28660 Boadilla del Monte  
Madrid  
Spain

#### ARRANGERS

**Banco Santander, S.A.**  
Gran Vía de Hortaleza 3  
Edificio Pedreña  
28003 Madrid  
Spain

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

#### DEALERS

**Banco Santander, S.A.**  
Gran Vía de Hortaleza 3  
Edificio Pedreña  
28003 Madrid  
Spain

**Barclays Bank PLC**  
5 The North Colonnade  
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London E14 4BB  
United Kingdom

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**Citigroup Global Markets Limited**  
Citigroup Centre  
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Canary Wharf  
London E14 5LB  
United Kingdom

**Commerzbank Aktiengesellschaft**  
Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Federal Republic of Germany

**Crédit Agricole Corporate and Investment Bank**  
12, Place des Etats-Unis  
CS 70052  
92547 Montrouge Cedex  
France

**Credit Suisse Securities (Europe) Limited**  
One Cabot Square  
London E14 4QJ  
United Kingdom

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Merrill Lynch International**  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**Mizuho International plc**  
Mizuho House  
30 Old Bailey  
London EC4M 7AU  
United Kingdom

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Natixis**  
30 avenue Pierre Mendès  
75013 Paris  
France

**Société Générale**  
29 boulevard Haussmann  
75009 Paris  
France

**UBS Limited**  
5 Broadgate  
London EC2M 2QS  
United Kingdom

**Nomura International plc**  
1 Angel Lane  
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United Kingdom

**The Royal Bank of Scotland plc (trading as NatWest Markets)**  
250 Bishopsgate  
London EC2M 4AA  
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**AUDITORS OF THE ISSUER**  
**PricewaterhouseCoopers Auditores, S.L.**  
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Spain

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One Canada Square  
London E14 5AL  
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**REGISTRAR**  
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2-4 rue Eugène Ruppert  
L-2453 Luxembourg

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**A&L Listing Limited**  
International Financial Services Centre  
North Wall Quay  
Dublin 1  
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28010 Madrid  
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*To the Dealers*  
*As to English law and Spanish law*  
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28006 Madrid  
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