Offering Circular dated 13 March 2018

BANCO SANTANDER, S.A.

(*incorporated with limited liability under the laws of Spain*)

€1,500,000,000 4.75 per cent. Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities

Issue Price: 100 per cent.

The €1,500,000,000 4.75 per cent. Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 liquidation preference each (the "**Preferred Securities**") are being issued by Banco Santander, S.A. (the "**Bank**", the "**Issuer**" or "**Banco Santander**") on 19 March 2018 (the "**Closing Date**"). The Bank and its consolidated subsidiaries are referred to herein as the "**Group**" or as the "**Santander Group**".

The Preferred Securities will accrue non-cumulative cash distributions ("**Distributions**") (i) in respect of the period from (and including) the Closing Date to (but excluding) 19 March 2025 (the "**First Reset Date**") at the rate of 4.75 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a "**Reset Date**") to (but excluding) the next succeeding Reset Date (each such period, a "**Reset Period**"), at the rate per annum equal to the aggregate of 4.097 per cent. per annum (the "**Initial Margin**") and the 5-year Mid-Swap Rate for the relevant Reset Period, with such rate per annum converted to a quarterly rate in accordance with market convention. Subject as provided in the terms and conditions of the Preferred Securities (the "**Conditions**"), such Distributions will be payable quarterly in arrear on 19 March, 19 June, 19 September and 19 December in each year (each a "**Distribution Payment Date**"). The Bank may elect in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. No such election to cancel the payment of any Distribution (or part thereof) will constitute an event of default

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank on the First Reset Date and on any Distribution Payment Date falling after the First Reset Date, at the liquidation preference of €200,000 per Preferred Security plus, if applicable, any accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption (the "**Redemption Price**"), subject to the prior consent of the Regulator (as defined in the Conditions) and otherwise in accordance with Applicable Banking Regulations (as defined in the Conditions) then in force. The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event (each as defined in the Conditions), subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force.

In the event of the occurrence of the Trigger Event (as defined in the Conditions), the Preferred Securities are mandatorily and irrevocably convertible into newly issued ordinary shares in the capital of the Bank ("Common Shares") at the Conversion Price (as defined in the Conditions).

In the event of the liquidation of the Bank, prior to the occurrence of a Trigger Event, Holders will be entitled to receive (subject to the limitations described in the Conditions), in respect of each Preferred Security, their respective liquidation preference of €200,000 plus any accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution.

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**").

The Preferred Securities are expected to be rated Ba1 by Moody's Investors Service Limited ("**Moody's**"). The Issuer's long-term senior debt is currently rated investment grade by the major rating agencies—A3 stable outlook by Moody's Investors Service España, S.A., A- stable outlook by Standard & Poor's Ratings Services ("**Standard & Poor's**"), A- stable outlook by Fitch Ratings Ltd ("**Fitch**"), A stable outlook by DBRS Ratings Limited ("**DBRS**"), AA- stable outlook by Scope Ratings GmbH ("**Scope**") and AA- stable outlook by GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH ("**GBB-Rating**").

Each of Standard & Poor's, Moody's, Fitch, DBRS, Scope and GBB-Rating 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, Moody's, Fitch, DBRS, Scope and GBB-Rating 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 credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 11.

This Offering Circular does not comprise a prospectus for the purposes of article 5.3 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purpose of the Markets in Financial Instruments Directive (Directive 2014/65/EU). This Offering Circular constitutes listing particulars for the purpose of such application and has been approved by the Irish Stock Exchange as listing particulars.

The Preferred Securities must not be offered, distributed or sold in Spain or to Spanish Residents (as defined in the Conditions). No publicity of any kind shall be made in Spain.

The Preferred Securities and any Common Shares to be issued and delivered in the event of the occurrence of a Trigger Event have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Preferred Securities are being offered outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Capitalised terms used but not defined in this cover page will have the meanings set out in the Conditions.

The Preferred Securities are not intended to be sold and should not be sold to retail clients (as defined in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II), as amended or replaced from time to time). Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on page 3 of the Offering Circular for further information.

The Preferred Securities are not bank deposits: An investment in the Preferred Securities carries risks which are very different from the risk profile of a bank deposit placed with Banco Santander or any of its affiliates. The Preferred Securities have different yield, liquidity and risk profiles and would not benefit from any protection provided to deposits.

Joint Lead Managers

BNP PARIBAS	**HSBC**
Morgan Stanley	**Santander Global Corporate Banking**

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Offering Circular and declares that, having made all reasonable enquires and having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Offering Circular should be read and construed together with any documents incorporated by reference herein (see "*Information Incorporated by Reference*" below).

The Issuer has confirmed to Banco Santander, S.A., BNP Paribas, HSBC Bank plc and Morgan Stanley & Co. International plc (together, the "**Joint Lead Managers**") that this Offering Circular is true, accurate and complete in all material respects and is not misleading and there are no other facts in relation hereto the omission of which would in the context of the issue of the Preferred Securities and the issue of the Common Shares to be issued upon conversion of the Preferred Securities make any statement in this Offering Circular misleading in any material respect, and all reasonable enquiries have been made to verify the foregoing; any opinions and intentions expressed in this Offering Circular are honestly held and this Offering Circular contains all the information which is material in the context of the issue of the Preferred Securities and the issue of the Common Shares to be issued upon conversion of the Preferred Securities.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Preferred Securities other than as contained in this Offering Circular 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 or the Joint Lead Managers.

Neither the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Preferred Security shall in any circumstances create any implication that there has been no change in the affairs of the Issuer, or any event reasonably likely to involve any adverse change in the condition (financial or otherwise) of the Issuer, since the date of this Offering Circular or that any other information supplied in connection with the Preferred Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Joint Lead Managers have not separately verified the information contained or incorporated by reference in this Offering Circular. None of the Joint Lead Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained or incorporated by reference in this Offering Circular or any other information supplied by the Issuer in connection with the Preferred Securities. Neither this Offering Circular nor any such information or financial statements of the Issuer are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of this Offering Circular or such information or financial statements should purchase the Preferred Securities. Each potential purchaser of Preferred Securities should determine for itself the relevance of the information contained or incorporated by reference in this Offering Circular and its purchase of Preferred Securities should be based upon such investigation as it deems necessary. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Preferred Securities of any information coming to the attention of any of the Joint Lead Managers.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Preferred Securities.

The distribution of this Offering Circular and the offering, sale and delivery of Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Preferred Securities and on distribution of this Offering Circular and other offering circular material relating to the Preferred Securities, see "*Subscription, Sale and Transfer*".

In particular, the Preferred Securities and the Common Shares have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Preferred Securities may not be offered, sold or delivered within the United States or to U.S. persons.

In this Offering Circular, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**$**" or "**U.S.$**" are to United States dollars, references to "**GBP**", "**Sterling**" and "**£**" are to the currency of the United Kingdom and references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The Preferred Securities may not be a suitable investment for all investors. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular or incorporated by reference herein.

Stabilisation

In connection with the issue of the Preferred Securities, HSBC Bank plc (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Preferred Securities or effect transactions with a view to supporting the price of the Preferred Securities 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 Preferred Securities 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 Preferred Securities and 60 days after the date of the allotment of the Preferred Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Restrictions on Marketing and Sales to Retail Investors

The Preferred Securities are complex financial instruments and are not a suitable investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Preferred Securities to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Rules**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products (the "**PRIIPs Regulation**") became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together, the PI Rules, the PRIIPs Regulation and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write-down or convertible securities, such as the Preferred Securities.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Preferred Securities (or any beneficial interests therein), including the Regulations.

The Joint Lead Managers and their affiliates are required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Preferred Securities (or a beneficial interest in such Preferred Securities) from the Issuer and/or the Joint Lead Managers, each prospective investor will be deemed to represent, warrant, agree with, and undertake to the Issuer and each of the Joint Lead Managers that:

(a) it is not a retail client (as defined in MiFID II);

(b) whether or not it is subject to the Regulations, it will not:

(i) sell or offer the Preferred Securities (or the beneficial interest in such securities) to retail clients (as defined in MiFID II); or

(ii) communicate (including the distribution of this Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as defined in MiFID II). In selling or offering Preferred Securities or making or approving communications relating to the Preferred Securities, it may not rely on the limited exemptions set out in the PI Rules; and

(c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Preferred Securities (or any beneficial interests therein), including (without limitation) MiFID II any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Preferred Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors - The Preferred Securities 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 MiFID II; or (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. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Preferred Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Preferred Securities has led to the conclusion that: (i) the target market for the Preferred Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Preferred Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Preferred Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Preferred Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Negative target market – The Preferred Securities are not compatible investments for retail clients (as defined in MiFID II).

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Preferred Securities (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

INFORMATION INCORPORATED BY REFERENCE

The information set out in the table below shall be deemed to be incorporated in, and to form part of, this Offering Circular **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such statement. Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

The documents incorporated by reference hereto will be made available, free of charge, during usual business hours at the specified offices of the Principal Paying and Conversion Agent, and may be viewed on the Issuer's corporate website (www.santander.com).

For ease of reference, the tables below set out the relevant page references for the audited consolidated annual accounts, the notes to the audited consolidated financial statements and the auditors' reports as of and for the years ended 31 December 2017 and 31 December 2016 for the Issuer, as set out in the respective annual reports, prepared in each case in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS-EU**") (except for the financial statements included in Form 20-F which are prepared in accordance with International Financial Reporting Standards as issued by the IASB). Any information not listed in the cross-reference tables but included in the documents incorporated by reference is either not relevant for prospective investors in the Preferred Securities or the relevant information is included elsewhere in this Offering Circular.

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 annual accounts reports (*Informe de Auditoría y Cuentas Anuales*) of the Issuer for the years ended 31 December 2017 and 31 December 2016 (the "**2017 Annual Report**" and the "**2016 Annual Report**", respectively) where the following information incorporated by reference in this Offering Circular can be found in the Bank's 2017 Annual Report and 2016 Annual Report:

	Information Incorporated by Reference in this Offering Circular	2017 Annual Report Page Reference[1]
1.	Auditor's report on consolidated annual accounts for the year ended 31 December 2017	2-14
2.	Audited consolidated balance sheets as of and for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2016 and 31 December 2015	16-17
3.	Audited consolidated income statements for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2016 and 31 December 2015	18
4.	Audited consolidated statements of recognised income and expense for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2016 and 31 December 2015	19
5.	Audited consolidated statements of changes in total equity for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the year ended 31 December 2016 and 31 December 2015	20-22
6.	Audited consolidated statements of cash flows for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2016 and 31 December 2015	23
7.	Notes to the consolidated financial statements for the year ended 31 December 2017	24-309

[1] Page references are to the electronic page of the portable document format (.pdf) version of the 2017 Annual Report available on the web page of Banco Santander (www.santander.com).

Information Incorporated by Reference in this Offering Circular	2016 Annual Report Page Reference
1. Auditor's report on consolidated annual accounts for the year ended 31 December 2016	2-3
2. Audited consolidated balance sheets as of 31 December 2016 and the comparative consolidated financial information of the Issuer as of 31 December 2015 and 31 December 2014	5-6
3. Audited consolidated income statement 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	7
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	8
5. Audited consolidated statements of changes in total equity for the year ended 31 December 2016 and the comparative consolidated financial information of the Issuer for the year ended 31 December 2015 and 31 December 2014	9-11
6. Audited consolidated statements of cash flows 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	12
7. Notes to the consolidated financial statements for the year ended 31 December 2016	13-328

The tables below set out the relevant page references in Form 20-F of the Issuer for the year ended 31 December 2016 ("**2016 Form 20-F**") where the following information incorporated by reference in this Offering Circular can be found:

Information Incorporated by Reference in this Offering Circular	2016 Form 20-F Page Reference
Report of PricewaterhouseCoopers Auditores, S.L.	F-1
Consolidated balance sheets as of 31 December 2016, 2015 and 2014	F-3 to F-4
Consolidated income statements for the years ended 31 December 2016, 2015 and 2014	F-5
Consolidated statements of recognised income and expense for the years ended 31 December 2016, 2015 and 2014	F-6
Consolidated statements of changes in total equity for the years ended 31 December 2016, 2015 and 2014	F-7 to F-9
Consolidated statements of cash flows for the years ended 31 December 2016, 2015 and 2014	F-10
Notes to the consolidated financial statements for the year ended 31 December 2016	F-11 to F-278

Other information incorporated by reference:

The section titled "Alternative Performance Measures" contained at pages 75 to 78 of the Consolidated Directors' Report for 2017 set out in the English language 2017 Annual Report which can be found at:

https://www.santander.com/csgs/Satellite/CFWCSancomQP01/en_GB/pdf/Memoria_Consolidada_Grupo_Santander_31122017_ENG.pdf

OVERVIEW OF THE OFFERING

This overview must be read as an introduction to this Offering Circular and any decision to invest in the Preferred Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. See, in particular, the Conditions in "*Conditions of the Preferred Securities*".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Issuer:	Banco Santander, S.A.
Risk Factors:	See "*Risk Factors*" beginning on page 11 of this Offering Circular
Issue size:	€1,500,000,000
Issue details:	€1,500,000,000 4.75 per cent. Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 Liquidation Preference each. The Issuer intends that the Preferred Securities qualify as Additional Tier 1 Capital of the Bank and the Group pursuant to Applicable Banking Regulations.
Liquidation Preference:	€200,000 per Preferred Security.
Use of Proceeds:	Banco Santander intends to use the net proceeds from the issue of the Preferred Securities for its general corporate purposes.
Distributions:	Distributions will accrue (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 4.75 per cent. per annum, and (ii) in respect of each Reset Period, at the rate per annum, converted to a quarterly rate in accordance with market convention, equal to the aggregate of the Initial Margin (4.097 per cent. per annum) and the 5-year Mid-Swap Rate for such Reset Period. Subject as provided in the Conditions (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date. For further information, see Condition 3.
Limitations on Distribution:	The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Payments of Distributions in any financial year of the Bank shall be made only out of Available Distributable Items. To the extent that: (i) the Bank has insufficient Available Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding and CET1 capital securities, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items; and/or

(ii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part,

then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

No distribution will be made on the Preferred Securities until the Maximum Distributable Amount (if required) is calculated and if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.

The election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3 or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Condition 3 will be notified by the Bank to the Holders as soon as possible.

Status of the Preferred Securities: Unless previously converted into Common Shares pursuant to Condition 5, the payment obligations of the Bank under the Preferred Securities on account of the Liquidation Preference or otherwise of principal constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in accordance with Additional Provision 14.3 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 Bank for so long as the obligations of the Bank in respect of the Preferred Securities constitute Additional Tier 1 Instruments rank (a) *pari passu* among themselves and with (i) all other claims in respect of any liquidation preference or otherwise for principal in respect of any outstanding Additional Tier 1 Instruments 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 Bank's obligations under Additional Tier 1 Instruments; (b) junior to (i) any unsubordinated obligations of the Bank, (ii) any subordinated obligations (*créditos subordinados*) of the Bank 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 Bank's obligations under Additional Tier 1 Instruments; and (c) senior to (i) any claims for the liquidation amount of the Common Shares and (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under Additional Tier 1 Instruments.

Waiver of set-off: No Holder may at any time exercise any right of, or claim for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities against any right, claim, or liability the Bank has or may have or acquire against such Holder, directly or indirectly, howsoever arising. Each Holder shall be deemed to have waived all rights of, or claims for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities.

Optional Redemption: All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to (i) the prior consent of the Regulator and (ii) Condition 6.9, on the First Reset Date and on any Distribution

Payment Date falling after the First Reset Date, at the Redemption Price (and otherwise in accordance with Applicable Banking Regulations then in force).

Upon the occurrence of a Capital Event, the Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank, in whole but not in part, subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force, at any time, at the Redemption Price.

Upon the occurrence of a Tax Event, the Preferred Securities may further be redeemed on or after the Closing Date at the option of the Bank, in whole but not in part, subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force, at any time, at the Redemption Price.

For further information, see Condition 6.

Conversion: In the event of the occurrence of the Trigger Event, the Preferred Securities are mandatorily and irrevocably convertible into newly issued Common Shares at the Conversion Price.

Conversion Price: If the Common Shares are (a) then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of: (i) the Current Market Price of a Common Share, (ii) the Floor Price and (iii) the nominal value of a Common Share at the time of conversion (being €0.50 on the Closing Date), or (b) not then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of (ii) and (iii) above.

The Floor Price is subject to adjustment in accordance with Condition 5.3.

Liquidation Distribution Subject as provided below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 5) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution.

If, before such liquidation or winding-up of the Bank described above, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to the Conditions is still to take place, the entitlement conferred by the Preferred Securities for the above purposes, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up.

Purchases The Bank or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.

Pre-emptive rights: The Preferred Securities do not grant Holders preferential subscription rights in respect of any possible future issues of preferred securities or any other securities by the Bank or any Subsidiary.

Voting Rights: The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank.

For further information, see Condition 9.

Withholding Tax and Additional Amounts: Subject as provided in Condition 10, all payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank 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 (as defined in Condition 10), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required, subject to customary exceptions.

For further information, see Condition 10 and "*Taxation – Tax Treatment of the Preferred Securities — Reporting Obligations*" below.

Form: The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited with a common depositary for Euroclear and Clearstream, Luxembourg.

Ratings: The Preferred Securities are expected, on issue, to be assigned a rating of Ba1 by Moody's.

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.

Listing: Application will be made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.

Governing Law: The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom, Japan, Spain, Italy, Canada and others. Regulation S, category 2 restrictions under the Securities Act apply; TEFRA C is applicable. The Preferred Securities will not be eligible for sale in the United States under Rule 144A of the Securities Act.

RISK FACTORS

The Bank believes that the following factors may affect its ability to fulfil its obligations under the Preferred Securities. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Preferred Securities are also described below.

The Bank believes that the factors described below represent the principal risks inherent in investing in the Preferred Securities, but the mandatory conversion of the Preferred Securities, the non-payment by the Bank of any distributions, liquidation preferences or other amounts on or in connection with the Preferred Securities may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Preferred Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Offering Circular and reach their own views prior to making any investment decision. Words and expressions defined in the "Conditions of the Preferred Securities" below or elsewhere in this Offering Circular have the same meanings in this "Risk Factors" section.

*Any reference throughout the risks factors to "**we**", "**our**" and "**us**" will also refer to the Bank and its Group.*

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 2017, Continental Europe accounted for 45% of the Group's total loan portfolio (Spain accounted for 28% of the Group's total loan portfolio), the United Kingdom (where the loan portfolio consists primarily of residential mortgages) accounted for 29%, Latin America accounted for 17% (of which Brazil represents 8% of the Group's total loan portfolio) and the United States accounted for 8%. 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 (for more information on the Group's exposure to sovereign debt, see Note 51.d and Note 54.c 4.4 to the Group's consolidated financial statements). 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, 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–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.

The economies of some of the countries where the Group operates have been affected 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 negotiations for the country's exit from the European Union, could have a material adverse effect on the Group*"). The Spanish region of Catalonia has recently experienced several social and political movements calling for the region's secession from Spain (for more information see "*—The Group may suffer adverse effects as a result of economic and sovereign debt tensions in the Eurozone*"). As of the date of this Offering Circular, considerable uncertainty exists regarding the outcome of political and social tensions in Catalonia, which could result in potential disruptions in business, financing conditions or the environment in which the Group operates in the region and in the rest of Spain, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. There can be no assurance that the European and global economic environments will not continue to be affected by political developments.

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.

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.

Additionally, the results of the 2016 United States presidential and congressional elections generated volatility in the global capital and currency markets and created uncertainty about the relationship between the United States and Mexico. The uncertainty persists in relation to the United States trade policy, in particular the renegotiation of the North American Free Trade Agreement (NAFTA) and a further protectionist shift.

Exposure to UK political developments, including the negotiations for the country's exit from the European Union, could have a material adverse effect on the Group

On 23 June 2016, the UK held a referendum (the "**UK EU Referendum**") on its membership of 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. There remains significant uncertainty relating to the process, timing and negotiation of the UK's exit from, and future relationship with, the EU and the basis of the UK's future trading relationship with the rest of the world.

On 29 March 2017, the UK Prime Minister gave notice under Article 50(2) of the Treaty on European Union of the UK's intention to withdraw from the EU. The delivery of the Article 50(2) notice has triggered a two year period of negotiation which will determine the terms on which the UK will exit the EU, taking account of the framework for the UK's future relationship with the EU. Unless extended, the UK's EU membership will cease after this two year period. The timing of, and process for, such negotiations and the resulting terms of the UK's future economic, trading and legal relationships are uncertain, as is the basis of the UK's future trading relationship with the rest of the world. There is a possibility that the UK's membership ends at such time without reaching any agreement on the terms of its relationship with the EU going forward, although it should be noted that movement to phase two of the negotiations - with focus on finalising withdrawal issues, transition arrangements and a framework for the UK's future relationship with the EU - was agreed on 15 December 2017.

A general election in the UK was held on 8 June 2017 (the "**General Election**"). The General Election resulted in a hung parliament with no political party obtaining the majority required to form an outright government. On 26 June 2017, it was announced that the Conservative party had reached an agreement with the Democratic Unionist Party (the "**DUP**") in order for the Conservative party to form a minority government with legislative support from the DUP. The long term effects of the General Election, which resulted in a minority government, are difficult to predict due to significant uncertainty and the impact on the negotiation of the UK's exit from the EU. The outcome of the General Election could have a significant impact on the future international and domestic political agendas of the government (including the UK's exit from the EU), and on the ability of the government to pass legislation in the House of Commons, as well as increasing the risk of further early general elections and a period of political instability and/or a change of government.

While the longer term effects of the UK EU Referendum are difficult to predict, the effects of this referendum, in addition to the uncertainty created as a result of the outcome of the General Election, could include further financial instability and slower economic growth as well as higher unemployment and inflation in the UK. For instance, the UK Government has stated its intention for the UK to leave both the

Single Market and the Customs Union (thereby ceasing to be party 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 increase tariff and non-tariff barriers for the UK's trading relationships and, as a result, could have a detrimental impact on UK economic growth. Sustained low or negative interest rates would put further pressure on the Group's interest margins and adversely affect its operating results, financial condition and prospects. Equally, further rises in interest rates (in addition to the rate rise in November 2017) could result in larger default losses which would also impact on the Group's operating results, financial condition and prospects.

The UK EU Referendum has also given rise to further calls for a second referendum on Scottish independence. These developments, or the perception that they could occur, could 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 during the period of the negotiation of the UK's exit from the EU. The major credit rating agencies downgraded and changed their outlook to negative on the UK's sovereign credit rating following the UK EU Referendum and there is a risk that this may recur during the negotiation of the UK's exit from the EU as the potential terms of the exit (and any transition period) become public.

In addition, the Group is subject to substantial EU-derived regulation and oversight. There remains significant uncertainty as to the respective legal and regulatory environments in which the Bank and its subsidiaries will operate when the UK is no longer a member of the EU. This may cause 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 subsidiaries in the UK are in the process of implementing a number of key restructuring and strategic initiatives, such as the ring-fencing of their retail banking activities in the UK, 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, there is a significant risk that the Bank's subsidiaries in the UK and other financial institutions may no longer be able to rely on the European passporting framework for financial services (or an equivalent regime) and may 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, financial condition and prospects. 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 subsidiaries in the UK 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 operates and could have a material adverse effect on it, including the Group's ability to access capital and liquidity on financial terms acceptable to the Group and, more generally, on its operating results, financial condition and prospects.

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

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 recovered, 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 were runs on deposits at several financial institutions, numerous institutions sought additional capital or were assisted by governments, and many lenders and institutional investors reduced or ceased providing funding to borrowers (including to other financial institutions). In the European Union, the principal concern as of the date of this Offering Circular is the risk of slowdown of activity, because tax and financial integration, although not completed, has limited an individual country's ability to address potential economic crises with its own fiscal and monetary policies.

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.

A return to volatile conditions 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 the Group pays 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 showed signs of fragility and volatility, with political tensions in Europe being particularly heightened in the past two years. In addition, interest rate spreads among Eurozone countries affected government funding and borrowing rates in those economies. A reappearance of political tensions in the Eurozone 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. On 27 October 2017, a Spanish region (Catalonia) unilaterally declared independence from Spain resulting in subsequent intervention by the Spanish Government and causing political, social and economic instability in this region. Following these events, the risk of further instability in the Eurozone cannot be excluded.

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 risk of returning to fragile, volatile and political tensions exists if current ECB policies in place to control the crisis

are normalised, the reforms aimed at improving productivity and competition, the banking union and other measures of integration do not progress or anti-European groups succeed.

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, still exist 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.

Risks Relating to the Issuer and the Group Business

Risks relating to the acquisition of Banco Popular

*The acquisition of Banco Popular (the "**Acquisition**") could give rise to a wide range of litigation or other claims being filed that could have a material adverse effect on the Group*

The Acquisition took place in execution of the resolution of the Steering Committee of the Spanish banking resolution authority ("FROB") of 7 June 2017, adopting the measures required to implement the decision of the European banking resolution authority, the Single Resolution Board (**"SRB"**), in its Extended Executive Session of 7 June 2017, adopting the resolution scheme in respect of Banco Popular, Español, S.A. (**"Banco Popular"**), in compliance with article 29 of Regulation (EU) No. 806/2014 of the European Parliament and 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 a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (the **"FROB Resolution"**).

Pursuant to the aforesaid FROB Resolution, (i) all of the ordinary shares of Banco Popular outstanding prior to the date of that decision were immediately cancelled to create a non-distributable voluntary reserve, (ii) a capital increase was effected with no preemptive subscription rights, to convert all of Banco Popular's Additional Tier 1 capital instruments into shares of Banco Popular, (iii) the share capital was reduced to zero euros through the cancellation of the shares derived from the conversion described in point (ii) above to create a non-distributable voluntary reserve, (iv) a capital increase with no preemptive subscription rights was effected to convert all of Banco Popular's Tier 2 regulatory capital instruments into Banco Popular shares, and (v) all Banco Popular shares deriving from the conversion described in point (iv) above were acquired by Banco Santander for a total consideration of one euro (€1).

Since Banco Popular's declaration of resolution, the cancellation and conversion of its capital instruments, and the subsequent transfer to Banco Santander of the shares resulting from that conversion through the resolution tool of selling the entity's business, all under the rules of the single resolution framework indicated above, have no precedent in Spain or in any other EU member state, appeals against the SRB's and FROB's decision have been filed and claims against Banco Popular, Banco Santander or other entities of the Group derived from or related to the Acquisition cannot be ruled out. Various investors, advisors or financial institutions have announced their intention to explore, and, in some cases, have already filed various claims relating to the Acquisition. Some appeals before the General Court of the European Court of Justice against the SRB's decision are seeking an order for the annulment of the SRB's and the EU Commission's endorsement decision. As to other possible appeals or claims, it is not possible to anticipate the specific demands that might be made, or their financial impact (particularly as any such claims may not quantify their demands, may make new legal interpretations or may involve a large number of parties). The success of those appeals or claims could affect the Acquisition, including the payment of indemnification or compensation or settlements, and any of those events may have a material adverse effect on the results and financial condition of the Group.

It is also possible that, as a result of the Acquisition, Banco Popular, its directors, officers or employees and the entities controlled by Banco Popular may be the subject of claims, including, but not limited to, claims derived from investors' acquisition of Banco Popular shares or capital instruments prior to the FROB Resolution (including specifically, but also not limited to, shares acquired in the context of the capital increase with preemptive subscription rights effected in 2016), which could have a material adverse effect on the results and financial condition of the Group. In this regard, on 3 April 2017, Banco Popular submitted

a material fact (*hecho relevante*) to the Comisión Nacional del Mercado de Valores (the **"CNMV"** or **"Spanish Securities Market Commission"**) reporting some corrections that its internal audit unit had identified in relation to several figures in its financial statements for the year ended 31 December 2016. The Board of Directors of Banco Popular, being responsible for said financial statements, considered that, following a report of the audit committee, the circumstances did not represent, on an individual basis or taken as a whole, a significant impact that would justify the restatement of Banco Popular's financial statements for the year ended 31 December 2016. Notwithstanding the foregoing, Banco Popular is exposed to possible claims derived from the isolated items identified in the aforesaid material fact or others of an analogous nature, which, if they were to materialise and be upheld, could have a material adverse effect on the operating results, financial condition and prospects of the Group.

The Acquisition might fail to provide the expected results and profits and might expose the Group to unforeseen risks

Banco Santander decided to make an offer to acquire Banco Popular because it believed, based on the public information available about Banco Popular and other information to which it had limited access for a short period of time, that the Acquisition would generate a series of synergies and benefits for the Group, resulting from the implementation of business management and operating models that are more efficient in terms of costs and income. Banco Santander may have overvalued those synergies, or they may fail to materialise, which could also have a material adverse effect on the Group. The risk analysis and assessment done prior to the Acquisition was based on available public information and remaining non-material information that was provided in the aforesaid review process. Banco Santander did not independently verify the accuracy, veracity or completeness of that information. It cannot be ruled out that the information provided by Banco Popular to the market or to Banco Santander might contain errors or omissions, nor can Banco Santander, in turn, guarantee that that information is accurate and complete. Therefore, some of the valuations used by Banco Santander as the basis of its acquisition decision may be inaccurate, incomplete or out of date. Likewise, and given the specific features and urgency of the process through which Banco Santander acquired Banco Popular, no representations or warranties have been obtained regarding Banco Popular's assets, liabilities and business in general, other than those relating to the ownership of the shares acquired. Given these circumstances and the fact that the Acquisition has been recently effected and the considerable size of Banco Popular and its affiliates, as of the date of this Offering Circular, Banco Santander has had limited access to information on Banco Popular and Banco Santander's information on Banco Popular may not yet have been processed or analysed in its entirety. Therefore, Banco Santander might find damaged or impaired assets, unknown risks or hidden liabilities, or situations that are currently unknown and that might result in material contingencies or exceed the Group's current estimates, and those circumstances are not hedged or protected under the terms of the Acquisition, which, were they to materialise, might have a material adverse effect on the operating results, financial condition and prospects of the Group.

The integration of Banco Popular and its group of companies into the Group after the Acquisition may be difficult and complex, and the costs, profits and synergies derived from that integration may not be in line with expectations. For example, Banco Santander might have to face difficulties and obstacles as a result of, among other things, the need to integrate, or even the existence of conflicts between the operating and administrative systems, and the control and risk management systems at the two banks, or the need to implement, integrate and harmonise different procedures and specific business operating systems and financial, information and accounting systems or any other systems of the two groups; and have to face losses of customers or assume contract terminations with various counterparties and for various reasons, which might lead to costs or losses of income that are unexpected or in amounts higher than anticipated. Similarly, the integration process may also cause changes or redundancies, especially in the Group's business in Spain and Portugal, as well as additional or extraordinary costs or losses of income that make it necessary to make adjustments in the business or in the resources of the entities. All these circumstances could have a material adverse effect on the results and financial condition of the Group.

The integration of Banco Popular and its consequences could require a great deal of effort from Banco Santander and its management team

The integration of Banco Popular into the Group could require a great deal of dedication and attention from Banco Santander's management and staff, which could restrict its resources or prevent them from carrying out the Group's business activities, and this could negatively impact its results and financial situation.

A number of individual and class actions have been brought against Banco Popular in relation to floor clauses ("cláusulas suelo"). If the cost of these actions is higher than the provisions made, this could have a material adverse impact on the Group's operating results, financial situation and prospects.

Floor clauses ("*cláusulas suelo*") are clauses whereby the borrower agrees to pay a minimum interest rate to the lender regardless of the applicable benchmark rate. Banco Popular has included floor clauses in certain asset operations with customers.

The estimates for these provisions and the estimate for maximum risk associated with the aforementioned floor clauses were made by Banco Popular based on hypotheses, assumptions and premises it considered to be reasonable. However, these estimates may not be complete, may not have factored in all customers or former customers that could potentially file claims, the most recent facts or legal trends adopted by the Spanish courts, or any other circumstances that could be relevant for establishing the impact of floor clauses for Banco Popular and its group or the successful outcome of the claims filed in relation to these floor clauses. Consequently, the provisions made by Banco Popular or the estimate for maximum risk could prove to be inadequate, and may have to be increased to cover the impact of the different actions being processed in relation to floor clauses or to cover additional liabilities, which could lead to higher costs for the entity. This could have a material adverse effect on the operating results, financial situation and prospects of the Group.

Legal, Regulatory and Compliance Risks

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, the UK, 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 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 and development of a fiscal and banking union in the EU, which are discussed in further detail below. Moreover, there is uncertainty regarding the future of financial reforms in the United States and the impact that potential financial reform changes to the U.S. banking system may have on ongoing international regulatory proposals. In general, 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**").

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 taken place through Royal Decree Law 14/2013 and Law 10/2014, Royal Decree 84/2015, 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 risk weighted assets; (2) the institution-specific counter-cyclical capital buffer (consisting of the weighted average of the counter-cyclical capital buffer rates that apply in the jurisdictions where the relevant credit exposures are located), which may require as much as additional CET1 capital of 2.5% of total risk weighted assets or higher pursuant to the requirements set by the competent authority; (3) the G-SIIs buffer requiring additional CET1 of between 1% and 3.5% of risk weighted assets; (4) the other systemically important institutions buffer, which may be as much as 2% of risk weighted assets; and (5) the CET1 systemic risk buffer to prevent systemic or macro prudential risks of at least 1% of risk weighted assets (to be set by the competent authority). 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 additional CET1 capital of 2.5% of risk weighted assets and a systemically important institutions buffer of additional CET1 capital of 1% of risk weighted assets, in each case considered on a fully loaded basis. However, as of the date of this Offering Circular, due to the application of the phase-in period, the Bank is required to maintain a conservation buffer of additional CET1 capital of 1.875% of risk weighted assets, a G-SII buffer of additional CET1 capital of 0.75% of risk weighted assets and a counter-cyclical capital buffer of additional CET1 capital of 0.03% of risk weighted assets.

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 and any applicable capital buffer, 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 (including, restrictions on discretionary payments), which, in turn, may have a material adverse impact on the Group's results of operations.

The ECB clarified in its "Frequently asked questions on the 2016 EU-wide stress test" (July 2016) that the institution specific Pillar 2 capital will consist of two parts: Pillar 2 requirement and Pillar 2 guidance. Pillar 2 requirements are binding and breaches can have direct legal consequences for the banks, while Pillar 2 guidance is not directly binding and a failure to meet Pillar 2 guidance does not automatically trigger legal action, even though the ECB expects bank to meet Pillar 2 guidance. Following this clarification, it is understood that Pillar 2 guidance is not expected to trigger the automatic restriction of the distribution and calculation of the Maximum Distributable Amount.

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**") and accordingly requirements may change from year to year. 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 Pillar 2 capital requirements implemented on 1 January 2016. Under these guidelines, national supervisors must set a composition requirement for the Pillar 2 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 Pillar 1 capital requirement and to the additional Pillar 2 capital requirement. Therefore capital buffers would be, after the Pillar 2 guidance, the first layer of capital to be eroded pursuant to the applicable stacking order, as set out in the "Opinion of the EBA on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015. 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 phased-in requirements for 2018, following the results of SREP. The ECB decision requires that the Group maintains a CET1 phased-in capital ratio of at least 8.655% on a consolidated basis. This 8.655% capital requirement includes: the minimum Pillar 1 requirement (4.5%); the Pillar 2 requirement (1.5%); the capital conservation buffer (1.875%); the requirement deriving from its consideration as a G-SII (0.75%) and the counter-cyclical buffer (0.03%). The ECB decision also requires that the Bank maintains a CET1 phased-in capital ratio of at least 7.875% on an individual basis. This 7.875% capital requirement includes: the minimum Pillar 1 requirement (4.5%), the Pillar 2 requirement (1.5%) and the capital conservation buffer (1.875%). Taking into account the Bank's consolidated and individual current capital levels, these capital requirements do not imply any limitations on 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 the end of 2017 although the Basel Committee had already proposed the final calibration at 3% Tier 1 LR. 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 which contain a binding 3% Tier 1 LR requirement, that would be added to the own funds requirements in article 92 of the CRR, and which institutions must meet in addition to their risk-based requirements. However, the full implementation of the LR is currently under consultation as part of the proposals. Moreover, 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. Under the FSB TLAC standard, capital buffers stack on top of TLAC.

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 (EU) No. 2016/1450 that was adopted by the Commission on 23 May 2016 (the "**MREL Delegated Regulation**").

The MREL requirement was scheduled to come into force by January 2016. However, article 8 of the MREL Delegated Regulation gave discretion to resolution authorities to determine appropriate transitional periods to each institution.

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 14 December 2016, the EBA

published its final report on the implementation and design of the MREL framework where it stated that, although there was no need to change the key principles underlying the MREL Delegated Regulation, certain changes would be necessary with a view to improve the technical soundness of the MREL framework and implement the TLAC standard as an integral component of the MREL framework. On 20 December 2017, the SRB published its second policy statement on MREL, which will serve as a basis for setting binding MREL targets.

On 23 November 2016, the European Commission published, among others, a proposal for a European Directive amending CRR, the CRD IV Directive and 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 proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of "non-preferred" senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities, changes to the definitions of Tier 2 and Additional Tier 1 instruments, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above. The proposals also cover a harmonised national insolvency ranking of unsecured debt instruments to facilitate the issuance by credit institutions of such "non-preferred" senior debt. The proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process. Until all the proposals are in final form and are finally implemented into the relevant legislation, it is uncertain how the proposals will affect Banco Santander or the Holders.

One of the main objectives 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, with regard to the European Commission's proposal to create a new asset class of "non-preferred" senior debt, on 27 December 2017, Directive 2017/2399 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy was published in the Official Journal of the European Union. Before that, Royal Decree-Law 11/2017, of 23 June, approving urgent measures on financial matters ("**RDL 11/2017**") created in Spain the new asset class of senior-non preferred debt.

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 (the imposition of restrictions or prohibitions on discretionary payments by the Bank), 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.

On 7 December 2017, the GHOS published the finalisation of the Basel III post-crisis regulatory reform agenda. This review of the regulatory framework covers credit, operational and credit valuation adjustment

(CVA) risks, introduces a floor to the consumption of capital by internal ratings-based methods (IRB) and the revision of the calculation of the leverage ratio. The main features of the reform are: (i) a revised standard method for credit risk, which will improve the soundness and sensitivity to risk of the current method; (ii) modifications to the IRB methods for credit risk, including input floors to ensure a minimum level of conservatism in model parameters and limitations to its use for portfolios with low levels of noncompliance; (iii) regarding the CVA risk, and in connexion with the above, the removal of any internally modelled method and the inclusion of a standardised and basic method; (iv) regarding the operations risk, the revision of the standard method, which will replace the current standard methods and the advanced measurement approaches (AMA); (v) the introduction of a leverage ratio buffer for G-SIIs; and (vi) regarding capital consumption, it establishes a minimum limit on the aggregate results (output floor), which prevents the risk-weighted assets (RWA) of the banks generated by internal models from being lower than the 72.5% of the RWA that are calculated with the standard methods of the Basel III framework.

The GHOS have extended the implementation of the revised minimum capital requirements for market risk until January 2022, to coincide with the implementation of the reviews of credit, operational and CVA risks.

In addition to the above, the Bank should also comply with the liquidity coverage ratio ("**LCR**") requirements provided in CRR. According to article 460.2 of CRR, the LCR has been progressively introduced since 2015 with the following phasing-in: (a) 60% of the LCR in 2015; (b) 70% as of 1 January 2016; (c) 80% as of 1 January 2017; and (d) 100% as of 1 January 2018. As of 31 December 2017, the Group's LCR was 133%, comfortably exceeding the regulatory requirement.

In addition, the comprehensive reform of financial instruments accounting, IFRS 9, is applicable to the Group since 1 January 2018. IFRS 9 introduces, among other things, a new impairment model based on expected loss rather than incurred loss. Banco Santander expects that this change is likely to increase loan loss provisions and decrease equity at the date of transition and that volatility in the credit loss line item in the income statement is also likely to increase, which will have a negative effect on the Group's CET 1 capital. On 27 December 2017, Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017, amending Regulation (EU) 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State, established that the initial effect on equity, as it relates to the capital adequacy ratios, is to be gradually phased in over a five-year period between 1 January 2018 to 31 December 2022.

Moreover, 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.

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 119 financial institutions (as of 5 December 2017), 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 continue working on the establishment of a new supervisory culture importing best practices from the 19 national competent authorities that are part of the SSM and promoting a level playing field across participating Member States. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines; 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); the approval of a Regulation (Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in EU law) and a set of guidelines on the application of CRR's national options and discretions, etc. 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 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**").

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, results of operations and prospects. 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 European Securities and Markets Authority ("**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 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 delayed the effective date of MiFID II and MiFIR by 12 months until 3 January 2018.

Although MiFID II entered into force on 3 January 2018, it has only been partially transposed to the Spanish legislation by means of Royal Decree Law 21/2017, of 29 December, with regards to the conditions governing the operation of regulated markets, multilateral systems in financial instruments, organised trading facilities and infringements and sanctions. Therefore, there is still uncertainty as to whether the implementation of these new obligations and requirements will have material adverse effects on the Group's business, financial condition, results of operations and prospects.

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.

United States significant regulation

The financial services industry continues to experience significant financial regulatory reform in the United States, including from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") and changes thereto, regulation (including capital, leverage, funding, liquidity and tax requirements), policies (including fiscal and monetary policies established by central banks and financial regulators, and changes to global trade policies), and other legal and regulatory actions. Many of these reforms significantly affected and continue to affect the Group's revenues, costs and organisational structure in the United States and the scope of its permitted activities. The Bank continues to monitor the changing political, tax and regulatory environment in the United States and believes that it is likely that there will be further material changes in the way major financial institutions like the Group are regulated in the United States. Although it remains difficult to predict the exact impact these changes will have on the Group's business, financial condition, results of operations and cash flows for a particular future period, further reforms 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 foreign banking organisation 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, Inc. ("**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 Section 165(d) of the Dodd-Frank Act and implementing regulations to prepare and submit annually to the Board of Governors of the Federal Reserve System ("**Federal Reserve Board**") and the Federal Deposit Insurance Corporation ("**FDIC**") a plan, commonly called a living will (the "**165(d) plan**") 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 ("**IDI plan**") annually to the FDIC. The 165(d) plan and the IDI plan 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 165(d) plan, and by the FDIC only, in the case of the IDI plan. If, after reviewing the Bank's 165(d) plan 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, or even divestitures, which could have an adverse effect on the Group's business. On 28 September 2017, the Federal Reserve Board

and the FDIC extended by one year the next 165(d) plan submission deadline for foreign banks with limited U.S. operations, including the Bank. As a result, the due date for the Bank's next 165(d) plan submission is 31 December 2018.

In October 2015, the U.S. federal bank regulatory agencies adopted final rules for uncleared swaps that impose variation margin requirements and will phase in 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 generally apply to inter-affiliate transactions. The Bank is in the process of implementing the final rules and believes that 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. In addition, the U.S. Securities and Exchange Commission ("**SEC**") will in the future adopt regulations establishing margin requirements for uncleared security-based swaps.

On 1 September 2017, the Federal Reserve Board adopted a final rule that requires U.S. G-SIIs and the U.S. operations of foreign G-SIIs (together with U.S. G-SIIs, "**covered entities**"), such as Banco Santander, to amend certain qualified financial contracts ("**covered QFCs**"). Under the final rule, covered QFCs must expressly provide that transfer restrictions and default rights against a covered entity are limited to the same extent as they would be under the Federal Deposit Insurance Act or Title II of the Dodd-Frank Act. In addition, the final rule prohibits covered entities from being a party to a covered QFC that (i) permits the exercise of any cross-default right against a covered entity based on an affiliate's entry into insolvency, resolution or similar proceedings, subject to certain exceptions, or (ii) restricts the transfer of the covered QFC or any interests or obligations thereunder upon or following an affiliate's entry into insolvency, resolution or similar proceedings, subject to certain exceptions. The QFCs in scope under the final rule include derivatives, securities lending, and short-term funding transactions such as repurchase agreements, but exclude QFCs that do not contain default rights or transfer restrictions that could undermine the orderly resolution of a G-SII. Compliance dates are phased in pursuant to counterparty type, and Banco Santander will be required to conform its QFCs with (1) other covered entities or excluded banks by 1 January 2019, (2) other "financial counterparties" as defined in the rule by 1 July 2019 and (3) community banks and other counterparties, including central banks and sovereign entities, by January 1, 2020. On 29 November 2017, the Office of the Comptroller of the Currency ("**OCC**") released its final QFC stay rule, which is substantively identical to the one released by the Federal Reserve Board and applies to subsidiaries of U.S. and foreign G-SIIs that are national banks or federal savings associations, including Santander Bank, N.A. 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.

In August 2017, the Federal Reserve issued a proposal on corporate governance to enhance the effectiveness of boards of directors and refocus the Federal Reserve's supervisory expectations for boards of directors on their core responsibilities. The corporate governance proposal consists of three parts. The first part, the board effectiveness guidance, is proposed supervisory guidance identifying the attributes of effective boards of directors and is applicable to certain bank and savings and loan holding companies with total consolidated assets of $50 billion or more (other than those that are U.S. intermediate holding companies of foreign banking organisations), as well as to certain designated systemically important nonbank financial companies supervised by the Federal Reserve. This part would not apply to SHUSA, the Group's U.S. intermediate holding company, but the Federal Reserve solicited comments on how the guidance could be adapted to apply to U.S. intermediate holding companies, signaling that SHUSA could fall within the scope of a related future proposal. The board effectiveness guidance would be used in connection with the supervisory assessment of board effectiveness under a large financial institution rating system that the Federal Reserve proposed concurrently with the supervisory guidance on corporate governance. The second and third parts of the corporate governance proposal would revise certain supervisory expectations for boards and clarify expectations for communicating supervisory findings to an institution's board of directors and senior management.

Each of these aspects of the Dodd-Frank Act, as well as other aspects such as over-the-counter derivatives regulation, changes thereto and other changes in U.S. legislation or regulations relating to the financial services industry, may directly or indirectly impact various aspects of the Group's business. The full spectrum of risks that result from pending or future U.S. financial services, legislation or regulations cannot be fully known; however, such risks could be material and the Group could be materially 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 LCR 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 capital and liquidity requirements, the Federal Reserve Board adopted a final rule on 15 December 2016 that establishes certain TLAC, long-term debt and clean holding company requirements in the United States generally consistent with the FSB's international TLAC standard. U.S. IHCs, including SHUSA, must comply with all applicable requirements under the final rule by 1 January 2019. Compliance with the final TLAC rule could result in increased funding costs for SHUSA and the Bank.

In addition, certain of the Bank's U.S. subsidiaries, including SHUSA, are subject to stress testing and capital planning requirements in the United States. In February 2017, the Federal Reserve Board finalised a rule that removed the qualitative assessment that was part of the Federal Reserve Board's Comprehensive Capital Analysis and Review ("**CCAR**") for certain bank holding companies and U.S. intermediate holding companies of foreign banking organisations, including SHUSA. In April 2017, SHUSA submitted its 2017 capital plan to the Federal Reserve Board, which assessed the plan on quantitative grounds. In June 2017, the Federal Reserve Board released the results of the CCAR stress test and did not object to SHUSA's capital plan. SHUSA is therefore no longer subject to capital distribution restrictions that resulted from the Federal Reserve Board's CCAR objections to SHUSA's capital plan submissions in prior years.

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, the Group has been, and continues to be, subject to public supervisory actions in the United States. On 15 September 2014, SHUSA and the Federal Reserve Bank of Boston ("**FRB Boston**") had 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 had agreed to certain actions relating to planned capital distributions and to subject future capital distributions to the prior written approval of the Federal Reserve Board. On 24 August 2017, the Federal Reserve announced the termination of this enforcement action. Separately, in July 2015, SHUSA entered into a written agreement with the FRB Boston and agreed to make enhancements with respect to, among other matters, board oversight of the consolidated organisation, risk management, capital planning and liquidity risk management. In addition, in March 2017, SHUSA and Santander Consumer USA Inc. ("**SCUSA**") entered into a written agreement with the FRB Boston pursuant to which SHUSA and SCUSA agreed to submit written plans acceptable to the FRB Boston to strengthen board oversight of the management and operations of SCUSA and to strengthen board and senior management oversight of SCUSA's risk management program, SCUSA agreed to submit a written revised compliance risk management program acceptable to the FRB Boston and SHUSA agreed to submit written revisions to its firm-wide internal audit program of SCUSA's compliance risk management program. A response to this written agreement was submitted to the Federal Reserve of Boston in May 2017. The

written agreements between SHUSA and the FRB Boston dated 2 July 2015 and 21 March 2017 have not been terminated and remain in place.

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 implemented the recommendations of the Independent Commission on Banking (ICB) and of the Parliamentary Commission on Banking Standards. Among other things, the Banking Reform Act established 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, established a new Payment Systems Regulator (the "**PSR**") and amended 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 finalise 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 UK Financial Conduct Authority ("**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 plc ("**Santander UK**") concluded in December 2016 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, the ring-fenced bank, will serve the Group's retail, commercial and corporate customers. The majority of the Group's customer loans and assets as well as customer deposits and liabilities will remain within Santander UK, the Group's ring-fenced bank. Prohibited activities which cannot continue to be transacted within the ring-fenced bank principally include the Group's derivatives business with financial institutions and certain corporates, elements of its short term markets business and its branches in Jersey, Isle of Man and the United States (US). 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 and customers who cannot be served or services which are not permitted within a ring-fenced bank will be transferred to Banco Santander, S.A. or its London Branch. The Group intends to complete the implementation of its ring-fence plans 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 organisational 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 for the Group's UK subsidiaries may be material. This restructuring and migration of customers and transactions could have a material impact on how the Group's UK subsidiaries conduct their business. The Group is unable to predict with certainty the attitudes and reaction of its UK 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 any of its 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, for example, 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 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 that 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 tax rates 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 applicable to the Group. 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 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' bank products and services 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 compliance procedures and internal policies. Such measures, procedures and internal policies 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 illicit purposes (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 having breached AML, anti-terrorism, or sanctions requirements its 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 Financing Risks

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, have affected and may materially and adversely affect the cost of funding of 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.

The Group's cost of obtaining funding is directly related to prevailing interest rates and to the Group's credit spreads. Increases in interest rates and the Group's credit spreads can significantly increase the cost of its funding. Changes in the Group's credit spreads are market-driven and 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- stable outlook by Standard & Poor's Ratings Services and A- stable outlook by Fitch Ratings Ltd. 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. In June 2017, Standard & Poor's revised the outlook from positive to stable as a result of the risks associated with the acquisition of Banco Popular (for more information see "*—Risks relating to the acquisition of Banco Popular*").

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

Banco Santander (Brasil)'s long-term debt in foreign currency is currently rated BB- with a stable outlook by Standard &Poor's Ratings Services and Ba3 with a stable outlook by Moody's Investors Service.

The Group conducts substantially all of its material derivative activities through Banco Santander and Santander UK. The Group estimates that as of 31 December 2017, 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 €209 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 €193 million in additional collateral. The Group estimates that as of 31 December 2017, 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 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 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.

Credit Risks

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 ("**NPL**") 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 "*—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 47% of its loan portfolio as of 31 December 2017. 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 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. The trend changed in 2014 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. At 31 December 2017 the NPL ratio stood at 4.08% impacted by the acquisition of Banco Popular (see "*—Risks relating to the acquisition of Banco Popular*"). 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, the financial crisis and the acquisition of Banco Popular, 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 exposed 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.

Market Risks

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/ (charges) 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:

- interest income/ (charges);
- 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 transactions.

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/ (charges), 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 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/ (charges), 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 "*—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 interest income/ (charges) 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 ten 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.

Risk Management

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. The Group's losses thus could be significantly greater than the historical measures indicate. In addition, the Group's quantified modelling 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 monitor or continuously refine the Group's credit risk management system may result in an increase in the level of NPL and a higher risk exposure for the Group, which could have a material adverse effect on it.

Technology Risks

Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner or any failure to successfully implement new IT regulations 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.

In addition, several new regulations are prescribing how to manage cyber risks and technology risks, how to report a data breach, and how the supervisory process should work, among others. These regulations are quite fragmented in terms of definitions, scope and applicability. A failure to successfully implement all or some of these new global and local regulations, that in some cases have severe sanctions regimes, 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 using 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.

General Business and Industry Risks

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 NPL 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 IFRS-IASB 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 offer products and services that meet clients' needs throughout the life cycle of such products or services, 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 its clients and the Group's ability to offer products and services that meet clients' needs throughout the life cycle of such products or services. However, 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, such as the conduct risk in the relationship with clients, 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 "*—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, or 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 2015 or 2016, in 2017 the Group recognised €799 million in SCUSA and €100 million in Carfinco Financial Group (see Note 17 to the Group's consolidated financial statements). 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 strategy and culture depends on the availability of skilled and appropriate management, both at its head office and in 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, dealing with sectors that are not well perceived by the public, dealing with customers in sanctions lists, rating downgrades, significant variations in our share price throughout the year, 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.

Financial Reporting and Control Risks

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 about 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 company 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 US Securities and Exchange Commission's 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 financial harm. In recent years, a number of multinational 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.

Foreign Private Issuer and Other Risks

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-IASB, which differs 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, 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.

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.

Risks Relating to the Preferred Securities Generally

The Preferred Securities are subject to the provisions of the laws of Spain and their official interpretation, which may change and have a material adverse effect on the terms and market value of the Preferred Securities. Some aspects of the manner in which CRR/CRD IV will be implemented remain uncertain

The Conditions are drafted on the basis of Spanish law in effect as at the date of this Offering Circular. Changes in the laws of Spain or their official interpretation by regulatory authorities such as the Bank of Spain or the ECB after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Preferred Securities. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Preferred Securities, which may have an adverse effect on investment in the Preferred Securities.

CRR/CRD IV is a relatively recently-adopted set of rules and regulations that imposes a series of requirements, many of which are still being phased in. Although CRR is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards not all of which have already been adopted, and the CRD IV has left certain other matters to the discretion of the relevant regulator (although within the SSM the aforementioned ECB Regulation and Guidelines on national options and discretions apply, thus reducing the level of uncertainty).

Any such changes (including those which may result from the publication of the technical standards which interpret CRR), as well as the European Commission's Proposals (particularly those regarding the CRR/CRD IV package), could impact the calculation of the CET1 ratios or the CET1 capital of the Bank or the Group or the Risk Weighted Assets Amount of the Bank or the Group. Because the occurrence of the Trigger Event and restrictions on Distributions where subject to a Maximum Distributable Amount (as defined below) depend, in part, on the calculation of these ratios and capital measures, any change in Spanish law or their official interpretation by regulatory authorities that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred and/or whether Distributions on the Preferred Securities are subject to restrictions.

Such calculations may also be affected by changes in applicable accounting rules (including IFRS 9), the Group's accounting policies and the application by the Group of these policies. Any such changes, including changes over which the Group has a discretion, may have a material adverse impact on the reported financial position of the Group and accordingly may give rise to the occurrence of the Trigger Event in circumstances where such Trigger Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Holders.

Furthermore, any change in the laws or regulations of Spain, Applicable Banking Regulations or any change in the application or official interpretation thereof may in certain circumstances result in the Bank having the option to redeem the Preferred Securities in whole but not in part (see "*—The Preferred Securities may be redeemed at the option of the Bank*"). In any such case, the Preferred Securities would cease to be outstanding, which 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 Preferred Securities accurately and therefore affect the market price of the Preferred Securities given the extent and impact on the Preferred Securities of one or more regulatory or legislative changes.

The Preferred Securities may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 or the SRM Regulation could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any Preferred Securities

The BRRD (which has been implemented in Spain through Law 11/2015 and RD 1012/2015) is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in unsound or failing credit institutions or investment firms (each an "**institution**") so as to ensure the continuity of the institution's critical financial and economic functions, while minimizing the impact of an institution's failure on the economy and financial system. The BRRD further provides that any extraordinary public financial support through additional financial stabilisation tools is only to be used by a Member State as a last resort, after having assessed and exploited the resolution tools set out below to the maximum extent possible while maintaining financial stability.

In accordance with Article 20 of Law 11/2015, an institution will be considered as failing or likely to fail in any of the following circumstances: (i) it is, or is likely in the near future to be, in significant breach of its solvency or any other requirements necessary for maintaining its authorisation; (ii) its assets are, or are likely in the near future to be, less than its liabilities; (iii) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) it requires extraordinary public financial support (except in limited circumstances). The determination that an institution is no longer viable may depend on a number of factors which may be outside of that institution's control.

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the FROB, the SRB or, as the case may be and according to Law 11/2015, the Bank of Spain or the Spanish Securities Market Commission or any other entity with the authority to exercise any such tools and powers from time to time (each, a "**Relevant Spanish Resolution Authority**") as appropriate, 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 four resolution tools are: (i) sale of business – which enables resolution authorities to direct the sale of the institution 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 institution 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 maximizing their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in – by which the Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power (as defined below). This includes the ability of the Relevant Spanish Resolution Authority to write down (including to zero) and/or to convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) certain unsecured debt claims and subordinated obligations (including capital instruments such as the Preferred Securities).

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) RD 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).

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion by the Relevant Spanish Resolution Authority shall be in the following order: (i) CET1 instruments; (ii) Additional Tier 1 instruments; (iii) Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) the eligible senior claims prescribed in Article 41 of Law 11/2015. Any application of the Spanish Bail-in Power under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings (unless otherwise provided by applicable banking regulations).

In addition to the Spanish Bail-in Power, the BRRD, Law 11/2015 and the SRM Regulation provide for resolution authorities to have the further power to permanently write-down (including to zero) or convert into equity capital instruments such as the Preferred Securities at the point of non-viability ("**Non-Viability Loss Absorption**") of an institution or a group. The point of non-viability of an institution is the point at which the Relevant Spanish Resolution Authority determines that the institution meets the conditions for resolution, or that will no longer be viable unless the relevant capital instruments (such as the Preferred Securities) are written down or converted into equity, or that extraordinary public support is to be provided and without such support the Relevant Spanish Resolution Authority determines that the institution would no longer be viable. The point of non-vaibility 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 Spanish Resolution Authority in accordance with article 38.3 of Law 11/2015. Non-Viability Loss Absorption may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

The powers set out in the BRRD as implemented through Law 11/2015, RD 1012/2015 and the SRM Regulation impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors.

Pursuant to Law 11/2015 Holders of Preferred Securities may be subject to, among other things, a write-down and/or conversion into equity or other securities or obligations of the Preferred Securities on any application of the Spanish Bail-in Power and may also be subject to any Non-Viability Loss Absorption. The exercise of any such powers (or any of the other resolution powers and tools) may result in such Holders losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected, including by becoming holders of further subordinated instruments (i.e., ordinary shares of the Bank). Such exercise could also involve modifications to, or the disapplication of, provisions in the terms and conditions of the Preferred Securities including alteration of the Liquidation Preference or any Distributions payable on the Preferred Securities or the dates on which payments may be due, as well as the suspension of payments for a certain period (but without limiting the right of the Bank under Condition 3 of the Preferred Securities to cancel payment of any Distributions at any time and for any reason). As a result, the exercise of the Spanish Bail-in Power or, where applicable, the Non-Viability Loss Absorption with respect to the Preferred Securities or the taking by an authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially adversely affect the rights of Holders of Preferred Securities, the market price or value or trading behaviour of the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

There remains uncertainty as to how or when the Spanish Bail-in Power and the Non-Viability Loss Absorption may be exercised and how it would affect the Bank and the Preferred Securities The exercise of the Spanish Bail-in Power and/or Non-Viability Loss Absorption by the Relevant Spanish Resolution Authority with respect to the Preferred Securities is likely to be inherently unpredictable and may depend on a number of factors which may also 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 addition, as the Relevant Spanish Resolution Authority will retain an element of discretion, Holders of the Preferred Securities may not be able to refer to publicly available criteria in order to anticipate any potential exercise of any such Spanish Bail-in Power and/or Non-Viability Loss Absorption. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any such powers by the Relevant Spanish Resolution Authority may occur.

This uncertainty may adversely affect the value of the Preferred Securities. The price and trading behaviour of the Preferred Securities 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 Spanish Resolution Authority may exercise any such powers without providing any advance notice to the Holders of the Preferred Securities.

In addition, the EBA's preparation 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 Spanish Resolution Authority may exercise the Spanish Bail-in Power 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 or other securities or obligations in any bail-in. No assurance can be given that, once adopted, these standards will not be detrimental to the rights of a Holder of Preferred Securities under, and the value of a Holder's investment in, the Preferred Securities.

MREL/TLAC Requirements. Any failure by the Bank and/or the Group to comply with its MREL/TLAC Requirements could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities

The BRRD prescribes that banks shall hold a minimum level of own funds and eligible liabilities in relation to total liabilities and own funds (known as MREL). Pursuant to BRRD and the Commission Delegated Regulation (EU) No. 2016/1450, the level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions).

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 and it has proposed a long phase-in period of 48 months (four years) until 2020. The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance.

On 9 November 2015 the FSB published its final Total Loss-Absorbing Capacity ("**TLAC**") Principles and Term Sheet, proposing that G-SIIs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and which forms a new standard for G-SIIs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIIs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. 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-SIB at the greatest of (a) 16 per cent. of risk weighted assets as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022. As of the date of this Offering Circular, the Bank is classified as a G-SIB by the FSB and therefore the EU implementation of the TLAC requirement will create additional minimum capital requirements for the Bank.

As described in section "*The Group is subject to substantial regulation and regulatory and governmental oversight which could adversely affect its business, operations and financial condition*" above, the European Commission's Proposals dated 23 December 2016 aim at integrating the TLAC requirement into the general MREL rules thereby avoiding duplication from the application of two parallel requirements. Pursuant to such proposal, the TLAC requirement would be implemented as a "Pillar 1" MREL requirement for G-SIIs (the TLAC requirement under the new CRR), which would remain subject to potential additional

"Pillar 2" add-on MREL requirements (which would be institution-specific and based on the relevant resolvability analysis). Consequently, if the Relevant Spanish Resolution Authority finds that any obstacles to resolvability by the Bank and/or the Group could exist, a higher MREL requirement could be imposed.

The BRRD and the Commission Delegated Regulation (EU) No. 2016/1450 do not provide details on the implications of a failure by an institution to comply with its MREL requirement. However, pursuant to the European Commission's Proposals, and in line with the FSB standard on TLAC, in case a bank does not have sufficient amount of eligible liabilities to comply with its TLAC/MREL Requirements (except for the guidance requirement), the resultant shortfall would automatically be filled up with CET1 that, until that moment, was counted towards meeting the combined capital buffer requirement. In turn, this may lead to a breach of the combined capital buffer requirement, triggering a limit of discretionary payments to the holders of regulatory capital instruments, such as the Preferred Securities, and employees; in other words, a failure by an institution to comply with TLAC/MREL Requirements would be treated in the same manner as a failure to meet minimum regulatory capital requirements (see "*Capital requirements, liquidity, funding and structural reform*" above). Accordingly, any failure by the Bank and/or the Group to comply with its TLAC/MREL Requirement may have a material adverse effect on the Bank's business, financial conditions and results of operations and could result in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities. There can also be no assurance as to the relationship between the "Pillar 2" additional own funds requirements, the "combined buffer requirement" and the TLAC/MREL's once implemented in Spain and the restrictions or prohibitions on discretionay payments. See also "*Risks relating to the Preferred Securities Generally – Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*" below.

The Preferred Securities are irrevocably and mandatorily convertible into newly issued Common Shares in certain prescribed circumstances

Upon the occurrence of the Trigger Event, the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) converted in whole but not in part (which calculation is made by Banco Santander and shall be binding on the Holders) into newly issued Common Shares and the Holders will lose all of their claims for payment under the Preferred Securities and receive Common Shares instead (which are more deeply subordinated than the Preferred Securities). The number and/or value of the Common Shares received by Holders following a Trigger Event may be less than Holders may have expected.

In addition, as the Trigger Event will occur when the CET1 ratio of the Bank and/or the Group, as applicable, will have deteriorated significantly, the resulting Trigger Event will likely be accompanied by a prior deterioration in the market price of the Common Shares, which may be expected to continue after announcement of the Trigger Event. Therefore, in the event of the occurrence of the Trigger Event, the Current Market Price of a Common Share may be below the Floor Price, and investors could receive Common Shares at a time when the market price of the Common Shares is considerably less than the Conversion Price. In addition, there may be a delay in a Holder receiving its Common Shares following the Trigger Event, during which time the market price of the Common Shares may fall further. As a result, the value of the Common Shares received on conversion following the Trigger Event could be substantially lower than the price paid for the Preferred Securities at the time of their purchase.

Once the Preferred Securities have been converted into Common Shares, the principal amount of the Preferred Securities will not be restored in any circumstances (including where the relevant Trigger Event ceases to continue), no further interest will accrue or be payable on the Preferred Securities at any time thereafter and the Holders shall have no recourse to the Bank for any further payment in respect of the Preferred Security (but without prejudice to the right of the Holders to receive the relevant number of Common Shares from the Settlement Shares Depositary).

If a Trigger Event occurs, Holders will only have the claims under their Common Shares, and such claims in a winding-up or liquidation of the Bank are the most junior-ranking of all claims. Claims in respect of Common Shares are not for a fixed principal amount, but rather are limited to a share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Bank.

Accordingly, an investor in the Preferred Securities faces almost the same risk of loss as an investor in the Common Shares in the event of the Trigger Event. See also "*Holders will bear the risk of fluctuations in*

the price of the Common Shares and/or movements in any ratio that could give rise to the occurrence of a Trigger Event" below.

A capital reduction may take place in accordance with the Spanish Companies Act

In accordance to article 418.3 of the restated text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010, dated 2 July 2010 (*texto refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*) (the "**Spanish Companies Act**"), in the event that the Bank intends to approve a capital reduction by reimbursement of contributions (*restitución de aportaciones*) to shareholders by way of a reduction in the nominal value of the shares of such shareholders in the capital of the Bank, Holders will be entitled to convert their Preferred Securities into Common Shares at the applicable Conversion Price prior to the execution of such capital reduction. A resolution of capital reduction for the redemption of any Common Shares previously repurchased by the Bank will not be considered a capital reduction for these purposes.

The circumstances that may give rise to the Trigger Event are unpredictable

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. For example, the occurrence of one or more of the risks described under "*Risk Factors—Risk Relating to the Issuer and the Group Business*", or the deterioration of the circumstances described therein, will substantially increase the likelihood of the occurrence of the Trigger Event. Furthermore, the occurrence of the Trigger Event depends, in part, on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the business and future earnings of the Bank and/or the Group, as applicable; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities; regulatory changes (including possible changes in regulatory capital definitions, calculations and risk weighted assets, and the unwinding of transitional provisions under CRD IV); changes in the Bank's structure or organisation and the Bank's ability to actively manage the risk weighted assets of the Bank and the Group. The CET1 ratio of the Bank or the Group at any time may also depend on decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position. The Bank will have no obligation to consider the interests of the Holders in connection with the strategic decisions of the Group, including in respect of capital management. Holders will not have any claim against the Bank or any other member of the Group relating to decisions that affect the business and operations of the Group, including its capital position, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause Holders to lose all or part of the value of their investment in the Preferred Securities.

In addition, since the Regulator may require the Bank to calculate the CET1 ratio at any time, the Trigger Event could occur at any time. Due to the inherent uncertainty in advance of any determination of such event regarding whether the Trigger Event may exist, it will be difficult to predict when, if at all, the Preferred Securities will be converted into Common Shares. Accordingly, trading behaviour in respect of the Preferred Securities is not necessarily expected to follow trading behaviour associated with other types of convertible or exchangeable securities. Any indication that the Bank and/or the Group, as applicable, is trending towards the Trigger Event can be expected to have an adverse effect on the market price of the Preferred Securities and on the price of the Common Shares. Under such circumstances, investors may not be able to sell their Preferred Securities easily or at prices comparable to other similar yielding instruments.

Holders will bear the risk of fluctuations in the price of the Common Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event

The market price of the Preferred Securities is expected to be affected by fluctuations in the market price of the Common Shares, in particular if at any time there is a significant deterioration in any of the CET1 ratio by reference to which the determination of any occurrence of the Trigger Event is made, and it is impossible to predict whether the price of the Common Shares will rise or fall. Market prices of the Common Shares will be influenced by, among other things, the financial position of the Group, the results of operations and political, economic, financial and other factors. Any decline in the market price of the Common Shares or any indication that the CET1 ratio is trending towards occurrence of the Trigger Event may have an adverse effect on the market price of the Preferred Securities. The level of the CET1 ratio specified in the definition of Trigger Event may also significantly affect the market price of the Preferred Securities and/or the Common Shares.

Fluctuations in the market price of the Common Shares between the Trigger Event Notice Date and the Conversion Settlement Date may also further affect the value to a Holder of any Common Shares delivered to that Holder on the Conversion Settlement Date.

Perpetual Preferred Securities

The Bank is under no obligation to redeem the Preferred Securities at any time and the Holders have no right to call for their redemption. There is no right of acceleration in the case of any non-payment or Liquidation Preference of, or Distributions on, the Preferred Securities or in the case of failure by the Bank to perform any other covenant under the Preferred Seucrities or the Offering Circular. Only in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution.

The Preferred Securities may be redeemed at the option of the Bank

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Regulator, on the First Reset Date and on any Distribution Payment Date falling after the First Reset Date, at the Redemption Price per Preferred Security and otherwise in accordance with Applicable Banking Regulations then in force. Under the CRR, the Regulator will give its consent to redemption of the Preferred Securities in such circumstances **provided that** either of the following condition is met:

(i) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with instruments qualifying as Tier 1 Capital of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or

(ii) the Bank has demonstrated to the satisfaction of the Regulator that its Tier 1 Capital and Tier 2 capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Regulator may consider necessary on the basis set out in CRD IV.

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price (subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force) if there is a Capital Event or a Tax Event.

It is not possible to predict whether or not a change in the laws or regulations of Spain, Applicable Banking Regulations or the application or official interpretation thereof, will occur and so lead to the circumstances in which the Bank is able to elect to redeem the Preferred Securities, and if so whether or not the Bank will elect to exercise such option to redeem the Preferred Securities. There can be no assurances that, in the event of any such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Preferred Securities.

In the case of any early redemption of the Preferred Securities at the option of the Bank on the First Reset Date and on any Distribution Payment Date falling after the First Reset Date, the Bank may be expected to exercise this option when its funding costs are lower than the Distribution Rate at which Distributions are then payable in respect of the Preferred Securities. In these circumstances, the rate at which Holders are able to reinvest the proceeds of such redemption is unlikely to be as high as, and may be significantly lower than, that Distribution Rate.

In addition, the redemption feature of the Preferred Securities is likely to limit their market value. During any period when the Bank has the right to elect to redeem the Preferred Securities, the market value of the Preferred Securities is unlikely to rise substantially above the price at which they can be redeemed. This may also be true prior to such period.

Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions

The Preferred Securities accrue Distributions as further described in Condition 3 (*Distributions*), but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason and without any restriction on it thereafter.

Furthermore, payments of Distributions in any financial year of the Bank shall be made only out of Available Distributable Items. To the extent that:

(i) the Bank has insufficient Available Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities and CET1 Capital securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items; and/or

(ii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part,

then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

The level of the Issuer's Available Distributable Items is affected by a number of factors. The Issuer's future Available Distributable Items, and therefore the ability of the Issuer to make Distributions under the Preferred Securities, are a function of the Issuer's existing Available Distributable Items and its future profitability.

The level of the Issuer's Available Distributable Items may also be affected by changes to accounting rules, regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Available Distributable Items in the future.

The Issuer's Available Distributable Items, and therefore the Issuer's ability to make Distributions under the Preferred Securities, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the issuer and the Group operates and other factors outside of the Issuer's control. In addition, adjustments to earnings, as determined by the management of the Issuer, may fluctuate significantly and may materially adversely affect Available Distributable Items.

In addition, no Distribution will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank to be exceeded. See "*Risks Relating to the Issuer and the Group Business - The Group is subject to substantial regulation and regulatory and governmental oversight which could adversely affect its business, operations and financial condition*" and "*Capital requirements, liquidity, funding and structural reform*" above**.**

There can, therefore, be no assurances that a Holder will receive payments of Distributions in respect of the Preferred Securities. Unpaid Distributions are not cumulative or payable at any time thereafter and, accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any requirement for, or election of, the Bank to cancel such Distributions then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

Any cancellation of Distributions on the Preferred Securities could occur without warning and any such cancellation on any perceived risk that Distributions may be cancelled may have a negative impact on the value of the Preferred Securities.

No such election to cancel the payment of any Distribution (or part thereof) or non-payment of any Distribution (or part thereof) will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank.

If, as a result of any of the conditions set out above being applicable, only part of the Distributions under the Preferred Securities may be paid, the Bank may proceed, in its sole discretion, to make such partial Distributions under the Preferred Securities.

Notwithstanding the applicability of any one or more of the conditions set out above resulting in Distributions under the Preferred Securities not being paid or being paid only in part, the Bank will not be in any way limited or restricted from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security.

Furthermore, upon the occurrence of the Trigger Event, no further Distributions on the Preferred Securities will be made, including any accrued and unpaid Distributions, which will be cancelled.

There are no events of default

The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution in whole or in part at any time and as further contemplated in Condition 3 (see "—*Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*") and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank. Furthermore, the Trigger Conversion will not constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank. If Common Shares are not issued and delivered following the Trigger Event, then on a liquidation or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Trigger Conversion had taken place immediately prior to such liquidation or winding-up.

Holders of the Preferred Securities only have a limited ability to cash in their investment in the Preferred Securities

Holders have no ability to require the Bank to redeem their Preferred Securities. The Preferred Securities are perpetual securities. The Bank has the option to redeem the Preferred Securities in certain circumstances (see "—*The Preferred Securities may be redeemed at the option of the Bank*" above). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Condition 6 and Condition 7). There can be no assurance that Holders will be able to reinvest the amount received upon redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

Therefore, Holders have no ability to cash in their investment, except:

(i) if the Bank exercises its rights to redeem or purchase the Preferred Securities in accordance with Conditions 6 and 7; or

(ii) by selling their Preferred Securities or, following the occurrence of the Trigger Event and the issue and delivery of Common Shares in accordance with Condition 5, their Common Shares, provided a secondary market exists at the relevant time for the Preferred Securities or the Common Shares (see "—*Risks Relating to the Market for the Preferred Securities—The secondary market generally*").

Holders have limited anti-dilution protection

The number of Common Shares to be issued and delivered on Conversion in respect of each Preferred Security shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date. The Conversion Price will be, if the Common Shares are then admitted to trading on a Relevant Stock Exchange, the higher of: (a) the Current Market Price of a Common Share, (b) the Floor Price and (c) the nominal value of a Common Share at the time of conversion (being €0.50 on the Closing Date), or, if the Common Shares are not then admitted to trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 5 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Common Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Common Shares, but only in the situations and to the extent provided in Condition 5.3. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value

of the Common Shares or that, if a Holder were to have held the Common Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

Furthermore, the Conditions do not provide for certain undertakings from the Bank which are sometimes included in securities that convert into the ordinary shares of an issuer to protect investors in situations where the relevant conversion price adjustment provisions do not operate to neutralise the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the Common Shares nor an undertaking restricting issues of new share capital with preferential rights relative to the Preferred Securities.

Further, if the Bank issues any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares and such Dividend does not constitute an Extraordinary Dividend, no conversion price adjustment shall be applicable in accordance with Condition 5.3, and therefore Holders will not be protected by anti-dilution measures.

Accordingly, corporate events or actions in respect of which no adjustment to the Floor Price is made may adversely affect the value of the Preferred Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Bank may need to raise additional capital. Further capital raisings by the Bank could result in the dilution of the interests of the Holders, subject only to the limited anti-dilution protections referred to above.

The obligations of the Bank under the Preferred Securities are subordinated and will be further subordinated upon conversion into Common Shares

Unless previously converted into Common Shares pursuant to Condition 5, the payment obligations of the Bank under the Preferred Securities are direct, unconditional, unsecured and subordinated obligations of the Bank and, in accordance with Additional Provision 14.3 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 Bank for so long as the obligations of the Bank in respect of the Preferred Securities constitute an Additional Tier 1 Instrument, rank (a) *pari passu* among themselves and with (i) all other claims in respect of any liquidation preference or otherwise for principal in respect of any outstanding Additional Tier 1 Instruments 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 Bank's obligations under Additional Tier 1 Instruments; (b) junior to (i) any unsubordinated obligations of the Bank, (ii) any subordinated obligations (*créditos subordinados*) of the Bank 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 Bank's obligations under Additional Tier 1 Instruments; and (c) senior to (i) any claims for the liquidation amount of the Common Shares and (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under Additional Tier 1 Instruments.

Accordingly, if the Bank were wound up, liquidated or dissolved, the Bank's liquidator would first apply the assets of the Bank to satisfy all claims of holders of unsubordinated obligations of the Bank and other creditors ranking ahead of Holders. If the Bank does not have sufficient assets to settle claims of prior ranking creditors in full, the claims of the Holders under the Preferred Securities will not be satisfied. Holders will share equally in any distribution of assets with the holders of any other Parity Securities if the Bank does not have sufficient funds to make full payment to all of them. In such a situation, Holders could lose all or part of their investment.

Furthermore, if the Trigger Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to the Conditions is still to take place before the liquidation or winding-up of the Bank, the entitlement of Holders will be to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if the Trigger Conversion had taken place immediately prior to such liquidation or winding-up. Therefore, if the Trigger Event occurs, each Holder will be effectively further subordinated from being the holder of a subordinated debt instrument to being the holder of Common Shares and there is an enhanced risk that Holders will lose all or some of their investment.

The terms of the Preferred Securities contain a waiver of set-off rights

No holder of the Preferred Securities may at any time exercise or claim any right, of or claim for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities against any right, claim or liability of the Bank or that the Bank may have or acquire against such holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any kind, whether or not relating to such Preferred Securities).

The terms and conditions of the Preferred Securities provide that Holders shall be deemed to have waived all rights, of or claims for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. As a result, Holders will not at any time be entitled to set-off the Bank's obligations under the Preferred Securities against obligations owed by them to the Bank.

If a Delivery Notice is not duly delivered by a Holder, that Holder will bear the risk of fluctuations in the price of the Common Shares, the Bank may, in its sole and absolute discretion, cause the sale of any Common Shares underlying the Preferred Securities

In order to obtain delivery of the relevant Common Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice in accordance with the provisions set out under Condition 5.10. If a duly completed Delivery Notice and the relevant Preferred Securities are not so delivered, then a Holder will bear the risk of fluctuations in the price of the Common Shares that may further affect the value to that Holder of any Common Shares subsequently delivered. In addition, the Bank may, on the Notice Cut-Off Date, in its sole and absolute discretion, elect to appoint a person (the "**Selling Agent**") to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable.

Due to the fact that, in the event of the Trigger Event, investors are likely to receive Common Shares at a time when the market price of the Common Shares is very low, the cash value of the Common Shares received upon any such sale could be substantially lower than the price paid for the Preferred Securities at the time of their purchase. In addition, the proceeds of such sale may be further reduced as a result of the number of Common Shares offered for sale at the same time being much greater than may be the case in the event of sales by individual Holders.

There are limited remedies available under the Preferred Securities

There are no events of default under the Preferred Securities (see "*—There are no events of default*"). In the event that the Bank fails to make any payments (where such payments are not cancelled pursuant to, or otherwise subject to limitations on payments set out in, Condition 3 (*Distributions*)) or deliver any Common Shares when the same may be due, the remedies of Holders are limited to bringing a claim for breach of contract.

Holders may be obliged to make a takeover bid in case of the Trigger Event if they take delivery of Common Shares

Upon the occurrence of the Trigger Event, a Holder receiving Common Shares may have to make a takeover bid addressed to the shareholders of the Bank pursuant to the consolidated text of the Securities Market Act approved by Royal Legislative Decree 4/2015 of 23 October, as amended, and Royal Decree 1066/2007 of 27 July 2007, as amended, on the legal regime of take-over bids, implementing Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, if its aggregate holding in the Bank exceeds 30 per cent. of the available voting rights or if its aggregate holding in the Bank is less than 30 per cent. of such voting rights, but within 24 months of the date on which it acquired that lower percentage, it nominates a number of directors that, when taken together with any directors it has previously nominated, represent more than half of the members of the Bank's management body, in each case as a result of the conversion of the Preferred Securities into Common Shares.

Holders may be subject to disclosure obligations and/or may need approval by the Bank's Regulators and other authorities

As the Preferred Securities are convertible into Common Shares in certain circumstances, an investment in the Preferred Securities may result in Holders, upon conversion of their Preferred Securities into Common Shares, having to comply with certain approval and/or disclosure requirements pursuant to Spanish laws and regulations or laws and regulations of other jurisdictions where the Common Shares are then listed. Non-compliance with such approval and/or disclosure requirements may lead to the incurrence by Holders of substantial fines and/or suspension of voting rights associated with the Common Shares.

There is no restriction on the amount or type of further securities or indebtedness which the Bank may incur

There is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur which ranks senior to, or *pari passu* with, the Preferred Securities. The incurrence of any such further indebtedness may reduce the amount recoverable by Holders on a liquidation or winding-up of the Bank in respect of the Preferred Securities and may limit the ability of the Bank to meet its obligations in respect of the Preferred Securities, and result in a Holder losing all or some of its investment in the Preferred Securities. In addition, the Preferred Securities do not contain any restriction on the Bank issuing securities that may have preferential rights to the Common Shares or securities ranking *pari passu* with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

Receipt by the Settlement Shares Depositary of the Common Shares shall irrevocably discharge and satisfy the Bank's obligations in respect of the Preferred Securities

The Bank will deliver the Common Shares to the Settlement Shares Depositary as soon as practicable following the Trigger Event. Receipt of the Common Shares by the Settlement Shares Depositary shall discharge the Bank's obligations in respect of the Preferred Securities. With effect on and from the delivery of any such Common Shares to the Settlement Shares Depositary, a Holder shall have recourse only to the Settlement Shares Depositary for the delivery of the relevant Common Shares to be delivered in respect of its Preferred Securities or, in the circumstances described in the Conditions, any cash amounts to which that Holder is entitled under the Conditions, as the case may be.

In addition, the Bank has not yet appointed a Settlement Shares Depositary and the Bank may not be able to appoint a Settlement Shares Depositary if a Trigger Event occurs. In such a scenario, the Bank would inform Holders of any alternative arrangements in connection with the issuance and/or delivery of the Common Shares, and such arrangements may be disadvantageous to, and more restrictive on, the Holders. For example, such arrangements may involve Holders having to wait longer to receive their Common Shares than would be the case under the arrangements expected to be entered into with a Settlement Shares Depositary. An issue of the Common Shares by the Bank to the relevant recipient in accordance with these alternative arrangements shall constitute a complete and irrevocable release of all of the Bank's obligations in respect of the Preferred Securities.

Preferred Securities are not aggregated for the purposes of determining the number of Common Shares to be issued in respect of a Holder's holding in the Preferred Securities

If one or more Delivery Notices and relevant Preferred Securities are delivered by a Holder to the Settlement Shares Depositary (as provided in Condition 5) such that any Common Shares to be issued and delivered to such Holder following a Trigger Event are to be registered in the same name, the number of Common Shares to be issued and delivered in respect thereof shall be calculated on the basis of individual Preferred Securities and not on the basis of the aggregate principal amount of such Preferred Securities to be converted.

The number of Common Shares to be issued in respect of each Preferred Security shall be determined in accordance with the calculation in Condition 5 and such calculation shall be rounded down, if necessary, to the nearest whole number of Common Shares. Fractions of Common Shares will not be issued following a Trigger Event and no cash payment will be made in lieu thereof. There is therefore a risk that a Holder submitting more than one Delivery Notice may receive fewer Common Shares than it would otherwise have received had its holding in the Preferred Securities been aggregated (where the aggregate Liquidation Preference of a Holder's Preferred Securities would have qualified such Holder for additional Common Shares when calculated in accordance with Condition 5).

Limitation on gross-up obligation under the Preferred Securities

The Issuer's obligation under Condition 10 (*Taxation*) to pay additional amounts in the event of any withholding or deduction in respect of taxes on any payments under the terms of the Preferred Securities applies only to payments of Distributions and not to payments of Liquidation Preference. Accordingly, if any such withholding or deduction were to apply, Holders may receive less than the full amount of Liquidation Preference due under the Preferred Securities upon redemption, and the market value of the Preferred Securities may be adversely affected. In addition, additional amounts will only be paid if and to the extent that the Issuer has sufficient Available Distributable Items. As such, the Issuer would not be required to pay any additional amounts under the terms of the Preferred Securities to the extent it had insufficient Available Distributable Items.

The interest rate on the Preferred Securities will be reset on each Reset Date, which may affect the market value of the Preferred Securities

The Preferred Securities will bear interest at an initial fixed rate of interest to, but excluding, the First Reset Date. From, and including, the First Reset Date, and on every Reset Date thereafter, the interest rate will be reset as described in Condition 3 (*Distributions*). This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any Distributions under the Preferred Securities and so the market value of an investment in the Preferred Securities.

Substitution and variation of the Preferred Securities without Holder consent

Subject to Condition 6, if a Tax Event or a Capital Event occurs, the Bank may, instead of redeeming the Preferred Securities, at any time, without the consent of the Holders, and subject to receiving consent from the Regulator, either (a) substitute the Preferred Securities for new preferred securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of the Preferred Securities, so that the Preferred Securities may become or remain Qualifying Preferred Securities, provided that such substitution or variation shall not result in terms that are materially less favourable to the Holders, as reasonably determined by the Bank. In the exercise of its discretion, the Bank will have regard to the interest of the Holders as a class.

Further, prior to the making of any such substitution or variation, the Bank, 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 Agents, the Bank, or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or variation upon individual holders of Preferred Securities.

Prior to the issue and registration of the Common Shares to be delivered following the occurrence of the Trigger Event, Holders will not be entitled to any rights with respect to such Common Shares, but will be subject to all changes made with respect to the Common Shares

Any pecuniary rights with respect to the Common Shares, in particular the entitlement to dividends, shall only arise, and the exercise of voting rights and rights related thereto with respect to any Common Shares is only possible, after the date on which, following Trigger Conversion, as a matter of Spanish law the relevant Common Shares are issued and the person entitled to the Common Shares is registered as a shareholder in Iberclear and its participating entities in accordance with the provisions of, and subject to the limitations provided in, the by-laws of the Bank. Therefore, any failure by the Bank to issue, or effect the registration of, the Common Shares after the occurrence of the Trigger Event may result in the Holders not receiving any benefits related to the holding of the Common Shares and, on a liquidation or winding-up of the Bank, the entitlement of any such Holders will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up, as more particularly described in Condition 4.2.

The Preferred Securities may not be a suitable investment for all investors

Each potential investor in the Preferred Securities must determine the suitability of that 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 other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Offering Circular, taking into account that the Preferred Securities 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 Preferred Securities and the impact the Preferred Securities 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 Preferred Securities, including where the currency for payments in respect of the Preferred Securities is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and the Trigger Conversion of the Preferred Securities into Common Shares, 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 the applicable risks.

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

In certain circumstances Holders may be bound by modifications to the Preferred Securities to which they did not consent

The Conditions contain provisions for calling meetings of Holders to consider matters affecting the interests of Holders generally. These provisions permit defined majorities to bind all Holders including those Holders who did not attend and vote at the relevant meeting and who voted in a manner contrary to the majority.

Risk relating to tax regulations

Spanish tax rules

Article 44 of Royal Decree 1065/2007, as amended ("**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 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.

For these purposes, "**income**" means any earnings paid by the Issuer under the Preferred Securities, generally interest and the difference, if any, between the aggregate amount payable on the redemption of the Preferred Securities and the issue price of the Preferred Securities.

In accordance with article 44 of Royal Decree 1065/2007, the relevant 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 (as at the date of this Offering Circular, 19 per cent.) on the total amount of the return on the relevant Preferred Securities 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 in respect of the Preferred Securities if the Holders do not comply with such information procedures.

U.S. Foreign Account Tax Compliance Withholding

The U.S. "*Foreign Account Tax Compliance Act*" (or "**FATCA**") imposes a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "*foreign passthru payments*" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Preferred Securities are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligation under the Preferred Securities is discharged once it has paid the clearing systems, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Furthermore, if an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on the Preferred Securities, the Issuer would not, pursuant to the conditions of the Preferred Securities, be required to pay additional amounts as a result of the deduction or withholding of such tax. Prospective investors should refer to the section "*Taxation -Foreign Account Tax Compliance Act*."

Risks Relating to the Market for the Preferred Securities

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Preferred Securities may have no established trading market when issued, and one may never develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the

Preferred Securities may be adversely affected. If a market does develop, it may not be very liquid and may be sensitive to changes or volatility in financial markets. In addition, any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 6. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Preferred Securities will be in euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption monies payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less than expected, or may receive nothing at all.

Interest rate risk

Investment in the Preferred Securities involves the risk that changes in market interest rates may adversely affect the value of the Preferred Securities.

Credit ratings may not reflect all risks associated with an investment in the Preferred Securities

The Preferred Securities are expected, upon issue, to be assigned a rating of Ba1 by Moody's. 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 Preferred Securities.

Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the Preferred Securities does not address the likelihood that Distributions or any other payments in respect of the Preferred Securities will be made on any particular date or at all. Credit ratings also do not address the marketability or market price of securities.

Any change in the credit ratings assigned to the Preferred Securities may affect the market value of the Preferred Securities. Such change may, among other factors, be due to a change in the methodology applied by a rating agency to rating securities with similar structures to the Preferred Securities, as opposed to any revaluation of the Bank's financial strength or other factors such as conditions affecting the financial services industry generally.

In addition, other rating agencies may assign unsolicited ratings to the Preferred Securities. In such circumstances there can be no assurances that the unsolicited rating(s) will not be lower than the comparable ratings assigned to the Preferred Securities by the rating agencies referred to above, which could adversely affect the market value and liquidity of the Preferred Securities.

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. Potential investors should not rely on any rating of the Preferred Securities and should make their investment decision on the basis of considerations such as those outlined above (see "*The Preferred Securities may not be a suitable investment for all investors*").

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), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. 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). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain credit rating information is set out on the cover of this Offering Circular.

Legal investment considerations may restrict certain investments

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (i) the Preferred Securities are lawful investments for it, (ii) the Preferred Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Preferred Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Preferred Securities under any applicable risk-based capital or similar rules.

TERMS OF THE PREFERRED SECURITIES

The following is the text of the Conditions of the Preferred Securities (save for the paragraphs of italicised text in Condition 2).

The Preferred Securities (as defined below) are issued by Banco Santander, S.A. (the "**Bank**") by virtue of the resolutions passed by (i) the shareholders' meeting of the Bank, held on 27 March 2015, (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 27 March 2015 and (iii) the meeting of the Executive Committee (*Comisión Ejecutiva*) of the Bank, held on 5 March 2018, and in accordance with the CRR (as defined below) and the First Additional Provision of Law 10/2014, of 26 June 2014, on regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) ("**Law 10/2014**").

The Bank will execute an *escritura pública* (the "**Public Deed**") before a Spanish notary in relation to the issue of the Preferred Securities on or before the Closing Date (as defined below). The Public Deed contains, among other information, these Conditions.

Paragraphs in italics within these Conditions are a summary of certain procedures of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**" and, together with Euroclear, the "**European Clearing Systems**") and certain other information applicable to the Preferred Securities. The European Clearing Systems may, from time to time, change their procedures.

1. DEFINITIONS

1.1 For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

"**5-year Mid-Swap Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date:

(a) the rate for the Reset Date of the annual mid-swap rate for euro swap transactions maturing on the last day of such Reset Period, expressed as a percentage, which appears on the Screen Page under the heading "*EURIBOR BASIS - EUR*" and above the caption "*11.00AM FRANKFURT*" as of 11.00 a.m. (CET) on the Reset Determination Date; or

(b) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

"**5-year Mid-Swap Rate Quotations**" means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction which:

(a) has a term of 5 years commencing on the relevant Reset Date; and

(b) 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,

where the floating leg (calculated on an Actual/360 day count basis) is equivalent to six month EURIBOR;

"**Accounting Currency**" means EUR (€) or such other primary currency used in the presentation of the Group's accounts from time to time;

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation (*crédito subordinado*) of the Bank according to Article 92.2º of the Insolvency Law, ranking as an additional tier 1 instrument (*instrumentos de capital adicional de nivel 1*) under Additional Provision 14.3º. (c) of Law 11/2015;

"**Agency Agreement**" means the agency agreement to be dated on or about 19 March 2018 relating to the Preferred Securities;

"**Agent Bank**" means The Bank of New York Mellon, London Branch and includes any successor agent bank appointed in accordance with the Agency Agreement;

"**Agents**" means the agents appointed in accordance with the Agency Agreement;

"**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 Bank and/or the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator (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 Bank and/or the Group);

"**Available Distributable Items**" means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Bank which are available, in accordance with Applicable Banking Regulations for the payment of such Distribution.

As at the date of the offering circular dated 13 March 2018, article 4(1)(128) of the CRR provides as follows:

"**distributable items**" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Madrid and London;

"**Capital Event**" means a change in Spanish law, Applicable Banking Regulations or any change in the application or official interpretation thereof that results or is likely to result in any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 Capital;

"**Cash Dividend**" means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of "Spin-Off" and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of "Dividend", but a Dividend falling within paragraph (c) or (d) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend;

"**CET**" means Central European Time;

"**CET1 Capital**" means at any time, the common equity tier 1 capital of the Bank or the Group, respectively, as calculated in accordance with Chapter 2 (Common Equity Tier 1 capital) of Title I (Elements of own funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing in or similar provisions;

"**CET1 ratio**" means, at any time, with respect to the Bank or the Group, as the case may be, the ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the Bank or the Group, respectively, at such time divided by the Risk Weighted Assets Amount of the Bank or the Group, respectively, at such time;

"**Clearing System Preferred Securities**" means, for so long as any of the Preferred Securities is represented by a global Preferred Security held by or on behalf of a European Clearing System, any particular Liquidation Preference of the Preferred Securities shown in the records of a European Clearing System as being held by a Holder;

"**Closing Date**" means 19 March 2018;

"**CNMV**" means the Spanish Market Securities Commission (*Comisión Nacional del Mercado de Valores*);

"**Common Shares**" means ordinary shares in the capital of the Bank, each of which confers on the holder one vote at general meetings of the Bank and is credited as fully paid up;

"**Conversion Price**" means, in respect of the Trigger Event Notice Date, if the Common Shares are:

(a) then admitted to trading on a Relevant Stock Exchange, the higher of:

(i) the Current Market Price of a Common Share;

(ii) the Floor Price; and

(iii) the nominal value of a Common Share at the time of conversion (being €0.50 on the Closing Date),

in each case on the Trigger Event Notice Date; or

(b) not then admitted to trading on a Relevant Stock Exchange, the higher of (ii) and (iii) above;

"**Conversion Settlement Date**" means the date on which the relevant Common Shares are to be delivered following a Trigger Conversion, which shall be as soon as practicable and in any event not later than one month following (or such other period as Applicable Banking Regulations may require) the Trigger Event Notice Date and notice of the expected Conversion Settlement Date and of the Conversion Price shall be given to Holders in accordance with Condition 11 not more than 10 Business Days following the Trigger Event Notice Date;

"**Conversion Shares**" has the meaning given in Condition 5.2;

"**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 or such other directive as may come into effect in place thereof;

"**CRD IV Implementing Measures**" means any regulatory capital 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 Bank (on a standalone 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 and amending Regulation (EU) No. 648/2012 or such other regulation as may come into effect in place thereof;

"**Current Market Price**" means, in respect of a Common Share at a particular date, the average of the daily Volume Weighted Average Price of a Common Share on each of the 5 consecutive dealing days ending on the dealing day immediately preceding such date (the "**Relevant Period**") (rounded if necessary to the nearest euro cent with 0.5 cents being rounded upwards); **provided that** if at any time during the Relevant Period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

(a) if the Common Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Common Shares shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement; or

(b) if the Common Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Common Shares shall have been based on a price ex-Dividend (or ex-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement,

and **provided further that**:

(i) if on each of the dealing days in the Relevant Period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Common Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of first public announcement relating to such Dividend or entitlement; and

(ii) if the Volume Weighted Average Price of a Common Share is not available on one or more of the dealing days in the Relevant Period (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in the Relevant Period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the Relevant Period the Current Market Price shall be determined in good faith by an Independent Financial Adviser;

"**dealing day**" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Common Shares, Securities, Spin-Off Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

"**Delivery Notice**" means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent or in such form as may be acceptable to Euroclear and Clearstream from time to time, which contains the relevant account and related details for the delivery of any Common Shares and all relevant certifications and/or representations as may be required by applicable law and regulations (or is deemed to constitute the confirmation thereof), and which are required to be delivered in connection with a conversion of the Preferred Securities and the delivery of the Common Shares;

"**Distribution**" means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period determined in accordance with Condition 3;

"**Distribution Payment Date**" means each of 19 March, 19 June, 19 September and 19 December in each year;

"**Distribution Period**" means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next Distribution Payment Date;

"**Distribution Rate**" means the rate at which the Preferred Securities accrue Distributions in accordance with Condition 3;

"**Dividend**" means any dividend or distribution to Shareholders in respect of the Common Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Common Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital **provided that**:

(a) where:

(i) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Common Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Common Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or

(ii) there shall be any issue of Common Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Common Shares to be issued and delivered is determined;

(b) any issue of Common Shares falling within Conditions 5.3(a) or 5.3(b) shall be disregarded;

(c) a purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Companies Act for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Common Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Common Share (before expenses) on any one day (a "**Specified Share Day**") in respect of such purchases or redemptions or buy backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of a Common Share on the 5 dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Common Shares at some

future date at a specified price or where a tender offer is made, on the 5 dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Common Share, a minimum price per Common Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Common Shares purchased, redeemed or bought back by the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of a Common Share determined as aforesaid and (ii) the number of Common Shares so purchased, redeemed or bought back;

(d) if the Bank or any member of the Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Common Shares, the provisions of paragraph ((c)) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and

(e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Common Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

"**Eligible Persons**" means those Holders or persons (being duly appointed proxies or representatives of such Holders) that are entitled to attend and vote at a General Meeting of Holders, for the purposes of which no person shall be entitled to vote at any such meeting in respect of Preferred Securities held by or for the benefit, or on behalf, of the Bank or any of its subsidiaries;

"**equity share capital**" means, in relation to any entity, its issued share capital excluding any part of that capital which, in respect of dividends and capital, does not carry any right to participate beyond a specific amount in a distribution;

"**EUR**", "**€**" and "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;

"**EURIBOR**" means:

(a) the euro inter-bank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period which is published on the relevant Screen Page as of 11.00 a.m. (CET) on the Reset Determination Date for the relevant Reset Date, or

(b) (if no such rate is available) the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the quotations offered for euro deposits of the relevant maturity by four major banks in the Euro-zone inter-bank market selected by the Bank;

"**Existing Shareholders**" has the meaning given in the definition of "Newco Scheme";

"**Extraordinary Resolution**" has the meaning given in Condition 9.2(j);

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith **provided that** (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good

faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) above during the period of 5 dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser in good faith, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Common Share, the dividend yield of a Common Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (a) above, be translated into the Share Currency (if such Cash Dividend is declared or paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

"**First Reset Date**" means 19 March 2025;

"**Floor Price**" means €3.60 per Common Share, subject to adjustment in accordance with Condition 5.3;

"**Further Preferred Securities**" means any securities which are contingently convertible into Common Shares of the Bank pursuant to their terms in the event that the CET1 ratio of the Bank or the Group is less than a specified percentage;

"**General Meeting of Holders**" means the general meeting of Holders convened in accordance with Condition 9;

"**Group**" means the Bank together with its consolidated Subsidiaries;

"**Holders**" means holders of the Preferred Securities;

"**Iberclear**" means the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal*);

"**Independent Financial Adviser**" means an independent financial institution of international repute appointed by the Bank at its own expense;

"**Initial Margin**" means 4.097 per cent. per annum;

"**Insolvency Law**" means Law 22/2003, of 9 July, on insolvency (*Ley 22/2003, de 9 de julio, Concursal*)

"**Law 11/2015**" means Law 11/2015 of 18 June, on recovery and resolution of credit entities and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*);

"**Liquidation Distribution**" means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

"**Liquidation Preference**" means €200,000 per Preferred Security;

"**Maximum Distributable Amount**" means any maximum distributable amount applicable to the Bank or the Group required to be calculated in accordance with article 48 of Law 10/2014 and any provision implementing such article, each interpreted in light of article 141 of the CRD IV Directive;

"**Newco Scheme**" means a scheme of arrangement or analogous proceeding (Scheme of Arrangement) which effects the interposition of a limited liability company ("**Newco**") between the Shareholders of the Bank immediately prior to the Scheme of Arrangement (the Existing Shareholders) and the Bank, **provided that**:

(a) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;

(b) immediately after completion of the Scheme of Arrangement the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco, are Existing Shareholders and the Voting Rights in respect of Newco are held by Existing Shareholders in the same proportions as their respective holdings of such Voting Rights immediately prior to the Scheme of Arrangement;

(c) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Bank;

(d) all Subsidiaries of the Bank immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary) are Subsidiaries of the Bank (or of Newco) immediately after completion of the Scheme of Arrangement; and

(e) immediately after completion of the Scheme of Arrangement, the Bank (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Bank immediately prior to the Scheme of Arrangement.

"**Non-Cash Dividend**" means any Dividend which is not a Cash Dividend, and shall include a Spin-Off;

"**Parity Securities**" means any preferred securities (*participaciones preferentes*) issued under Law 13/1985 of 25 May on investment coefficients, own funds and information obligations of financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversion, recursos propios y obligaciones de información de los intermediarios financieros*) and/or Royal Decree-law 14/2013 of 29 November, on urgent measures to adapt the Spanish system to EU rules on supervision and solvency of financial institutions (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) and/or Law 10/2014 and/or under the CRR from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) ranking *pari passu* with any preferred securities (*participaciones preferentes*) issued from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any other instrument issued or guaranteed by the Bank ranking *pari passu* with the Preferred Securities;

"**Paying and Conversion Agents**" means the Principal Paying Agent and any other paying and conversion agent appointed in accordance with the Agency Agreement and includes any successors thereto appointed from time to time in accordance with the Agency Agreement;

"**Payment Business Day**" means a TARGET Business Day and in the case of Preferred Securities in definitive form only, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation;

"**Preferred Securities**" means the €1,500,000,000 4.75 per cent. Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities issued by the Bank on the Closing Date;

"**Prevailing Rate**" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at 12 noon (CET) on that date as appearing on or derived from the Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at 12 noon (CET) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe;

"**Principal Paying Agent**" means The Bank of New York Mellon, London Branch (or any successor Principal Paying Agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 11);

"**Proceedings**" has the meaning given in Condition 14;

"**Qualifying Preferred Securities**" means preferred securities issued by the Bank where such securities:

(i) have terms that are not materially less favourable to the Holders, as reasonably determined by the Bank, than the terms of the Preferred Securities;

(ii) subject to (i) above, shall (1) rank at least equal to the ranking of the Preferred Securities, (2) have the same currency, the same (or higher) Distribution Rates and the same Distribution Payment Dates as those from time to time applying to the Preferred Securities, (3) have the same redemption rights as the Preferred Securities; (4) comply with the then current requirements of Applicable Banking Regulations in relation to additional tier 1 capital; (5) preserve any existing rights under the Preferred Securities to any accrued interest which has not been paid in respect of the period from (and including) the Distribution Payment Date last preceding the date of substitution or variation, subject to Condition 3, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Preferred Securities immediately prior to such variation or substitution; and

(iii) are listed on a recognized stock exchange if the Preferred Securities were listed immediately prior to such variation or substitution.

"**Recognised Stock Exchange**" means a regulated regularly operating, recognised stock exchange or securities market in an OECD member state;

"**Redemption Price**" means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption of the Preferred Securities;

"**Reference Banks**" means 5 leading swap dealers in the London inter-bank market as selected by the Bank;

"**Reference Page**" means the relevant page on Bloomberg or Reuters or such other information service provider that displays the relevant information;

"**Regulator**" means the European Central Bank, the Bank of Spain or such other governmental authority which assumes or performs the role of primary bank supervisory authority in relation to Bank and/or the Group from time to time;

"**Relevant Stock Exchange**" means the Spanish Stock Exchanges or if at the relevant time the Common Shares are not at that time listed and admitted to trading on the Spanish Stock Exchanges, the principal stock exchange or securities market on which the Common Shares are then listed, admitted to trading or quoted or accepted for dealing;

"**Reset Determination Date**" means, in relation to each Reset Date, the second TARGET Business Day immediately preceding such Reset Date;

"**Reset Date**" means the First Reset Date and every fifth anniversary thereof;

"**Reset Reference Bank Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 a.m. (CET) on the Reset Determination Date for such Reset Date. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.444 per cent. per annum;

"**Reset Period**" means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

"**Risk Weighted Assets Amount**" means at any time, with respect to the Bank or the Group, as the case may be, the aggregate amount (in the Accounting Currency) of the risk weighted assets of the Bank or the Group, respectively, calculated in accordance with Applicable Banking Regulations at such time;

"**Scheme of Arrangement**" has the meaning given in the definition of "Newco Scheme";

"**Screen Page**" means the display page on the relevant Reuters information service designated as (a) in the case of the 5-year Mid-Swap Rate, the "ICESWAP" page or (b) in the case of EURIBOR, the "EURIBOR01" page, or in each case such other page as may replace that page on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate or EURIBOR, as applicable;

"**Securities**" means any securities including, without limitation, shares in the capital of the Bank, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Bank;

"**Selling Agent**" has the meaning given in Condition 5.10;

"**Settlement Shares Depository**" means a reputable independent financial institution, trust company or similar entity to be appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depository in these Conditions is required to be performed to perform such functions and who will hold Common Shares in Iberclear or any of its participating entities in a designated trust or custody account for the benefit of the Holders and otherwise on terms consistent with these Conditions;

"**Share Currency**" means euro or such other currency in which the Common Shares are quoted or dealt in on the Relevant Stock Exchange at the relevant time or for the purposes of the relevant calculation or determination;

"**Shareholders**" means the holders of Common Shares;

"**Spain**" means the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the context requires otherwise;

"**Spanish Companies Act**" means the consolidated text of the Spanish Companies Act (*Ley de Sociedades de Capital*) approved by Royal Decree Legislative 1/2010, of 2 July 2010;

"**Spanish Stock Exchanges**" means the Madrid, Barcelona, Bilbao and Valencia stock exchanges and the Automated Quotation System -Continuous Market (*Sistema de Interconexión Bursátil -Mercado Continuo (SIBE)*);

"**Specified Date**" has the meanings given in Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h) as applicable;

"**Spin-Off**" means:

(a) a distribution of Spin-Off Securities by the Bank to Shareholders as a class; or

(b) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Bank) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Bank or any member of the Group;

"**Spin-Off Securities**" means equity share capital of an entity other than the Bank or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Bank;

"**Subsidiary**" means any entity over which the Bank may have, directly or indirectly, control in accordance with Applicable Banking Regulations;

"**TARGET Business Day**" means any day on which the Trans-European Automated Real Time Gross Settlement Transfer (TARGET 2) system is open;

"**Tax Event**" means that as a result of any change in the laws or regulations of Spain or in the official interpretation or administration of any such laws or regulations which becomes effective on or after the date of issue of the Preferred Securities (a) the Bank would not be entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) the Bank would be required to pay additional amounts as provided in Condition 10, or (c) the applicable tax treatment of the Preferred Securities changes in a material way and was not reasonably foreseeable at the Closing Date;

"**Tier 1 Capital**" means at any time, with respect to the Bank or the Group, as the case may be the Tier 1 capital of the Bank or the Group, respectively, as calculated by the Bank in accordance with Chapters 1, 2 and 3 (Tier 1 capital, Common Equity Tier 1 capital and Additional Tier 1 capital) of Title I (Elements of own funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing in or similar provisions;

"**Trigger Conversion**" has the meaning given in Condition 5.1(c);

"**Trigger Event**" means if, at any time, the CET1 ratio of the Bank or the Group calculated in accordance with Applicable Banking Regulations is less than 5.125 per cent, as determined by the Bank or the Regulator;

"**Trigger Event Notice**" has the meaning given in Condition 5.1(a);

"**Trigger Event Notice Date**" means the date on which a Trigger Event Notice is given in accordance with Condition 5.1;

"**Volume Weighted Average Price**" means, in respect of a Common Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of a Common Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of a Common Share) from the Reference Page or (in the case of a Security (other than Common Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, **provided that** if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Common Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate; and

"**Voting Rights**" means the right generally to vote at a general meeting of Shareholders of the Bank (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

1.2 References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made in accordance therewith or under such modification or re-enactment.

1.3 References to any issue or offer or grant to Shareholders or Existing Shareholders "**as a class**" or "**by way of rights**" shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

1.4 In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Common Shares or any issue of Common Shares by way of capitalisation of profits or reserves, or any like or similar event.

1.5 For the purposes of Condition 5.3 only (a) references to the "**issue**" of Common Shares or Common Shares being issued shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Common Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Common Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Conditions 5.3(d) and 5.3(f), do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

2. FORM AND STATUS

2.1 The Preferred Securities will be issued in bearer form.

It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Bank to a common depositary for the European Clearing Systems. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant European Clearing System. It is anticipated that only in exceptional circumstances (such as the closure of Euroclear and Clearstream, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from Euroclear and Clearstream or failure to comply with the terms and conditions of the Preferred Securities by the Bank) will definitive Preferred Securities be issued directly to such accountholders

2.2 Unless previously converted into Common Shares pursuant to Condition 5, the payment obligations of the Bank under the Preferred Securities on account of the Liquidation Preference or otherwise of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados)* of the Bank and, in accordance with Additional Provision 14.3º 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 Bank for so long as the obligations of the Bank in respect of the Preferred Securities constitute an Additional Tier 1 Instrument, rank:

(a) *pari passu* among themselves and with (i) all other claims in respect of any liquidation preference or otherwise for principal in respect of any outstanding Additional Tier 1 Instruments 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 Bank's obligations under Additional Tier 1 Instruments;

(b) junior to (i) any unsubordinated obligations of the Bank, (ii) any subordinated obligations (*créditos subordinados*) of the Bank 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 Bank's obligations under Additional Tier 1 Instruments; and

(c) senior to (i) any claims for the liquidation amount of the Common Shares and (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under Additional Tier 1 Instruments

2.3 No Holder may at any time exercise any right of, or claim for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities against any right, claim, or liability the Bank 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 Preferred Security) and each Holder shall be deemed to have waived all rights of, or claims for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities 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 Bank in respect of, or arising under or in connection with the Preferred Securities 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 Bank and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Bank 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 Preferred Securities but for this Condition 2.3.

3. DISTRIBUTIONS

3.1 The Preferred Securities accrue Distributions:

(a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 4.75 per cent. per annum; and

(b) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 3.3 to 3.5 below, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (i) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the "**Accrual Date**") to (but excluding) the date on which Distributions fall due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

3.2 The Bank will be discharged from its obligations to pay Distributions on the Preferred Securities by payment to the Principal Paying Agent for the account of the holder of the relevant Preferred Securities on the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in euro by transfer to an account capable of receiving euro payments, as directed by the Principal Paying Agent.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, the payment will be postponed to the next Payment Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

3.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason.

3.4 Payments of Distributions in any financial year of the Bank shall be made only out of Available Distributable Items. To the extent that (i) the Bank has insufficient Available Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding and CET1 Capital securities, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items, and/or (ii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

3.5 No Distribution will be made on the Preferred Securities until the Maximum Distributable Amount (if required) is calculated and if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.

3.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 3.3 above or the limitations on payment set out in Conditions 3.4 and 3.5 above then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

3.7 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Conditions 3.4 and 3.5 above will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security.

3.8 The election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Conditions 3.4 and 3.5 above will be notified by the Bank to the Holders in accordance with Condition 11 as soon as possible. The failure to notify Holders as aforesaid will not invalidate the cancellation of the payment of any Distribution.

3.9 Save as described in this Condition 3, the Preferred Securities will confer no right to participate in the profits of the Bank.

3.10 The Agent Bank will at or as soon as practicable after the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 11 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

3.11 For the avoidance of doubt, the Agent Bank shall not be responsible to the Bank, the Holders or any third party as a result of the Agent Bank having relied upon any quotation, ratio or other

information provided to it by any person for the purposes of making any determination hereunder, which subsequently may be found to be incorrect or inaccurate in any way or for any losses arising by virtue thereof.

3.12 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, fraud or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions

4. LIQUIDATION DISTRIBUTION

4.1 Subject as provided in Condition 4.2 below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 5 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Common Shares or any other instrument of the Bank ranking junior to the Preferred Securities.

4.2 If, before such liquidation or winding-up of the Bank described in Condition 4.1, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to Condition 5 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 4.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up.

4.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 4.1 and 4.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

5. CONVERSION

5.1 If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:

(a) notify the Regulator and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with Condition 11 below (together, the "**Trigger Event Notice**"), **provided that** the failure to notify the Regulator and Holders as aforesaid will not invalidate the conversion;

(b) not make any further Distribution on the Preferred Securities, including any accrued and unpaid Distributions, which shall be cancelled by the Bank in accordance with Condition 3 above; and

(c) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Common Shares (the "**Trigger Conversion**") to be delivered on the relevant Conversion Settlement Date.

Holders shall have no claim against the Bank in respect of (i) any Liquidation Preference of Preferred Securities converted into Common Shares or (ii) any accrued and unpaid Distributions cancelled or otherwise unpaid, in each case pursuant to any Trigger Conversion.

For the purposes of determining whether the Trigger Event has occurred, the Bank will (A) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Bank and the Group and (B) calculate and publish the CET1 ratio on at least a quarterly basis.

5.2 Subject as provided in Condition 5.9, the number of Common Shares to be issued on Trigger Conversion in respect of each Preferred Security to be converted (the "**Conversion Shares**") shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date.

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares to the Settlement Shares Depository. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. After such delivery, Holders shall have recourse to the Settlement Shares Depository only for the delivery to them of such Conversion Shares or, in the circumstances described in Condition 5.10, any cash amounts to which such Holders are entitled under Condition 5.10.

If the Trigger Event occurs, the Preferred Securities will be converted in whole and not in part as provided in this Condition 5.

The Preferred Securities are not convertible into Common Shares at the option of Holders at any time and are not redeemable in cash as a result of the Trigger Event. The Trigger Conversion will not constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank.

5.3 Upon the happening of any of the events described below, the Floor Price shall be adjusted as follows:

(a) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of Common Shares, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

B is the aggregate number of Common Shares in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

(b) If and whenever the Bank shall issue any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (i) where any such Common Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (ii) where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares or (iii) where any such Common Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such issue; and

B is the aggregate number of Common Shares in issue immediately after such issue.

Such adjustment shall become effective on the first day on which Common Shares are traded ex-rights on the relevant Stock Exchange.

(c)

(i) If and whenever the Bank shall pay any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A - C}$$

where:

A is the Current Market Price of one Common Share on the Effective Date;

B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Common Shares entitled to receive the relevant Dividend; and

C is the amount (if any) by which the Reference Amount determined in respect of the Relevant Dividend exceeds an amount equal to the aggregate of the Fair Market Values of any previous Cash Dividends per Common Share paid or made in such Relevant Year (where C shall equal zero if such previous Cash Dividends per Common Share are equal to, or exceed, the Reference Amount in respect of the Relevant Year). For the avoidance of doubt, "C" shall equal the Reference Amount determined in respect of the Relevant Dividend where no previous Cash Dividends per Common Share have been paid or made in such Relevant Year.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

"**Effective Date**" means, in respect of this Condition 5.3(c)(i), the first date on which the Common Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

"**Extraordinary Dividend**" means:

I any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term (including any distribution made as a result of any capital reduction), in which case the Extraordinary Dividend shall be such Cash Dividend; or

II any Cash Dividend (the "**Relevant Dividend**") paid or made in a financial year of the Bank (the "**Relevant Year**") if (A) the Fair Market

Value of the Relevant Dividend per Common Share or (B) the sum of (I) the Fair Market Value of the Relevant Dividend per Common Share and (II) an amount equal to the aggregate of the Fair Market Value or Fair Market Values of any other Cash Dividend or Cash Dividends per Common Share paid or made in the Relevant Year (other than any Cash Dividend or part thereof previously determined to be an Extraordinary Dividend paid or made in such Relevant Year), exceeds the Reference Amount, and in that case the Extraordinary Dividend shall be the amount by which the Reference Amount is so exceeded.

"**Reference Amount**" means an amount per Ordinary Share that is consistent with the dividend policy of the Bank as applied or to be applied for a period or projected period of at least three years.

(ii) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non-Cash Dividend by the number of Common Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, by the number of Common Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Common Shares, or any Common Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

"**Effective Date**" means, in respect of this Condition 5.3(c)(ii), the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Common Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

(iii) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "**Dividend**" and in the definition of "**Fair Market Value**") be determined as at the Effective Date.

(iv) In making any calculations for the purposes of this Condition 5.3(c), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (A) any consolidation or

sub-division of any Common Shares or (B) the issue of Common Shares by way of capitalisation of profits or reserves (or any like or similar event) or (C) any increase in the number of Common Shares in issue in the Relevant Year in question.

(d) If and whenever the Bank shall issue Common Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Common Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Common Shares in issue on the Effective Date;

B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Common Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Common Share; and

C is the number of Common Shares to be issued or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this Condition 5.3(d), the "**Specified Date**") such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(d), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(d), the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

(e) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Common Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of

rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Common Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Common Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(e), the first date on which the Common Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

(f) If and whenever the Bank shall issue (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any Common Shares (other than Common Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Common Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuance to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Common Shares in issue immediately before the issue of such Common Shares or the grant of such options, warrants or rights;

B is the number of Common Shares which the aggregate consideration (if any) receivable for the issue of such Common Shares or, as the case may be, for the Common Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Common Share on the Effective Date; and

C is the number of Common Shares to be issued pursuant to such issue of such Common Shares or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if at the time of issue of such Common Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 5.3(f), the "**Specified Date**"), such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(f), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(f), the date of issue of such Common Shares or, as the case may be, the grant of such options, warrants or rights.

(g) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Conditions 5.3(d), 5.3(e) or 5.3(f) above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall include any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Common Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified/redesignated as Common Shares, and the consideration per Common Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Common Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Common Shares so issued, purchased or acquired);

B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Common Shares to be issued or to arise from any such reclassification/redesignation would purchase at such Current Market Price per Common Share; and

C is the maximum number of Common Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Common Shares which may be issued or arise from any such reclassification/redesignation;

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this Condition 5.3(g), the "**Specified Date**") such number of Common Shares is to be determined by reference to the application of a formula or other variable

feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/redesignated or at such other time as may be provided), then for the purposes of this Condition 5.3(g), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(g), the date of issue of such Securities or, as the case may be, the grant of such rights.

(h) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any Securities (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in Condition 5.3(g) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Common Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Common Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Common Shares so issued, purchased or acquired);

B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Common Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Common Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 5.3(h) or Condition 5.3(g) above;

provided that if at the time of such modification (as used in this Condition 5.3(h), the "**Specified Date**") such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 5.3(h), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had

occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(h), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

(i) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Conditions 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(f) above or Condition 5.3(j) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Common Share on the relevant dealing day under Condition 5.3(e) above)) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(i), the first date on which the Common Shares are traded ex-rights on the Relevant Stock Exchange.

(j) If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Holders) in such manner and with effect from such date as the Bank shall determine and notify to the Holders

Notwithstanding the foregoing provisions:

(i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 5.3 have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

(ii) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (A) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (B) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h), the following provisions shall apply:

I the aggregate consideration receivable or price for Common Shares issued for cash shall be the amount of such cash;

II (A) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (B) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Conditions 5.3(d), 5.3(f), 5.3(g) or 5.3(h), as the case may be, plus in the case of each of (A) and (B) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (C) the consideration receivable or price per Common Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (A) or (B) above (as the case may be) divided by the number of Common Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

III if the consideration or price determined pursuant to (I) or (II) above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Rate on the relevant Effective Date (in the case of (I) above) or the relevant date of first public announcement (in the case of (II) above);

IV in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Common Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

V the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.

5.4 If the record date in respect of any consolidation, reclassification/redesignation or sub-division as is mentioned in Condition 5.3(a) above, or the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Conditions 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(i) above, or the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 5.3(f) and 5.3(g) above or of the terms of any such modification as is mentioned in Condition 5.3(h) above, shall be after the Trigger Event Notice Date in relation to the conversion of any Preferred Security but before the date on which the resolution of issuance of the Common Shares is approved, then the Bank shall procure the execution of the corresponding adjustment mechanism under Condition 5.3 above so that there shall be issued and delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by the Settlement Shares Depository, such number of Common Shares that could be

required to be issued and delivered on such conversion taking into account the relevant adjustment to the Floor Price under Condition 5.3 above and all references to the issue and/or delivery of Common Shares or Conversion Shares in these Conditions shall be construed accordingly.

5.5 If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of wilful default, bad faith or manifest error.

5.6 No adjustment will be made to the Floor Price where Common Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any of member of the Group or any associated company or to a trustee or trustees or intermediary to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.

5.7 On any adjustment, the resultant Floor Price, if a number of more decimal places than the initial Floor Price, shall be rounded down to such decimal place. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 11 below promptly after the determination thereof.

5.8 On the Trigger Conversion of the Preferred Securities, the Common Shares to be issued and delivered shall be issued and delivered subject to and as provided below and immediately on such conversion the Preferred Securities shall cease to be outstanding for all purposes and shall be deemed cancelled.

5.9 Fractions of Common Shares will not be issued on Trigger Conversion and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Common Shares.

5.10 On or prior to the Conversion Settlement Date, the Bank shall deliver to the Settlement Shares Depository such number of Common Shares as is required to satisfy in full the Bank's obligation to deliver Common Shares in respect of the Trigger Conversion of the aggregate amount of Preferred Securities outstanding on the Trigger Event Notice Date.

In order to obtain delivery of the relevant Common Shares upon any Trigger Conversion from the Settlement Shares Depository, the relevant Holder must deliver a duly completed Delivery Notice, together with the relevant Preferred Securities held by it (which shall include any Clearing System Preferred Securities), to the specified office of any Paying and Conversion Agent (including, in the case of any Clearing System Preferred Securities, the delivery of (a) such Delivery Notice to the Principal Paying Agent through the relevant Clearing System and (b) Preferred Securities to the specified account of such Paying and Conversion Agent in the relevant Clearing System, each in accordance with the procedures of such Clearing System) no later than 5 Business Days (in the relevant place of delivery) prior to the relevant Conversion Settlement Date (the "**Notice Cut-off Date**").

The Principal Paying Agent shall give instructions to the Settlement Shares Depository for the relevant Common Shares to be delivered by the Settlement Shares Depository on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notice, **provided that** such duly completed Delivery Notice and the relevant Preferred Securities have been so delivered not later than the Notice Cut-off Date.

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the 10th Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a person (the "**Selling Agent**") to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 3.2 or in such other manner and at such time as the Bank shall determine and notify to the Holders.

Such payment shall for all purposes discharge the obligations of the Settlement Shares Depository and the Selling Agent in respect of the Trigger Conversion.

The Bank, the Principal Paying Agent, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 5.10 or in respect of any sale of any Common Shares, whether for the timing of any such sale or the price at or manner in which any such Common Shares are sold or the inability to sell any such Common Shares.

If the Bank does not appoint the Selling Agent by the 10th Business Day after the Conversion Settlement Date, or if any Common Shares are not sold by the Selling Agent in accordance with this Condition 5.10, such Common Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice and the relevant Preferred Securities.

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities may result in such Delivery Notice being treated as null and void and the Bank shall be entitled to procure the sale of any applicable Common Shares to which the relevant Holder may be entitled in accordance with this Condition 5.10. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this Condition 5.10 shall be made by the Bank in its sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

5.11 A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in Condition 5.10 above) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Trigger Conversion (other than any taxes or capital, issue and registration and transfer taxes or stamp duties payable in Spain by the Bank in respect of the issue and delivery of the Common Shares in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank) and such Holder or the Selling Agent (as the case may be) must pay (in the case of the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

If the Bank shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties for which it is responsible as provided above, the Holder or Selling Agent, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and the Bank as a separate and independent obligation, undertakes to reimburse and indemnify each Holder or Selling Agent, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

The Common Shares issued on Trigger Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Common Shares in issue on the Trigger Event Notice Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Common Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Trigger Event Notice Date.

5.12 Neither the Principal Paying Agent nor the Agent Bank shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Trigger Event (or its disapplication, if applicable) or any consequent conversion or any claims in respect thereof, and the Principal Paying Agent and the Agent Bank shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

5.13 Notwithstanding any other provision of this Condition 5 and subject to compliance with the provisions of the Spanish Companies Act and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Common Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

6. OPTIONAL REDEMPTION

6.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 6.

6.2 Subject to Conditions 6.3 and 6.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to (i) the prior consent of the Regulator and (ii) Condition 6.9, on the First Reset Date and on any Distribution Payment Date falling after the First Reset Date, at the Redemption Price (and otherwise in accordance with Applicable Banking Regulations then in force).

Article 78(1) of the CRR provides that the Regulator will give its consent to a redemption of the Preferred Securities in such circumstances **provided that** either of the following conditions is met:

(a) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with instruments qualifying as Tier 1 Capital of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or

(b) the Bank has demonstrated to the satisfaction of the Regulator that its Tier 1 Capital and Tier 2 capital 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.

6.3 If, on or after the Closing Date, there is a Capital Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force, at any time, at the Redemption Price.

Article 78(4) of the CRR provides that the Regulator may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Capital Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of article 78(1) of the CRR (as described above), there is a change in the regulatory classification of the Preferred Securities 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 Bank demonstrates to the satisfaction of the Regulator that the regulatory reclassification was not reasonably foreseeable at the Closing Date.

6.4 If, on or after the Closing Date, there is a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Regulator and

otherwise in accordance with Applicable Banking Regulations then in force, at any time, at the Redemption Price.

Article 78(4) of the CRR provides that the Regulator may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Tax Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of article 78(1) of the CRR (as described above), there is a change in the applicable tax treatment of the Preferred Securities and the Bank demonstrates to the satisfaction of the Regulator that such Tax Event is material and was not reasonably foreseeable at the Closing Date.

6.5 The decision to redeem the Preferred Securities must be irrevocably notified by the Bank to Holders upon not less than 30 nor more than 60 days' notice prior to the relevant redemption date through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 11.

6.6 If the Bank gives notice of redemption of the Preferred Securities, then by 12:00 (CET) on the relevant redemption date, the Bank will:

(a) irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and

(b) give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders.

6.7 If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on the date of such deposit:

(a) Distributions on the Preferred Securities shall cease;

(b) such Preferred Securities will no longer be considered outstanding; and

(c) the Holders will no longer have any rights as Holders except the right to receive the Redemption Price.

6.8 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue, subject as provided in Condition 3 above, at the rate specified from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

6.9 The Bank may not give a notice of redemption pursuant to this Condition 6 if the Trigger Event has occurred. If the Trigger Event has occurred after a notice of redemption shall have been given by the Bank but before the relevant redemption date, such notice of redemption shall automatically be revoked and be null and void and the relevant redemption shall not be made.

6.10 Following the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, without the consent of the Holders, and subject to receiving consent from the Regulator, having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11, either (a) substitute new preferred securities for the Preferred Securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of the Preferred Securities, so that, in either case, the Preferred Securities remain or, as appropriate, so that they become, Qualifying Preferred Securities.

The Bank may not substitute the Preferred Securities or vary the terms of the Preferred Securities according to the preceding paragraph if the Trigger Event has ocurred. If the Trigger Event has ocurred after a notice of substitution or variation shall have been given by the Bank but before the relevant substitution or variation is effected, such notice shall automatically be revoked and be null and void and the relevant substitution or variation shall not be made.

7. PURCHASES OF PREFERRED SECURITIES

The Bank or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time.

8. UNDERTAKINGS

So long as any Preferred Security remains outstanding, the Bank will, save with the approval of an Extraordinary Resolution:

(a) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Trigger Conversion, Common Shares could not, under any applicable law then in effect, be legally issued as fully paid;

(b) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Common Shares, or if a scheme is proposed with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Holders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Bank, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all commercially reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Common Shares issued during the period of the offer or scheme arising out of the Trigger Conversion and/or to the Holders;

(c) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that such amendments are made to these Conditions immediately after completion of the Scheme of Arrangement as are necessary to ensure that the Preferred Securities may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) *mutatis mutandis* in accordance with and subject to these Conditions and the ordinary shares of Newco are:

(i) admitted to the Relevant Stock Exchange; or

(ii) listed and/or admitted to trading on another Recognised Stock Exchange,

and the Holders irrevocably authorise the Bank to make such amendments to these Conditions without the need for any further authorisation from the General Meeting of Holders;

(d) issue, allot and deliver Common Shares upon Trigger Conversion subject to and as provided in Condition 5;

(e) use all reasonable endeavours to ensure that its issued and outstanding Common Shares and any Common Shares issued upon Trigger Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;

(f) at all times keep in force the relevant resolutions needed for issue, free from pre-emptive rights, sufficient authorised but unissued Common Shares to enable Trigger Conversion of the Preferred Securities, and all rights of subscription and exchange for Common Shares, to be satisfied in full; and

(g) where the provisions of Condition 5 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, the Bank shall use all reasonable endeavours promptly to appoint such person for such purpose.

9. **GENERAL MEETING OF HOLDERS**

9.1 The Bank may, without the consent of the Holders, but with prior notice to the Principal Paying Agent, amend these Conditions to (a) correct any manifest error, (b) make any amendment of a formal, minor or technical nature or to comply with mandatory provisions of law, or (c) make any amendment that is not prejudicial to the interests of the Holders. Additionally, following the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, without the consent of the Holders, and subject to receiving consent from the Regulator (if needed), substitute or amend the Preferred Securities as set forth in Condition 6.10 above.

In addition, the Bank and the Holders, the latter with the sanction of a resolution of the General Meeting of Holders, may agree any modification, whether material or not, to these Conditions and any waiver of any breach or proposed breach of these Conditions, subject to receiving consent from the Regulator when such consent in required under Applicable Banking Regulations.

9.2

(a) The Bank may at any time and, if required in writing by Holders holding not less than 10 per cent in aggregate Liquidation Preference of the Preferred Securities for the time being outstanding, shall convene a General Meeting of Holders and if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders. Whenever the Bank is about to convene any meeting it shall immediately give notice in writing to the Principal Paying Agent of the day, time and place of the meeting and the nature of the business to be transacted at the meeting as well as the terms of the Extraordinary Resolutions to be proposed to the meeting. Every meeting shall be held at a time and place approved by the Principal Paying Agent.

(b) At least 21 natural days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 11. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either (i) specify the terms of the Extraordinary Resolution to be proposed or (ii) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Principal Paying Agent, **provided that**, in the case of (ii), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid. The notice shall (i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting or (ii) inform Holders that details of the voting arrangements are available free of charge from the Principal Paying Agent, **provided that**, in the case of (ii) the final form of such details are available with effect on and from the date on which the notice convening such meeting is given as aforesaid. A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).

(c) The person (who may but need not be a Holder) nominated in writing by the Bank (the "**Chairman**") shall be entitled to take the chair at each meeting but if no nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting the Holders present shall choose one of their number to be Chairman, failing which the Bank may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.

(d) At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with Condition 9.1(c)) shall be transacted at any meeting unless the required quorum is present at the commencement of business. The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent in Liquidation Preference of the Preferred Securities for the time being outstanding **provided that** at any meeting the business of which

includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

(i) without prejudice to the provisions of Condition 3 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or

(ii) a modification of the currency in which payments under the Preferred Securities are to be made; or

(iii) a modification of the majority required to pass an Extraordinary Resolution; or

(iv) alteration of this proviso or the proviso to Condition 9.1(f) below,

the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds in Liquidation Preference of the Preferred Securities for the time being outstanding.

(e) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 9.1(a), be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is a public holiday the next following Business Day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 natural days nor more than 42 natural days and at a place appointed by the Chairman and approved by the Principal Paying Agent). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 natural days (but without any maximum number of natural days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Principal Paying Agent, and the provisions of this sentence shall apply to all further adjourned meetings.

(f) At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, **provided that** at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 9.1(d) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.

(g) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 9.1(b) and the notice shall state the relevant quorum. Subject to the foregoing it shall not be necessary to give any notice of an adjourned meeting.

9.3

(a) Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands

and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.

(b) At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

(c) Subject to Condition 9.2(e) if at any meeting a poll is demanded it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

(d) The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business, which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.

(e) Any poll demanded at any meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.

(f) Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.

(g) Subject as provided in Condition 9.2(f), at any meeting:

(i) on a show of hands every Eligible Person present shall have one vote; and

(ii) on a poll every Eligible Person present shall have one vote in respect of each €200,000 or such other amount as the Principal Paying Agent shall in its absolute discretion specify in Liquidation Preference of the Preferred Securities in respect of which he is an Eligible Person and no liability to any Eligible Person shall attach to the Principal Paying Agent in connection with the exercise of such discretion.

(h) Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 11 by the Bank within 14 days of the result being known **provided that** non-publication shall not invalidate the resolution.

(i) To be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 9, (i) a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll and (ii) an Extraordinary Resolution shall require a majority consisting of not less than 75 per cent of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent of the votes given on the poll, and subject to the provisions relating to the quorum contained in Conditions 9.1(d) and 9.1(f),

(j) The expression "**Extraordinary Resolution**" when used in this Condition 9 means a resolution to be passed by the General Meeting of Holders in connection with the following matters:

(i) any compromise or arrangement proposed to be made between the Bank and the Holders;

(ii) any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under the Agency Agreement, these Conditions or the Preferred Securities or otherwise;

(iii) any modification of the provisions contained in the Agency Agreement, these Conditions or the Preferred Securities, which is proposed by the Bank, other than as set forth in the first paragraph to Condition 9.1 above;

(iv) any authority or approval which under the provisions of Condition 9 or the Preferred Securities is required to be given by Extraordinary Resolution; and

(v) any appointment of any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution.

(k) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had transpired shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had transpired at the meeting to have been duly passed or had.

(l) For the purposes of calculating a period of natural days, no account shall be taken of the day on which a period commences or the day on which a period ends.

(m) The initial provisions governing the manner in which Holders (including accountholders in the European Clearing Systems) may attend and vote at a meeting of the holders of Preferred Securities are set out in the Agency Agreement. The Principal Paying Agent may without the consent of the Bank or the Holders prescribe any other regulations regarding such manner of attendance and voting as the Principal Paying Agent may in its sole discretion think fit and no liability to the Bank or the Holders shall attach to the Principal Paying Agent in connection with the exercise of such discretion. Notice of any such regulations may be given to Holders in accordance with Condition 11 and/or at the time of service of any notice convening a meeting.

10. TAXATION

10.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank 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 (collectively "**Taxes**") of whatever nature imposed or levied by or on behalf of Spain, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required, **provided that** (i) no additional amount will be paid with regard to payments of the Liquidation Preference and (ii) no payments of additional amounts will be made if and to the extent that the Bank has insufficient Available Distributable Items to pay such additional amounts, Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities and

CET1 Capital securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items.

10.2 The Bank shall not be required to pay any additional amounts as referred to in Condition 10.1 in relation to any payment in respect of Preferred Securities:

(a) to, or to a third party on behalf of, a Holder or to the beneficial owner of Preferred Securities who is liable for such Taxes in respect of such Preferred Security by reason of his having some connection with Spain other than the mere holding of such Preferred Security; or

(b) to, or to a third party on behalf of, a Holder or to the beneficial owner in respect of whose Preferred Security the Bank does not receive in a timely manner a duly executed and completed certificate from the Fiscal Agent, pursuant to Law 10/2014 and Royal Decree 1065/2007, and any implementing legislation or regulation; or

(c) to, or to a third party on behalf of, a Holder or to the beneficial owner of Preferred Securities who failed to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such holder or beneficial owner, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the taxing jurisdiction of the Issuer as a condition to relief or exemption from such taxes; or

(d) 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

(e) in relation to any estate, inheritance, gift, sales, transfer or similar taxes; or

(f) to, or to a third party on behalf of, a Holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of Spain to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to any additional amounts had it been the Holder.

10.3 In addition, additional amounts as referred to in Condition 10.1 will not be payable with respect to any Taxes that are imposed in respect of any combination of the items set forth above.

10.4 All payments in respect of the Preferred Securities will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10.1 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto and, accordingly, the Bank shall not be required to pay any additional amounts under Condition 10.1 above.

10.5 For the purposes of this Condition 10, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 11 below.

See "Taxation" for a fuller description of certain tax considerations relating to the Preferred Securities.

11. NOTICES

Notices, including notice of any redemption of the Preferred Securities, 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) (so long as the Preferred Securities 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.

Until such time as any definitive Preferred Securities are issued, there may, so long as any global Preferred Securities representing the Preferred Securities are held in their entirety on behalf of Euroclear and/or Clearstream be substituted for such publication the delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the persons shown in their respective records as having interests therein **provided that**, the requirements of any relevant listing authority, stock exchange and/or quotation system have been complied with.

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) or, as the case may be, on the fourth day after the date of such delivery to Euroclear and Clearstream and any other relevant clearing system.

12. AGENTS

In acting under the Agency Agreement and in connection with the Preferred Securities, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, a successor agent bank, and additional or successor paying agents; **provided**, **however**, **that** the Bank will maintain (a) a Principal Paying Agent and an Agent Bank, (b) a Paying Agent (which may be the Principal Paying Agent) with a specified office in a European city, and (c) so long as the Preferred Securities are listed on any stock exchange and/or quotation system and the rules of such listing authority, stock exchange and/or quotations system so require, a Paying Agent (which may be the Principal Paying Agent) with a specified office in such place as may be required by the rules of such listing authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Holders.

13. PRESCRIPTION

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

14. GOVERNING LAW AND JURISDICTION

14.1 The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "**Proceedings**") may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid. To the extent permitted by law, nothing contained in this paragraph shall limit any right to take Proceedings against the Bank 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 competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

Banco Santander intends to use the net proceeds from the issue of the Preferred Securities for its general corporate purposes.

DESCRIPTION OF THE ISSUER

(a) **Legal name, place of registration and registration number of the Issuer**

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

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

(b) **Date of incorporation and length of life**

The Bank 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 by-laws it will remain in existence for an indefinite period.

(c) **Legal form and registration details**

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

The Bank is a Spanish company which operates under the reinstated text of the Companies Law approved by Royal Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de Julio*) (the "**Spanish Companies Act**"). It 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.

(d) **Issuer's financial statement**

The Issuer prepares audited consolidated and standalone annual accounts.

The consolidated and standalone annual accounts of the Issuer for the 2017 and 2016 financial years were audited by the external audit firm PricewaterhouseCoopers Auditores, S.L. There are no reservations or qualifications of the auditors in relation to the consolidated and standalone annual accounts of the Issuer for the 2017 and 2016 financial years.

As of the date of this Offering Circular, the Issuer has a total share capital which is fully issued and paid up of €8,068,076,791 divided into 16,136,153,582 shares with a nominal value of €0.50. All shares are of the same class and issue with the same rights attached.

(e) **Selected Financial Information**

The consolidated balance sheets and income statements of the Group as of, and for the years ended, 31 December 2017, 2016 and 2015 have been extracted without any adjustment from (but for the

deletion of the "*Notes*" column and corresponding footnote), and are qualified by reference to and should be read in conjunction with, the Issuer's 2017 Annual Report.

Consolidated balance sheet of the Group as of 31 December 2017, 2016 and 2015

(millions of euros)

ASSETS		2017	2016 (*)	2015 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		110,995	76,454	77,751
FINANCIAL ASSETS HELD FOR TRADING		125,458	148,187	146,346
Derivatives		57,243	72,043	76,724
Equity instruments		21,353	14,497	18,225
Debt instruments		36,351	48,922	43,964
Loans and advances		10,511	12,725	7,433
Central banks		-	-	-
Credit institutions		1,696	3,221	1,352
Customers		8,815	9,504	6,081
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*50,891*	*38,145*	*34,026*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		34,782	31,609	45,043
Equity instruments		933	546	630
Debt instruments		3,485	3,398	3,717
Loans and advances		30,364	27,665	40,696
Central banks		-	-	-
Credit institutions		9,889	10,069	26,403
Customers		20,475	17,596	14,293
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*5,766*	*2,025*	-
FINANCIAL ASSETS AVAILABLE-FOR-SALE		133,271	116,774	122,036
Equity instruments		4,790	5,487	4,849
Debt instruments		128,481	111,287	117,187
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*43,079*	*23,980*	*26,742*
LOANS AND RECEIVABLES		903,013	840,004	836,156
Debt instruments		17,543	13,237	10,907
Loans and advances		885,470	826,767	825,249
Central banks		26,278	27,973	17,337
Credit institutions		39,567	35,424	37,438
Customers		819,625	763,370	770,474
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*8,147*	*7,994*	*1,697*
INVESTMENTS HELD-TO-MATURITY		13,491	14,468	4,355
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*6,996*	*2,489*	-
HEDGING DERIVATIVES		8,537	10,377	7,727
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		1,287	1,481	1,379
INVESTMENTS		6,184	4,836	3,251
Joint ventures entities		1,987	*1,594*	*1,592*
Associated companies		4,197	*3,242*	*1,659*
REINSURANCE ASSETS		341	331	331
TANGIBLE ASSETS		22,974	23,286	25,320
Property, plant and equipment:		20,650	20,770	19,335
For own use		8,279	7,860	7,949
Leased out under an operating lease		12,371	12,910	11,386
Investment property:		2,324	2,516	5,985
Of which leased out under an operating lease		*1,332*	*1,567*	*4,777*
Memorandum ítems:acquired in financial lease		*96*	*115*	195
INTANGIBLE ASSETS		28,683	29,421	29,430
Goodwill		25,769	26,724	26,960
Other intangible assets		2,914	2,697	2,470
TAX ASSETS		30,243	27,678	27,814
Current tax assets		7,033	6,414	5,769
Deferred tax assets		23,210	21,264	22,045
OTHER ASSETS		9,766	8,447	7,675
Insurance contracts linked to pensions		239	269	299
Inventories		1,964	1,116	1,013
Other		7,563	7,062	6,363
NON-CURRENT ASSETS HELD FOR SALE		15,280	5,772	5,646
TOTAL ASSETS		**1,444,305**	**1,339,125**	**1,340,260**

(*) Presented for comparison purposes only. See Note 1.d of the 2017 Annual Report.

(millions of euros)

LIABILITIES AND EQUITY		2017	2016 (*)	2015 (*)
FINANCIAL LIABILITIES HELD FOR TRADING		107,624	108,765	105,218
Derivatives		57,892	74,369	76,414
Short positions		20,979	23,005	17,362
Deposits		28,753	11,391	11,442
Central banks		282	1,351	2,178
Credit institutions		292	44	77
Customers		28,179	9,996	9,187
Marketable debt securities		-	-	-
Other financial liabilities		-	-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		59,616	40,263	54,768
Deposits		55,971	37,472	51,394
Central banks		8,860	9,112	16,486
Credit institutions		18,166	5,015	8,551
Customers		28,945	23,345	26,357
Marketable debt securities		3,056	2,791	3,373
Other financial liabilities		589	-	1
Memorandum ítems:subordinated liabilities		-	-	-
FINANCIAL LIABILITIES AT AMORTISED COST		1,126,069	1,044,240	1,039,343
Deposits		883,320	791,646	795,679
Central banks		71,414	44,112	38,872
Credit institutions		91,300	89,764	109,209
Customers		720,606	657,770	647,598
Marketable debt securities		214,910	226,078	222,787
Other financial liabilities		27,839	26,516	20,877
Memorandum ítems:subordinated liabilities		*21,510*	*19,902*	*21,153*
HEDGING DERIVATIVES		8,044	8,156	8,937
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE		330	448	174
LIABILITIES UNDER INSURANCE CONTRACTS		1,117	652	627
PROVISIONS		14,489	14,459	14,494
Provision for pensions and other employment defined benefit obligations		6,345	6,576	6,356
Provisions for other long term employee benefits		1,686	1,712	1,916
Provisions for taxes and other legal contingencies		3,181	2,994	2,577
Provisions for commitments and guarantees given		*617*	459	618
Other provisions		2,660	2,718	3,027
TAX LIABILITIES		7,592	8,373	7,725
Current tax liabilities		2,755	2,679	2,160
Deferred tax liabilities		4,837	5,694	5,565
OTHER LIABILITIES		12,591	11,070	10,221
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-	-
TOTAL LIABILITIES		**1,337,472**	**1,236,426**	**1,241,507**
SHAREHOLDERS' EQUITY		116,265	105,977	102,402
CAPITAL		8,068	7,291	7,217
Called up paid capital		8,068	7,291	7,217
Unpaid capital which has been called up		-	-	-
Memorandum ítems: uncalled up capital		-	-	-
SHARE PREMIUM		51,053	44,912	45,001
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		525	-	-
Equity component of compound financial instruments		-	-	-
Other equity instruments		525	-	-
OTHER EQUITY		216	240	214
ACCUMULATED RETAINED EARNINGS		53,437	49,953	46,429
REVALUATION RESERVES		-	-	-
OTHER RESERVES		(1,602)	(949)	(669)
Reserves or accumulated losses in joint ventures investments		724	466	291
Others		(2,326)	(1,415)	(960)
(-) OWN SHARES		(22)	(7)	(210)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		6,619	6,204	5,966
(-) DIVIDENS		(2,029)	(1,667)	(1,546)
OTHER COMPREHENSIVE INCOME		(21,776)	(15,039)	(14,362)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(4,034)	(3,933)	(3,166)
Actuarial gains or (-) losses on defined benefit pension plans		(4,033)	(3,931)	(3,165)
Non-current assets classified as held for sale		-	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates		(1)	(2)	(1)
Other valuation adjustments		-	-	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(17,742)	(11,106)	(11,196)
Hedge of net investments in foreign operations (Effective portion)		(4,311)	(4,925)	(3,597)
Exchange differences		(15,430)	(8,070)	(8,383)
Hedging derivatives. Cash flow hedges (Effective portion)		152	469	171
Financial assets available-for-sale		2,068	1,571	844
Debt instruments		*1,154*	*423*	*98*
Equity instruments		*914*	*1,148*	*746*
Non-current assets classified as held for sale		-	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates		(221)	(151)	(231)
NON-CONTROLLING INTEREST		12,344	11,761	10,713
Other comprehensive income		(1,436)	(853)	(1,227)
Others items		13,780	12,614	11,940
EQUITY		**106,833**	**102,699**	**98,753**
TOTAL LIABILITIES AND EQUITY		**1,444,305**	**1,339,125**	**1,340,260**
MEMORANDUM ITEMS				
CONTINGENT LIABILITIES		49,117	44,434	39,834
CONTINGENT COMMITMENTS		237,970	231,962	221,738

(*) Presented for comparison purposes only. See Note 1.d of the 2017 Annual Report.

Consolidated income statement of the Group for the years ended 31 December 2017, 2016 and 2015

(millions of euros)

	(Debit)/ Credit		
	2017	2016 (*)	2015 (*)
Interest income	56,041	55,156	57,198
Interest expense	(21,745)	(24,067)	(24,386)
Net interest income	**34,296**	**31,089**	**32,812**
Dividend income	384	413	455
Share of results of entities accounted for using the equity method	704	444	375
Commission income	14,579	12,943	13,042
Commission expense	(2,982)	(2,763)	(3,009)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	404	869	1,265
Gains or losses on financial assets and liabilities held for trading, net	1,252	2,456	(2,312)
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	(85)	426	325
Gains or losses from hedge accounting, net	(11)	(23)	(48)
Exchange differences, net	105	(1,627)	3,156
Other operating income	1,618	1,919	1,971
Other operating expenses	(1,966)	(1,977)	(2,235)
Income from assets under insurance and reinsurance contracts	2,546	1,900	1,096
Expenses from liabilities under insurance and reinsurance contracts	(2,489)	(1,837)	(998)
Total income	**48,355**	**44,232**	**45,895**
Administrative expenses	(20,400)	(18,737)	(19,302)
Staff costs	*(12,047)*	*(11,004)*	(11,107)
Other general administrative expenses	*(8,353)*	*(7,733)*	(8,195)
Depreciation and amortisation cost	(2,593)	(2,364)	(2,418)
Provisions or reversal of provisions	(3,058)	(2,508)	(3,106)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, net	(9,259)	(9,626)	(10,652)
Financial assets measured at cost	*(8)*	*(52)*	(228)
Financial assets available-for-sale	*(10)*	*11*	(230)
Loans and receivables	*(9,241)*	*(9,557)*	(10,194)
Held-to-maturity investments	-	*(28)*	-
Profit from operations	**13,045**	**10,997**	**10,417**
Impairment of investments in subsidiaries, joint ventures and associates, net	(13)	(17)	(1)
Impairment on non-financial assets, net	(1,260)	(123)	(1,091)
Tangible assets	*(72)*	*(55)*	*(128)*
Intangible assets	*(1,073)*	*(61)*	*(701)*
Others	*(115)*	*(7)*	*(262)*
Gains or losses on non financial assets and investments, net	522	30	112
Of which: Investments in subsidiaries, joint ventures and associates	*431*	*15*	*91*
Negative goodwill recognised in results	-	22	*283*
Gains or losses on non-current assets held for sale not classified as discontinued operations	(203)	(141)	(173)
Profit or loss before tax from continuing operations	**12,091**	**10,768**	**9,547**
Tax expense or income from continuing operations	(3,884)	(3,282)	(2,213)
Profit for the period from continuing operations	**8,207**	**7,486**	**7,334**
Profit or loss after tax from discontinued operations	-	-	-
Profit for the period	**8,207**	**7,486**	**7,334**
Profit attributable to non-controlling interests	*1,588*	*1,282*	*1,368*
Profit attributable to the parent	*6,619*	*6,204*	*5,966*
Earnings per share			
Basic	*0.404*	*0.401*	*0.397*
Diluted	*0.403*	*0.399*	*0.396*

(*) Presented for comparison purposes only. See Note 1.d of the 2017 Annual Report.

Capital ratios of the Group as of 31 December 2017 and pro-forma capital ratios of the Group upon the issue of the Preferred Securities, assuming full subscription (phased in)

Data in percentage	**31 December 2017**	**Pro-forma at 31 December 2017 upon issuance of the Preferred Securities**
Common Equity Tier 1..	12.26%	12.26%
Additional Tier 1...	0.51%	0.84%
Tier 1..	12.77%	13.10%
Tier 2..	2.22%	2.43%[1]
Total Capital Coefficient...	14.99%	15.53%[2]

1 The improvement of the Tier 2 ratio is due to the issue of subordinated securities in the amount of €1,250,000,000, carried out on 8 February 2018.

2 The issue of Tier 2 instruments carried out at the beginning of February has contributed by 21 basis points.

(f) Business Performance and Results

	2017	**2016**
Balance sheet (€ million)		
Total assets	1,444,305	1,339,125
Net customer loans	848,914	790,470
Customer deposits	777,730	691,111
Total customer funds	985,703	873,618
Total equity	106,832	102,699
Income statement (€ million)		
Net interest income	34,296	31,089
Gross income	48,392	43,853
Net operating income	25,473	22,766
Underlying profit before taxes *	13,550	11,288
Underlying attributable profit to the Group *	7,516	6,621
Attributable profit to the Group	6,619	6,204
EPS, profitability and efficiency (%)**		
Underlying EPS (euro) *	0.463	0.429
EPS (euro)	0.404	0.401
RoE	7.14	6.99
Underlying RoTE *	11.82	11.08
RoTE	10.41	10.38
RoA	0.58	0.56
Underlying RoRWA *	1.48	1.36
RoRWA	1.35	1.29
Efficiency ratio (with amortisations)	47.4	48.1
Solvency and NPL ratios (%)		
CET1 fully-loaded	10.84	10.55
CET1 phased-in	12.26	12.53
NPL ratio	4.08	3.93
Coverage ratio	65.2	73.8
Market capitalization and shares		
Shares (millions)	16,136	14,582
Share price (euros) **	5.479	4.877
Market capitalization (€ million)	88,410	72,314
Tangible book value per share (euro) **	4.15	4.15
Price / Tangible book value per share (X) **	1.32	1.17
P/E ratio (X) **	13.56	12.18
Other data		
Number of shareholders	4,029,630	3,928,950
Number of employees	202,251	188,492
Number of branches	13,697	12,235

(*) Excluding net capital gains and provisions
(**) Data adjusted to capital increase of July 2017

Overview

At 31 December 2017, the Group had a market capitalization of €88.4 billion, stockholders' equity of €94.5 billion and total assets of €1,444.3 billion. The Group had €1,162.3 billion in customer funds under management[2] at that date. As of 31 December 2017, the Group had 68,223 employees and 6,315 branch offices in Continental Europe, 25,971 employees and 808 branches in the United Kingdom, 88,713 employees and 5,891 branches in Latin America, 17,560 employees and 683 branches in the United States and 1,784 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.

The financial statements of each business area have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the companies in each area as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

In accordance with the criteria established by IFRS-IASB, 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 other subsidiaries.

- United States. This includes the holding company Santander Holdings USA (SHUSA) and its subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International and Santander Investment Securities, as well as Santander's 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 ALCO portfolio.

- Santander Global Corporate Banking. This business reflects the activities 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 Retail Banking customers), as well as equities business.

[2] Includes customer deposits, marketable debt securities and other customer funds under management.

- 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 Center. This incorporates the centralized 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 Center manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates provisions of a varied nature. The costs related to the Group's central services (charged to the areas) are not included, except for corporate and institutional expenses related to the Group's functioning.

For purposes of the Group's financial statements and this report on Form 20-F, we have 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 2017, it accounted for 46% of total customer deposits, 45% of total loans to customers and 32% of profit attributed to the Bank's total operating areas.

The area had 6,315 branches and 68,223 employees (direct and assigned) of which 3,304 were temporary employees, at the end of 2017.

The euro area GDP growth increased from 1.8% in 2016 to 2.4% in 2017. The economy improved in the majority of the countries mainly due to the increase in the internal demand and exports. The unemployment rate fell to 8.8%, but is still higher than the levels observed pre-crisis. The European Central Bank (ECB) made no changes to the official interest rates since inflation remained at 1.5%.

In 2017, this segment obtained profit attributable to the Bank of €2,831 million, an increase of €232 million or 9% as compared to 2016, mainly due to the increase of €1,657 million in total income.

Spain

The Group has a solid retail presence in Spain (4,620 branches) which is reinforced with global businesses in key products and segments (corporate banking, private banking, asset management, insurance and cards). At December 31, 2017 the Group had a total of 34,499 employees (direct and assigned), of which 3 employees were temporary. Banco Popular contributes 11,583 employees, of which 3 employees were temporary, and 1,777 branches.

The Spanish GDP growth in 2017 decreased to 3.1% from 3.3% in 2016. GDP growth exceeded 3% for the third straight year. Meanwhile, healthy job creation figures brought down unemployment (16.6%). Growth is currently well-balanced, with no inflationary pressures.

In 2017, profit attributable to the Bank bank in Spain (including Banco Popular) was €1,143 million, a €121 million increase as compared to 2016. Banco Popular presented a loss attributable to the Bank of -€37 million mainly due to the impact of the integration costs by €300 million net of taxes.

At 31 December 2017, Banco Popular includes Banco Popular Portugal (which will merge with Banco Santander Totta, S.A.) and Totalbank in the United States (a retail and commercial bank based in Florida which we agreed to sell).

The main line items of Banco Popular's contribution to Spain for the period from 7 June 2017 to 31 December 2017 are the following: interest income / (charges) €1,003 million, net fees and commissions €288 million, total income €1,309 million, operating expenses -€873 million, provisions and impairment -€114 million and loss attributable to the Bank €37 million, included €300 million net of tax of integration costs.

Spain excluding Banco Popular contributed profit attributable to the Bank of €1,180 million, a €157 million or 15% increase as compared to 2016. Of note were the following:

- Interest income / (charges) decreased €169 million or 6%, affected by low interest rates, asset repricings and competitive pressure. On the other hand, net fees and commissions increased a €287 million or 16%, mainly due to the higher customer loyalty and number of transactions, as well as the contribution made by corporate banking.

- Administrative expenses and depreciation and amortization decreased by €37 million or 1% after absorbing costs associated with the launch of Openbank and the impact of the integration of a company that manages point of sale terminals. This 1% decrease is the result of efficiency plans from previous years.

- Impairment loans decreased €72 million or 12% due to better credit quality and the improvement in the economic cycle.

In 2017, Spain's loans and advances to customers increased by 55% and customer deposits increased by 46% mainly due to the acquisition of Banco Popular (Spain excluding Banco Popular contributed a 1% and 10% increase to loans and deposits, respectively).

Spain excluding Banco Popular had a non-performing loans ("NPL") ratio of 4.72%, a 69 basis points decrease as compared to 2016, and a coverage ratio of 45.9% as compared to 48.3% in 2016. Banco Popular's NPL ratio was 10.75% and the coverage ratio 48.7%.

Portugal

The Group's main Portuguese retail and investment banking operations are conducted by Banco Santander Totta, S.A. ("Santander Totta").

At the end of 2017, Portugal had 563 branches and 5,895 employees (direct and assigned), of which 30 employees were temporary.

The Portuguese GDP growth increased from 1.5% in 2016 to 2.6% in 2017, mainly due to the increase of the internal demand. Employment growth surpassed 3% reducing unemployment to 8.5%. Inflation remained moderate. The debt of the private sector continued to decrease and the public deficit ended 2017 at 1.5% of GDP.

In 2017, Santander Totta's profit attributable to the Bank was €440 million, a €41 million or 10% increase from 2016, mainly due to the reduction in administrative expenses and depreciation and amortization (€39 million or 7%) and impairment on loans (€66 million). In addition, fees and commissions increased by €27 million or 9% due to an improvement in customer loyalty and number of transactions.

On the other hand, interest income/charges decreased €36 million or 5%, because the positive effect of the cost reduction on deposits did not compensate the reduction in income from lending activity due to the prevailing low interest rates and the reduced weighting of public debt on the Bank's balance sheet. Gains/losses on financial assets and liabilities decreased by €28 million or 25% due to the lower earnings on the sale of ALCO portfolios.

In 2017, loans and advances to customers increased by 11% (mainly due to mortgages and loans to businesses) and customer deposits increased by 1%, which underscores the Bank's solid position within the Portuguese financial system.

The NPL ratio decreased at the end of 2017 to 5.71% as compared to 8.81% at the end of 2016 and the coverage ratio stood at 59.1% compared to 63.7% in December 2016.

Poland

At the end of 2017, Poland had 576 branches and 11,572 employees (direct and assigned), of which 1,670 employees were temporary.

The Poland GDP growth was 4.6% in 2017 as compared to 2.9% in 2016, mainly due to the private consumption and the external sector. Unemployment decreased to 4.7% and inflation stood at 2.5%. The central bank kept its official rate unchanged at 1.5%.

On 14 December 2017, the Group announced the acquisition of Core Deutsche Bank Polska & DB Securities S.A. The deal is expected to be completed in the fourth quarter of 2018 once all regulatory authorizations have been obtained.

Profit attributable to the Bank was €300 million, a €28 million or 10% increase as compared to 2016, (excluding the exchange rate impact it increased by 8%). These results were impacted by the tax increase stemming from the non-deductibility of the expense paid to the BFG (Polish deposit guarantee fund), that represented -€8 million.

Interest income / charges increased €95 million or 11% (excluding the exchange rate impact it increased by 9%) due to an increase in the volume of activity while fees and commissions income increased €43 million or 11% (8% excluding the exchange rate impact) mainly due to more number of transactions. Gains on financial assets and liabilities decreased €32 million due to lower sale of ALCO portfolios.

Administrative expenses and depreciation and amortization increased by 5% (2% excluding the exchange rate impact mainly due to a 3% increase in personnel costs, meanwhile, amortization and depreciation decreased 3%).

Impairment loans decreased €8 million reflecting the significant improvement in credit quality.

Loans and advances to customers and customer deposits increased by 11% and 7%, respectively, as compared to 2016 (5% and 1% excluding the exchange rate impact), driven by both the corporate segment and the individual customers segment. The NPL ratio decreased 85 basis points to 4.57% and the coverage ratio increased to 68.2% from 61.0% in 2016.

Santander Consumer Finance

The Group's consumer financing activities are conducted through its subsidiary Santander Consumer Finance (SCF) and its group of companies. Most of the activity of SCF 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. SCF also conducts business in the UK, France, Portugal, Austria and the Netherlands, among others.

In 2017, the main European markets in which Santander Consumer Finance operates presented growth in their economies.

In terms of business activity, Santander Consumer Finance continued to sign new agreements with both retail distributors and manufacturers by assisting them with their commercial transformation and therefore increasing the value proposition offered to the end customer.

At the end of 2017, this unit had 546 branches and 15,131 employees (direct and assigned), of which 1,299 employees were temporary.

In 2017, this unit generated €1,168 million in profit attributable to the Bank, a €75 million or 7% increase compared with 2016. Attributable profit was especially strong compared with 2016 in Poland, Spain and Italy. The increase in profit attributable to the Bank is mainly due to a €222 million or 5% increase in total income and a €121 million or 31% decrease in impairment on loans due to the performance of credit risk and the positive impacts of the portfolio sales completed in the year.

On the other hand, administrative expenses and depreciation and amortization increased by €74 million or 4%, in line with the business. In addition, the charge of €85 million to cover integration costs, mainly related to the commercial networks in Germany, had a negative impact in the income statement of 2017.

The NPL ratio was down 18 basis points to reach 2.50% while the coverage ratio stood at 101.4%.

Lending rose 6% compared with 2016, with new loans increasing by 9%, spurred by the vehicle business. Growth was across the board at almost all units. Customer deposits increased by 1%.

The NPL ratio decreased 18 basis points to 2.50%, while the coverage ratio decreased to 101.4% in 2017 from 109.1% 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), the remaining Metrovacesa assets, the assets of the previous real-estate fund and foreclosed assets.

The Group's strategy in recent years has been directed at reducing these assets, mainly loans and foreclosed assets. Net loans totaled €1,001 million, which was 50% less than in 2016 and accounted for 0.1% of the Group's loans and less than 1% of those of Santander Spain.

In 2017, this segment had €303 million of losses attributable to the Bank, a €23 million decrease in losses as compared to 2016, mainly due to the lower need for write-downs.

United Kingdom

As of 31 December 2017, the United Kingdom accounted for 30% of the customer deposits of the Group's operating areas. Furthermore, it accounted for 29% of total loans to customers and 17% of profit attributed to the Bank's total operating areas.

At the end of 2017, we had 808 branches and 25,971 employees (direct and assigned), of which 294 employees were temporary, in the United Kingdom.

The UK GDP growth decreased in 2017 to 1.7% as compared to 1.9% in 2016. While the economy has withstood the uncertainty surrounding Brexit, it has shown a certain slowdown in growth and the pound has lost ground on the euro. The country boasted full employment in 2017 and inflation, at around 3%, exceeded the target of 2%. The Bank of England increased its official interest rate by 25 basis points in November 2017, marking its first increase in over ten years and reversing its move to lower rates following the referendum. At December 2017, the official interest rate was 0.5%.

In 2017, Santander UK contributed €1,498 million of profit attributable to the Bank, a €182 million or 11% decrease (-4% excluding the exchange rate impact) as compared to 2016, basically due to the increase in specific provisions for Global Corporate Banking and costs related to the banking reform process.

As of December 31, 2017, loans and advances to customers decreased by 3% (+1% excluding the exchange rate impact), and customer deposits increased 9% (+13% excluding the exchange rate impact). The NPL ratio decreased 7 basis points to 1.33% and the coverage ratio decreased to 32.0% from 32.9% in 2016.

Latin America

At December 31, 2017, we had 5,891 branches and 88,713 employees (direct and assigned) in Latin America, of which 2,362 were temporary employees. At that date, Latin America accounted for 18% of the total customer deposits, 17% of total loans to customers and 48% 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:

	Percentage held at December 31, 2017		Percentage held at December 31, 2017
Banco Santander (Brasil), S.A.	89.67	Banco Santander, S.A. (Uruguay)	100.00
Banco Santander Chile	67.12	Banco Santander Perú, S.A.	100.00
Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	75.06	Banco Santander Río, S.A. (Argentina)	99.30
Banco Santander de Negocios Colombia S.A.	100.00		

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.

Profit attributable to the Bank from Latin America in 2017 was €4,284 million, a €898 million or 27% increase as compared to 2016 (+24% excluding the exchange rate impact). Total income increased by €3,709 million or 20%, driven mainly by a €2,599 million or 19% increase in interest income /charges reflecting volumes growth and good management of spreads, despite the different behavior of interest rates.

Administrative expenses and depreciation and amortization increased by €1,002 million or 13% (10% excluding the exchange rate impact) in line with income. Impairment on loans increased 1% (decreased 3% excluding the exchange rate impact), reflecting the improvement in the credit quality.

Profit increased in six of the seven units, with Brazil, the largest contributor to the Group profit, increasing the profit attributable to the Bank by 34% in local currency.

As of 31 December 2017, loans and advances to customers decreased by 4%; however, excluding the exchange rate impact they increased by 8%. Customer deposits decreased by 2% as compared to 2016; excluding the exchange rate impact customer deposits increased by 11%. The NPL ratio stood at 4.50 (decreased 31 basis point from 2016) and the coverage ratio was 84.83% (increased 248 basis points from 2016) at 31 December 2017.

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 3,465 branches and points of banking attention, 47,135 employees (direct and assigned), all of which were hired on a full time basis.

GDP growth in Brazil improved from -3.6% in 2016 to +1% in 2017. The economy recorded a gradual recovery throughout 2017, driven by consumption and investment. Inflation remained below 3%. The central bank continued to cut the Selic rate to 7%.

Profit attributable to the Bank from Brazil in 2017 was €2,544 million, a €758 million or 42% increase as compared to 2016 (+34% excluding the exchange rate impact). Total income increased by €2,953 million or 26% compared with 2016 (18% excluding the exchange rate impact). Interest income/charges increased €2,016 million or 25% (+17% excluding the exchange rate impact) driven by rising volumes and spreads of credits and deposits (both excluding the exchange rate impact) while net fees and commissions increased by €700 million or 24% (16% excluding the exchange rate impact) mainly due to current accounts, cards and insurances activity.

Administrative expenses and depreciation and amortization increased by €605 million or 14%; excluding the exchange rate impact they increased by 7%, in line with the business growth and ongoing investments.

Impairment on financial assets increased by €18 million; however, excluding the exchange rate impact they decreased by €204 million, reflecting the improvement of credit quality.

During 2017, total loans and advances to customers decreased by 7%, (excluding the exchange rate impact they increased by 8%). Customer deposits decreased 3% as compared to 2016 (excluding the exchange rate impact increased 12%). At December 31, 2017 the NPL ratio was 5.29% as compared to 5.90% one year earlier while the coverage ratio decreased 50 basis points at 92.6%.

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 2017, it had 1,401 branches throughout the country and 18,557 employees (direct and assigned), of which 2,166 were temporary.

GDP growth in Mexico slowed from 2.3% in 2016 to 2.1% in 2017 mainly due to a lower internal demand. Inflation rose to 6.8% and the central bank increased the official rate by 150 basis points to 7.25%.

Profit attributable to the Bank from Mexico in 2017 was €710 million, a €81 million or 13% increase (+17% excluding the exchange rate impact) basically due to total income that increased €258 million or 8% (+12% excluding the exchange rate impact). Interest income/charges increased by €216 million or 9% (+13% excluding the exchange rate impact) mainly due to growth in loans and deposits and the impact of the higher official interest rates.

Administrative expenses and depreciation and amortization increased by €73 million or 9% (excluding the exchange rate impact they increased by 12%) mainly due to the cost of the implementation of strategic initiatives (technology tools), which included a three-year investment plan.

As of 31 December 2017, loans and advances to customers decreased by 3% (+5% excluding the exchange rate impact), and customer deposits increased 5% (+14% excluding the exchange rate impact).

At 31 December 2017, the NPL ratio decreased by 7 basis points to 2.69%, while the coverage ratio decreased 624 basis point to 97.5% as compared 2016.

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 2017, Banco Santander Chile had 439 branches and 11,675 employees (direct and assigned), all of which were hired on a full time basis.

GDP growth in Chile decreased in 2017 to 1.5% from 1.6% in 2016. The economy improved from mid-2017 onward. Inflation ended the year at 2.3%, below the 3% target, and the central bank lowered the official rate by 100 basis points to 2.5%.

Profit attributable to the Bank from Chile in 2017 was €586 million, a €72 million or 14% increase as compared to 2017 (+12% excluding the exchange rate impact). Total income rose 4% in 2017 (+2% excluding the exchange rate impact). Interest income/charges increased 2% (mainly due to lower financing costs) and net fees and commissions increased 11% (+9% excluding the exchange rate impact) due to increased engagement in retail banking and growth in the cash management business, as well as consultancy in the business and Global Corporate Banking segment.

Administrative expenses and depreciation and amortization increased by €39 million or 4% (+2% excluding the exchange rate impact), mainly due to increased depreciation and amortization charges, generated by investments in branches and technology over the year. Impairment on loans decreased by €52 million or 10% (-12% excluding the exchange rate impact) due to the improvement in the credit quality and mainly in the individuals portfolio.

In 2017, customer loans decreased 1% (+3% in local currency) and customer deposits decreased 5% (-1% in local currency) as compared to 2016.

At 31 December 2017, the NPL ratio decreased 9 basis points to 4.96% while the coverage ratio was 58.2%.

Argentina. Santander Río is the country's leading private sector bank in terms of assets and loans. Citibank's retail network was acquired in Argentina on 31 March 2017, and its integration was completed within five months. This acquisition, combined with organic growth, positioned Santander Río as the leading private bank in Argentina.

At 31 December 31, 2017, the Group had 482 branches and 9,277 employees in Argentina, of which 174 were temporary.

In 2017, GDP growth in Argentina improved from -2.2% in 2016 to +3.0% in 2017. The economic recovery was mainly due to higher investment and private consumption. Inflation stabilized at around 2.0% monthly and the central bank increased the official interest rate by 400 basis points to 28.75% reflecting its commitment to ensure price stability.

Profit attributable to the Bank was €359 million in 2017 and 2016; however excluding the exchange rate impact it increased by 14% mainly due to interest income / (charges) and in fees and commissions (increased 58% and 43%, respectively). Administrative expenses and depreciation and amortization increased by 49% in local currency basically due to the effect of inflation.

In 2017, customer loans increased 12% (51% in local currency) and customer deposits increased 6% (44% in local currency) as compared to 2016.

The NPL ratio increased 101 basis points to 2.50% and the coverage ratio decreased from 142.3% in 2016 to 100.1% in 2017.

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 102 branches and 1,721 employees, of which 22 were temporary.

The Uruguayan economy showed a solid recovery in 2017, with an estimated GDP growth of 3.0% (1.4% in 2016). The main drivers were private consumption and exports. Inflation moderated in 2017 to 6.6% from 8.1% in 2016, falling within the target range of the central bank (3% -7%).

Profit attributable to the Bank was €103 million in 2017, a 23% increase as compared to 2016 (+25% excluding the exchange rate impact), mainly due to the €43 million increase of interest income / (charges).

Peru. As of 31 December 2017, Banco Santander Perú, S.A. had 1 branch and 181 employees. The unit's activity is focused on local corporate banking as well as providing services to the Group's global customers.

The economy slowed down in 2017 with an estimated growth of 2.7% (4.0% in 2016) although there were signs of some recovery in the second half of the year. Inflation has been at reduced rates, of 1.4% in December 2017 (3.2% in 2016) and the central bank reduced the official rate in 100 basis points in 2017 to 3.25%.

Profit attributable to the Bank from Peru reached €40 million as compared to €37 million in 2016.

Colombia. The Group is focused 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.

In 2017 profit attributable to the Bank was €6 million, compared to loss attributable to the Bank by €18 in 2016.

United States

At the end of 2017, the Group had 683 branches and 17,560 employees (direct and assigned), none of them temporary.

The U.S. GDP growth increased from 1.5% in 2016 to 2.3% in 2017. Economic growth picked up while core inflation stood at 1.5%. Unemployment was down to 4.1%, below the Fed's level of equilibrium. Federal Reserve raised its key rate in 75 basis points.

This segment includes the holding company Santander Holdings USA (SHUSA) and its subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International and Santander Investment Securities, as well as Santander's branch in New York.

2017 was an important year for Santander US from a regulatory point of view. SHUSA passed the Federal Reserve's stress tests in both the quantitative and qualitative aspects, with no objections raised against the capital plan. This will allow the country to focus on improving profitability, reducing costs and optimizing the capital structure.

The U.S. segment accounted for 7% of customer funds, 8% of total loans to customers and 4% of profit attributed to the Bank's total operating areas.

Profit attributable to the Bank from United States in 2017 was €332 million, a €63 million or 16% decrease as compared to 2016. This decrease was partly due to events that amounted to -€76 million in 2017 linked to hurricanes and tax reforms.

Total income decreased 8% as compared to 2016, mainly due to lower interest income/charges for Santander Consumer USA as a result of a business mix shift towards a lower risk profile, partially offset by lower provisions. Santander Bank, however, posted growth, supported by rising interest rates and lower financing costs, following balance optimization efforts.

Administrative expenses and depreciation and amortization increased by €77 million or 2% as a result of investments in Santander Consumer USA and Santander Holdings, while costs for Santander Bank were flat.

Finally, impairment on loans decreased 13% due to change in the portfolio mix and lower volumes for Santander Consumer USA. (Portfolios with lower risk of default).

As of 31 December 2017, loans and advances to customers and customer deposits decreased by 16% and 20% respectively (excluding the exchange rate impact decreased by 4% and 10%).

For 2017, the NPL ratio increased 52 basis points to 2.79%. The coverage ratio decreased from 214.4% in 2017 to 170.2% in 2017.

Second or business level:

Commercial Banking

In 2017, profit attributable to the Bank (including Banco Popular) was €7,427 million, an increase of €1,130 million or 18% as compared to 2016 basically due to the increase in interest income/charges (€3,614 million or 12%) and fees and commissions (€1,262 or 14%) partially offset by the increase in administrative expenses and depreciation and amortization (€1,848 million or 10%).

In 2017, Commercial Banking generated 89% of the operating areas' total income and 83% of profit attributable to the Bank. This segment had 191,769 employees as of 31 December 2017 (of which 11,583 employees from Banco Popular).

The results of commercial banking were affected by the acquisition of Banco Popular on 7 June 2017. The main line items of Banco Popular's contribution to commercial banking for the period from 7 June 2017 (acquisition date) to 31 December 2017 are the following: interest income / (charges) €1,003 million, net fees and commissions €288 million, total income €1,309 million, operating expenses €873 million, provisions and impairment €114 million and loss attributable to the Bank €37 million, included €300 million net of tax of integration costs.

Santander maintains a clear and consistent commercial transformation strategy. The three main pillars of the transformation program are as follows:

1. Improving customer loyalty and satisfaction.
2. Digital transformation of channels, products and services.
3. Further driving customer satisfaction and the customer experience by striving for operational excellence, with new, more efficient and simpler multi-channel processes.

Santander Global Corporate Banking

This area covers our corporate banking, treasury and investment banking activities throughout the world.

Global Corporate Banking generated 11% of total income and 20% of the profit attributable to the Bank in 2017. This segment had 8,194 employees at 31 December 2017.

Profit attributable to the Bank in 2017 was €1,821 million, a decrease of €268 million or 13% as compared to 2016. Total income decreased €273 million or 5%, mainly due to the interest income / charges decrease by €303 million or 11%, partially offset by fees and commissions (increased by €162 million or 11%) generated mainly by the Corporate Finance and Global Transaction Banking areas. Administrative expenses and depreciation and amortization increased by 2% and impairments increased by 3%.

Global Corporate Banking has 3 major areas: (i) Global Transaction Banking (which includes cash management, trade finance and basic financing and custody), (ii) Financing Solutions and Advisory (which includes the units that originate and distribute corporate loans or structured financing, the teams that originate bonds and securitization, 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 (iii) 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:

- Prioritizing the efficient allocation of capital to the different businesses, and faster balance sheet rotation.
- Consolidation of the leading position in Latin America and Iberia in debt markets, capital markets, project finance, and financing via export credit agencies (ECAs). Robust growth in M&A operations across the majority of regions, particularly in the Asia-Latin America corridor.
- Development of two products in the Global Transaction Banking (GTB) business: Reverse factoring based on buy orders and the global Receivables Purchase Program. Both solutions allow our customers to make optimal use of working capital.
- Greater integration with the retail and commercial banking networks, and strengthening the range of added value products for customers.
- Maintaining industry-leading cost-to-income levels, thanks to a business model focused on customers, which combines global and local capabilities in risk management, capital and liquidity

Real Estate Operations in Spain

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

Corporate Center

Loss attributable to the Bank from the Corporate Center in 2017 was €2,326 million, a €470 million or 25% increase as compared to 2016.

2017 was impacted by -€436 million which is the net of the impairment of goodwill and other intangible assets and capital gains from the sale of Allfunds. 2016 was affected by -€417 million; resulting mainly from restructuring costs, including basically a provision for eventual claims related to payment protection insurance (PPI) in the UK and capital gains from the sale of VISA Europe.

Interest income / charges decreased by €112 million from -€739 million in 2016 to -€851 million in 2017, mainly due to higher cost of funding.

At the end of 2017 this area had 1,785 employees.

The Group subsidiaries' model is complemented by a corporate center 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 Center contributes value to the Group in various ways:

- It makes the Group's governance more solid, through frameworks of control and global supervision, and taking strategic decisions.

- It makes the Group's units more efficient, fostering the exchange of best practices in management of costs and economies of scale. This enables us to be among the most efficient in the sector.

- By sharing best commercial practices, launching global commercial initiatives and driving digitalization, the center 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 interest income / (charges), 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 center reflects the stakes of a financial nature that the Group makes under its policy of optimizing investments.

(g) Organisational Structure

Banco Santander is the parent company of the Group which was comprised at 31 December 2017 of 803 companies that consolidate by the global integration method. In addition, there were 179 companies that were accounted for by the equity method.

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

(h) **Trend Information**

Since 31 December 2017, there has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Issuer and its subsidiaries taken as a whole.

(i) **Administrative, Management and Supervisory Bodies**

The by laws 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 14 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.

Board of directors	**Executive committee**	**Audit committee**	**Appointments committee**	**Remuneration committee**	**Risk supervision, regulation and compliance committee**	**International committee**	**Inovation 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 07.04.2017
Chief executive officer Mr. José Antonio Álvarez Álvarez										25.11.2014	07.04.2017
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 07.04.2017
Vice-chairman Mr. Guillermo de la Dehesa Romero									E	24.06.2002	18.06.2005 19.06.2009 22.03.2013 27.03.2015
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									E	25.07.2004	18.06.2005 11.06.2010 22.03.2013 18.03.2016
Ms. Sol Daurella Comadrán									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 07.04.2017
Ms. Belén Romana García		C							I	22.12.2015	07.04.2017
Mr. Juan Miguel Villar Mir									I	07.05.2013	27.03.2015

Mr. Ramiro Mato García-Ansorena									I	28.11.2017	

General secretary and secretary of the board Mr. Jaime Pérez Renovales[1]										01.09.2015	-

C: Chairman of the committee I: Independent E: External, neither proprietary nor independen

[1] Not director.

(j) Principal Activities Outside the Issuer

The current directors of the Issuer at the date hereof carry out among others the following functions in other listed 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
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
Mr Guillermo de la Dehesa Romero	Amadeus IT Group, S.A.	Non-Executive Vice Chair
	Veolia Environnement, S.A.	Non-Executive Director
Ms Homaira Akbari	Landstar System, Inc.	Non-Executive Director
	Gemalto N.V.	Non-Executive Director
Ms Sol Daurella Comadrán	Coca-Cola European Partners plc.	Non-Executive Chair
	Inmobiliaria Colonial, S.A.	Non-Executive Director
Mr Carlos Fernández González	AmRest Holdings SE	Member of the supervisory board
Ms Belén Romana García	Aviva plc.	Non-Executive Director

With regard to situations of conflict of interest, as stipulated in 36.1 (b) (vi) of the Regulations of the Board 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 2017, there were 86 occasions in which, in accordance the article 36.1 (b) (iii) of the Regulations of the Board, 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 86 cases is as follows: on 27 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 25 occasions the matter under consideration related to remuneration or granting loans or credits; on 22 occasions the matter concerned the discussion of financing or investment proposals or other risk transactions in favour of companies related to any director; on 12 occasions the abstention concerned the annual verification of the status of directors carried out by the appointments committee.

Other than the above, there are no actual or potential conflicts of interest between the duties to Banco Santander of any of its directors and their respective private interests and/or other duties.

Banco Santander complies with the Spanish corporate governance regime. The Issuer has included in its 2017 annual corporate governance report, which can be found on the website of the CNMV (www.cnmv.es), a detailed explanation of its compliance with the various recommendations on corporate governance.

(k) **Major Shareholders**

As of 31 December 2017, 1.198 per cent. of the Bank's share capital was held by members of the board of directors.

At 31 December 2017, the only shareholders appearing on the Bank's register of shareholders with a stake of over 3% were State Street Bank and Trust Company (13.32%); The Bank of New York Mellon Corporation (8.83%); Chase Nominees Limited (7.41%); EC Nominees Limited (3.43%), Caceis Bank (3.13%); Clearstream Banking S.A. (3.10%) and BNP Paribas (3.03%).

Nevertheless, the Bank believes that those stakes are held in custody in the name of third parties and to the best of the Bank's knowledge none of those shareholders holds itself a stake of over 3% in the share capital or in the voting rights.

At 31 December 2017, no shareholders with an interest greater than 1% were resident in tax havens.

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 Securities Market Act.

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.

(l) **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 litigation

At 31 December 2017, the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11,727/2008, a provision having been recognized for the amount of the estimated loss.

- Legal actions filed by Banco Santander, S.A. (currently Banco Santander (Brasil) S.A.) and other Group entities claiming their right to pay the Brazilian PIS and COFINS social contributions only on the income from the provision of services. In the case of Banco Santander, S.A., the legal action was declared unwarranted and an appeal was filed at the Federal Regional Court. In September

2007 the Federal Regional Court found in favor of Banco Santander, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. On 23 April 2015, the Federal Supreme Court issued a decision granting leave for the extraordinary appeal filed by the Brazilian authorities with regard to the PIS contribution to proceed, and dismissing the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office in relation to the COFINS contribution. The Federal Supreme Court has not yet handed down its decision on the PIS contribution and, with regard to the COFINS contribution, on 28 May 2015, the Federal Supreme Court in plenary session unanimously rejected the extraordinary appeal filed by the Brazilian Public Prosecutor's Office, and the petition for clarification ("embargos de declaraçao") subsequently filed by the Brazilian Public Prosecutor's Office, which on 3 September 2015 admitted that no further appeals may be filed. In the case of Banco ABN AMRO Real, S.A. (currently Banco Santander (Brasil) S.A.), in March 2007 the court found in its favor, but the Brazilian authorities appealed against the judgment at the Federal Regional Court, which handed down a decision partly upholding the appeal in September 2009. Banco Santander (Brasil) S.A. filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a 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 Banco Santander (Brasil) S.A. 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 recognized, still persist.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) on the ground that the relevant requirements under the applicable legislation were not met. No provision was recognized in connection with the amount considered to be a contingent liability. In August 2017, the Bank and other entities of the Group have adhered to the program of fractioning and payment of tax debts provided for in Provisional Measure 783/2017 in relation to different administrative processes of the years 1999 to 2005.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. No provision was recognized in connection with the amount considered to be a contingent liability.

- In addition, Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. A provision was recognized in connection with the amount of the estimated loss.

- In December 2008 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2002 to 2004. The tax authorities took the view that Banco Santander (Brasil) S.A. did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Banco Santander (Brasil) S.A.). Banco Santander (Brasil) S.A. filed an appeal against the infringement notice at Conselho Administrativo de Recursos Fiscais (the Brazilian Tax Appeal Administrative Council, CARF), which on 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities appealed against this decision at a higher administrative level. On 11 May 2017, the Superior Chamber of Tax Appeals of the Administrative Council of Tax Appeals, in a split decision, reverted the previous unanimous decision reached by the Brazilian Tax Appeal Administrative Council and issued a judgment in favor of the Brazilian taxing authorities. This decision has been subject to clarification action which has been dismissed, as such, the decision has been appealed In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Banco Santander (Brasil) S.A. filed an appeal against these procedures at CARF, which was partially upheld on 8 October 2013. This decision has been appealed. On 4 July 2017 and 8 November 2017, the CARF ruled in favor of the Brazilian taxing authorities with regards to the annual periods for the years ended 2005, 2006 and 2007. These rulings have been subject to a clarification action. In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for

amortization of the goodwill. Banco Santander (Brasil) S.A. appealed against this infringement notice and the court found in its favor. The Brazilian tax authorities appealed against this decision at CARF. 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 defense arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, no provisions were recognized in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Produban Serviços de Informática S.A.) and Banco Santander (Brasil) S.A. (currently Banco Santander (Brasil) S.A.) in relation to the Provisional Tax on Financial Movements (CPMF) with respect to certain transactions carried out by DTVM in the management of its customers' funds and for the clearing services provided by Banco Santander (Brasil) S.A. to DTVM in 2000, 2001 and the first two months of 2002. The two entities appealed against the infringement notices at CARF, with DTVM obtaining a favorable decision and Banco Santander (Brasil) S.A. an unfavorable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavorable decisions were obtained by Banco Santander (Brasil) S.A. and DTVM on 12 and 19 June 2015, respectively. Both cases were appealed at court in a single proceeding and a provision was recognized for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brazil), current Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brazil 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 bank filed an appeal for reconsideration against this infringement notice and subsequently appealed before the CARF, whose resolution partly in favour has been appealed by the Unión Federal and Zurich Santander Brasil Seguros e Previdência S.A. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- In June 2013, the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. as the party liable for tax on the capital gain allegedly obtained in Brazil by the entity not resident in Brazil, Sterrebeeck B.V., as a result of the "incorporação de ações" (merger of shares) transaction carried out in August 2008. As a result of the aforementioned transaction, Banco Santander (Brasil) S.A. acquired all of the shares of Banco ABN AMRO Real, S.A. and ABN AMRO Brasil Dois Participações, S.A. through the delivery to these entities' shareholders of newly issued shares of Banco Santander (Brasil) S.A., issued in a capital increase carried out for that purpose. The Brazilian tax authorities take the view that in the aforementioned transaction Sterrebeeck B.V. obtained income subject to tax in Brazil consisting of the difference between the issue value of the shares of Banco Santander (Brasil) S.A. that were received and the acquisition cost of the shares delivered in the exchange. In December 2014 the Group appealed against the infringement notice at CARF after the appeal for reconsideration lodged at the Federal Tax Office was dismissed. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defense arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognized any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortization of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortization performed after the merger. On the advice of its external legal counsel, Banco Santander (Brasil) S.A. lodged an appeal against this decision at the Federal Tax Office and obtained a favorable decision in July 2015. Such decision was appealed by the Brazilian tax authorities before the CARF, which ruled in their favor. Consequently, in November 2016 the Bank lodged an appeal before the Higher Chamber of Tax Appeals. No provision was recognized in connection with this proceeding as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortization of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. No provision was recognized in connection with this matter as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 in connection with a Trust created by Santander Holdings USA, Inc. in relation to financing transactions carried out with an international bank. Santander Holdings USA, Inc. considered that, in accordance with applicable tax legislation, it was entitled to recognize 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 favorable to the interests of Santander Holdings USA, Inc., the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. On 13 November 2015, the District Court Judge ruled in favor of Santander Holdings USA, Inc., ordering the amounts paid over with respect to 2003 to 2005 to be refunded. The US Government appealed the decision at the US 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 referred the case back to the District Court for its ruling over certain matters pending resolution, including the refund claim and the justification of sanctions. On 15 March 2017, Santander Holdings USA, Inc. filed a petition with the U.S. Supreme Court to hear its appeal of the First Circuit Court's decision and on 26 June 2017, the U.S. Supreme Court denied Santander Holdings USA, Inc.´s petition to hear its appeal and returned the case to the District Court as ordered by the U.S. Court of Appeals for the First Circuit. The parties are currently awaiting the District Court´s decision over Santander Holdings USA, Inc. petition to have a summary judgement related to the matters pending resolution. The estimated loss relating to this litigation is provided for.

- In 2007 the European Commission opened an investigation into illegal state aid to the Kingdom of Spain in connection with Article 12.5 of the former Consolidated Text of the Corporate Tax Law. The Commission issued the Decision 2011/5/CE of 28 October 2009, on acquisitions of subsidiaries resident in the EU and decision 2011/282/UE of 12 January 2011, on the acquisition of subsidiaries not resident in the EU, ruling that the deduction regulated pursuant to Article 12.5 constituted illegal State aid. These decisions were subject to appeal by Banco Santander and other companies before the European Union General Court. In November 2014, the General Court delivered judgment annulling the prior decisions, and that judgment was appealed before the European Court of Justice by the Commission. In December 2016 the European Court of Justice delivered judgment setting aside the appeal and remanded the file to the General Court, which shall deliver a new judgment assessing the other annulment pleas raised by the petitioners, which, in turn, may be subject to an appeal before the Court of Justice. The Group, in accordance with the advice from its external lawyers, has not recognized provisions for these suits since they are considered to be a contingent liability.

At the date of approval of these consolidated financial statements certain other less significant tax-related proceedings were also in progress.

Non-tax-related proceedings

At 31 December 2017, 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 FSA (Financial Services Authority) (now the FCA (Financial Conduct Authority)) published a Policy Statement on the valuation and compensation of claims for payment protection insurance (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.

In November 2015, the FCA published the consultation 15/39 (Regulations and guides on the payment of claims related to insurance for credit protection) that introduced the concept of unfair commission in connection with case Plevin for the customer compensation, as well as the term for customers to formulate their PPI complaints. 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 described 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 included the recommendation that the period for filing claims should be extended by two years from June 2017, which was later than proposed in CP 15/39 issued by the FCA in November 2015. The document also included 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. The final regulation (Policy Statement 17/3 (Payment Protection Insurance Complaints: Feedback on CP16/20 and final rules and guidance)) published on 2 March, 2017 confirms that the two year term for the formulation of claims started on August 2017. It also requires to proactively contact with the claimants whose claims were rejected in accordance with article 140ª of Consumer Credit Act. Finally, the standard introduced some clarifications on the calculation of the profit participation percentage. These changes may have an impact on the amounts expected to be paid in the future.

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 variables:

- 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.

For the calculation of the provision has been considered

- Full analysis of causes of the claims, probability of success, market fluctuations, possible activities/supervisor and guidelines of the FCA and how these may affect the 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;
- Effect media coverage and time bar are expected to have on the complaints inflows.
- Commission and profit margin obtained from the insurance provider during the products' lifespan.
- In relation to a specific PPI portfolio of complaints, an analysis of the relevant facts and circumstances including legal and regulatory responsibilities.

These criterias 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 provision represents management's best estimate of Santander UK's future liability in respect of mis-selling of PPI policies.

The most critical factor in determining the level of provision is the volume of claims. The uphold rate is informed by historical experience and the average cost of redress can be predicted reasonably accurately given that management is dealing with a high volume and reasonably homogeneous population. In setting the provision, management estimated the total claims that were likely to be received until August 2019.

2017 compared to 2016

The remaining provision for PPI redress and related costs amounted to £356m (EUR 401 million). The total charge for the year was £109m (EUR 124 million) (2016: £144m (EUR 140 million) and was driven by an increase in estimated future claims driven by the start of the FCA advertising campaign for PPI, offset by an expected decline relating to a specific PPI portfolio review. We continue to monitor our provision levels in respect of recent claims experience. In 2016, a provision of £114m (EUR 140 million) was made when we applied the principles published in the August 2016 FCA papers, and a further £32m (EUR 37 million) was made in relation to a past business review.

Monthly utilisation increased from the 2016 average following the confirmation of a deadline for customer complaints, broadly in line with our assumptions. We continue to monitor our provision levels in respect of recent claims experience.

2016 compared to 2015

We made an additional £144m provision charge in the year, which included our best estimate of Plevin related claim costs and a £30m charge for a portfolio under a past business review. With the FCA consultation that was expected to close in the first quarter of 2017, we assessed the adequacy of our provision and applied the principles published in the August 2016 FCA consultation paper to our current assumptions. We continued to review our provision levels in respect of recent claims experience and noted that once the final FCA guidance was published it was possible further PPI-related provision adjustments would be required in future years.

Monthly utilisation during the year, excluding the impact of past business review activity, was slightly higher than the 2015 average and in line with our assumptions.

The following table shows the main factors to calculate the provisions and the future forecast as well as the sensitivity analysis in the faceof future changes. It reflects a blended view across all our retail products and portfolios and includes redress for Plevin-related claims:

:	Accumulated at 31 December 2017	Future forecast (unaudited figures)	Sensitivity analysis: increases / decreases in provision
Claims received [(1)] (000)	1,623	660	25 = £9m
Claims received for proactive contact (000)	487	127	25 = £5m
% Response to complaints received by proactive contact	54%	100%	1% - £0,3m
% Of claims accepted by the Entity [(2)]	47%	68%	1% - £2,6m
Average compensation by accepted claim [(3)]	**£1,378**	**£564**	**£100 = £50 m**

(1) Includes all claims received regardless of whether we expect to make a payment; i.e. regardless of the likelihood of the Santander UK group incurring a liability. Excludes claims where the complainant has not held a PPI policy.

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

(3) The average claim compensation was reduced from an accumulated average amount of £1,378 (EUR 1,222) on 31 December 2017 to an average future amount of £564 due to the effect of Plevin cases in the provision, as well as a shift in the complaints mix to a greater proportion of storecards which typically carry lower average balances

- Delforca: Dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) 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. Faced with a second arbitration initiated by the Bank, and after the latter had obtained a preventive attachment in its favour (currently waived), Delforca declared bankruptcy. Prior to this, Delforca 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, in which the Partial Award was issued, rejecting the procedural exceptions raised by Delforca, resolution which was appealled by Delforca. Delforca appealed against the decisions rejected the resolution of the arbitration agreement and the recognition of the contingent claim in favour of the Bank. Furthermore, Delforca 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, being these processes under processing. 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 ("TST") and, subsequently, at the Federal Supreme Court ("STF"). The TST confirmed the judgment against the bank, whereas the STF rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the STF in plenary session. The STF 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 provisions in this connection.

- "Planos Económicos": 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 económicos"). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice (STJ) set the limitation period for these class actions at five years, as claimed by the banks, rather than 20 years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the STJ and the Federal Supreme Court (STF) with which the matter is expected to be definitively settled. In August 2010, the STJ handed down a decision finding for the plaintiffs in terms of substance, but excluding one of the "planos" from the claim, thereby reducing the amount thereof, and once again confirming the five-year statute-of-limitations period. Shortly thereafter, the STF issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter. Various appeals to the STF are currently being considered in which various matters relating to this case are discussed.

- At the end of 2017, the Advocacia Geral da União (AGU), Bacen, Instituto de Defesa do Consumidor (Idec), the Frente Brasileira dos Poupadores (Febrapo) and Federação Brasileira dos Bancos (Febraban) signed an agreement with the aim of terminating the judicial disputes related to economic situation. Discussions have focused on specifying the amount to be paid to each affected customer according to the balance in their notebook at the time of the Plan. Finally, the total value of the payments will depend on the amount of endorsements that there have been and the number of savers who have showed the existence of the account and its balance on the date on which the indexes were changed. The terms of the agreement signed by the parties have been subject to the approval of the Supreme Federal Court (STF), to whom the final word on the viability of the agreement corresponds. Provisions registered in order to hedge risks that may derive from the "economic plans", including those derived from the agreement pending approval by the STF, are deemed sufficient.

- The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC ("Madoff Securities") by the US Securities and Exchange Commission ("SEC") took place in December 2008. The exposure of customers of the Group through the Optimal Strategic US Equity ("Optimal Strategic") subfund was EUR 2,330 million, of which EUR 2,010 million related to

institutional investors and international private banking customers, and the remaining EUR 320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors.

At the date of these consolidated financial statements, certain claims had been filed against Group companies in relation to this matter. The Group considers that it has at all times exercised due diligence and that these products have always been sold in a transparent way pursuant to applicable legislation and established procedures. The risk of loss is therefore considered to be remote or immaterial.

- At the end of the first quarter of 2013, news stories were published stating that the public sector was debating the validity of the interest rate swaps 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 Banco Santander Totta, S.A. with the public companies Metropolitano de Lisboa, E.P.E. (MdL), Metro de Porto, S.A. (MdP), Sociedade de Transportes Colectivos do Porto, S.A. (STCP) and Companhia Carris de Ferro de Lisboa, S.A. (Carris). These swaps were entered into prior to 2008, i.e. before the start of the financial crisis, and had been executed without incident.

  In view of this situation, Banco Santander Totta, S.A. took the initiative to request a court judgment on the validity of the swaps in the jurisdiction of the United Kingdom to which the swaps are subject. The corresponding claims were filed in May 2013.

  After the Bank had filed the claims, the four companies (MdL, MdP, STCP and Carris) notified Banco Santander Totta, S.A. that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013. Banco Santander Totta, S.A. extended each of the claims to include the unpaid amounts.

  On 29 November 2013, the companies presented their defence in which they claimed that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid.

  On 4 March 2016, the Court handed down a judgment in which it upheld all the matters raised by the Bank and declared al 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.

  On 2 May 2017, Portuguese shipping companies, Banco Santander Totta, SA and the Portuguese Republic reached an agreement regarding these legal proceedings which were terminated. Shipping companies withdrew their request for admission of a pending appeal before the English Supreme Court. This matter has concluded.

- In April 2016, the Competition Directorate of the Spanish "Comisión Nacional de los mercados y la Competencia" (CNMC) commenced an administrative investigation on several financial entities, including Santander Bank in relation to possible collusive practices or price-fixing agreements, as well as exchange of commercially sensitive information in relation to financial derivative instruments used as hedge of interest rate risk for syndicated loans. In accordance with the Competition Directorate this conduct could constitute a breach of article 1 of Competition Directorate Law 15/2007, of 3 July, as well as article 101 of Treaty on the Functioning of the European Union (TFEU). The procedure is now pending under the Council of the CNMC. If the resolution is not favorable, Santander Bank could be exposed to the imposition of sanctions that could be significant, as well as incidental consequences, including civil liability claims and regulatory restrictions or limitations to Santander activities. The bank's legal services

consider that no infringement existed, since the syndicated nature of the transactions referred to in the record justify the performance of the entities.

- Floor clauses ("cláusulas suelo"): as a result of the acquisition of Banco Popular Español, S.A., the Group is exposed to material transactions containing floor clauses. Floor clauses are clauses whereby the borrower agrees to pay a minimum interest rate to the lender regardless of the applicable benchmark interest rate. Banco Popular, S.A. has included floor clauses in certain asset operations with customers. Banco Popular's position in respect of these floor clauses is as follows:

  On 21 December 2016, the European Court of Justice overruled the ruling established through Spanish Supreme Court Judgement of 9 May 2013, and by virtue of which the retroactive effect of declaring the floor clauses null and void was limited so that the amounts charged in application of these clauses would only be refunded from 9 May 2013. Subsequently, the Judgement handed down by the Spanish Supreme Court on 24 February 2017, ruling on a cassation appeal ("recurso de casación") filed by another entity, adapted its jurisprudence in line with the Judgement of the European Court of Justice of 21 December 2016 and, in particular, considered that its ruling of 9 May 2013, which related to a collective action, did not have res judicata effect with respect to individual suits filed by consumers in this regard.

  These legal rulings and the social impact of the floor clauses led the Spanish government to establish, through Spanish Royal Decree-Law 1/2017, of 20 January, urgent measures to protect consumers against floor clauses, a voluntary and extrajudicial process whereby consumers who consider themselves affected by the potential nullity of a floor clause claim repayment. This ruling establishes an extrajudicial channel for conflict resolution but adds nothing that affects the criteria describing the validity of the clauses. Provisional results arising from claims received via this process seem to confirm the Bank's estimates.

  In 2015 and 2016, Banco Popular made extraordinary provisions that, following the Judgment of the European Union's Court of Justice on 21 December 2016, were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. As of 31 December 2017, the amount of the Group's provisions in relation to this matter goes up to EUR 223 million. For this concept, after the purchase of Banco Popular, EUR 238 million provisions have been used by the Group mainly for refunds as a result of the extrajudicial process mentioned above. The Group considers that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. Considering the provisioned amount referred before and the refunds performed, the maximum and not probable risk derived would have a coverage greater than 50% of this maximum risk scenario.

- Other aspects: given that no precedent exists in either Spain or any other European Union member state for the declaration setting out the resolution of Banco Popular, the redemption and conversion of its capital instruments and the subsequent transfer to Banco Santander of the shares resulting from this conversion in exercise of the resolution instrument involving the sale of the institution's business, all in accordance with the single resolution framework regulation referred to in Note 3, the possibility of future appeals being submitted against the EU's Single Resolution Board decision, the FROB's resolution executed in accordance to the aforementioned decision, and claims against Banco Popular Español, S.A., Banco Santander or other Santander Group companies deriving from or related to the acquisition of Banco Popular. Several investors, advisors and financial dealers have stated that they intend to analyze and, in some cases, have already submitted different types of claims in respect to the acquisition. To date, 65 procedures have been filed before the European Union Court of Justice and more than 30 have been brought before the Spanish Audiencia Nacional.With respect to possible appeals or claims, it is not possible at this time to foresee the total of the specific petitions that could be put forth, nor their economic implications (particularly when these possible future claims might not specify any specific amount, or when they allege new legal interpretations or involve a

large number of parties). The estimated cost of the potential compensation to the shareholders of Banco Popular has been accounted for as disclosed in Notes 1.h and 3 of the consolidated financial statements.

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 2017, 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.

MARKET INFORMATION

The Common Shares of Banco Santander are currently listed on the Spanish Stock Exchanges (as defined in the Conditions) under the ticker symbol "**SAN**", and in Lisbon, London, Milan, Buenos Aires, Mexico and, through ADSs, in New York.

On 12 March 2018, the official price of the Bank's ordinary shares on the Automated Quotation System ("**AQS**") was € 5.483 per Common Share.

The daily average trading volume of the Common Shares of Banco Santander in 2017 was approximately 80,096 million shares. The prices of the Common Shares of Banco Santander are published every dealing day.

The Spanish securities market for equity securities consists of the Spanish Stock Exchanges and the AQS.

Stock exchanges where the Common Shares are listed

The Spanish Stock Exchanges are the Madrid, Barcelona, Bilbao and Valencia stock exchanges. These four stock exchanges were created as independent secondary markets in 1831, 1915, 1890 and 1980, respectively. Since 1989, the four Stock Exchanges are electronically interconnected in real time through the AQS or *Mercado Continuo*. Its supervisor is the Spanish National Securities Markets Commission (*Comisión Nacional del Mercado de Valores*).

In Lisbon, the Common Shares are listed on Euronext Lisbon since 2000. Its predecessor, the Lisbon Stock Exchange, exists since 1769. In 1999 it was merged with the Porto Stock Exchange and the resulting stock exchange was acquired by Euronext N.V. in 2007. Euronext Lisbon is supervised by the Portuguese National Securities Market Commission (*Commissao do Mercado de Valores Mobilários*).

In London, the Common Shares are listed on the London Stock Exchange since 2005. The London stock exchange is one of the oldest stock exchanges, with more than 300 years of history. Euronext London is supervised by the Financial Conduct Authority.

In Milan, the Common Shares are listed on the Borsa Italiana, S.p.A. since 1999. This stock exchange has been operational since 1998. Its supervisor is the Italian National Companies and Stock Commission (*Commissione Nazionale per le Società e la Borsa*).

In Buenos Aires, the Common Shares are listed on the Buenos Aires Stock Exchange since 2000. This stock exchange exists since 1854. Its supervisor is the Argentine National Securities Commission (*Comisión Nacional de Valores*).

In Mexico, the Common Shares are listed on the Bolsa Mexicana de Valores since 2005. This stock exchange was founded in 1894. Its supervisor is the Mexican National Securities and Bank Commission (*Comisión Nacional Bancaria y de Valores*).

In New York, the Common Shares are listed on the ADSs since 1987. Its supervisor is the Securities Exchange Commission.

AQS

The AQS links the four Spanish Stock Exchanges, providing any equity securities listed on it with a uniform continuous market in order to eliminate certain differences arising among the various local exchanges. The principal feature of the system is the computerized matching of bid and offer orders at the time of placement. Each order is completed as soon as a matching order occurs, but can be modified or cancelled until completion. The activity of the market can be continuously monitored by investors and brokers. The AQS is operated and regulated by Sociedad de Bolsas, S.A. ("**Sociedad de Bolsas**"), a company owned by the companies that manage the Spanish Stock Exchanges. All trades on the AQS must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of one of the Spanish Stock Exchanges.

In a pre-opening session held each trading day from 8:30 to 9:00 (C.E.T.), an opening price is established for each equity security traded on the AQS based on a real-time auction in which orders can be placed, modified or cancelled, but not completed. During this pre-opening session, the system continuously displays the price at which orders would be completed if trading were to begin. Market participants only

receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer prices. If an auction price cannot be determined, the best bid and offer prices and their respective associated trading volumes are disclosed instead. The auction terminates with a random 30-second period in which the shares are allocated. Until the allocation process has finished, orders cannot be placed, modified or cancelled. In exceptional circumstances (including the admission of new securities to trade in the AQS) and subject to prior notice to the CNMV, Sociedad de Bolsas may fix an opening price disregarding the reference price (which is the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours, known as the open session, range from 9:00 to 17:30 (C.E.T.). The AQS sets out two ranges of prices for each security named "static" and "dynamic" in order to monitor the volatility of the trading price of each security. During the open session, the trading price of a security may fluctuate within a certain predetermined percentage above and below the "static" price (which is the price resulting from the closing auction of the previous trading day or the immediately preceding volatility auction in the current open session) (the "**static range**"). In addition, the trading price may range within a certain predetermined percentage above and below the "dynamic" price (the trading price of the immediately preceding trade of the same security) (the "**dynamic range**"). If, during the open session, there are matching bid and offer orders for a security within the computerized system which exceed any of the above "static" and/or "dynamic" ranges, trading on the security is automatically suspended and a new auction, known as volatility auction, is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such new reference price. The "static" and "dynamic" ranges applicable to each specific security are set up and reviewed periodically by Sociedad de Bolsas. From 17:30 to 17:35 (C.E.T.), known as the closing auction, orders can be placed, modified and cancelled, but no trades can be completed.

Between 17:30. and 20:00 (C.E.T.), trades may occur outside the computerized matching system without prior authorisation of Sociedad de Bolsas (provided such trades are however disclosed to Sociedad de Bolsas) at a price within the range of 5 per cent. over the higher of the average price and the closing price for the trading day and 5 per cent. below the lower of the average price and closing price for the trading day **provided that**: (i) there are no outstanding bids or offers in the computerized system matching or improving the terms of the proposed off-system transaction; and (ii) among other requirements, the trade involves more than €300,000 and more than 20 per cent. of the average daily trading volume of the relevant security during the preceding three months. These off-system trades must also relate to individual orders from the same person or entity and shall be reported to Sociedad de Bolsas before 20:00 (C.E.T.).

In addition, trades may take place outside the computerized matching system at any time (with the prior authorisation of Sociedad de Bolsas) and at any price if:

- they involve more than €1,500,000 and more than 40 per cent. of the average daily trading volume of the relevant securities during the preceding three months;
- the transaction results from a merger, spin-off or the restructuring of a group of companies;
- the transaction is carried out for the purposes of settling a litigation process or completing a complex set of sale and purchase agreements; or
- for any other reason which justifies the authorisation of such transaction at the discretion of Sociedad de Bolsas.

Information with respect to computerized trades, which take place between 9:00 and 17:30 (C.E.T.), is made public immediately. On the other hand, information with respect to off-system trades is reported to Sociedad de Bolsas by the end of the trading day and is also published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and on the computer system by the beginning of the next trading day.

Moreover, bilateral over the counter trades may occur at any time between 9:00 and 18:00 (C.E.T.) through the facilities of Iberclear (as defined below) by way of submission of matching OTC instructions by the participants acting as custodians for the seller and the purchaser outside the AQS and without the involvement of any market member as broker or dealer whatsoever.

Clearance and Settlement System

The Spanish clearing, settlement and recording system has been recently adapted by Law 11/2015 and Royal Decree 878/2015 of 2 October (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*) to the provisions set forth in Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories, amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012. Following this reform, the Spanish clearing, settlement and registry procedures of securities transactions will allow the connection of the post-trading Spanish systems to the European system Target 2 Securities.

Transactions carried out for equity securities on the AQS are cleared through BME Clearing, S.A., as central clearing counterparty ("**CCP**"), and settled and recorded through Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. ("**lberclear**"), as central securities depository. Only participating entities of Iberclear are entitled to use it, and access to become a participating entity is restricted to (i) credit institutions, (ii) investment services companies which are authorised to render custody and administration of financial instruments, (iii) the Bank of Spain, (iv) the General Administration and the General Social Security Treasury, (v) other duly authorised central securities depositories and central clearing counterparties and (vi) other public institutions and private entities when expressly authorised to become a participating entity in central securities depositories. Iberclear and BME Clearing, S.A. are owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros. S.A., a holding company which holds a 100 per cent. interest in each of the Spanish official secondary markets and settlement systems.

The recording system is a two tier level registry: the keeping of the central record corresponds to Iberclear and the keeping of the detail records correspond to the participating entities in Iberclear. The central registry reflects (i) one or several proprietary accounts which show the balances of the participating entities' proprietary accounts; (ii) one or several general third-party accounts that show the overall balances that the participating entities hold for third parties; (iii) individual accounts opened in the name of the owner, either individual or legal person; and (iv) individual special accounts of financial intermediaries which use the optional procedure of settlement of orders. Each participating entity, in turn, maintains the detail records of the owners of such shares.

According to the above, Spanish law considers the owner of the shares to be:

- the participating entity appearing in the records of Iberclear as holding the relevant shares in its own name.
- the investor appearing in the records of the participating entity as holding the shares; or
- the investor appearing in the records of Iberclear as holding shares in a segregated individual account.

Obtaining legal title to shares of a company listed on a Spanish Stock Exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorised under Spanish law to record the transfer of shares. To evidence title to shares, at the owners' request the relevant participating entity must issue a legitimation certificates (*certificados de legitimación*). lf the owner is a participating entity or a person holding shares in a segregated individual account, Iberclear is in charge of the issuance of the certificate with respect to the shares held in the participating entity's name.

BME Clearing, in turn, is the CCP in charge of the clearing of transactions closed on the Spanish Stock Exchanges. BME Clearing interposes itself on its own account as seller in every purchase and as buyer in every sale. It calculates the buy and sell positions *vis-à-vis* the participants designated in such buy or sell instructions. The CCP then generates and sends to Iberclear the relevant settlement instructions. The settlement and registration platform managed by Iberclear, which operates with the trade name of ARCO, receives the settlement instructions from BME Clearing and forwards them to the relevant participating entities involved in each transaction. Transactions are settled a "T+2 Settlement Standard", by which any transactions must be settled within two stock-exchange business days following the date on which the relevant transaction was completed.

Euroclear and Clearstream

Shares deposited with depositaries for Euroclear and Clearstream, and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream, will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System (as amended from time to time), the Management Regulations of Clearstream and the instructions to Participants of Clearstream (as amended from time to time), as applicable. Subject to compliance with such regulations and procedures, those persons on whose behalf accounts are kept at Euroclear or Clearstream and to whom shares have been credited ("**investors**"), will be entitled to receive a number of shares equal to that amount credited in their accounts.

With respect to shares deposited with depositaries for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees (as described below), if any, and once the relevant recording in the book-entry records kept by the members of Iberclear has occurred.

Under Spanish law, only the shareholder of record in Iberclear's registry is entitled to dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear (or its nominees) or Clearstream (or its nominees) will, respectively, be the sole record holders of the shares that are deposited with any depositaries for Euroclear and Clearstream until investors exercise their rights to withdraw such shares and record their ownership rights over them in the book-entry records kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream, will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction of any applicable withholding taxes, in accordance with the applicable regulations and procedures for Euroclear and Clearstream.

Euroclear and Clearstream will endeavor to inform investors of any significant events of which they become aware affecting the shares recorded in the name of Euroclear (or its nominees) and Clearstream (or its nominees) and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at their discretion, take such action, as they deem appropriate in order to assist investors in exercising their voting rights in respect of the shares. Such actions may include: (i) acceptance of instructions from investors to grant or to arrange for the granting of proxies, powers of attorney or other similar certificates; or (ii) exercise by Euroclear or its nominees and Clearstream or its nominees of voting rights in accordance with the instructions provided by investors.

In case the Bank offers or causes to be offered to Euroclear or its nominees and Clearstream or its nominees, acting in their capacity as record holders of the Common Shares deposited with the depositaries for Euroclear and Clearstream, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will, respectively, endeavor to inform investors of the terms of any such rights of which they become aware in accordance with the applicable provisions in the aforementioned regulations and procedures. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or, alternatively, such rights may be sold and, in such event, the net proceeds will be credited to the cash account kept on behalf of the investor with Euroclear or Clearstream.

DESCRIPTION OF THE SHARES

The following summary describes all material considerations concerning the share capital of the Issuer and briefly describes certain material provisions of its by-laws and Spanish corporate law, including the Spanish Companies Act, Spanish Act 3/2009 on Structural Amendments of Private Companies (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*), the restated text of the Securities Market Act and Royal Decree 878/2015, dated 2 October 2015, on clearing, settlement and registry of negotiable securities in book-entry form, and transparency requirements for issuers of securities admitted to trading on an official secondary market.

Issuer's ordinary shares

After the latest increase of share capital carried out on 7 November 2017, the number of shares into which the corporate capital of the Issuer is divided is 16,136,153,582 shares with a nominal value of €0.50 each. All shares incorporate identical rights. Each ordinary Banco Santander share corresponds to one vote.

Form and Transfer

The shares are in book-entry form and are indivisible. Joint holders must nominate one person to exercise the shareholders' rights, though joint holders are jointly and severally liable vis-à-vis the Issuer for all obligations arising from their status as shareholders. Iberclear, which manages the clearance and settlement system of the Spanish Stock Exchanges, maintains the central registry reflecting the number of shares held by each of its member entities (*entidades participantes*). Each member entity, in turn, maintains a registry of the owners of such shares.

Transfers of shares quoted on a Spanish Stock Exchange must be made through or with the participation of a member of a Spanish Stock Exchange. Brokerage firms, or dealer firms, Spanish credit entities, investment services entities authorised in other EU Member States and investment services entities authorised by their relevant authorities and in compliance with the Spanish regulations are eligible to be members of the Spanish Stock Exchanges. The transfer of shares may be subject to certain fees and expenses.

Dividend and Liquidation Rights

Payment of dividends is proposed by the Board of Directors and must then be authorised by the Issuer's shareholders at a General Shareholders Meeting. The Board of Directors may resolve the payment of interim dividends subject to certain legal requirements. Shareholders participate in any such dividends for each year from the date determined for such dividends by a General Shareholders Meeting or a Board of Directors Meeting, as the case may be. Where any of the above indicated dividends are structured as scrip dividends each shareholder may opt for one of the following alternatives: (i) to receive new Santander Common Shares; (ii) to receive a cash payment broadly equivalent to the dividend (to this end Banco Santander assumes an irrevocable undertaking to acquire the free allotment rights for a fixed price); or (iii) to receive a cash payment through selling rights on market. Spanish law requires each company to contribute at least 10 per cent. of its profits for the year to a legal reserve each year until the balance of such reserve is equivalent to at least 20 per cent. of such company's issued share capital. Company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. According to Spanish law, dividends may only be paid out from the portion of profits or distributable reserves that exceed the Issuer's research and development expenses, and only if the value of the Issuer's net worth is not, and as a result of distribution would not be, less than its share capital. In accordance with article 947 of the Spanish Commercial Code, the right to a dividend lapses and reverts to the Issuer if it is not claimed within five years after it becomes due.

Upon the Issuer's liquidation, its shareholders would be entitled to receive proportionately any assets remaining after the payment of the Issuer's debts and taxes and expenses of the liquidation.

The following tables set forth the dividends distributed by the Issuer for the years 2015, 2016 and 2017:

2015				
Date:	03/05/2016	01/02/2016	06/11/2015	01/08/2015
Gross	0.0500	0.0500	0.0500	0.0500
Net	0.0405	0.0405	0.0403	0.0403
Currency	Euro	Euro	Euro	Euro

2015				
Class	Ordinary	Ordinary	Ordinary	Ordinary
Type	Interim	Interim	Scrip	Interim
Exercise	2015	2015	2015	2015
Dividend Yield	4.32%	7.91%	7.89%	7.94%
Ex-dividend Date	28/04/2016	01/02/2016	20/10/2015	03/08/2015

2016				
Date:	02/05/2017	01/02/2017	03/11/2016	01/08/2016
Gross	0.0550	0.0550	0.0550	0.0550
Net	0.0446	0.0446	0.0365	0.0446
Currency	Euro	Euro	Euro	Euro
Class	Ordinary	Ordinary	Ordinary	Ordinary
Type	Interim	Interim	Scrip	Interim
Exercise	2016	2016	2016	2016
Dividend Yield	3.53%	3.94%	4.94%	5.42%
Ex-dividend Date	27/04/2017	30/01/2017	18/10/2016	27/07/2016

2017				
Date:		01/02/2018	03/11/2017	04/08/2017
Gross		0.0600	0.0400	0.0600
Net		0.0486	0.0324	0.0486
Currency		Euro	Euro	Euro
Class		Ordinary	Ordinary	Ordinary
Type		Interim	Scrip	Interim
Exercise		2017	2017	2017
Dividend Yield		3.61%	3.69%	3.72%
Ex-dividend Date		30/01/2018	18/10/2017	02/08/2017

Upon a liquidation of the Bank, its shareholders would be entitled to receive *pro-rata* any assets remaining after the payment of its debts, taxes and expenses of the liquidation. Holders of non-voting shares, if any, are entitled to receive reimbursement of the amount paid before any amount is distributed to the holders of voting shares.

Attendance and Voting at Shareholders Meetings

Each Common Share of the Issuer (currently of €0.50 each) entitles the shareholder to attend the General Shareholders Meeting. Shares may be voted by written proxy, and proxies may be given to another person. Proxies must be in writing and are valid only for a single meeting, subject to limited exceptions under the Spanish Companies Act.

Each share of the Bank's share capital entitles the shareholder to one vote.

Pursuant to the by-laws of the Issuer and the Spanish Companies Act, General Shareholders Meetings may be either ordinary or extraordinary. Ordinary General Shareholders Meetings must be convened within the first six months of each fiscal year on a date fixed by the Board of Directors. As a general rule, Extraordinary General Shareholders Meetings may be called from time to time by the Board of Directors of the Issuer at its discretion or at the request of shareholders representing at least 3 per cent. of the Issuer's share capital. Notices of all General Shareholders Meetings must be published in a widely circulated newspaper or in the Spanish Commercial Registry Official Gazette (*Boletín Oficial del Registro Mercantil*) as well as on the CNMV and the Issuer websites. The interval between the first and second calls for a General Shareholders Meeting must be at least 24 hours. The notice must include the date and place of the first call, the agenda of the meeting, the date on which shareholders need to be registered as such in order to attend and vote at the meeting, the place and form in which information related to the proposed resolutions can be obtained by the shareholders, the webpage where such information will be available, and clear instructions on how shareholders can attend and vote in the General Shareholders Meeting. It may also state the date in which, if applicable, the meeting is to be held on the second call.

Shareholders representing at least 3 per cent. of the share capital of the Issuer have the right to request the publication of an amended notice including one or more additional agenda items to the Ordinary General Shareholders Meeting and to add new resolution proposals to the agenda of any General Shareholders Meeting, within the first five days following the publication of the agenda.

At Ordinary General Shareholders Meetings, shareholders are asked to approve the financial statements for the previous fiscal year, the management and the application of the profit or loss attributable to the Issuer. All other matters that can be decided by a General Shareholders Meetings may be addressed at either Ordinary or Extraordinary General Shareholders Meetings. Shareholders can vote on these matters at an Ordinary General Shareholders Meeting if such items are included on the meeting's agenda. The by-laws of the Issuer provide that, in order to facilitate the shareholders' attendance to the meetings, shareholders shall be provided with registered admission cards (*tarjetas de admisión*). Admission cards can be obtained at any time up to five days before a given General Shareholders Meeting. Admission cards include the number of votes corresponding to their holders at the relevant General Shareholders Meeting.

The by-laws of the Issuer and the Spanish Companies Act provide that, on the first call of a General Shareholders Meeting, a duly constituted General Shareholders Meeting requires a quorum of at least 25 per cent. of the issued voting share capital, present in person or by proxy. On the second call, there is no quorum requirement.

Resolutions relating to ordinary matters shall be approved by a simple majority of the voting shares represented in person or by proxy at the General Shareholders' Meeting, and a resolution shall be deemed approved when it obtains more votes in favour than against of the share capital represented in person or by proxy.

However, the Spanish Companies Act and the by-laws of the Issuer provide that the consideration of extraordinary matters such as the amendment of the by-laws including the increases and reductions of share capital, the transformation, merger, split-off, the overall assignment of assets and liabilities and the relocation of the registered office abroad, the issuance of securities or the exclusion or limitation of pre-emption rights require a quorum of at least 50 per cent. of the issued voting share capital, present in person or by proxy, on the first call and a quorum of at least 25 per cent. of the issued voting share capital, present in person or by proxy, on the second call.

These extraordinary matters shall be approved by the favourable vote of more than half of the votes corresponding to the shares represented in person or by proxy at the General Shareholders' Meeting, except when on second call shareholders representing less than fifty percent of the subscribed share capital with the right to vote are in attendance, in which event the favourable vote of two thirds of the share capital present in person or by proxy at the General Shareholders' Meeting shall be required.

A General Shareholders Meeting at which 100 per cent. of the share capital is present or represented is validly constituted even if no notice of such meeting was given, and, upon unanimous agreement, shareholders may consider any matter at such meeting. A resolution passed in a General Shareholders Meeting is binding on all shareholders. However, it may be contested if such resolution is: (i) contrary to Spanish laws or the company's by-laws; or (ii) prejudicial to the company's interests and beneficial to one or more shareholders or third parties. In the case of resolutions contrary to Spanish law, the right to contest is extended to all shareholders, Directors and interested third parties. In the case of resolutions prejudicial to the company's interests or contrary to its by-laws, such right is extended to shareholders who attended the General Shareholders Meeting and recorded their opposition in the minutes of the meeting, to shareholders who were absent and to those unlawfully prevented from casting their vote, as well as to members of the Board of Directors. In certain circumstances (such as a substantial modification of corporate purpose or certain changes of the corporate form, transfer of registered office abroad, intra-European Union merger with transfer of registered office to another European Union country or incorporation of a limited liability European holding company if the dissenting shareholder is a partner of the promoter companies), Spanish corporate law gives dissenting or absent shareholders the right to withdraw from the company. If this right were to apply and be exercised, the company would be required to purchase or offset the relevant share ownership at prices determined in accordance with established formula or criteria relating to the average price of the shares in the Spanish Stock Exchanges within certain periods of time.

Under the Spanish Companies Act, shareholders who voluntarily aggregate their shares so that they are equal to or greater than the result of dividing the total share capital by the number of Directors have the right to appoint a corresponding proportion of the members of the Board of Directors, **provided that** the relevant vacancy or vacancies exist within the Board and the shareholders and directors satisfy certain other corporate and regulatory requirements (including those described under "*Legal Restrictions on Acquisitions of Shares in Spanish Banks*" below). Shareholders who exercise this right may not vote on the appointment of other Directors. The appointment of Directors is subject to the approval of the relevant supervisory authority.

Preferential Subscription Rights and Increase of Share Capital

Pursuant to Spanish law, shareholders have preferential subscription rights to subscribe for any new shares and for bonds convertible into shares. However, a resolution passed at a General Shareholders Meeting or a meeting of the Board of Directors or the Executive Committee acting by delegation may, in certain circumstances, waive such preferential subscription rights, **provided that** the relevant requirements of Spanish law (particularly articles 308, 504 and 505 of the Spanish Companies Act) are met. In any event, preferential subscription rights will not be available in the event of an increase in the share capital of the Issuer for the conversion of convertible bonds into shares, a merger in which new shares are issued as consideration or in the case of a capital increase with non-monetary contributions.

In the case of a listed company, under article 506 and 511 of the Spanish Companies Act, when the shareholders authorise the Board of Directors to issue new shares or bonds convertible into shares, they can also authorise the Board of Directors to not grant preferential subscription rights in connection with such new shares or bonds convertible into shares if it is in the best interest of the company. The Board of Directors may, in turn, delegate on the Executive Committee the use of this faculty.

Preferential subscription rights, when applying in connection with an approved issuance of new shares or convertible bonds will at the time be transferable, may be traded on the AQS of the Spanish Stock Exchanges and may be of value to existing shareholders because new shares and convertible bonds may be offered for subscription at prices lower than prevailing market prices.

Shareholder Suits

Shareholders in their capacity as shareholders may bring actions challenging resolutions adopted at General Shareholders Meeting. The court of first instance in the company's corporate domicile has exclusive jurisdiction over shareholder suits.

Under the Spanish Companies Act, Directors are liable to the company and the shareholders and creditors of the company for acts and omissions contrary to Spanish law or the company's by-laws and for failure to carry out the duties and obligations required of directors. Directors have such liability even if the transaction in connection with which the acts or omissions occurred is approved or ratified by the shareholders.

The liability of the Directors is joint and several, except to the extent any Director can demonstrate that he or she did not participate in decision making relating to the transaction at issue, was unaware of its existence or being aware of it, did all that was possible to mitigate any damages or expressly disagreed with the decision-making relating to the transaction.

Legal Restrictions on Acquisitions of Shares in Spanish Banks

Certain provisions of Spanish law require the authorisation from the ECB prior to the acquisition by any individual or corporation of a significant holding of shares of a Spanish bank. The decision-making authority for the assessment of the proposed acquisition, formerly attributed to the Bank of Spain, now corresponds to the ECB by virtue of Regulation 1024/2015.

Any natural or legal person or such persons acting in concert, who have taken a decision either to acquire, directly or indirectly, a significant holding (*participación significativa*) in a Spanish bank or to further increase, directly or indirectly, such a qualifying holding in a Spanish bank as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 30 per cent. or 50 per cent. or so that the bank would become its subsidiary, must first notify the Bank of Spain in order to apply for the non-opposition of the ECB, indicating the size of the intended holding and other relevant information. A significant holding for these purposes is defined as a direct or indirect holding in a Spanish bank which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that bank. In accordance with Article 23 of Royal Decree 84/2015, of 13 February, in any case, "*significant influence*" shall be deemed to exist when there is the capacity to appoint or dismiss a board member.

As soon as the Bank of Spain receives the notice, the Bank of Spain will request the Spanish Anti-Money Laundering Authority (*Servicio Ejecutivo de la Comisión para la Prevención del Blanqueo de Capitales e Infracciones Monetarias* - **SEPBLAC**) for a report, and the SEPBLAC will submit such report within 30 business days from the day following the day of receipt of such request.

If the acquisition is carried out and the required notice is not given to the Bank of Spain or if the acquisition is carried out before the 60 business days' period following the giving of notice elapses, or if the acquisition is opposed by the ECB, then there shall be the following consequences: (A) the voting rights corresponding to the acquired shares may not be exercised or, if exercised, will be deemed null, (B) the ECB may seize control of the bank or replace its Board of Directors, and (C) a fine may be levied on the acquirer.

The ECB has 60 business days after the receipt of any such notice (the Bank of Spain will acknowledge receipt in written within two business days from the date of receipt of the notification by the Bank of Spain to the extent such notification includes all the information required by Article 24 of Royal Decree 84/2015) to object to a proposed transaction. In case the notification does not have all the information required, the acquirer will be required to provide the outstanding information within ten business days. The objection by the ECB may be based on finding the acquirer unsuitable on the basis of its commercial or professional reputation, its solvency or the transparency of its corporate structure, among other things. If no such objection is raised within the 60 business day-period, the authorisation is deemed to have been granted.

The above assessment term may be suspended in one occasion, between the request of information and the submission of information, for a maximum term of 20 business days (or, under certain circumstances, this term may be of 30 business days).

Any natural or legal person, or such persons acting in concert, who has acquired, directly or indirectly, a holding in a Spanish bank so that the proportion of the voting rights or of the capital held reaches or exceeds 5 per cent. but does not qualify as a significant shareholding, must immediately notify in writing the Bank of Spain and the relevant Spanish bank, indicating the size of the acquired holding.

Furthermore, any person that has directly or indirectly acquired 5 per cent. or more of the share capital of a Spanish credit institution must immediately inform in writing both to the Bank of Spain and to the relevant credit institution indicating the amount of the shareholding.

Any natural or legal person who has taken a decision to dispose, directly or indirectly, of a qualifying holding in a Spanish bank must first notify the Bank of Spain, indicating the size of his intended reduced holding. Such a person shall likewise notify the Bank of Spain if he has taken a decision to reduce his qualifying holding so that the proportion of the voting rights or of the capital held would fall below 20 per cent., 30 per cent. or 50 per cent. or so that the bank would cease to be its subsidiary. Failure to comply with these requirements may lead to sanctions being imposed on the defaulting party.

Spanish banks are required, on becoming aware of any acquisitions or disposals of holdings in their capital that cause holdings to exceed or fall below one of the thresholds referred to above, inform the Bank of Spain of those acquisitions or disposals.

Furthermore, credit entities are required to inform the Bank of Spain as soon as they become aware of any acquisition or transfer of their share capital that crosses any of the above percentages. In addition, credit entities must inform the Bank of Spain, during the month following each natural quarter, about their shareholding specifying all shareholders considered financial institutions by the end of such month or those who have more than 0.25 of the bank's share capital (or 1 per cent. in case of credit unions (*cooperativas de crédito*)).

If the ECB determines at any time that the influence of a person who owns a qualifying holding of a bank may adversely affect that bank's management or financial situation, it may: (1) suspend the voting rights of such person's shares; (2) seize control of the bank or replace its Board of Directors; or (3) in exceptional circumstances revoke the bank's licence. A fine may also be levied on the person owning the relevant significant shareholding.

Tender Offers

Law 6/2007, of 12 April, amending the Securities Market Law in respect of takeover bids and issuers' transparency ("**Law 6/2007**"), has modified the rules for takeover bids. This Law, which came into effect on 13 August 2007, partially transposes into the Spanish legal system Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

The rules replaced the traditional system where launching a takeover bid was compulsory prior to acquiring a significant shareholding in the target company and partial bids were permitted for a regime where takeover bids must be made for all the share capital after obtaining the control of a listed company (i.e. 30 per cent.

of the voting rights or appointment of more than one-half of the members of the company's board of directors) whether such control is obtained by means of an acquisition of securities or an agreement with other holders of securities.

The above does not prevent parties from making voluntary bids for a number that is less than the totality of securities in a listed company.

Law 6/2007 also regulates, among other things: (i) obligations for the board of directors of the offeree company in terms of preventing the takeover bid (passivity rule); and (ii) the squeeze-out and sell-out rights when the offeror is a holder of securities representing at least 90 per cent. of the voting capital of the offeree company and the prior takeover bid has been accepted by holders of securities representing at least 90 per cent. of the voting rights covered by the bid.

Royal Decree 1066/2007 on rules applicable to takeover bids for securities further developed the regulations on takeover bids established by Law 6/2007, completing the amendments introduced by Law 6/2007, in order to ensure that takeover bids are carried out within a comprehensive legal framework and with absolute legal certainty. The Royal Decree contains provisions regarding: (i) the scope and application to all takeover bids, whether voluntary or mandatory, for a listed company; (ii) the rules applicable to mandatory takeover bids when control of a company is obtained; (iii) other cases of takeover bids, such as bids for de-listing of securities and bids that must be made when a company wishes to reduce capital through the acquisition of its own shares for subsequent redemption thereof; (iv) the consideration and guarantees offered in a bid; (v) stages of the procedure that must be followed in a takeover bid; (vi) the mandatory duty of passivity of the offeree company's board of directors and the optional regime of neutralisation of other preventive measures against bids; (vii) changes to, withdrawal of, and cessation of effects of the bid; (viii) the acceptance period, the calculation of the acceptances received and the settlement of the bid; (ix) the procedures applicable to competing offers; (x) the rules for squeeze-outs and sell-outs; and (xi) certain rules on supervision, inspection and sanctions applicable with respect to the regulations on takeover bids.

See risk factor "*Holders may be obliged to make a takeover bid in case of the Trigger Event if they take delivery of Common Shares*".

Reporting Requirements

Acquisition of shares

Pursuant to Royal Decree 1362/2007, of 19 October, implementing the Spanish Securities Market Act on transparency issues ("**Royal Decree 1362/2007**"), any individual or legal entity who, by whatever means, purchases or transfers shares which grant voting rights in a company for which Spain is the Country of Origin (*Estado de origen*) (as defined therein) and which is listed on an official secondary market or other regulated market in the EU, must notify the relevant issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a 3 per cent. threshold of the company's total voting rights. The notification obligations are also triggered at thresholds of 5 per cent. and multiples thereof (excluding 55 per cent., 65 per cent., 85 per cent., 95 per cent. and 100 per cent.).

The individual or legal entity required to carry out the notification must serve the notification by means of the form approved by the CNMV from time to time for such purpose, within four business days from the date on which the transaction is acknowledged (the first day of the notification period is the business day following the day on which the relevant acquisition or transfer is effective) (Royal Decree 1302/2007 requires that the obliged individual or legal entity should have acknowledged the aforementioned circumstance within two trading days from the date on which the transaction was enterd into, regardless of the date on which the transacton takes effect).

Should the individual or legal entity effecting the transaction be a non-resident of Spain, notice must also be given to the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (a department of the Ministry of Industry, Economy and Competitiveness). See "*Restrictions on Foreign Investments*" below.

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without a purchase or transfer, the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a

change in the total number of voting rights of a company on the basis of the information reported to the CNMV and disclosed by it.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity who owns, acquires or transfers, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify the company and the CNMV of the holding of a significant stake in accordance with the regulations.

Should the person or group effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of 5 July), the threshold that triggers the obligation to disclose the acquisition or transfer of the Issuer's Common Shares is reduced to 1% (and successive multiples thereof).

Further, following the implementation of Directive 2013/50/EU of the European Parliament and of the Council, of 22 October 2013 ("**Directive 2013/50/EU**") in Spain by means of the Second Final Provision of Royal Decree 878/2015, currently in force, the scope of financial instruments which are to be disclosed has been expanded. Pursuant to Royal Decree 1362/2007, as amended, financial instruments with similar economic effect to shares and entitlement to aggregate shares (even cash settled) are to be disclosed if they reach the relevant thresholds. Additionally, aggregation rules currently impose the obligation to aggregate holding of shares and holding of financial instruments when calculating the holding.

Should the individual or the legal entity effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of 5 July), the threshold that triggers the obligation to disclose the acquisition or disposition of shares is reduced to 1 per cent. (and successive multiples thereof).

All members of the Board of Directors must report to both the company and the CNMV the percentage and number of voting rights in the company held by them at the time of becoming or ceasing to be a member of the Board of Directors. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposition of shares or voting rights, or financial instruments which carry a right to acquire or dispose of shares which have voting rights attached, including any stock-based compensation that they may receive pursuant to any compensation plans.

In addition, pursuant to Article 19 of Regulation (EU) No. 596/2014, of 16 April 2014, on market abuse, persons discharging managerial responsibilities as well as persons closely associated with them (*vínculo estrecho*) must similarly report to the Issuer and the CNMV any acquisition or disposal of the Issuer's shares, derivative or financial instrument linked to the Issuer's shares when the threshold established under article 19.8 of the referred regulation is exceeded, within three business days after the transaction is made.

Members of the Senior Management must also report any share-based compensation that they may receive pursuant to any compensation plans or any subsequent amendment to such plans. Royal Decree 1362/2007 refers to the definition given by Royal Decree 1333/2005, of 11 November (implementing European Directive 2004/72/EC) ("**Royal Decree 1333/2005**") developing the Spanish Securities Market Act, regarding market abuse, which defines senior management (*directivos*) as those "*high-level employees in positions of responsibility with regular access to insider information (información privilegiada) related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer*".

In addition, pursuant to Royal Decree 1333/2005, any member of the Board of Directors and the Senior Management, or any parties closely related to any of them, as such terms are defined therein, must report to the CNMV any transactions carried out with respect to the company's shares or derivatives or other financial instruments relating to the company's shares within five business days of such transaction. The notification of the transaction must include particulars of, among others, the type of transaction, the date of the transaction and the market in which the transactions were carried out, the number of shares traded and the price paid.

Moreover, pursuant to article 30.6 of Royal Decree 1362/2007, in the context of a takeover bid, the following transactions should be notified to the CNMV: (i) any acquisition reaching or exceeding 1% of the voting rights of the Issuer, and (ii) any increase or decrease in the percentage of voting rights held by holders of 3% or more of the voting rights in the Issuer. The CNMV will immediately make this information public.

Shareholder agreements

The Spanish Securities Market Act and articles 531, 533 and 535 of the Spanish Companies Act require parties to disclose certain types of shareholders' agreements that affect the exercise of voting rights at a General Shareholders Meetings or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares. If any shareholders enter into such agreements with respect to the Issuer's shares, they must disclose the execution, amendment or extension of such agreements to the Issuer and the CNMV and file such agreements with the appropriate Commercial Registry. Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the Spanish Securities Market Act.

Such shareholders' agreement has no effect with respect to the regulation of the right to vote in General Shareholders Meetings and restrictions or conditions on the free transferability of shares and bonds convertible into shares until such time as the aforementioned notifications, deposits and publications are made.

Upon request by the interested parties, the CNMV may waive the requirement to report, deposit and publish the agreement when publishing the shareholders' agreement could cause harm to the company.

Net Short Positions

Pursuant to Regulation (EU) No. 236/2012 of the European Parliament and the Council, of 14 March, on Short Selling and certain aspects of credit default swaps ("**Regulation 236/2012**"), any net short position on shares listed on the Spanish Stock Exchanges that equals 0.2 per cent. of the relevant issuer's share capital and any increases or reductions thereof by 0.1 per cent. are required to be disclosed to the CNMV by no later than 15.30 on the first trading day following the transaction. If the net short position reaches 0.5 per cent and also at every 0.1% above that, the CNMV will disclose the net short position to the public. Regulation 236/2012 restricts uncovered short sales in shares, providing that a natural or legal person may enter into a short sale of a share admitted to trading on a trading venue only where one of the conditions established in article 12 of the Regulation 236/2012 has been fulfilled.

The disclosure is mandatory even if the same position has been already notified to the CNMV in compliance with transparency obligations previously in force in that jurisdiction.

Moreover, pursuant to Regulation 236/2012, when the CNMV considers that (i) there are adverse events or developments that constitute a serious threat to financial stability or to the market confidence (serious financial, monetary or budgetary problems, which may lead to financial instability, unusual volatility causing significant downward spirals in any financial instrument, etc.); and (ii) the measure is necessary and will not be disproportionately detrimental to the efficiency of financial markets in view of the advantages sought, it may following consultation with ESMA, take any one or more of the following measures:

(i) impose additional notification obligations by either (a) reducing the thresholds for the notification of net short positions in relation to one or several specific financial instruments; and/or (b) requesting the parties involved in the lending of a specific financial instrument to notify any change in the applicable premiums; and

(ii) restrict short selling activities by either prohibiting or imposing conditions on short selling.

In addition, according to Regulation 236/2012, where the price of a financial instrument has fallen significantly during a single day in respect of the closing price on the previous trading day (10% or more in the case of a liquid share), the CNMV may prohibit or restrict short selling of financial instruments for a period not exceeding the end of the trading day following the trading day on which the fall in price occurs.

Finally, Regulation 236/2012 also authorises ESMA to take similar measures to those described above in exceptional circumstances, when the purpose of these measures is to deal with a threat affecting several EU member states and the competent authorities of these member states have not taken adequate measures to address it.

Share Repurchases

Pursuant to Spanish Companies Act, the Issuer may only repurchase its own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorised by the General Shareholders Meeting by a resolution establishing the maximum number of shares to be acquired, the minimum and maximum acquisition price and the duration of the authorisation, which may not exceed five years from the date of the resolution;
- the aggregate par value of the shares repurchased, together with the aggregate par value of the shares already held by the Issuer and its subsidiaries, must not exceed 10 per cent. of its share capital;
- the acquisition may not lead to net equity being lower than the share capital plus non-distributable reserves in accordance with Spanish corporate law and the by-laws of the Issuer; and
- the shares repurchased must be fully paid, and must be free of ancillary contributions (*prestaciones accesorias*).

Treasury shares do not have voting rights or economic rights (e.g., the right to receive dividends and other distributions and liquidation rights), except the right to receive bonus shares, which will accrue proportionately to all of the Issuer's shareholders. Treasury shares are counted for purposes of establishing the quorum for General Shareholders Meetings and majority voting requirements to pass resolutions at General Shareholders Meetings.

Regulation 596/2014 of 16 April, repealing, among others, Directive 2003/6/EC of the European Parliament and the Council, dated 28 January 2003, on insider dealing and market manipulation, establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. This regulation maintains an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU Member State. European Commission Delegated Regulation No. 2016/1052, of 8 March, implements the aforementioned directive with regard to exemptions for buy-back programs. According to the provisions included in the Commission Delegated Regulation 2016/1052 in order to benefit from the exemption, a buy-back program must comply with certain requirements established under such Regulation and the sole purpose of the buy-back program must be to reduce the share capital of an issuer (in value or in number of shares) or to meet obligations arising from either of the following:

- debt financial instruments exchangeable into equity instruments; or
- employee share option programs or other allocations of shares to employees of the issuer or an associated company.

Prior to start of trading in a buy-back program, the issuer must ensure the adequate disclosure of the following information:

(i) The purpose of the program.

(ii) The maximum pecuniary amount allocated to the program.

(iii) The maximum number of shares to be acquired; and

(iv) The period for which the authorisation for the program has been granted.

The issuer must ensure that the transaction relating to the buy-back program meet the conditions included on article 3 of the Commission Delegated Regulation (EU) 2016/1052. Specifically, that the purchase price is not higher than the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out. Furthermore, issuers must not purchase on any trading day more than 25% of the average daily volume of shares on the corresponding trading venue.

Issuers shall not, for the duration of the buy-back program, engage on (a) selling of own shares; (b) trading during the closed periods referred to in article 19.11 of the Regulation 596/2014; and (c) trading where the issuer has decided to delay the public disclosure of inside information.

In addition, on 19 December 2007, the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbour for the purposes of market abuse regulations.

On 18 July 2013, the CNMV published certain indicative guidelines in relation to discretionary operations with treasury shares carried out by issuers of securities. The CNMV recommends the observance by issuers of some criteria in connection with (i) the way to carry these transactions (volume, price, timeframe and internal organisation and control) and (ii) the information to be provided to the supervisor and the market.

Moreover, pursuant to Article 77 of CRR, the Issuer shall obtain the prior authorisation from the ECB in order to reduce, redeem or repurchase its own shares. Rules and conditions to obtain such authorisation are regulated by Article 77 of CRR and further developed by Regulation 241/2014.

The Issuer is required to report to the CNMV any acquisition of its own shares which, together with all other acquisitions since the last notification, reaches or exceeds 1 per cent. of its share capital (irrespective of whether any own shares have been sold in the same period). In such circumstances, the notification must include the number of shares acquired since the last notification (detailed by transaction), the number of shares sold (detailed by transaction) and the resulting net holding of treasury shares.

Provision of Information to Shareholders

Under Spanish law, shareholders are entitled to receive certain information, including information relating to any amendment of the by-laws, an increase or reduction in the share capital, the approval of the financial statements and other major corporate events or actions.

Foreign Investment and Exchange Control Regulations

Restrictions on Foreign Investment

Spain has traditionally regulated foreign currency movements and foreign investments. However, since the end of 1991, Spain has moved into conformity with European Union standards regarding the movement of capital and services. On 23 April 1999, a new regulation on foreign investments (Royal Decree 664/1999) was approved in conjunction with the Spanish Foreign Investment Law 18/1992, to bring the existing legal framework in line with the provisions of the Treaty of the European Union. As a result, exchange controls and foreign investments have been, with certain exceptions, completely liberalised.

Subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies and transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls), and need only file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments within the Ministry of Industry, Economy and Competitiveness following the investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish Stock Exchanges, as it is the case of the Issuer, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares in book-entry form have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not trading on an official secondary market, as well as investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50 per cent. of the capital of the Spanish company in which the investment is made.

The Spanish Council of Ministers, acting on the recommendation of the Ministry of Industry, Economy and Competitiveness, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorisation from the Spanish government, acting on the recommendation of the Ministry of Industry, Economy and Competitiveness.

Law 19/2003, of 4 July 2003, which has as its purpose the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering ("**Law 19/2003**"), generally provides for the liberalisation of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents of Spain in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of Industry, Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations on financial intermediaries to provide to the Spanish Ministry of Industry, Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Finally, in addition to the notices relating to significant shareholdings that must be sent to the relevant company, the CNMV and the relevant Spanish Stock Exchanges, as described in this section under "*Reporting Requirements*", foreign investors are required to provide such notices to the Registry of Foreign Investments.

Exchange control regulations

Pursuant to Royal Decree 1816/1991 of 20 December 1991, relating to economic transactions with non-residents, and Directive 88/361/EC, receipts, payments or transfers between non-residents and residents of Spain must be made through registered entities such as banks and other financial institutions properly registered with the Bank of Spain subject to certain exceptions.

TAXATION

The following summary is a general description of certain tax considerations relating to the acquisition, ownership and disposal of the Preferred Securities and Common Shares, as well as the conversion of the Preferred Securities into Common Shares. It does not purport to be a complete analysis of all tax consequences relating to the Preferred Securities and Common Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which might be subject to special rules. This analysis is a general description of the tax treatment under the currently in force Spanish legislation, without prejudice of regional tax regimes in the Historical Territories of the Basque Country and the Community of Navarre, or provisions passed by Autonomous Communities which may apply to investors for certain taxes. This summary is based on the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date. References in this section to Holders include the beneficial owners of the Preferred Securities and Common Shares, where applicable. Prospective investors should consult their own tax advisers who can provide them with personalised advice based on their particular circumstances. Likewise, investors should consider the legislative changes which could occur in the future.

In addition, investors should note that the appointment by an investor in Preferred Securities, or any person through which an investor holds Preferred Securities, of a custodian, collection agent or similar person in relation to such Preferred Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisors in relation to the tax consequences for them of any such appointment.

1. **Tax treatment of the Preferred Securities**

The Issuer considers that the Preferred Securities qualify as financial assets with explicit yield, as such yield exceeds the reference rates fixed in Section 91 of Royal Decree 439/2007, of 30 March, approving the Personal Income Tax ("**PIT**") Regulations, and in Section 63 of Royal Decree 634/2015, of 10 July 2015, approving the Corporate Income Tax ("**CIT**") Regulations.

Indirect taxation

The acquisition and any subsequent disposal of the Preferred Securities is exempt from Transfer Tax, Stamp Duties and Value Added Tax as provided for in article 314 of the Consolidated Text of the Spanish Securities Market Law and related provisions.

Direct taxation

1.1 ***Individuals with tax residency in Spain***

(a) *Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)*

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in each investor's savings income pursuant to the abovementioned law, and taxed according to the then-applicable tax rate. The savings income taxable base will be taxed at 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

Income from the transfer of the Preferred Securities shall generally be computed as the difference between the amounts obtained in the transfer, redemption or reimbursement of the Preferred Securities and their acquisition or subscription value. Costs and expenses effectively borne on the acquisition and/or disposal of the Preferred Securities shall be taken into account, insofar as adequately evidenced, in calculating the income.

Negative income derived from the transfer of the Preferred Securities, in the event that the Holder had acquired other homogeneous securities within the two months prior or subsequent to such transfer or exchange, shall be included in his or her PIT base as and when the remaining homogeneous securities are transferred.

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

According to Section 44.5 of Royal Decree 1065/2007, the Issuer will make interest payments to individual Holders who are resident for tax purposes in Spain without withholding in the terms described under "*Reporting obligations*" below, notwithstanding the information obligations of the Issuer applicable under general provisions of Spanish tax legislation.

Notwithstanding the above, in the case of Preferred Securities held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent which will be made by the depositary or custodian.

In any event, the individual Holder may credit the withholding against his or her final PIT liability for the relevant year and may be refundable pursuant to Section 103 of the PIT Law.

(b) *Wealth Tax (Impuesto sobre el Patrimonio)*

In accordance with article 4 of Royal Decree-Law 3/2016, of 2 December, a full tax exemption (*bonificación del 100%*) on Wealth Tax will apply in 2018 unless such tax benefit is revoked.

Therefore from year 2018 and onwards, individuals resident in Spain will be released from formal and filing obligations in relation to Spanish Wealth Tax, unless the application of this full exemption is postponed. The foregoing shall be without prejudice to the specific regulations adopted by each autonomous region.

If it was revoked, according to Wealth Tax regulations (subject to any exceptions provided under relevant legislation in an Autonomous Region (*Comunidad Autónoma*)), the net worth of any individuals with tax residency in Spain up to the amount of €700,000 is exempt from Wealth Tax. Therefore, Holders should take into account the value of the Preferred Securities which they hold as at 31 December each year. The applicable marginal rates range between 0.2 per cent. and 2.5 per cent. although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

(c) *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules, being the taxpayer the transferee. The tax rates range between 7.65 per cent. and 81.6 per cent., depending on relevant factors (such as previous net wealth or family relationship between the transferor and transferee), although the final tax rate may vary depending on any applicable regional tax laws.

1.2 ***Legal entities with tax residency in Spain***

(a) *Corporate Income Tax (Impuesto sobre Sociedades)*

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities must be included in the taxable income of legal entities with tax residency in Spain and will be subject to CIT (at the current general rate of 25 per cent.) in accordance with the rules for this tax.

In accordance with Section 44.5 of Royal Decree 1065/2007, there is no obligation to withhold on income payable to Spanish CIT taxpayers. Consequently, the Issuer will not withhold on interest payments under the Preferred Securities to Spanish CIT taxpayers in

the terms described under "*Reporting obligations*" below, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, in the case of Preferred Securities held by a Spanish resident entity and deposited with a Spanish based entity acting as depositary or custodian, income obtained upon the transfer of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent. if the Preferred Securities 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 and therefore, the exemption of withholding as regards income obtained by Spanish resident corporate investors from financial assets listed on an official OECD market, contained in Section 61(s) of the CIT regulation, is not applicable. In such a 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.

(b) *Wealth Tax (Impuesto sobre el Patrimonio)*

Spanish resident legal entities are not subject to Wealth Tax.

(c) *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Legal entities with tax residency in Spain which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Preferred Securities in their taxable income for Spanish CIT purposes.

1.3 ***Individuals and legal entities with no tax residency in Spain***

(a) *Non-Residents Income Tax (Impuesto sobre la Renta de No Residentes)*

(i) *Non-Spanish tax resident investors acting through a permanent establishment in Spain*

Ownership of the Preferred Securities by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Preferred Securities 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 Preferred Securities are the same as those for Spanish CIT taxpayers.

(ii) *Non-Spanish tax resident investors not operating through a permanent establishment in Spain*

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax ("**NRIT**") taxpayers with no permanent establishment in Spain are exempt from NRIT, and also from withholding tax on account of NRIT **provided that** certain formalities as described in section "*Reporting obligations*" below are complied with.

(b) *Wealth Tax (Impuesto sobre el Patrimonio)*

In accordance with article 4 of Royal Decree-Law 3/2016, of 2 December, a full tax exemption (*bonificación del 100%*) on Wealth Tax will apply in 2018 unless such tax benefit is revoked.

Therefore from year 2018 and onwards, individuals who are not resident in Spain will be released from formal and filing obligations in relation to Spanish Wealth Tax, unless the application of this full exemption is postponed. The foregoing shall be without prejudice to the specific regulations adopted by each autonomous region.

If it was revoked, to the extent that the income deriving from the Preferred Securities is exempt from NRIT, individuals who do not have tax residency in Spain who hold such Preferred Securities on the last day of any year will be exempt from Wealth Tax in respect of the Preferred Securities. Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish tax resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax. The applicable rates range between 0.2 per cent. and 2.5 per cent. Although some reductions may apply. Therefore, such individuals should take into account the value of the Preferred Securities which they hold as at 31 December each year.

Non-Spanish tax resident individuals who are resident in a European Union ("**EU**") or European Economic Area ("**EEA**") Member State may be subject to the rules approved by the autonomous region where the assets and rights with more value are situated. As such, prospective investors should consult their tax advisers.

Non-Spanish resident legal entities are not subject to Wealth Tax.

(c) *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the provisions of the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with Spanish legislation, to the extent that rights deriving from the Preferred Securities can be exercised within Spanish territory. Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax in accordance with the rules set forth in the state Inheritance and Gift Tax law. However, if either the deceased or the donee is resident in a European Union or European Economic Area Member State, the applicable rules will be those corresponding to the relevant autonomous regions in accordance with the law. As such, prospective investors should consult their tax advisers.

Non-Spanish resident legal entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to NRIT Tax. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

1.4 ***Reporting obligations***

As described above, income paid with respect to the Preferred Securities will be exempt from Spanish withholding tax **provided that** the procedures for delivering to the Issuer a Payment Statement (as defined below) with the information described in Exhibit I (see below) are complied with in a timely manner. For these purposes, "**income**" means any earnings paid by the Issuer under the Preferred Securities, generally interest paid on a date when interest on the Preferred Securities is payable and the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Preferred Shares (or a portion thereof) and the aggregate principal amount of such Preferred Shares.

The First Additional Provision of Law 10/2014 establishes certain reporting obligations in relation to the Preferred Securities that must be met each time there is an interest payment on the Preferred Securities.

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 paragraph 5, before the close of business on the Business Day (as defined in the Terms and Conditions of the Preferred Securities) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Preferred Securities (each, a "**Payment Date**") is due, the Issuer must receive from the Principal Paying Agent the following information about the Preferred Securities:

(a) the identification of the Preferred Securities 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 of income;

(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 Principal Paying Agent must certify the information above about the Preferred Securities by means of a certificate (the "**Payment Statement**"), the form of which is attached as Exhibit I.

In light of the above, the Issuer and the Principal Paying Agent will enter into a Paying Agency Agreement which, among other things, will provide for the timely provision by the Principal Paying Agent of a duly executed and completed Payment Statement in connection with each income payment under the Preferred Securities and set forth certain procedures agreed by the Bank and the Principal Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Principal Paying Agent.

Prospective Holders of Preferred Securities should note that the Issuer does not accept any responsibility relating to the procedures established for the collection of information concerning the Preferred Securities. Accordingly, the Issuer will not 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 relating to Withholding (Spanish tax rules)—* ".

If the Principal Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Bank in a timely manner in respect of a payment of income under the Preferred Shares, such payment will be made net of Spanish withholding tax, currently at the rate 19 per cent. If this were to occur, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Principal Paying Agent submits a duly executed and completed Payment Statement to the Bank no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "*—Direct refund from Spanish tax authorities procedures*".

1.5 *Conversion of the Preferred Securities into Common Shares*

(a) *Individuals with tax residency in Spain*

Income obtained on the conversion of the Preferred Securities into Common Shares, computed as the difference between the market value of the Common Shares received and the acquisition or subscription value of the Preferred Securities delivered in exchange, will be considered as a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law.

The tax treatment will be the one referred to in section 1.1(a) above.

(b) *Legal entities with tax residency in Spain*

Subject to the applicable accounting regulations, income derived from the conversion of the Preferred Securities into Common Shares will be computed as the difference between the market value of the Common Shares received and the book value of the Preferred Securities delivered in exchange. Such income will be subject to CIT at the current general rate of 25 per cent. in accordance with the rules for this tax.

The tax treatment will be the one referred to in section 1.2(a) above.

Individuals and legal entities with no tax residency in Spain

(i) *Non-Spanish tax resident investors operating through a permanent establishment in Spain*

Non-Spanish tax resident investors operating through a permanent establishment in Spain are subject to the same tax treatment that applies to Spanish CIT taxpayers.

(ii) *Non-Spanish tax resident investors not operating through a permanent establishment in Spain*

Income obtained by non-Spanish tax resident investors on the conversion of the Preferred Securities into Common Shares will be exempt from such NRIT and from withholding tax on account of NRIT.

The tax treatment applicable to the income obtained will be the one described in section 1.3(a)(ii) above.

2. Taxation on Ownership and Transfer of Common Shares

Indirect taxation

The subscription, acquisition and any subsequent transfer of the Shares will be exempt from Transfer Tax, Stamp Duty and Value Added Tax, under the terms and with the exemptions set out in Section 314 of the Consolidated Text of the Spanish Securities Market Law. Additionally, no Stamp Duty will be levied on such subscription, acquisition and transfer.

Direct taxation

2.1 *Individuals with tax residency in Spain*

(a) *Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)*

(i) *Taxation of dividends*

According to the Spanish PIT Law the following, amongst others, shall be treated as gross capital income: income received by a Spanish Holder in the form of dividends, shares in profits, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the shares and any other income received in his capacity as shareholder.

Gross capital income shall be reduced by any administration and custody expenses (but not by those incurred in individualised portfolio management) and the net amount shall be included in the relevant Spanish Holder savings taxable base. The savings income tax base will be taxed at 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

The payment to Spanish Holders of dividends or any other distribution will be generally subject to a withholding tax at the then-applicable rate (currently 19 per

cent.) Such withholding tax may be credited against the net PIT payable (*cuota líquida*) of the relevant Holder, and if the amount of tax withheld is greater than the amount of the net PIT payable, the taxpayer will be entitled to a refund of the excess withheld in accordance with the PIT Law.

(ii) *Taxation of capital gains*

Gains or losses recorded by a Spanish Holder as a result of the transfer of listed shares which represent a participation in a company's equity, will qualify for the purposes of the PIT Law as capital gains or losses and will be subject to taxation according to the rules applicable to such capital gains or losses. The amount of capital gains or losses is calculated as the difference between the shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the higher of the listed value of the share as of the transfer date and the agreed transfer price, less any fees or taxes incurred.

Where the taxpayer owns other securities of the same kind, the acquisition price of the transferred shares is based on the principle that those acquired first are sold first (FIFO).

Capital gains arising from the transfer of shares by the Spanish Holders, shall be included in such Spanish Holder's savings taxable base corresponding to the period in which the transfer takes place. The savings income taxable base will be taxed at 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

Capital gains arising from the transfer of shares are not subject to withholding tax on account of PIT.

Losses arising from the transfer of shares admitted to trading on certain official stock exchanges will not be treated as capital losses if securities of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses will be included in the taxable base upon the transfer of the remaining shares of the taxpayer.

(b) *Wealth Tax (Impuesto sobre el Patrimonio)*

Individual Spanish Holders are subject to the Spanish Wealth Tax on all their assets (including the Common Shares) as of 31 December of each year.

Spanish Wealth Tax Law provides that the first €700,000 of net wealth owned by an individual Spanish Holder will be exempt from taxation, while the rest of the net wealth will be taxed at a rate ranging between 0.2 per cent. and 2.5 per cent. However, this may vary by Spanish Autonomous Region. As such, prospective Holders should consult their tax advisors.

In accordance with article 4 of Royal Decree-Law 3/2016, of 2 December, a full tax exemption (*bonificación del 100%)* on Wealth Tax will apply in 2018. Therefore from year 2018 and onwards, individuals resident in Spain will be released from formal and filing obligations in relation to Spanish Wealth Tax, unless the application of this full exemption is postponed.

(c) *Spanish Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Individuals resident in Spain for tax purposes who acquire Common Shares by inheritance or gift will be subject to the Spanish Inheritance and Gift Tax (in accordance with the Inheritance and Gift Tax Law), without prejudice to the specific legislation applicable in each Autonomous Region. The taxpayer is the transferee. The effective tax rate, after applying all relevant factors, ranges from 7.65 per cent. to 81.6 per cent. although the final tax rate may vary depending on any applicable regional tax laws (such as the specific

regulations imposed by each Spanish region, the amount of the pre-existing assets of the taxpayer and the degree of kinship with the deceased or the donor). Some tax benefits could reduce the effective tax rate.

2.2 *Legal entities with tax residency in Spain*

(a) *Corporate Income Tax (Impuesto sobre Sociedades)*

(i) *Taxation of dividends*

According to Section 10 of the CIT Law, dividends from the Issuer or a share of the Issuer's profits received by corporate Spanish Holders less any expenses inherent to holding the Common Shares, shall be included in the CIT taxable base. The general CIT tax rate is currently 25 per cent.

However, CIT taxpayers will be entitled to apply a participation exemption regime for dividends received from the Issuer if certain requirements are met: (i) the shareholding (direct or indirect) held in the Issuer is at least 5 per cent. (or if the tax acquisition cost of the shareholding exceeds €20 million) and (ii) such shareholding has been held continuously for one full year up to the date on which the dividend is paid or straddling such date.

In case that more than 70 per cent. of the revenue of the company making the dividend distribution derives from dividends and capital gains arising from transfers of shares, the application of the participation exemption is subject to particularly complex restrictions, substantially requiring that the shareholder holds an indirect participation of at least 5 per cent. in the share capital of that company's subsidiaries.

Shareholders are urged to consult their tax advisors regarding compliance with the requirements for application of the aforesaid participation exemption.

CIT taxpayers are subject to withholding at a rate of 19 per cent. on the full amount of the distributed profits. However, no withholding tax will apply on dividends payable to a shareholder who is entitled to apply the participation exemption regime mentioned above (and evidence so to the company paying the dividend). Such withholding tax will be deductible from the net CIT payable, and if the amount of tax withheld is greater than the amount of the net CIT payable, the taxpayer will be entitled to a refund of the excess withheld in accordance with article 127 of the CIT Law.

(ii) *Taxation of capital gains*

The gain or loss arising on transfer of the Common Shares or from any other change in net worth relating to the Common Shares will be included in the tax base of CIT taxpayers, in the manner contemplated in Section 10 *et seq*. of the CIT Law, being taxed generally at a rate of 25 per cent.

Income deriving from share transfers is not subject to withholding on account of CIT.

However, CIT taxpayers are entitled to apply a participation exemption regime for capital gains arising on the transfer of Spanish companies shares if (i) the shareholding, directly or indirectly, amounts of at least 5 per cent. of that Spanish company (or the tax acquisition cost of its shares in that Spanish company exceeds €20 million) provided (ii) such participation is held for at least one year prior to the transfer.

In case that more than 70 per cent. of the revenues of the company whose shares are transferred derives from dividends and capital gains deriving from the transfer of shares, the application of the Spanish participation exemption is subject to particularly complex restrictions, substantially requiring that the shareholder

holds an indirect participation of at least 5 per cent. in the share capital of that company's subsidiaries. Shareholders are urged to consult their tax advisors regarding compliance of the requirements for application of the aforesaid participation exemption.

Capital gains deriving from the disposal of the Issuer's shares will not be subject to withholding tax on account of CIT.

Finally, losses arising on the transfer of the Common Shares may be tax deductible under certain circumstances. Shareholders are urged to consult their tax advisors regarding the tax deductibility of losses arising on the transfer of the Commons Shares.

(b) *Wealth Tax (Impuesto sobre el Patrimonio)*

Spanish resident legal entities are not subject to Wealth Tax.

(c) *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

In the event of acquisition of the shares free of charge by a CIT taxpayer, the income generated for the latter will likewise be taxed according to the CIT rules, the Inheritance and Gift Tax not being applicable.

2.3 ***Individuals and legal entities with no tax residency in Spain***

(a) *Non-Resident Income Tax (Impuesto sobre la Renta de No Residentes)*

(i) *Non-Spanish tax resident investors operating through a permanent establishment in Spain to which the Common Shares are attributable*

Taxation of dividends

Ownership of the Common Shares by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Common Shares 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 Common Shares are the same as those for legal entities with tax residency in Spain described in section 2.2(a)(i) above.

Taxation of capital gains

If the Common Shares 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 capital gains derived from such Common Shares are the same as those for legal entities with tax residency in Spain described section 2.2(a)(ii) above.

(ii) *Non-Spanish tax resident investors not operating through a permanent establishment in Spain to which the Common Shares are attributable*

Taxation of dividends

Under Spanish law, dividends paid by a Spanish resident company to a non-Spanish Holder are subject to Spanish NRIT, approved by the NRIT Law, withheld at the source on the gross amount of dividends, currently at a tax rate of 19 per cent.

However, under the EU Parent-Subsidiary Directive exemption, no Spanish withholding taxes should be levied on the dividends distributed by a Spanish

subsidiary to its European Union (EU) parent company, to the extent that the following requirements are met:

(i) the EU parent company maintains a direct or indirect holding in the capital of the Spanish subsidiary of at least 5 per cent. or its shares in the Spanish subsidiary's tax acquisition cost exceeds €20 million. The holding must have been maintained uninterruptedly during the year prior to the date on which the distributed profit is due or, failing that, be maintained for the time required to complete such period (in the latter case, the withholding tax must be levied, although it would be refundable once the year has been completed);

(ii) the EU parent company is incorporated under the laws of a EU Member State, under one of the corporate forms listed in Annex I, Part A, of the EU Parent-Subsidiary Directive, and is subject to a Member State Corporate Income Tax (as listed in Annex I, Part B, of the EU Parent-Subsidiary Directive), without the possibility of being exempt; and

(iii) the dividends distributed do not derive from the subsidiary's liquidation.

The aforesaid exemption will not be applicable if the dividend is obtained through a country or territory that is defined as a tax haven by Spanish regulations.

The aforesaid exemption will be applicable, subject to the compliance of similar requirements, to dividends distributed by a Spanish subsidiary to its European Economic Area parent company **provided that** there is an effective exchange of tax information with such EEA parent company's country.

However, the exemption includes an anti-abuse provision by virtue of which the withholding tax exemption will not be applicable where the majority of the voting rights of the parent company are held directly or indirectly by individuals or entities not resident in the EU or the EEA with which there is a an effective exchange of tax information in the terms set forth in Law 36/2006 of 29 November, except where the EU or EEA parent company proves that its incorporation and its operative responds to valid economic reasons and to substantive economic activities.

In addition, Holders resident in certain countries will be entitled to the benefits of a double taxation treaty ratified between Spain and their country of tax residence ("**DTC**"). Such Holders may benefit from a reduced tax rate or an exemption under an applicable treaty with Spain, subject to the satisfaction of any conditions specified in the DTC, including providing evidence of the tax residence of the non-Spanish Holder by means of a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the non-Spanish Holder or, as the case may be, the equivalent document specified in the Spanish Order which further develops the applicable treaty.

According to the Order of the Ministry of Economy and Finance of 13 April 2000, upon distribution of a dividend, the Issuer or its paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above (e.g., applying the general withholding tax rate of 19 per cent.), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the non-Spanish Holder has entered into a contract of deposit or management with respect to shares in the Issuer held by such Holders. If the depositary of the non-Spanish Holder is resident, domiciled or represented in Spain and it provides timely evidence of the non-Spanish Holder's right to obtain the treaty-reduced rate or the exemption in the manner set out in the Order of the Ministry of Economy and Competiveness of 13 April 2000, it will immediately receive the surplus amount withheld, which will be credited to the non-Spanish Holder (the "**Quick Refund Procedure**"). For these purposes, the shareholder shall provide the applicable depository with a

valid certificate of tax residence issued by the relevant tax authorities of the non-Spanish Holder's country of residence stating that, for the records of such authorities, the non-Spanish Holder is a resident of such country within the meaning of the relevant DTC, or as the case may be, the equivalent document regulated in the Order which further develops the applicable DTC. The relevant certificate of residence must be provided before the tenth day following the end of the month in which the dividends were paid. The tax certificate is generally valid only for a period of one year from the date of issuance. The Quick refund Procedure will only be applicable to the extent that the depository of the Issuer's shares held by the shareholder is resident, domiciled or represented in Spain.

If this certificate of tax residence, or as the case may be, the equivalent document referred to above, is not provided to the relevant depository within this time period or if the depositary of the non-Spanish Holder is not resident, domiciled or represented in Spain, the non-Spanish Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the regulations approved by Royal Decree 1776/2004, dated 30 July 2004, and an Order dated 17 December 2010, as amended.

Taxation of capital gains

Capital gains derived from the transfer or sale of the Common Shares will be deemed Spanish source income and, therefore, are taxable in Spain at a general tax rate of 19 per cent.

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains.

However, capital gains derived from shares in the Issuer will be exempt from taxation in Spain in either of the following cases:

(i) Capital gains derived from the transfer of the shares on an official Spanish secondary stock market (such as the Madrid, Barcelona, Bilbao or Valencia stock exchanges) by any non-Spanish tax resident Holder who is tax resident of a country that has entered into a DTC with Spain containing an "*exchange of information*" clause. This exemption is not applicable to capital gains obtained by a non-Spanish Holder through a country or territory that is defined as a tax haven by Spanish regulations.

(ii) Capital gains obtained directly by any non-Spanish tax resident Holder resident of another EU Member State or indirectly through a permanent establishment of such non-Spanish Holder in a EU Member State other than Spain, **provided that**:

- the Issuer's assets do not mainly consist of, directly or indirectly, Spanish real estate;
- if the non-resident transferor is an individual, that at any time during the preceding twelve months the non-Spanish tax resident Holder has not held a direct or indirect interest of at least 25 per cent. in the Issuer's capital or net equity;
- if the non-resident transferor is an entity and the transfer of the Issuer's shares complies with the requirements to apply CIT participation exemption regime (see paragraph 2.2(a)(ii)) and
- the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations.

(iii) Capital gains realised by non-Spanish tax resident Holders who benefit from a DTC that provides for taxation only in such non-Spanish Holder's country of residence.

Non-Spanish tax resident Holders must submit a Spanish Tax Form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to settle the corresponding tax obligations or qualify for an exemption. In order for the exemptions mentioned above to apply, a non-Spanish tax resident Holder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the non-Spanish tax resident Holder is resident of such country within the meaning of the relevant DTC) or equivalent document meeting the requirements of the Order which further develops the applicable DTC, together with the Spanish Tax Form. The non-Spanish tax resident Holder's tax representative in Spain and the depositary of the shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

(b) *Wealth Tax (Impuesto sobre el Patrimonio)*

Non-Spanish tax resident individuals are subject to the Spanish Wealth Tax on the assets located in Spain (including the Common Shares) as of 31 December each year, unless an applicable DTC provides otherwise.

Spanish Wealth Tax Law provides that the first €700,000 of assets owned in Spain by Spanish non-resident tax individuals will be exempt from taxation, while the rest of the wealth will be taxed at a rate ranging between 0.2 per cent. and 2.5 per cent. although some reductions may apply.

Non-Spanish tax resident individuals who are resident in an EU or EEA Member State may apply the rules approved by the autonomous region where the assets and rights with more value are situated. As such, prospective investors should consult their tax advisers.

In accordance with article 4 of Royal Decree-Law 3/2016, of 2 December, a full tax exemption (*bonificación del 100%)* on Wealth Tax will apply in 2018 and therefore from year 2018 and onwards, individuals who are not resident in Spain will be released from formal and filing obligations in relation to Spanish Wealth Tax, unless the application of this full exemption is postponed.. Non-Spanish tax resident entities are not subject to Wealth Tax.

(c) *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Non-Spanish tax resident individuals who acquire ownership or other rights over the Common Shares by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the provisions of the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with Spanish legislation. Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the state Inheritance and Gift Tax law. However, if the deceased or the donee is resident in an EU or EEA Member State, the applicable rules will be those corresponding to the relevant autonomous regions according to the law. As such, prospective shareholders should consult their tax advisers.

Non-Spanish resident legal entities which acquire ownership or other rights over the Common Shares by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to NRIT Tax.

If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

3. **Direct refund from Spanish tax authorities procedures**

Beneficial owners entitled to receive income payments in respect of the Preferred Securities or in respect of the Common Shares free of Spanish withholding taxes or at the reduced withholding tax rate contained in any applicable DTC but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim the amount withheld in excess from the Spanish Treasury following the 1st of February of the calendar year following the year in which the relevant payment date takes place and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

Set out below is Exhibit I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Exhibit I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.

The language of this Offering Circular is English. The Spanish language text of Exhibit 1 has been included in order that the correct technical meaning may be ascribed to the English text under applicable Spanish law.

EXHIBIT 1

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

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

Don (nombre), con número de identificación fiscal (…)(1), en nombre y representación de (entidad declarante), con número de identificación fiscal (….)(1) y domicilio en (…) en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number (...)(1), in the name and on behalf of (entity), with tax identification number (....)(1) and address in (...) as (function - mark as applicable):

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issuing and Paying Agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1. En relación con los apartados 3 y 4 del artículo 44:

1. In relation to paragraphs 3 and 4 of article 44:

1.1 Identificación de los valores.

1.1 Identification of the securities.

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados).

1.2 Income payment date (or refund if the securities are issued at discount or are segregated).

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).

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 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora.

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 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

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. En relación con el apartado 5 del artículo 44.

2. In relation to paragraph 5 of article 44.

2.1 Identificación de los valores.

2.1 Identification of the securities.

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados).

2.2 Income payment date (or refund if the securities are issued at discount or are segregated).

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados).

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated).

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en ....a …. de ....de ….

I declare the above in .... on the.... of .... of ....

(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia

(1) 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.

4. Proposed Financial Transaction Tax

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Preferred Securities (including secondary market transactions) in certain circumstances.

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 Preferred Securities 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.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of the Preferred Securities are advised to seek their own professional advice in relation to the FTT.

5. 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 Preferred Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, 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 Preferred Securities, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Preferred Securities 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 Preferred Securities that are not distinguishable from previously issued Preferred Securities are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Preferred Securities, including the Preferred Securities 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 Preferred Securities, 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 Preferred Securities.

SUBSCRIPTION, SALE AND TRANSFER

The Joint Lead Managers (with the exception of Banco Santander, S.A.) have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 13 March 2018, jointly and severally agreed to subscribe or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the liquidation preference of the Preferred Securities, less the agreed commissions. For the avoidance of doubt, Banco Santander, S.A. has no obligation to subscribe for any Preferred Securities, but may procure subscribers at the issue price. The Bank will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers, their affiliates and certain related individuals against certain liabilities, incurred in connection with the issue of the Preferred Securities. The issuance of the Preferred Securities and the obligations of the Joint Lead Managers with respect thereto are conditional on and subject to the satisfaction of certain conditions precedent set forth in the Subscription Agreement. The Subscription Agreement may be terminated, and the Joint Lead Managers released from their obligations thereunder, in certain circumstances prior to the issue of, and payment for, the Preferred Securities.

United States

The Preferred Securities and the Common Shares to be issued and delivered in the event of the Trigger have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Capitalised terms used in this paragraph have the meanings given to them under Regulation S.

The Preferred Securities 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. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Preferred Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the Joint Lead Managers, within the United States or to, or for the account or benefit of, U.S. persons and that it will send to each dealer to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities 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 under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

In addition, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor United States Treasury regulation section, including without limitation, successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**C Rules**"), Preferred Securities must be issued and delivered outside the United States and its possessions in connection with their original issue. Each of the Joint Lead Managers will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Preferred Securities within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Preferred Securities, each of the Joint Lead Managers will represent that it has not communicated, and agree that it will not communicate, directly or indirectly, with a prospective purchaser if any of the Joint Lead Managers or such purchaser is within the United States or its possessions or otherwise involve any of the Joint Lead Managers' U.S. office in the offer or sale of Preferred Securities. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the C Rules.

Spain

The Preferred Securities must not be offered, distributed or sold neither in Spain nor to Spanish Residents. No publicity of any kind shall be made in Spain. For the purposes of the selling restriction included in this section "*Subscription, Sale and Transfer*", "**Spanish Resident**" means a tax resident of Spain for the

purposes of the Spanish tax legislation and any tax treaty signed by Spain for the avoidance of double taxation, including (i) any corporation, or other entity taxable as a corporation, incorporated under Spanish law, whose registered office is located in Spain or whose effective management is performed in Spain, and (ii) any non-residential entity for tax purposes in Spain acting in respect of the Preferred Securities through a permanent establishment in Spain, and (iii) any individual who is physically present in the Spanish territory for more than 183 days in the calendar year or whose main centre or base of activities or economic interests is in Spain.

United Kingdom

Each of the Joint Lead Managers has agreed that:

(i) 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) in connection with the issue or sale of Preferred Securities in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Preferred Securities in, from or otherwise involving the United Kingdom.

Japan

The Preferred Securities 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 Joint Lead Manager has represented and agreed that it will not offer or sell any Preferred Securities, 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.

Italy

The offering of the Preferred Securities has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Joint Lead Manager has represented and agreed that any offer, sale or delivery of the Preferred Securities or distribution of copies of this Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Preferred Securities or distribution of copies of this Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time);

(ii) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

(iii) in compliance with any other applicable laws and regulations or requirement I imposed by CONSOB or any other Italian authority.

Canada

In connection with any Preferred Securities offered for sale in Canada, each of the Joint Lead Managers making such an offering or sale, either directly or through its affiliates, severally and not jointly:

(i) has acknowledged and agreed that it or its affiliate will reasonably confirm that each purchaser of Preferred Securities is an "accredited investor" as defined in National Instrument 45-106 – Prospectus Exemptions ("**NI 45-106**") or in Section 73.3(1) of the Securities Act (Ontario) and are "permitted clients" as defined in National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations, in order for the Issuer to rely on the prospectus exemption set forth in Section 2.3 of NI 45-106 or Section 73.3 of the Securities Act (Ontario), as applicable, including that the Joint Lead Manager, and each person acting on its behalf including its affiliates, as applicable, (1) understands and is able to explain the terms and conditions of the exemption to the purchaser; (2) will verify that the purchaser meets the criteria set out in the exemption; and (3) will retain relevant and detailed documentation to evidence the steps taken to verify compliance with the exemption in accordance with its usual document retention policies and procedures in compliance with applicable laws;

(ii) has acknowledged and agreed that the Issuer is relying on the Joint Lead Managers and their respective affiliates, as applicable, to satisfy the Issuer's own obligations to comply with the requirements set forth in paragraph (i) and will retain and provide to the Issuer forthwith upon request all documentation retained under subsection (i)(3) above; and

(iii) has agreed that, if it involves any members of any banking, selling or other group in the distribution of the securities, it will cause agreements and acknowledgements substantially the same as the agreements and acknowledgements contained in this section to be contained in an agreement with each of the members of such group in favour of the Issuer.

General

No action has been or will be taken in any jurisdiction by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offering of the Preferred Securities or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular, or any other offering material relating to the Preferred Securities, come are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Preferred Securities or any other offering material relating to the Preferred Securities, or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Preferred Securities, in all cases at their own expense.

GENERAL INFORMATION

1. **Listing**

Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Preferred Securities bear the ISIN of XS1793250041 and the common code 179325004. It is expected that listing of the Preferred Securities will take place and that dealings in the Preferred Securities on the Global Exchange Market will commence on or about 19 March 2018. The Issuer estimates that the expenses related to the admission of Preferred Securities to trading on the Global Exchange Market are expected to be €4,540. The Bank may, at any time, apply for the listing of the Preferred Securities in any other market.

The Bank may, at any time, apply for the listing any trading of the Preferred Securities in any other market.

2. **Authorisation**

The creation and issue of the Preferred Securities have been authorised by a resolution of the Executive Committee of the Issuer dated 5 March 2018, acting by delegation of the shareholders' meeting dated 27 March 2015 and of the Board of Directors' resolution adopted on 27 March 2015.

3. **Significant/Material Change**

Since 31 December 2017, there has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Issuer and its subsidiaries taken as a whole.

4. **Auditors**

The consolidated annual accounts of the Issuer as of and for the year ended 31 December 2017 amd 31 December 2016 have been 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.

5. **Listing Agent**

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Preferred Securities to the Official List of the Irish Stock Exchange and trading on its Global Exchange Market.

6. **Documents on Display**

Copies of the following documents in physical form may be inspected during normal business hours at the offices of the Issuer at Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain for so long as any Preferred Securities remain outstanding from the date of this Offering Circular:

(i) the constitutive documents of the Issuer;

(ii) the Agency Agreement;

(iii) the audited consolidated annual accounts of the Group as of and for the years ended 31 December 2017 and 2016; and

(iv) the Issuer's Form 20-F as of and for the year ended 31 December 2016.

7. **Material Contracts**

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

8. **Interests of Natural and Legal Persons Involved in the Offer of the Preferred Securities**

So far as the Issuer is aware, no person involved in the offer of the Preferred Securities has an interest in the offer of the Preferred Securities material to the offer.

9. **Legend Concerning U.S. Persons**

The Preferred Securities will bear a legend to the following effect: "*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*".

10. **Listing of the Shares**

The Common Shares are currently listed, among others, on the Spanish Stock Exchanges and are quoted on the Automated Quotation System (*Sistema de Interconexión Bursátil* (SIBE)) of the Spanish Stock Exchanges under the symbol "**SAN**". The ISIN for the Shares is ES0113900537. Information about the past and future performance of the Shares and their volatility can be obtained from the respective websites of each of the Spanish Stock Exchanges at www.bolsamadrid.es, www.borsabcn.es, www.bolsavalencia.es and www.bolsabilbao.es.

11. **Other relationships**

The Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers 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, the Group or its affiliates. Certain of the underwriters or their affiliates that have a lending relationship with the Issuer and the Group routinely hedge their credit exposure to the Issuer and the Group consistent with their customary risk management policies. Typically, such underwriters 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 the Issuer's securities, including potentially the Preferred Securities. Any such short positions could adversely affect future trading prices of the Preferred Securities. The Joint Lead Managers 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.

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REGISTERED OFFICE OF THE ISSUER

Banco Santander, S.A.
Paseo de Pereda 9-12
39004 Santander
Spain

JOINT LEAD MANAGERS

Banco Santander, S.A.
Gran Vía de Hortaleza 3
Edificio Pedreña
28033 Madrid
Spain

BNP PARIBAS
10 Harewood Avenue
London NW1 6AA
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

PRINCIPAL PAYING AND CONVERSION AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

LISTING AGENT

The Bank of New York Mellon SA/NV, Dublin Branch
Riverside 2, Sir John Rogerson's Quay
Grand Canal Dock, Dublin 2
Ireland

LEGAL ADVISERS

To the Issuer as to Spanish law:

Uría Menéndez
Príncipe de Vergara 187
Plaza Rodrigo Uría
28002 Madrid
Spain

To the Joint Lead Managers as to English and Spanish law:

Clifford Chance S.L.P.
Paseo de la Castellana 110
28046 Madrid
Spain

AUDITORS TO THE ISSUER

Current Auditors

PricewaterhouseCoopers Auditores, S.L.
Paseo de la Castellana 259 B
Torre PwC
28046 Madrid
Spain