

INFORMATION MEMORANDUM DATED 25 APRIL 2014



SANTANDER COMMERCIAL PAPER, S.A. UNIPERSONAL

€15,000,000,000

EURO-COMMERCIAL PAPER PROGRAMME

guaranteed by

BANCO SANTANDER, S.A.

Application has been made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for Euro-commercial paper notes (the "**Notes**") issued during the twelve months after the date of this document under the €15,000,000,000 Euro-commercial paper programme (the "**Programme**") of Santander Commercial Paper, S.A. Unipersonal guaranteed by Banco Santander, S.A. described in this document to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and trading on its regulated market.

There are certain risks related to any issue of Notes under the Programme, which investors should ensure they fully understand (see "Risk Factors" on pages 6-38 of this Information Memorandum).

Potential purchasers should note the statements on pages 142-147 regarding the tax treatment in Spain of income obtained in respect of the Notes and the disclosure requirements imposed by Law 13/1985 of 25 May 1985, as amended, on the Issuer and the Guarantor relating to the Notes. In particular, payments on the Notes may be subject to Spanish withholding tax if certain information is not received by the Issuer and the Guarantor in a timely manner.

Arranger

Morgan Stanley

Dealers

Barclays

Citigroup

Crédit Agricole CIB

Deutsche Bank

ING

Rabobank International

Société Générale

UBS Investment Bank

BofA Merrill Lynch

Commerzbank

Credit Suisse

Goldman Sachs International

Morgan Stanley

Santander Global Banking & Markets

The Royal Bank of Scotland

IMPORTANT NOTICE

This Information Memorandum (together with any supplementary information memorandum and any documents incorporated by reference, the "**Information Memorandum**") contains summary information provided by Santander Commercial Paper, S.A. Unipersonal (the "**Issuer**") and by Banco Santander, S.A. ("**Santander**", "**Banco Santander**", the "**Bank**", the "**Guarantor**" or the "**Parent**") in connection with a euro-commercial paper programme (the "**Programme**") under which the Issuer may issue and have outstanding at any time euro-commercial paper notes (the "**Notes**") up to a maximum aggregate amount of €15,000,000,000 or its equivalent in alternative currencies, in each case with the benefit of a guarantee by the Guarantor. Under the Programme, the Issuer may issue Notes outside the United States pursuant to Regulation S ("**Regulation S**") of the United States Securities Act of 1933, as amended (the "**Securities Act**"). Each of the Issuer and the Guarantor has, pursuant to an amended and restated dealer agreement dated 25 April 2014 (the "**Dealer Agreement**"), appointed Morgan Stanley & Co. International plc as arranger for the Programme (the "**Arranger**"), appointed Banco Santander, S.A., Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Citibank International plc, Commerzbank Aktiengesellschaft, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International), Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, ING Bank N.V., Morgan Stanley & Co. International plc, Société Générale, The Royal Bank of Scotland plc and UBS Limited as dealers for the Notes (together with the Arranger, the "**Dealers**"), and authorised and requested the Dealers to circulate the Information Memorandum in connection with the Programme on their behalf to purchasers or potential purchasers of the Notes.

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge of the Issuer and the Guarantor (who have each taken all reasonable care to ensure that such is the case), the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

Notice of the aggregate nominal amount of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each issue of Notes will be set out in final terms (each the "**Final Terms**") which will be attached to the relevant form of Note (see "Forms of Notes"). Each Final Terms will be supplemental to and must be read in conjunction with the full terms and conditions of the Notes, which are set out in the form of Note (as appropriate). The relevant Final Terms are also a summary of the terms and conditions of the Notes for the purposes of listing. Copies of each Final Terms containing details of each particular issue of Notes will be available from the specified office set out below of the Issuing and Paying Agent (as defined below).

Each of the Issuer and the Guarantor has confirmed to the Dealers that the information contained or incorporated by reference in the Information Memorandum is true, accurate and complete in all material respects and is not misleading and there are no other facts in relation thereto the omission of which would in the context of the Programme or the issue of the relevant Notes make any statement in the Information Memorandum misleading in any material respect, and all reasonable enquiries have been made to verify the foregoing and the opinions and intentions expressed therein are honestly held and, in relation to each issue of Notes agreed as contemplated in the Dealer Agreement to be issued and subscribed, the Information Memorandum together with the relevant Final Terms contains all the information which is material in the context of the issue of such Notes.

Neither the Issuer, the Guarantor the Arranger nor the Dealers accept any responsibility, express or implied, for updating the Information Memorandum and neither the delivery of the Information Memorandum nor any offer or sale made on the basis of the information in the Information Memorandum shall under any circumstances create any implication that the Information Memorandum is accurate at any time subsequent to the date thereof with respect to the Issuer or the Guarantor or that there has been no change in the business, financial condition or affairs of the Issuer or the Guarantor since the date thereof.

This Information Memorandum comprises listing particulars made pursuant to the Listing and Admission to Trading Rules for Short Term Paper published by the Irish Stock Exchange. This Information Memorandum should be read and construed with any supplemental Information Memorandum, any Final Terms and with any other document incorporated by reference.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor and the companies whose accounts are consolidated with those of the Guarantor (together, the "**Group**") or the Notes other than as contained or incorporated by reference in this Information Memorandum, in the Dealer Agreement (as defined herein), in any other document prepared in connection with the Programme or in any Final Terms or as approved for such purpose by the Issuer or the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor, the Arranger, the Dealers or any of them.

Neither the Arranger nor any Dealer has independently verified the information contained in the Information Memorandum. Accordingly, no representation or warranty or undertaking (express or implied) is made, and no responsibility or liability is accepted by the Arranger or the Dealers as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, any information or statement contained in the Information Memorandum, any Final Terms or in or from any accompanying or subsequent material or presentation.

The information contained in the Information Memorandum or any Final Terms is not and should not be construed as a recommendation by the Arranger, the Dealers or the Issuer or the Guarantor that any recipient should purchase Notes. Each such recipient must make and shall be deemed to have made its own independent assessment and investigation of the financial condition, affairs and creditworthiness of the Issuer, the Guarantor and of the Programme as it may deem necessary and must base any investment decision upon such independent assessment and investigation and not on the Information Memorandum or any Final Terms.

Neither the Arranger nor any Dealer undertakes to review the business or financial condition or affairs of the Issuer or the Guarantor during the life of the Programme, nor undertakes to advise any recipient of the Information Memorandum or any Final Terms of any information or change in such information coming to the Arranger's or any Dealer's attention.

Neither the Arranger nor any of the Dealers accepts any liability in relation to this Information Memorandum or any Final Terms or its or their distribution by any other person. This Information Memorandum does not, and is not intended to, constitute (nor will any Final Terms constitute, or be intended to constitute) an offer or invitation to any person to purchase Notes. The distribution of this Information Memorandum and any Final Terms and the offering for sale of Notes or any interest in such Notes or any rights in respect of such Notes, in certain jurisdictions, may be restricted by law.

Persons obtaining this Information Memorandum, any Final Terms or any Notes or any interest in such Notes or any rights in respect of such Notes are required by the Issuer, the Guarantor, the Arranger and the Dealers to inform themselves about and to observe any such restrictions. In particular, but without limitation, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Information Memorandum and other information in relation to the Notes, the Issuer and the Guarantor set out under "Subscription and Sale" below.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S).

Each of the Issuer and the Guarantor has undertaken, in connection with the admission to listing of the Notes on the Official List and the admission to trading of the Notes on the regulated market of the Irish Stock Exchange, that if there shall occur any adverse change in the business or financial position of the Issuer or the Guarantor or any change in the terms and conditions of the Notes, that is material in the context of the issuance of Notes under the Programme, each of the Issuer and the Guarantor will prepare or procure the preparation of an amendment or supplement to this Information Memorandum or, as the case may be, publish a new Information Memorandum, for use in connection with any subsequent issue by the Issuer of Notes to be admitted to the Official List and to trading on the regulated market of the Irish Stock Exchange. Any such supplement to this Information Memorandum will be subject to the approval of the Irish Stock Exchange prior to its publication.

This Information Memorandum describes certain Spanish tax implications and tax information procedures in connection with an investment in the Notes (see "*Risk Factors – Risks in Relation to the Notes – Risks in Relation to Spanish Taxation*", "*Taxation – Taxation in Spain*" and Exhibit 1). Holders of Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes.

Interpretation

In the Information Memorandum, references to "**euro**", "**EUR**" and "**€**" refer 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; references to "**Sterling**" and "**£**" are to pounds sterling; references to "**U.S. Dollars**" and "**U.S.\$**" are to United States dollars; references to "**JPY**" and "**¥**" are to Japanese Yen; references to "**SFr**" are to Swiss Francs; references to "**A\$**" are to Australian dollars; references to "**C\$**" are to Canadian dollars; references to "**NZ\$**" are to New Zealand dollars and references to "**R\$**" are to Brazilian Reals.

Where the Information Memorandum refers to the provisions of any other document, such reference should not be relied upon and the document must be referred to for its full effect.

TABLE OF CONTENTS

	Page
Risk Factors	6
Documents Incorporated by Reference	39
Recent Developments	40
Santander Commercial Paper, S.A. Unipersonal.....	49
Banco Santander, S.A.....	51
Certain Information in Respect of the Notes.....	101
Forms of Notes	106
Part A – Form of Multicurrency Global Note.....	106
Part B – Form of Multicurrency Definitive Note	120
Form of Final Terms.....	134
Taxation.....	140
EXHIBIT 1	147
Subscription and Sale	150
General Information.	152

RISK FACTORS

*Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its respective obligations under Notes issued under the Programme and under the deed of guarantee dated 25 April 2014 (the "**Deed of Guarantee**"). Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is 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 Notes issued under the Programme are also described below.

Each of the Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay any amounts due on or in connection with any Notes or the Deed of Covenant, or of the Guarantor to pay any amounts due on or in connection with the Deed of Guarantee may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Information Memorandum and reach their own views prior to making any investment decision. Words and expressions defined in the "Conditions of the Notes" below or elsewhere in this Information Memorandum have the same meanings in this "Risk Factors" section.

The risk factors set out below also relate to the Issuer as a member of the Group

Risk Factors relating to the Issuer and the Guarantor

Risks Relating to Group Operations

Since the Group's loan portfolio is concentrated in Continental Europe, the United Kingdom and Latin America, adverse changes affecting the economies of Continental Europe, the United Kingdom or certain Latin American countries could adversely affect the Group's financial condition.

The Group's loan portfolio is concentrated in Continental Europe (in particular, Spain), the United Kingdom and Latin America. At 31 December 2013, Continental Europe accounted for 40% of the Group's total loan portfolio (Spain accounted for 24% of its total loan portfolio), while the United Kingdom and Latin America accounted for 35% and 20%, respectively. Accordingly, the recoverability of these loan portfolios in particular, and the Group's ability to increase the amount of loans outstanding and the Group's 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 and Latin America. Continued recessionary economic conditions in the economies of Continental Europe (in particular, Spain), or a return to recessionary conditions in the United Kingdom or the Latin American countries in which the Group operates, would likely have a significant adverse impact on its loan portfolio and, as a result, on the Group's financial condition, cash flows and results of operations.

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

In the past six years, the financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening

of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries, in which the Group operates, fell into recession. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage issuers and insurance companies, have been experiencing significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

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

- The Group potentially faces increased regulation of its industry. Compliance with such regulation may increase the Group's costs, may affect the pricing for the Group's products and services, and limit its ability to pursue business opportunities.
- Reduced demand for the Group's products and services.
- Inability of the Group's borrowers to timely or fully comply with their existing obligations.
- 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 quality of its assets.
- The value and liquidity of the portfolio of investment securities that the Group holds may be adversely affected.
- Worsening of the global economic conditions may delay the recovery of the international financial industry and impact the Group's financial condition and results of operations.
- The recoverability of the Group's retail loans in particular may be increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of the Group's retail customers and result in increased loan losses.

Some uncertainty remains concerning the future economic environment. While certain segments of the global economy are currently experiencing a moderate recovery, the Group expects such uncertainty will continue, which could have a negative impact on the Group's business and results of operations. Global investor confidence remains cautious and downgrades of the sovereign debt, have caused volatility in the capital markets. 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.

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

If all or some of the foregoing risks were to materialise, this could have a material adverse effect on the Group.

The Group may suffer adverse effects as a result of the ongoing economic and sovereign debt tensions in the eurozone.

Eurozone markets and economies continue to show signs of fragility and volatility and in some cases only sporadic access to capital markets. Interest rate differentials among eurozone countries are affecting government finance and borrowing rates in those economies.

The European Central Bank (the "ECB") and European Council took actions in 2012 to aim to reduce the risk of contagion throughout and beyond the eurozone. These included the creation of the Open Market Transaction facility of the ECB and the decision by eurozone governments to create a banking union. A significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under financial pressure. 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 destabilised, resulting in the further spread of the ongoing economic crisis.

The continued high cost of capital for some European governments was felt in the wholesale markets and there has been a consequent increase in the cost of retail funding, with greater competition in a savings market that is growing slowly by historical standards. In the absence of a permanent resolution of the eurozone crisis, conditions could deteriorate.

The Group has direct and indirect exposure to financial and economic conditions throughout the eurozone economies.

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.

Exposure to sovereign debt could have a material adverse effect on the Group.

Like many other European banks, the Group invests in debt securities of European governments, including debt securities of the countries that have been most affected by the deterioration in economic conditions in Europe, such as Spain, Portugal, Italy and Ireland. A failure by any such government to make timely payments under the terms of these securities, or a significant decrease in their market value, could have a material adverse effect on the Group.

The Group's growth, asset quality and profitability in Latin America may be adversely affected by volatile macroeconomic and political conditions.

The economies of some of the Latin American countries where the Group operates have experienced significant volatility in recent decades, characterized, in some cases, by slow or regressive growth, declining investment and hyperinflation. This volatility has 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.

Negative and fluctuating economic conditions, such as a changing interest rate environment, impact the Group's profitability by causing lending margins to decrease and leading to decreased demand for higher margin products and services. Negative and fluctuating economic conditions in these Latin American regions could also result in government defaults on public debt. This could affect the Group in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is high in these Latin American regions.

In addition, the Group's revenues are subject to risk of loss from unfavorable political and diplomatic developments, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies.

No assurance can be given that the Group's growth, asset quality and profitability will not be affected by volatile macroeconomic and political conditions.

The Group are exposed to risk of loss from legal and regulatory proceedings.

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings, including tax litigation. These issues, including appropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could increase the amount of damages asserted against the Group or subject the Group to regulatory enforcement actions, fines and penalties. The current regulatory environment, which suggests an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs.

The Group is from time to time subject to certain claims and parties to certain legal proceedings incidental to the normal course of the Group's business, including in connection with its lending activities, relationships with its 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 Group believes that the Group has made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. However, the amount of these provisions 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, depending upon, among other factors, the size of the loss or liability imposed and the Group's level of income for that period.

The Group is subject to substantial regulation which could adversely affect the Group's business and operations.

As a financial institution, the Group is subject to extensive regulation, which materially affects its businesses. For example, the Group is subject to capital adequacy requirements which, among

other things, require the Group to maintain minimum ratios of regulatory capital to risk-weighted assets. Any failure by the Group to comply with capital adequacy requirements may result in administrative actions or sanctions which may affect the Group's ability to fulfill its obligations.

Statutes, regulations and policies to which the Group is subject, in particular those relating to the banking sector and financial institutions, may be changed at any time. For example, in response to the recent financial crisis, regulators world-wide have imposed, and may continue to impose, more stringent capital adequacy requirements, including increasing the minimum regulatory capital requirements imposed on the Group. Regulators world-wide have also produced a range of proposals for future legislative and regulatory changes which could force the Group to comply with certain operational restrictions or take steps to raise further capital, or could increase the Group's expenses, or otherwise adversely affect the Group operating results, financial condition and prospects. 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. Any legislative or regulatory actions and any required changes to the Group's business operations resulting from such legislation and regulations could result in significant loss of revenue, limit the Group's ability to pursue business opportunities in which it might otherwise consider engaging, affect the value of assets that the Group hold, require the Group to increase its prices and therefore reduce demand for its products, impose additional costs on the Group or otherwise adversely affect its businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Group.

Changes in regulations may also cause the Group to face increased compliance costs and limitations on its ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which the Group operates, it may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on the Group business and results of operations.

Extensive legislation 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 European Union, Latin America and other jurisdictions, and regulations are in the process of being implemented.

The European Union has created a European Systemic Risk Board to monitor financial stability and has implemented rules that will increase capital requirements for certain trading instruments or exposures and impose compensation limits on certain employees located in affected countries. In addition, the European Union Commission is considering a wide array of other initiatives, including new legislation that will affect derivatives trading, impose surcharges on "globally" systemically important firms and possibly impose new levies on bank balance sheets.

In December 2010, the Basel Committee on Banking Supervision (the "**Basel Committee**") reached agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. Basel III is intended to raise the resilience of the banking sector by increasing both the quality and quantity of the regulatory

capital base and enhancing the risk coverage of the capital framework. Among other things, Basel III introduces new eligibility criteria for Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments that are intended to raise the quality of regulatory capital, and increases the amount of regulatory capital that institutions are required to hold. Basel III also requires institutions to maintain a capital conservation buffer above the minimum capital ratios in order to avoid certain capital distribution constraints. The capital conservation buffer, to be comprised of Common Equity Tier 1 capital, would result in an effective Common Equity Tier 1 capital requirement of 7 percent of risk-weighted assets. In addition, Basel III directs national regulators to require certain institutions to maintain a counter-cyclical capital buffer during periods of excessive credit growth. Basel III introduces a leverage ratio for institutions as a backstop measure, to be applied from 2018 alongside current risk-based regulatory capital requirements. The changes in Basel III are intended to be phased in gradually between January 2013 and January 2022. The implementation of Basel III in the European Union is being performed through the Capital Requirements Directive IV ("**CRD IV**") & Capital Requirements Regulation ("**CRR**") legislative package. CRD IV was published in the Official Journal on 27 June 2013 entered into force in July 2013 (being CRR applicable from January 2014), with particular requirements being phased in over a period of time, to be effective by 2019, although requirements relating to certain deductions from Common Equity Tier 1 could be delayed until 2024. CRD IV substantially reflects the Basel III capital and liquidity standards and facilitates the applicable implementation timeframes. However, certain issues continue to remain under discussion and certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority.

In addition to the changes to the capital adequacy framework published in December 2010 and June 2011 described above, the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**") metrics, with objectives to (1) promote the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and (2) promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The LCR has been subsequently revised by the Basel Committee in January 2013 which amended the definition of high-quality liquid assets and agreed a revised timetable for phase-in of the standard from 2015 to 2019, as well as making some technical changes to some of the stress scenario assumptions. As with the Basel Committee's proposed changes to the capital adequacy framework, the Basel III liquidity standards are being implemented within the European Union through the CRD IV legislative package. In January 2014 the Basel Committee published amendments to the Leverage Ratio and technical revisions to the NSFR ratio, confirming that it remains the intention that the latter ratio, including any future revisions, will become a minimum standard by 1 January 2018. Also, in January 2014, the Basel Committee proposed uniform disclosure standards related to the LCR and issued a new modification to the ratio, which should be adopted by banks from 1 January 2015.

As a Spanish financial institution, the Bank is subject to CRD IV, through which the European Union has implemented the Basel III capital standards and which are in the process of being phased in until 1 January 2019. The CRR is applicable from 1 January 2014 and the CRD IV Directive has already been partially implemented in Spain as of 1 January 2014 by RD-L

14/2013. This Royal Decree-Law has repealed, with effect from 1 January 2014, any Spanish regulatory provisions that may be incompatible with CRR.

In addition to RD-L 14/2013, the Bank of Spain approved on 31 January 2014 its new Circular 2/2014, which derogates its previous Circular 7/2012, and makes certain regulatory determinations contained in CRR pursuant to the delegation contained in RD-L 14/2013, including, relevant rules concerning the applicable transitional regime on capital requirements and the treatment of deductions.

Despite the CRD IV/Basel III framework setting minimum transnational levels of regulatory capital and a measured phase-in, many national authorities have started a race to the top for capital by adopting requirements and interpretation calendars that are more stringent than Basel III's.

For example, in the last three years the Bank of Spain and the European Banking Authority (the EBA) have imposed new capital requirements in advance of the entering into force of CRD IV. These measures have included Bank of Spain Circular 3/2008 (Circular 3/2008) of 22 May, on the calculation and control of minimum capital requirements, which was amended by Bank of Spain Circular 4/2011 (Circular 4/2011) and implements Capital Requirements Directive III in Spain. In addition, some of the requirements of Basel III were already implemented by the Spanish Government in 2011 with Royal Decree-Law 2/2011 (RD-L 2/2011) of 18 February (as amended by Law 9/2012) which established a new minimum requirement in terms of capital on risk-weighted assets (Capital Principal) and required such capital to be greater than 9 per cent from 1 January 2013. RD-L 14/2013 specifically repealed, with effect from 1 January 2014, Title I of Royal Decree-Law 2/2011, which imposed the minimum Capital Principal requirement for credit institutions. Notwithstanding such repeal, as part of the assessment of additional capital requirements that could be required of credit institutions, the Bank of Spain has been given powers to stop or restrict, until 31 December 2014, any distributions of Tier 1 Capital which would have been caught by the minimum Capital Principal requirements stipulated in RD-L 2/2011, provided such distributions, accumulated over the year ended 31 December 2014, exceed in absolute terms the minimum Capital Principal legally required as at 31 December 2013 and further risk non-compliance with additional capital requirements that could be required by the Bank of Spain.

Furthermore, following an evaluation of the capital levels of 71 financial institutions throughout Europe (including the Bank) based on data available as of 30 September 2011, the EBA issued a recommendation on 8 December 2011 pursuant to which, on an exceptional and temporary basis, financial institutions based in the EU should reach a new minimum Core Tier 1 ratio (9 per cent.) by 30 June 2012. This recommendation has been replaced by the EBA recommendation of 22 July 2013 on the preservation of Core Tier 1 capital during the transition to CRD IV. This new recommendation provides for the maintenance of a nominal floor of capital denominated in the relevant reporting currency of Core Tier 1 capital corresponding to the amount of capital needed as at 30 June 2012 to meet the requirements of the above recommendation of 8 December 2011. Competent authorities may waive this requirement for institutions which maintain a minimum of 7 per cent of common equity Tier 1 capital under CRD IV rules applied after the transitional period.

In addition, in order to complete the implementation of CRD IV initiated by RD-L 14/2013, the Spanish Ministry of Economy and Competitiveness has prepared and recently published a draft of a new comprehensive law on the supervision and solvency of financial institutions (the Supervision and Solvency Law), that has been already approved by the Spanish Council of Ministers and is being reviewed in order to be approved by the Spanish Parliament.

There can be no assurance that the implementation of these new standards will not adversely affect the Bank's ability to pay dividends or require it to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Bank's return on equity and other financial performance indicators.

Finally, in February 2014 the International Monetary Fund recommended that the Bank of Spain limit the amount of dividends payable in cash in 2014 by Spanish banking institutions to 25% of such bank's attributable profits. As of the date of this annual report, the Bank of Spain has not implemented this recommendation.

Effective management of the Group's capital position is important to its ability to operate its business, to continue to grow organically and to pursue its business strategy. However, in response to the global financial crisis, a number of changes to the regulatory capital framework have been adopted or continue to be considered. As these and other changes are implemented or future changes are considered or adopted that limit the Group's ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms, the Group may experience a material adverse effect on its financial condition and regulatory capital position.

In September 2011, the European Commission (the "**Commission**") tabled a proposal for a common system of financial transactions taxes ("**FTT**"). Despite intense discussions on this proposal there was no unanimity amongst the 27 Member States. Eleven Member States ("**participating Member States**") requested enhanced cooperation on a FTT based upon the Commission's original proposal. The Commission presented a decision to this effect which was adopted by the EU's Council of Finance Ministers at its committee meeting on 22 January 2013. The formal Directive was published on 14 February 2013, under which participating Member States may charge a FTT on all financial transactions with effect from 1 January 2014 where (i) at least one party to the transaction is established in the territory of a participating Member State and (ii) a financial institution established in the territory of a participating Member State is a party to the transaction acting either for its own account or for the account of another person, or is acting in the name of a party to the transaction. The Group is still assessing the proposals to determine the likely impact on Banco Santander and its affiliates.

The Spanish Government approved on 3 February 2012 the Royal Decree-Law 2/2012 and Law 8/2012, of 20 October 2012, on the clean-up of the financial sector (replacing Royal Decree-Law 18/2012, of 11 May 2012), through which the following actions were performed:

- Review of the minimum provisioning percentages to be taken into consideration in the estimate of the impairment losses relating to financing granted to the property sector in Spain and to the foreclosed assets and assets received in payment of debt arising from financing granted to that sector, as a result of the impairment of these assets.

- Increase in the level of minimum capital requirements of Spanish credit institutions on the basis of the assets relating to the property sector in Spain presented on the balance sheet of each entity at 31 December 2012.

The Spanish Government also approved Law 9/2012, of 14 November 2012 which established a new regime on restructuring and resolution of credit institutions and a statutory loss absorbency regime applicable within the framework of restructuring and resolution processes, both based on the legislative proposal for a directive providing for the establishment of an European Union wide framework for the recovery and resolution of credit institutions and investment firms, the first draft of which (and the draft upon which Law 9/2012 was based) was published by the European Commission on 6 June 2012.

In June 2012, a number of agreements were reached to reinforce the monetary union, including the definition of a broad roadmap towards a single banking and fiscal union. While support for a banking union in Europe is strong and significant advances have been made in terms of the development of a single-rule book through CRD IV, there is ongoing debate on the extent and pace of integration. On 13 September 2012, the European Parliament approved a proposal for the creation of the Single Supervisory Mechanism, so that 128 of the largest EU banks (including the Bank) will come under the ECB direct oversight from November 2014. The ECB comprehensive assessment includes a supervisory risk assessment, an asset quality review and a stress test to be conducted by national supervisors and the ECB in coordination with the EBA before the ECB becomes the single European bank supervisor in November 2014. The assessment is an important step in preparing the single supervisory mechanism and, more generally, towards bringing about greater transparency of the banks' balance sheets and consistency of supervisory practices in Europe. The assessment started in November 2013 and will take 12 months to complete, ending in October 2014. The comprehensive assessment consists of three closely interlinked components:

- a supervisory risk assessment – to review, quantitatively and qualitatively, key risks, including liquidity, leverage and funding;
- an asset quality review (AQR) – to enhance the transparency of bank exposures by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions;
- a stress test – to examine the resilience of banks' balance sheets to stress scenarios.

The assessment will be based on a capital benchmark of 8% Common Equity Tier 1, drawing on the definition of the Capital Requirements Directive IV/Capital Requirements Regulation, including transitional arrangements, for both the AQR and the baseline stress test scenario.

Other open issues include the representation and voting power of non-eurozone countries, the accountability of the ECB to European institutions as part of the Single Supervision Mechanism, the final status of the EBA, the development of a new bank resolution regime and the creation of a common deposit-guarantee scheme. In particular, the Recovery and Resolution Directive (RRD) and the Deposit Guarantee Schemes Directive were submitted to the European Parliament in June 2013. Their approval is expected with the finalization of negotiations between the European Council, the European Commission and the European Parliament by April-May 2014.

The RRD is expected to enter into force in 2015, but the bail-in tool will only be operational from 2016. The final regulation on direct recapitalization by the European Stability Mechanism is still pending. European leaders have also supported the reinforcement of the fiscal union but continue negotiating on how to achieve it.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its future capacity as the Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations.

On 29 January 2014, the European Commission, taking into account the October 2002 report by the High Level Expert Group chaired by Erkki Liikanen on the reform of the structure of the EU Banking Sector, proposed new rules to prevent the largest and most complex EU banks with significant trading activities (including the Group) from engaging in the activity of proprietary trading in financial instruments and commodities. The new proposed regulation would also grant supervisors the power and, in certain instances, the obligation to require the transfer of other high-risk trading activities (such as market-making, complex derivatives and securitization operations) to separate legal trading entities within their group ("**subsidiarisation**"). Notwithstanding this, banks would have the possibility of not separating activities if they can show to the satisfaction of their supervisor that the risks generated are mitigated by other means. The proposal would also provide rules on the economic, legal, governance, and operational links between the separated trading entity and the rest of the banking group. Furthermore, the proposal is also aimed at increasing transparency of certain transactions in the shadow banking sector.

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

In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") which was adopted in 2010 will continue to result in significant structural reforms affecting the financial services industry. This legislation provides for, among other things, the establishment of a Consumer Financial Protection Bureau with broad authority to regulate the credit, savings, payment and other consumer financial products and services that the Group offers, the creation of a structure to regulate systemically important financial companies, more comprehensive regulation of the over-the-counter derivatives market, prohibitions on engagement in certain proprietary trading activities and restrictions on ownership of, investment in or sponsorship of hedge funds and private equity funds, restrictions on the interchange fees earned through debit card transactions, and a requirement that bank regulators phase out the treatment of trust preferred capital instruments as Tier 1 capital for regulatory capital purposes.

With respect to OTC derivatives, the Dodd-Frank Act provides for an extensive framework for the regulation of OTC derivatives, including mandatory clearing, exchange trading and transaction reporting of certain OTC derivatives. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants are required to register with the CFTC or the SEC, or both, and are or will be subject to new capital, margin, business conduct, recordkeeping, clearing, execution, reporting and other requirements. Banco Santander, S.A. and Abbey National Treasury Services plc became provisionally registered as swap dealers with the CFTC on 8 July 2013 and 4 November 2013, respectively. In addition, the

Group will likely register one subsidiary as swap dealer with the CFTC. Although the full impact of U.S. derivatives regulation on the Group is still unclear, registration with the CFTC (or, as the case may be, the SEC) could materially increase its operating costs and adversely affect the Group's derivatives business.

In July 2013, the U.S. bank regulators issued the U.S. Basel III final rules implementing the Basel III capital framework for U.S. banks and bank holding companies and other U.S. capital reform. Certain aspects of the U.S. Basel III final rules, such as new minimum capital ratios and a revised methodology for calculating risk-weighted assets, will become effective on 1 January 2015. Other aspects of the U.S. Basel III final rules, such as the capital conservation buffer and the new regulatory deductions from and adjustments to capital, will be phased in over several years beginning on 1 January 2015.

In addition, the Board of Governors of the Federal Reserve System (the "**Federal Reserve**") and other U.S. regulators issued for public comment in October 2013 a proposed rule that would introduce a quantitative liquidity coverage ratio requirement on certain large banks and bank holding companies. The proposed liquidity coverage ratio is broadly consistent with the Basel Committee's revised Basel III liquidity rules, but is more stringent in several important respects. The Federal Reserve has also stated that it intends, through future rulemakings, to apply the Basel III liquidity coverage ratio and net stable funding ratio to the U.S. operations of some or all large foreign banking organizations ("**FBOs**").

In February 2014, the Federal Reserve approved a final rule to enhance its supervision and regulation of the U.S. operations of FBOs such as us. Under the Federal Reserve's rule, FBOs with \$50 billion or more in U.S. assets held outside of their U.S. branches and agencies ("**Large FBOs**"), will be required to create a separately capitalized top-tier U.S. intermediate holding company ("**IHC**") that will hold substantially all of the FBO's U.S. bank and nonbank subsidiaries, such as Santander Bank, N.A. An IHC will be subject to U.S. risk-based and leverage capital, liquidity, risk management, stress testing and other enhanced prudential standards on a consolidated basis. Under the final rule, a Large FBO that is subject to the IHC requirement may request permission from the Federal Reserve to establish multiple IHCs or use an alternative organizational structure. The final rule also permits the Federal Reserve to apply the IHC requirement in a manner that takes into account the separate operations of multiple foreign banks that are owned by a single Large FBO. Although U.S. branches and agencies of a Large FBO will not be required to be held beneath an IHC, such branches and agencies will be subject to liquidity, and, in certain circumstances, asset maintenance requirements. Large FBOs generally will be required to establish IHCs and comply with the enhanced prudential standards beginning 1 July 2016. An IHC's compliance with applicable U.S. leverage ratio requirements is generally delayed until 1 January 2018. FBOs that have \$50 billion or more in non-branch/agency U.S. assets as of 30 June 2014 will be required to submit an implementation plan by 1 January 2015 on how the FBO will comply with the IHC requirement. Enhanced prudential standards will apply to the Group's top-tier U.S.-based bank holding companies beginning on 1 January 2015 until the Group forms or designates an IHC and the IHC becomes subject to corresponding enhanced prudential standards. The Federal Reserve has stated that it will issue, at a later date, final rules to implement certain other enhanced prudential standards under the Dodd-Frank Act for large bank holding companies and large FBOs, including single counterparty credit limits and an early remediation framework.

Within the Dodd-Frank Act, the Volcker Rule prohibits "banking entities" from engaging in certain forms of proprietary trading or from sponsoring or investing in certain covered funds, in each case subject to certain limited exceptions. The Volcker Rule became effective on 21 July 2012 and on 10 December 2013, U.S. regulators issued final rules implementing the Volcker Rule. The final rules also limit the ability of banking entities and their affiliates to enter into certain transactions with such funds with which they or their affiliates have certain relationships. The final rules contain exclusions and certain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations as well as certain foreign government obligations, trading solely outside the United States, and also permits certain ownership interests in certain types of funds to be retained. The final rules implementing the Volcker Rule extended the period for all banking entities to conform to the Volcker Rule and implement a compliance program until 21 July 2015, and additional extensions are possible. Banking entities must bring their activities and investments into compliance with the requirements of the Volcker Rule by the end of the conformance period. The Group is assessing how the final rules implementing the Volcker Rule will affect the Group's businesses and are developing and implementing plans to bring affected businesses into compliance.

Furthermore, Title I of the Dodd-Frank Act and the implementing regulations issued by the Federal Reserve and the Federal Deposit Insurance Corporation ("**FDIC**") require each bank holding company with assets of \$50 billion or more, including us, to prepare and submit annually a 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. The plan must include information on resolution strategy, major counterparties and interdependencies, among other things, and requires substantial effort, time and cost. The Group submitted its U.S. resolution plan in December 2013. The resolution plan is subject to review by the Federal Reserve Board and the FDIC.

Each of these aspects of the Dodd-Frank Act, as well as others, may directly and indirectly impact various aspects of the Group's business. The full spectrum of risks that the Dodd-Frank Act, including the Volcker Rule, poses to the Group is not yet known, however, such risks could be material and the Group could be materially and adversely affected by them.

These and any additional legislative or regulatory actions in Spain, the European Union, the United States, the U.K., Latin America or other countries, and any required changes to the Group's business operations resulting from such legislation and regulations, could result in reduced capital availability, significant loss of revenue, limit its ability to continue organic growth (including increased lending), pursue business opportunities in which the Group might otherwise consider engaging and provide certain products and services, affect the value of assets that the Group hold, require the Group to increase its prices and therefore reduce demand for its products, impose additional costs on the Group or otherwise adversely affect its businesses. Accordingly, the Group cannot provide assurance that any such new legislation or regulations would not have an adverse effect on the Group's business, results of operations or financial condition in the future.

The Group may also face increased compliance costs. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in

which the Group operates, the Group may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have material adverse effect on the Group's business and results of operations.

Steps taken towards achieving an EU fiscal and banking union

In June 2012, a number of agreements were reached to reinforce the monetary union, including the definition of a broad roadmap towards a single banking and fiscal union. While support for a banking union in Europe is strong and significant advances have been made in terms of the development of a single-rule book through CRD IV, there is ongoing debate on the extent and pace of integration. On 13 September 2012, the European Parliament approved a proposal for the creation of the Single Supervisory Mechanism, so that 128 of the largest EU banks (including the Bank) will come under the ECB direct oversight from November 2014. Additional details around the ECB comprehensive assessment which includes a supervisory risk assessment, an asset quality review and a stress test to be conducted by national supervisors and the ECB in coordination with the EBA before the ECB becomes the single European bank supervisor which should occur by November 2014 have been determined (in particular, on 31 January 2014, the EBA published the main features of the 2014 EU-wide stress test). Other issues are still open, such as the representation and voting power of non-Eurozone countries, the accountability of the ECB to European institutions as part of the Single Supervision Mechanism, the final status of the EBA, the development of a new bank resolution regime and the creation of a common deposit-guarantee scheme. In particular, the RRD and the Deposit Guarantee Schemes Directive were submitted to the European Parliament in June 2013. Their approval is expected with the finalization of negotiations between the European Council, the European Commission and the European Parliament by April-May 2014. As at the date of this Preliminary Offering Circular (and as stated in more detail in "*Loss absorption at the point of non-viability of the Issuer and resolution under the draft RRD*" below), the RRD is expected to enter into force in 2015, but the bail-in tool will only be operational from 2016. The final regulation on direct recapitalization by the European Stability Mechanism is still pending. European leaders have also supported the reinforcement of the fiscal union but continue negotiating on how to achieve it.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its future capacity as the Group's main supervisory authority may have a material impact on the Group's business, financial condition and results of operations.

Structural reform of the EU banking sector

On 29 January 2014, the European Commission, taking into account the report by the High Level Expert Group chaired by Erkki Liikanen on reforming the structure on the EU Banking Sector of 2 October 2012, has proposed new rules to prevent the largest and most complex EU banks with significant trading activities (including the Group) from engaging in the activity of proprietary trading in financial instruments and commodities. The new proposed regulation would also grant supervisors the power and, in certain instances, the obligation to require the transfer of other high-risk trading activities (such as market-making, complex derivatives and securitization operations) to separate legal trading entities within the group ("*subsidiarisation*"). Notwithstanding this, banks would have the possibility of not separating activities if they can show to the satisfaction of their supervisor that the risks generated are mitigated by other means. The proposal would also provide rules on the economic, legal, governance, and operational links

between the separated trading entity and the rest of the banking group. Furthermore, the proposal is also aimed at increasing transparency of certain transaction in the shadow banking sector.

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

The Group may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose the Group to additional liability and could have a material adverse effect on the Group.

The Group is required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in the jurisdictions in which the Group operates. These laws and regulations require the Group, among other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While the Group has adopted policies and procedures aimed at detecting and preventing the use of the Group's banking network for money laundering and related activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on it, including the revocation of licenses. In addition, the Group's business and reputation could suffer if customers use its banking network for money laundering or 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, rely upon the Group's relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the Group's (and its relevant counterparties) as a conduit for money laundering (including illegal cash operations) without the Group's (and the Group's relevant counterparties') knowledge. If the Group is associated with, or even accused of being associated with, or become a party to, money laundering, then 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 the Group), any one of which could have a material adverse effect on the Group's operating results, financial condition and prospects.

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

The legislatures and tax authorities in the tax jurisdictions in which the Group operates regularly enact reforms to the tax and other assessment regimes to which the Group and its customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes.

The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect upon the Group's business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in the Group's non-performing credit portfolio.

The Group cannot predict if such tax reforms will be implemented in the future. The effects of these changes, if enacted, and any other changes that could result from the enactment of additional tax reforms, cannot be quantified.

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 record and report the Group's 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.

The Group's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of the Group's 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 and provision for liabilities.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of the Group's operations and financial position could be materially misstated if the estimates and assumptions used prove to be inaccurate.

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 the Group's 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 reasonably assure that information required to be disclosed by the company in reports filed or submitted under the

applicable laws is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the relevant 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 simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by any unauthorized 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 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.

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

Liquidity risk is the risk that the Group either do 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 in particular make it difficult to eliminate completely these risks. Adverse and continued constraints in the supply of liquidity, including inter-bank lending, has affected and may materially and adversely affect the cost of funding the Group's business, and extreme liquidity constraints may affect its current operations as well as limit growth possibilities.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to the Group.

The Group's cost of obtaining funding is directly related to prevailing market interest rates and to its 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.

If wholesale markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on the Group's ability to access liquidity and cost of funding (whether directly or indirectly).

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, in general, and the financial services industry in particular, and the availability and extent of deposit guarantees, as well as competition between banks 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.

The Group anticipates that its customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and it intends to maintain its emphasis on the use of banking deposits as a source of funds. The short-term nature of this funding source could cause liquidity problems for the Group in the future if deposits are not made in the volumes it expects or are not renewed. If a substantial number of the Group's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, it may be materially and adversely affected.

The Group cannot assure you 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 risks may have an adverse effect on the Group's credit ratings and its cost of funds. Any downgrading in the Group's credit rating would likely increase its cost of funding, require it 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 the Group's debt are based on a number of factors, including its financial strength as well as 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 it to post additional collateral or take other actions under some of its derivative contracts, and could limit its 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, the Group may be required to maintain a minimum credit rating or terminate such contracts. Any of these results of a ratings downgrade, in turn, could reduce the Group's liquidity and have an adverse effect on the Group, including the Group's operating results and financial condition.

Banco Santander, S.A.'s long-term debt is currently rated investment grade by the major rating agencies—Baa1 by Moody's Investors Service España, S.A., BBB by Standard & Poor's Ratings Services and BBB+ by Fitch Ratings Ltd.— all of which have stable outlook. During 2012,

following downgrades of Spanish sovereign debt, all three agencies downgraded Banco Santander, S.A.'s rating together with that of the other main Spanish banks, due to the weaker-than-previously-anticipated macroeconomic and financial environment in Spain with dimming growth prospects in the near term, depressed real estate market activity and heightened turbulence in the capital markets. In the fourth quarter of 2013 and first quarter of 2014 the three agencies revised the Group's outlook from negative to stable reflecting the gradual improvement of the Spanish economy and the view that any further weakening of the Group's credit profile was unlikely to be significant. In March 2014, Moody's Investors Service upgraded the Group's rating from Baa2 to Baa1 following the upgrade of Spain's sovereign debt rating announced on 21 February along with the change of the outlook on Spain's rating to positive from stable.

Santander UK's long-term debt is currently rated investment grade by the major rating agencies: A2 with negative outlook by Moody's Investors Service, A with negative outlook by Standard & Poor's Ratings Services and A with stable outlook by Fitch Ratings. All three agencies revised Santander UK's ratings during 2012 following the downgrades of the Spanish sovereign debt and remained unchanged in 2013. Negative outlooks by Moody's and Standard & Poor's reflect the negative trend that they see for the U.K. banking industry.

The Group conducts substantially all of its material derivative activities through Banco Santander, S.A. and Santander UK. The Group estimates that as of 31 December 2013, if all the rating agencies were to downgrade Banco Santander, S.A.'s long-term senior debt ratings by one notch the Group would be required to post up to €3 million in additional collateral pursuant to derivative and other financial contracts. A hypothetical two notch downgrade would result in a requirement to post up to €14 million in additional collateral. The Group estimates that as of 31 December 2013, if all the rating agencies were to downgrade Santander UK's long-term credit ratings by one notch, and thereby trigger a short-term credit rating downgrade, this could result in contractual outflows from Santander UK's total liquid assets of £7.6 billion of cash and additional collateral that Santander UK would be required to post under the terms of secured funding and derivatives contracts. A hypothetical two notch downgrade would result in an additional contractual outflow of £1.9 billion of cash and collateral under secured funding and derivatives contracts.

While certain potential impacts of these downgrades are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, and assumptions about the potential behaviours of various customers, investors and counterparties. Actual outflows could be higher or lower than this hypothetical example, depending upon certain factors including which credit rating agency downgrades the Group 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, it is still the case that a credit rating downgrade could have a material adverse effect on Banco Santander, S.A., and/or its subsidiaries.

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

In light of the difficulties in the financial services industry and the financial markets, 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.

Failure to successfully implement and continue to improve the Group's risk management policies, procedures and methods, including the Group's credit risk management system could materially and adversely affect the Group and it 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 the Group's use of observed historical market behavior. The Group applies statistical and other tools to these observations to arrive at quantifications of the Group's 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 the Group's 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 modeling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential customers believe the Group's risk management is inadequate, they could take their business elsewhere. This could have a material adverse effect on the Group's 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 error. In exercising their judgment, the Group's employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in the Group's exposure to higher credit risks than indicated by its risk rating system.

In addition, the Group has been trying to refine its credit policies and guidelines to address potential risks associated with particular industries or types of customers. However, the Group may not be able to timely detect these risks before they occur, or due to limited tools available to the Group, its employees may not be able to effectively implement them, which may increase the Group's credit risk. Failure to effectively implement, consistently follow or continuously refine

the Group's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Group, which could have a material adverse effect on the Group.

If the Group are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if the Group's loan loss reserves are insufficient to cover future loan losses, this 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 businesses. Non-performing or low credit quality loans can negatively impact the Group's results of operations. The Group cannot assure you that it will be able to effectively control the level of the impaired loans in its total loan portfolio. In particular, the amount of the Group's reported non-performing loans may increase in the future as a result of growth in the Group's total loan portfolio, including as a result of loan portfolios that it may acquire in the future, or factors beyond the Group's control, such as adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in economic conditions in Continental Europe, the United Kingdom, Latin America, the United States or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies.

The Group's current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of the Group's total loan portfolio. The Group's loan loss reserves are based on its current assessment of and expectations concerning various factors affecting the quality of the Group's loan portfolio. These factors include, among other things, the Group's borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond the Group's control. As a result, there is no precise method for predicting loan and credit losses, and the Group cannot assure you that its 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, including the increase in lending to individuals and small and medium enterprises, the volume increase in the credit card portfolio and the introduction of new products, 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. If the Group was unable to control or reduce the level of the Group's non-performing or poor credit quality loans, this could have a material adverse effect on it.

Mortgage loans are one of the Group's principal assets, comprising 53% of its loan portfolio as of 31 December 2013. As a result, the Group is exposed to developments in housing markets, especially in Spain and the United Kingdom. In addition, the Group has exposure to a number of large real estate developers in Spain. From 2002 to 2007, demand for housing and mortgage financing in Spain increased significantly driven by, among other things, economic growth, declining unemployment rates, demographic and social trends, the desirability of Spain as a vacation destination and historically low interest rates in the eurozone. The United Kingdom also experienced an increase in housing and mortgage demand driven by, among other things,

economic growth, declining unemployment rates, demographic trends and the increasing prominence of London as an international financial center. During late 2007, the housing market began to adjust in Spain and the United Kingdom as a result of excess supply (particularly in Spain) and higher interest rates. Since 2008, 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 have caused home prices to decline, while mortgage delinquencies increased. As a result of these and other factors, the Group's non-performing loan ("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 3.55% at 31 December 2010, to 3.89% at 31 December 2011 and to 4.54% at 31 December 2012. At 31 December 2013, the Group's NPL ratio was 5.64%. These trends, especially higher 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.

The Group's loan and investment portfolios are subject to risk of prepayment, which could have a material adverse effect on the Group.

The Group's fixed rate loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of the Group's earning assets and could have a material adverse effect on it. The Group would also be required to amortise net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant adverse impact on credit card and collateralized mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in the Group's funding obligations and reinvestment at lower yields. Prepayment risk is inherent to the Group's commercial activity and an increase in prepayments could have a material adverse effect on it.

The value of the collateral securing the Group's loans may not be sufficient, and we may be unable to realize 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 the Group's 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 the Group's loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage which could impair the asset quality of the Group's loan portfolio and could have an adverse impact on the economy of the affected region. 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 the Group's 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 the Group's results of operations and financial condition.

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

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

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

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

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

- net interest income;
- the volume of loans originated;
- the market value of the Group's securities holdings; and
- gains from sales of loans and securities.

Variations in short-term interest rates could affect the Group's net interest income, which comprises the majority of its revenue. When interest rates rise, the Group may be required to pay higher interest on its floating-rate borrowings while interest earned on the Group's fixed-rate assets does not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of the Group's portfolio. Interest rate variations could adversely affect the Group, including its net interest income, reducing its growth rate or even resulting in losses. Interest rates are highly sensitive to many factors beyond the Group's control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors.

Increases in interest rates may reduce the volume of loans the Group originates. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of the Group's customers to prepay or refinance fixed-rate loans. Increases in interest rates may reduce the value of the Group's financial assets.

If interest rates decrease, although this is likely to reduce the Group's funding costs, it is likely to compress its interest margins, as well as adversely impact the Group's income from investments in securities and loans with similar maturities, which could have a negative effect on the Group. In addition, the Group may also experience increased delinquencies in a low interest rate environment when such an environment is accompanied by high unemployment and recessionary conditions.

The market value of a security with a fixed interest rate generally decreases when the prevailing interest rates rise, which may have an adverse effect on the Group's earnings and financial condition. In addition, the Group may incur costs (which, in turn, will impact its results) as the Group implements strategies to reduce future interest rate exposure. The market value of an obligation with a floating interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms or an inability to refinance at lower rates.

Increases in interest rates may reduce gains or require the Group to record losses on sales of the Group's loans or securities.

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 the Group's assets and securities.

The Group is also exposed to equity price risk in connection with its trading investments in equity securities as part of the Group's normal course of business as a commercial bank. 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 entities in this sector and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against the Group's results. To the extent any of these risks materialise, the Group's net interest income or the market value of its assets and liabilities could be materially adversely affected.

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

In the past six 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 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 the Group's 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 the Group 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 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 in the countries where the Group operates differ from each other. In addition, the execution and performance of these transactions depends on the Group's ability to develop adequate control and administration systems and to hire and retain qualified personnel. Moreover, the Group's ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on the Group's information technology systems. This factor further increases the risks associated with these transactions and could have a material adverse effect on the Group.

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

Market turmoil and economic recession could materially and adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn increase the Group's own non-performing loan ratios, impair the Group's 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. 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 the Group.

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 the Group's 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. These calculations are based on IFRS 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. Under IFRS, the discount rate is set considering the term and performance of high credit quality corporate bonds with similar maturities in the same currency, and is the assumption that is most vulnerable to market volatility. 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 accrue.

Changes in the size of the deficit in the Group's defined benefit pension plans, due to reduction in the value of the pension fund assets (depending on the performance of financial markets) or an increase in the pension fund liabilities due to changes in mortality assumptions, the rate of increase of salaries, discount rate assumptions, inflation, the expected rate of return on plan assets, or other factors, could result in the Group's 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 and reduce the Group's capital resources. While the Group can control a number of the above factors, there are some over which it has no or limited control. Increases in the Group's pension liabilities and obligations could have a material adverse effect on the Group's business, financial condition and results of operations.

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

Some 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 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 the Group's 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 the Group's 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 and industry consolidation may adversely affect the Group's results of operations.

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 Group's growth prospects, 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.

Increasing competition could require that the Group increases its rates offered on deposits or lower the rates the Group charges on loans, which could also have a material adverse effect on us, including the Group's profitability. It may also negatively affect the Group's business results and

prospects by, among other things, limiting the Group's ability to increase its customer base and expand its operations and increasing competition for investment opportunities.

In addition, 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 are 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 the Group's 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 it offers its clients and its ability to continue offering products and services from third parties, and it may not be able to manage various risks it faces as it expands the Group's 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 it offers its clients and its ability to continue offering products and services from third parties. However, the Group cannot guarantee that its new products and services will be responsive to client demands or successful once they are offered to its clients, or that they will be successful in the future. In addition, the Group's clients' needs or desires may change over time, and such changes may render its products and services obsolete, outdated or unattractive and it may not be able to develop new products that meet the Group's clients' changing needs. 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 it.

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 the Group operates, it will be exposed to new and potentially increasingly complex risks and development expenses in those markets, with respect to which its experience and the experience of the Group's partners may not be helpful. The Group's employees and its risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect the Group's results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on the Group.

Further, the Group's customers may issue complaints and seek redress if they consider that they have suffered loss from the Group's products and services, for example, as a result of any alleged misselling or incorrect application of the terms and conditions of a particular product. This could in turn subject the Group to risks of potential legal action by its customers and intervention by its regulators. For further detail on the legal and regulatory risk exposures, please see the Risk Factor entitled "The Group is exposed to risk of loss from legal and regulatory proceedings."

If the Group are 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. 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 the Group's strategic growth objectives. Challenges that may result from its strategic growth decisions include the Group's 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;
- finance strategic investments or acquisitions;
- fully integrate strategic investments, or newly-established entities or acquisitions in line with its strategy;
- 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, including relating to any or all of the above challenges associated with the Group's growth plans, could have a material adverse effect on the Group's operating results, financial condition and prospects.

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 management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management, both at its head office and at each of its 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 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 for important products and services.

Third party vendors provide key components of the Group's business infrastructure such as loan and deposit servicing systems, internet connections and network access. Any problems caused by these third parties, including as a result of their not providing the Group their services for any reason or their performing their services poorly, could adversely affect the Group's ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

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

Maintaining a positive reputation is critical to the Group's attracting and maintaining customers, investors and employees. 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, litigation or regulatory outcomes, failure to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding the Group, whether or not true, 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 properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as the Group expands its business activities through more numerous transactions, obligations and interests with and among the Group's clients. The failure to adequately address, or the 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 the Group. 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 its affiliates have entered into a number of services agreements pursuant to which the Group render services, such as administrative, accounting, finance, treasury, legal services and others.

Spanish law applicable to public companies and financial groups and institutions, as well as the Group's by-laws, provide for several procedures designed to ensure that the transactions entered into with or among the Group's financial subsidiaries do not deviate from prevailing market conditions for those types of transactions, including the requirement that its board of directors approve such transactions.

The Group is likely to continue to engage in transactions with its subsidiaries or affiliates. Future conflicts of interests between the Group and any of its subsidiaries or affiliates, or among its subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in its favor.

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 it.

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 the Group's information technology infrastructure in order to remain competitive. The Group cannot assure you that in the future the Group will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of the Group's 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.

Operational risks, including risks relating to data collection, processing and storage systems are inherent in the Group's business.

The Group's businesses depend 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 and other information in the Group's computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Group's businesses and to the Group's 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. Although the Group works with the Group's clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against cyber attacks, the Group routinely exchanges personal, confidential and proprietary information by electronic means, and the Group may be the target of attempted cyber attacks. If the Group cannot maintain an effective data collection, management and processing system, it may be materially and adversely affected.

The Group takes protective measures and continuously monitor and develop its systems to protect the Group's technology infrastructure and data from misappropriation or corruption, but its 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 and reputational harm. There can be no assurance that the Group will not suffer material losses from operational risk in the future, including relating to cyber attacks or other such security breaches. Further, as cyber attacks continue to evolve, the Group may incur significant costs in its attempt to modify or enhance its protective measures or investigate or remediate any vulnerabilities.

"Failure to protect personal information could adversely affect the Group".

The Group manages and holds confidential personal information of customers in the conduct of its banking operations. 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 that could materially and adversely affect the Group's results of operations and financial condition.

Risks Relating to Regulation and its implementation generally

Risks in relation to the Notes

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although applications have been made for Notes issued under the Programme to be admitted to the Official List and to trading on the regulated market of the Irish Stock Exchange, there is no assurance that such applications will be accepted, that any particular issue of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular issue of Notes.

Global Notes held in a clearing system

Because the Global Notes are held by or on behalf of Euroclear and/or Clearstream, Luxembourg and possibly other clearing systems including Euroclear, France, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor.

Notes issued under the Programme may be represented by one or more Global Notes. If the relevant Final Terms specify that the New Global Note form is not applicable, such Global Note will be deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg or shall be deposited with such other clearing system, including Euroclear, France or to the order of such other Clearing System's nominee. If the relevant Final Terms specify that the New Global Note form is applicable, such Global Note will be deposited with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and/or Clearstream, Luxembourg and/or any other clearing system, including Euroclear, France, will maintain records of the holdings of their participants. In turn, such participants and their clients will maintain records of the ultimate holders of beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and/or Clearstream, Luxembourg and/or any other clearing system on whose behalf such Global Notes are held, including, for example, Euroclear, France.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under such Notes by making payments to the common depositary (in the case of Global Notes which are not in the New Global Note form) or, as the case may be, the common service provider (in the case of Global Notes in New Global Note form) for Euroclear and/or Clearstream, Luxembourg and/or any other clearing system, including Euroclear, France, for distribution to their account holders for onward transmission to the Beneficial Owners. A

holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and/or Clearstream, Luxembourg and/or any other clearing system, including Euroclear, France and their relevant participants, to receive payments under their relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to take enforcement action against the Issuer under the relevant Notes but will have to rely upon their rights under the Deed of Covenant dated 25 April 2014 (the "**Deed of Covenant**").

The Issuer may redeem the Notes for tax reasons

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes if it has or will become obliged to pay additional amounts pursuant to the terms and conditions of the Notes as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) which change or amendment becomes effective on or after the issue date of the relevant Notes and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Potential investors should consider the reinvestment risks in light of other investments available at the time any Notes are so redeemed.

Risks in Relation to Spanish Taxation

The Issuer and the Guarantor are required to receive certain information relating to the Notes. If such information is not received by the Issuer or the Guarantor, as the case may, it will be required to apply Spanish withholding tax to any payment of interest in respect of the relevant Notes, or income arising from the payment of Notes issued below par.

Under Spanish Law 13/1985 and Royal Decree 1065/2007, each as amended, payments of income in respect of the Notes will be made without withholding tax in Spain provided that the Issue and Paying Agent provides to the relevant Issuer or the Guarantor at the relevant time a certificate in the Spanish language substantially in the form set out in Exhibit I, attached hereto.

This information must be provided by the Issue and Paying Agent to the Issuer or the Guarantor, as the case may be, before the close of business on the Business Day (as defined in the Notes) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Notes (each a "**Payment Date**") is due.

The Issuer, the Guarantor and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Notes. If, despite these procedures, the relevant information is not received by the Issuer or, as the case may be, the Guarantor on each Payment Date, the Issuer or, as the case may be, the Guarantor will withhold tax at the then-

applicable rate (currently 21%) from any payment in respect of the relevant Notes. Neither the Issuer or the Guarantor will pay any additional amounts with respect to any such withholding.

The Agency Agreement provides that the Issue and Paying Agent will, to the extent applicable, comply with the relevant procedures to facilitate the collection of information concerning the Notes. See "*Taxation in Spain—Information about the Notes in Connection with Payments*".

The procedures may be modified, amended or supplemented to, among other reasons, reflect a change in applicable Spanish law, regulation, ruling or interpretation thereof. None of the Issuer, the Guarantor or the Dealers assumes any responsibility therefor.

Royal Decree 1145/2011, of 29 July which amends Royal Decree 1065/2007, of 27 July provides that any payment of interest made under securities originally registered in a non-Spanish clearing and settlement entity recognised by Spanish legislation or by the legislation of another OECD country will be made with no withholding or deduction from Spanish taxes provided that the relevant information about the Notes is received by the Issuer. In the opinion of the Issuer and the Guarantor, payments in respect of the Notes will be made without deduction or withholding of taxes in Spain provided that the relevant information about the Notes is submitted by the Issue and Paying Agent to them, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation, by virtue of which identification of Spanish investors may be provided to the Spanish tax authorities.

Notwithstanding the above, in the case of Notes held by Spanish resident individuals (and, under certain circumstances, by Spanish entities subject to Corporate Income Tax) and deposited with a Spanish resident entity acting as depositary or custodian, payments in respect of such Notes may be subject to withholding by such depositary or custodian at the current rate of 21%.

If the Spanish tax authorities maintain a different opinion as to the application by the Issuer or the Guarantor, as the case may be, of withholding to payments made to Spanish residents (individuals and entities subject to Corporate Income Tax), the Issuer or the Guarantor, as the case may be, will be bound by that opinion and, with immediate effect, will make the appropriate withholding and the Issuer and the Guarantor will not, as a result, pay additional amounts.

Risks Relating to the Insolvency Law

Law 22/2003 (*Ley Concursal*) dated 9 July 2003 ("**Law 22/2003**" or the "**Insolvency Law**"), which came into force on 1 September 2004 supersedes all pre-existing Spanish provisions which regulated the bankruptcy, insolvency (including suspension of payments) and any process affecting creditors' rights generally, including the ranking of its credits.

Law 22/2003 provides, among other things, that: (i) any claim may become subordinated if it is not reported to the insolvency administrators (*administradores concursales*) within one month from the last official publication of the court order declaring the insolvency (if the insolvency proceeding is declared as abridged, the term to report may be reduced to fifteen days), (ii) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, and (iii) interest (other than interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall cease to accrue as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated.

As such, certain provisions of the Insolvency Law could affect the ranking of the Notes or claims relating to the Notes on an insolvency of Santander Commercial Paper, S.A. or the Guarantor.

There are restrictions on the ability to resell Notes.

The Notes have not been registered under the Securities Act, any state securities laws or the laws of any other jurisdiction. Absent such registration, the Notes may be offered or sold only in transactions that are not subject to, or that are exempt from, the registration requirement of the Securities Act and applicable state securities laws.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

1. an English language translation of the Guarantor's audited consolidated and non-consolidated financial statements, together with the notes thereto and auditors' report thereon, included in the section entitled "Auditor's report and Annual Consolidated Accounts" of the Guarantor's Annual Report for the year ended 31 December 2013 and 31 December 2012; and
2. an English language translation of the financial statements of Santander Commercial Paper, S.A. Unipersonal for the years ended 31 December 2013 and 31 December 2012.

Copies of the documents specified above as containing information incorporated by reference in this Information Memorandum may be inspected, free of charge, at the specified offices of the Issuing and Paying Agent, the initial specified offices of which are set out below. Copies of such documents are also available for inspection at the Irish Stock Exchange.

Any information contained in any of the documents specified above which is not incorporated by reference in this Information Memorandum is either not relevant to investors or is covered elsewhere in this Information Memorandum.

RECENT DEVELOPMENTS

On 13 December 2012, Banco Santander announced that it has signed, together with the Fund for Orderly Bank Restructuring ("**FROB**"), CaixaBank, S.A., Banco Sabadell, S.A., Banco Popular Español, S.A. and Kutxabank, S.A., an investment agreement in the Company for the Management of Assets proceeding from Restructuring of the Banking System ("**SAREB**"). On 17 December 2012, other credit institutions and a group of private insurers were incorporated as additional shareholders through the subscription and payment of a capital increase in SAREB. Under the investment agreement, Banco Santander has committed to an investment in SAREB of €840 million (25% equity and 75% in subordinated debt), representing a 17.15% shareholding of SAREB, having already paid for such investment through: (i) the subscription and payment, on 12 December 2012, of a capital increase amounting to €164 million to SAREB and by subscription and payment, on 31 December 2012, of convertible subordinated debentures amounting to €490 million (in relation to asset transfers to SAREB, in a first phase, and entities controlled by the FROB, Finance and Savings Bank - including Bankia S.A., Catalunya Banc, S.A., NCG Banco, S.A. and Banco de Valencia S.A.) and (ii) by the subscription and payment dated 13 February 2013, of a capital increase amounting €43.4 million to SAREB and by the subscription and payment, on 26 February 2013, of convertible subordinated debentures amounting to €108.2 million (in relation to asset transfers to SAREB, in a second phase, and entities involved in the restructuring process, including Banco Grupo Cajatres, Banco de Caja España de Inversiones, Salamanca y Soria S.A.U ("**Banco CEISS**"), Liberbank, S.A., and Banco Mare Nostrum, S.A.).

On 17 December 2012, the Bank announced that it had resolved to approve the plan for the merger by absorption of Banco Español de Crédito, S.A. ("**Banesto**") and Banco Banif, S.A. ("**Banif**") as part of the restructuring of the Spanish financial sector. These transactions are part of a commercial integration which will bring Banesto and Banif under the Santander brand.

At their respective board of directors meetings held on 9 January 2013, the directors of the Banesto approved the common draft terms of the merger by absorption of Banesto into the Bank with the dissolution without liquidation of the former and the transfer *en bloc* of all its assets and liabilities to the Bank, which acquired, by universal succession, the rights and obligations of the absorbed entity. As a result of the merger, the shareholders of Banesto, other than the Bank, received in exchange shares of the Bank.

1 January 2013 was established as the date from which the transactions of Banesto would be considered to have been performed for accounting purposes for the account of the Bank.

On 22 March 2013 and 21 March 2013, the general shareholders of the Bank and Banesto, respectively, approved the terms of the merger.

On 29 April 2013, pursuant to the provisions of the terms of the merger and to the resolutions of the general shareholders' meetings of both companies, the regime and procedure for the exchange of Banesto shares for shares of Banco Santander was made public. Banco Santander covered the exchange of Banesto shares held as treasury stock based on the exchange ratio of 0.633 shares of Banco Santander, each with a nominal value of €0.50, for each share of Banesto, each with a nominal value of €0.79, without provision for any supplemental cash remuneration.

On 3 May 2013, the merger with Banesto was registered with the Commercial Registry of Cantabria and the dissolution of Banesto was completed.

The directors of Banif, at its board of directors meeting held on 28 January 2013, and the directors of Banco Santander, at its board of directors meeting held on that same day, approved the common drafts terms of the merger by absorption of Banif into Banco Santander with the dissolution without liquidation of the former and the transfer *en bloc* of all its assets and liabilities to Banco Santander, S.A., which acquired, by universal succession, the rights and obligations of the absorbed entity.

On 7 May 2013, the merger with Banif was registered with the Commercial Registry of Cantabria and the dissolution of Banif was completed.

On 6 March 2013, the Bank announced an invitation to all holders of callable subordinated notes series 22 issued by Santander Issuances, S.A. Unipersonal (the "**American Securities**") to tender such Securities for purchase (the "**American Invitation**"). The American Securities are listed in the London Stock Exchange. The total principal amount of the American Securities comprising the American Invitation amounts to approximately U.S. \$257.5 million.

Banco Santander announced on 14 March 2013 the final aggregate principal amount accepted for purchase (U.S. \$26.6 million) and the final purchase prices as a consequence of the Tender Offers.

The American Invitation was undertaken as a part of the Group's active management of liabilities and capital, and focused on core capital generation as well as the optimization of the future interest expense.

On 6 March 2013, the Bank announced an invitation to all holders of certain securities issued by Santander Issuances, S.A. Unipersonal and Santander Perpetual, S.A. Unipersonal (the "**European Securities**") to tender such Securities for purchase (the "**European Invitation**"). The European Securities are subordinated and perpetual bonds listed in the Luxembourg Stock Exchange, corresponding to 15 different series. The total principal amount of the series comprising the European Invitation amounts to approximately €6,575 million and £2,243 million.

Banco Santander announced on 14 March 2013 the final aggregate principal amount accepted for purchase (€140.2 million and £178.9 million) and the final purchase prices as a consequence of the European Invitation.

The European Invitation was undertaken as a part of the Group's active management of liabilities and capital, and focused on core capital generation as well as the optimisation of the future interest expense. The European Invitation was also designed to provide liquidity in the market and to offer the holders of the European Securities the possibility to exit their investment in the European Securities.

On 22 March 2013, the Bank announced that Banco Santander and KBC Bank N.V. ("**KBV**") completed the placement of 19,978,913 shares of Bank Zachodni WBK S.A. ("**BZ WBK**") at a final price of 245 zlotys per share, amounting to a total of €1,171 million. Santander sold 4,852,949 shares, equal to 5.2% of BZ WBK's capital, for €285 million, while KBC obtained €887 million for its 16.17% stake in BZ WBK.

The placement of these shares enabled Banco Santander to meet its commitment to the Polish regulator of a free float of the Polish unit of at least 30% by the end of 2014. Moreover, the transaction allowed KBC to divest the stake in BZ WBK it had obtained as a result of the merger of its Polish subsidiary, Kredyt Bank S.A. ("**Kredyt Bank**"), with Banco Santander's unit, BZ WBK. The remaining 70% of the capital is held by Santander, the controlling shareholder.

This transaction values BZ WBK's total share capital at €5.48 billion. This valuation means that the investment made by Banco Santander in April 2011, in BZ WBK has risen in value by 18%, taking into account the initial investment plus dividends received during the intervening two years. The impact of this transaction on Grupo Santander's capital is immaterial.

On 30 May 2013, it was announced that the Bank had entered into an agreement with affiliates of leading global private equity firms Warburg Pincus LLC ("**Warburg Pincus**") and General Atlantic LLC ("**General Atlantic**") to boost the global growth of its asset management unit, Santander Asset Management (SAM). Under the agreement, which is conditioned upon regulatory and corporate approvals, Warburg Pincus and General Atlantic will jointly hold a 50% stake in a holding company that will integrate SAM's eleven asset management companies in the countries in which it operates. The remaining 50% will be owned by the Group. The agreement with Warburg Pincus and General Atlantic values Santander's asset management business at €2,047 million and will generate a net capital gain for the Group of €700 million.

On 5 July 2013, Santander Consumer USA Inc. commenced procedures with the U.S. Securities and Exchange Commission ("**SEC**") for the authorization of the admission to listing of its shares and a public offering thereof. The commencement of procedures with the SEC does not mean that a final decision has been taken as to whether or not to proceed with the admission to trading or the public offering and, therefore, an admission date, an offering date or the number of shares to be sold, as the case may be, have not been determined.

On 29 September 2013, the Bank announced that the Bank's subsidiary Banco Santander (Brasil) S.A. will optimize its equity structure by replacing common equity (Core Tier I) in an amount of Brazilian Reais 6,000 million (amount which will be distributed pro rata among its shareholders) with newly-issued instruments of an equivalent amount qualifying as Additional Tier I and Tier II capital, and which will be offered to Banco Santander (Brasil) S.A.'s shareholders.

The Bank intends to subscribe a percentage of the newly issued instruments in proportion to the Bank's shareholding in Banco Santander (Brasil) S.A. (approximately 75%), as well as those not subscribed by the other shareholders of Banco Santander (Brasil) S.A.

The new structure aims to improve Banco Santander (Brasil) S.A.'s regulatory capital composition, by increasing the return on equity (ROE) while maintaining the total amount of regulatory capital and capital ratios (BIS II ratio of approximately 21.5% and fully loaded BIS III ratio of approximately 18.9%).

The transaction will require obtaining the applicable regulatory clearances and the approval of the shareholders' meeting of Banco Santander (Brasil) S.A.

On 7 October 2013, the Bank announced that Santander Consumer Finance, S.A. ("**Santander Consumer**") had reached a strategic agreement with El Corte Inglés, S.A. ("**El Corte Inglés**") in consumer finance and client financing which includes the acquisition to El Corte Inglés of a 51% interest in Financiera El Corte Inglés, E.F.C., S.A. ("**Financiera El Corte Inglés**"). El Corte Inglés will retain the remaining 49%.

Financiera El Corte Inglés is a consumer finance business that provides financing for the acquisition of all sorts of goods and services of the entities of the El Corte Inglés group. El Corte Inglés group is a leading retailer in Spain and the top department store business in the country.

The transaction values Financiera El Corte Inglés at €415 million. It is expected that El Corte Inglés will receive prior to closing a special dividend of approximately €140 million. Thus, Santander Consumer will pay a price of approximately €140 million for the 51% stake of Financiera El Corte Inglés.

Financiera El Corte Inglés will have a seven member Board, of which Santander Consumer will appoint four members and El Corte Inglés the remaining three.

Closing of the transaction is conditional upon, inter alia, the required regulatory and antitrust approvals. It is expected that closing will take place in the first quarter of 2014.

On 3 January 2014, the Group announced that it had sold to Altamira Asset Management Holdings, S.L., an investee of Apollo European Principal Finance Fund II, an entity affiliated to Apollo Global Management, LLC ("**Apollo**"), 85% of the share capital of Altamira Asset Management, S.L., the Group company that manages debt recovery services before the initiation of court action in Spain and the sale or lease of foreclosed property assets relating to this business, for €664 million.

At its meeting of 13 January 2014, the Bank's executive committee resolved to apply the Santander Dividendo Elección scrip dividend scheme on the dates on which the third interim dividend is traditionally paid, whereby the shareholders were offered the option of receiving an amount equivalent to said dividend, the gross amount of which was €0.152 per share, in shares or cash.

In January 2014 the public offering of shares of Santander Consumer USA Holdings Inc. ("**SCUSA**") was completed and the company was admitted to trading on the New York Stock Exchange. The placement represented 21.6% of SCUSA's share capital, of which 4% related to the holding sold by the Group. Following this sale, the Group holds 60.7% of the share capital of SCUSA. Both Sponsor Auto Finance Holdings Series LP ("**Sponsor Holdings**") (an investee of funds controlled by Warburg Pincus, Kohlberg Kravis Roberts & Co. L.P. and Centerbridge Partners L.P) and DDFS LLC ("**DDFS**") (a company controlled by Thomas G. Dundon, the Chief Executive Officer of SCUSA) also reduced their holdings.

Since the ownership interests of the former shareholders were reduced to below certain percentages, it is expected that the shareholder agreement will be terminated, pursuant to the terms and conditions established in said agreement. This termination will include, inter alia, the cancellation of the contingent payment to be made by SCUSA on the basis of its results in 2014 and 2015. It will also entail the termination of the agreements whereby, inter alia, Sponsor Holdings and DDFS LLC were granted representation on the board of directors of SCUSA and a voting system was established whereby the strategic, financial and operating decisions, and other significant decisions associated with the ordinary management of SCUSA, were subject to joint approval by the Group and the aforementioned shareholders and, therefore, SCUSA will cease to be controlled jointly by all the above and will begin to be controlled by the Group on the basis of the percentage held in its share capital.

Agreement for the acquisition of Getnet

On 7 April 2014, the Group announced the agreement reached for the acquisition, through Banco Santander (Brasil) S.A.'s investee company Santander Getnet Serviços para Meios de Pagamento Sociedade Anônima, of 100% of the company Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H. ("**Getnet**") for an amount of 1,104 million reais (approximately €353 million).

Following the acquisition, Banco Santander (Brasil) S.A. will hold indirectly an 88.5% stake in Getnet. The transaction will have no significant impact on Grupo Santander's shareholders' equity.

Getnet specializes in the development and management of technological solutions and services for businesses with electronic transactions. The transaction gives continuity to the growth strategy in the acquiring business. Santander Getnet Serviços para Meios de Pagamento Sociedade Anônima is a payment service provider company in which Santander Brasil and Getnet presently hold 50% each.

It is expected that the transaction (which is subject to regulatory authorization) will be concluded during the second half of 2014.

KEY FEATURES OF THE PROGRAMME

Issuer:	Santander Commercial Paper, S.A. Unipersonal
Guarantor:	Banco Santander, S.A.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations under the Notes are discussed under " <i>Risk Factors</i> ", above.
Arranger:	Morgan Stanley & Co. International plc
Dealers:	Banco Santander, S.A., Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Citibank International plc, Commerzbank Aktiengesellschaft, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank International), Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, ING Bank N.V., Morgan Stanley & Co. International plc, Société Générale, The Royal Bank of Scotland plc, UBS Limited and any other Dealer appointed from time to time by the Issuer and the Guarantor either generally in respect of the Programme or in relation to a particular issue of Notes.
Issuing and Paying Agent:	Citibank, N.A.
Listing Agent:	BNP Paribas Securities Services, Luxembourg Branch
Programme Amount:	The aggregate principal amount of Notes outstanding and guaranteed at any time will not exceed €15,000,000,000 or its equivalent in alternative currencies subject to applicable legal and regulatory requirements. The Programme Amount may be increased from time to time in accordance with the Dealer Agreement.
Currencies:	Notes may be issued in Australian Dollars, Canadian Dollars, Euro, Japanese Yen, New Zealand Dollars, Sterling, Swiss Francs and United States Dollars and such other currencies as may be agreed between the Issuer and the relevant Dealer(s) from time to time and subject to the necessary regulatory requirements having been satisfied.
Denominations:	Global Notes shall be issued (and interests therein exchanged for Definitive Notes, if applicable) in the following minimum denominations (or integral multiples thereof): (a) for U.S.\$ Notes, U.S.\$500,000; (b) for euro Notes, €500,000; (c) for Sterling Notes, £100,000;

- (d) for Yen Notes, Yen 100,000,000;
- (e) for Swiss franc Notes, SFr 500,000;
- (f) for Australian dollar Notes, A\$1,000,000;
- (g) for Canadian dollar Notes, C\$500,000; or
- (h) for New Zealand dollar Notes, NZ\$1,000,000,

or such other conventionally accepted denominations in those currencies (including, in addition to those listed above, Danish kroner, Swedish kroner and Norwegian kroner) as may be agreed between the Issuer and the relevant Dealer from time to time, subject in each case to compliance with all applicable legal and regulatory requirements.

Maturity of the Notes:	Not less than 1 nor more than 364 days, subject to legal and regulatory requirements.
Tax Redemption:	Early redemption will only be permitted for tax reasons as described in the terms of the Notes.
Redemption on Maturity:	The Notes may be redeemed at par.
Issue Price:	The Issue Price of each issue of interest bearing Notes (and, in the case of discount Notes, the discount rate) will be as set out in the relevant Final Terms.
Status of the Notes:	The payment obligations of the Issuer pursuant to the Notes constitute and at all times shall constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and upon the insolvency of the Issuer (and unless they qualify as subordinated debts under article 92 of the Insolvency Law (as defined below) or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), rank <i>pari passu</i> and rateably without any preference among themselves and the payment obligations of the Issuer under the Notes rank at least <i>pari passu</i> with all other unsecured and unsubordinated indebtedness, present and future of the Issuer.
Status of the Deed of Guarantee:	The obligations of the Guarantor in respect of the guarantee of the Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and upon the insolvency of the Guarantor (and unless they qualify as subordinated debts under article 92 of the Insolvency Law (as defined below) or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), rank <i>pari passu</i> and rateably without any preference among such obligations of the Guarantor in respect of the Notes of the same issue and at least <i>pari passu</i> with all other

unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect are contained in the Deed of Guarantee.

Taxation: All payments under the Notes and the Deed of Guarantee will be made without deduction or withholding for or on account of any present or future Spanish withholding taxes, except as stated in the Notes and the Deed of Guarantee and as stated under the heading "Taxation - Taxation in Spain".

Information requirements under Spanish Tax Law: Under Spanish Law 13/1985 and Royal Decree 1065/2007, each as amended, the Issuer is required to receive certain information relating to the Notes.

If the Issuer and Paying Agent fails to provide the Issuer with the required information described under "Taxation in Spain—Information about the Notes in Connection with Payments", the Issuer will be required to withhold tax and may pay income in respect of the relevant Notes net of the Spanish withholding tax applicable to such payments (as at the date of the Information Memorandum, 21 per cent.).

None of the Issuer, the Guarantor, the Arranger, the Dealers or the European clearing systems assumes any responsibility therefor.

Form of the Notes: The Notes will be in bearer form. Each issue of Notes will initially be represented by one or more global notes (each a "**Global Note**", and together the "**Global Notes**"). Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or Euroclear France and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Global Notes will be exchangeable for Definitive Notes in whole, but not in part, in the limited circumstances set out in the Global Notes (see "Certain Information in Respect of the Notes - Forms of Notes").

Listing and Trading:	Each issue of Notes may be admitted to the Official List and admitted to trading on the regulated market of the Irish Stock Exchange and/or listed, traded and/or quoted on any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer. No Notes may be issued on an unlisted basis.
Delivery:	The Notes will be available in London for delivery to Euroclear or Clearstream, Luxembourg or Euroclear France or to any other recognised clearing system (as its nominee or depositary) in which the Notes may from time to time be held.
Selling Restrictions:	The offering and sale of the Notes is subject to all applicable selling restrictions including, without limitation, those of the United States of America, the United Kingdom, Japan, Spain and France (see "Subscription and Sale").
Governing Law:	The status of the Notes and the status of the Deed of Guarantee, the capacity of the Issuer and the Guarantor and the relevant corporate resolutions shall be governed by Spanish law. Any non-contractual obligations arising out of or in connection with the Notes, the Terms and Conditions of the Notes and all related contractual documentation will be governed by, and construed in accordance with, English law.
Use of Proceeds:	The net proceeds of the issue of the Notes will be deposited on a permanent basis with the Guarantor by the Issuer and will be used for the general funding purposes of the Group.

SANTANDER COMMERCIAL PAPER, S.A. UNIPERSONAL

Santander Commercial Paper, S.A. Unipersonal, which is a wholly owned subsidiary of the Guarantor, was incorporated by a public deed executed on 27 February 2004 and registered in the Mercantile Registry of Madrid on 2 March 2004 under volume 19.719, Book 0, folio 85, section 8, sheet M-346,985 as a private company (*sociedad anónima*) with unlimited duration and with limited liability under the laws of Spain. The share capital of Santander Commercial Paper, S.A. Unipersonal is one hundred and fifty thousand, five hundred (150,500) Euro divided into 1,505 ordinary shares of 100 Euro par value each, all of which are issued and fully paid and each of a single class.

Santander Commercial Paper, S.A. Unipersonal is a financing vehicle for the Group and has no subsidiary companies. The Issuer's exclusive activities are the issuance of commercial paper guaranteed by the Guarantor.

The assets of the Issuer are comprised principally of inter-company debt with the Guarantor.

The Issuer did not have any outstanding secured or unsecured indebtedness other than €2,339,500,000 million of Euro-commercial paper notes, £50,000,000 million Euro-commercial paper notes, CHF60,000,000 million Euro-commercial paper notes, U.S.\$153,000,000 Euro-commercial paper notes and U.S.\$177,100,000 million of U.S. commercial paper notes outstanding as of 24 April 2014 under the Programme.

The registered office of the Issuer is located at the Guarantor's principal executive offices at Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain, and its telephone number is +34 91 257 2059.

There has been no material adverse change in the prospects of the Issuer, nor any significant change in its financial or trading position, since 31 December 2013.

The names, positions and other positions in the Group of each of the directors of the Issuer are as follows:

Name	Position	Other Position in the Group
José Antonio Soler	Chairman	Senior Vice-president of the Guarantor
Antonio Torío Martín	Director	Vice-president of the Guarantor
Pablo Roig García Bernalt	Director	Vice-President of the Guarantor
María Visitación Díaz Varona	Director	Vice-president of the Guarantor

The business address of each of the persons listed above is: Ciudad Grupo Santander, Edificio Amazonia, Avenida de Cantabria, s/n, 28660 Boadilla del Monte, Madrid, Spain.

The above members of the Board of Directors have no potential conflicts of interests between any duties to the Issuer and their private interests and/or other duties.

During the 12 months prior to the date of this Information Memorandum, the Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

The financial statements for the year ended 31 December 2013 and 31 December 2012, of Santander Commercial Paper, S.A. Unipersonal, prepared in accordance with the *Texto Refundido de la Ley de Sociedades de Capital* (Spanish Corporations Law), were audited by the external auditors, Deloitte, S.L. of Plaza Pablo Ruiz Picasso, 1, Madrid, and registered under number S-0692 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*). Deloitte, S.L. are members of the *Instituto de Censores Jurados de Cuentas de España*.

Copies of such financial statements (in each case, as translated into English) are incorporated by reference in this Information Memorandum.

BANCO SANTANDER, S.A.

Information about the Guarantor

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

The Guarantor is registered in the Mercantile Registry of Cantabria in book 83, folio 1, sheet 9, entry 5519, and adapted its By-laws 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, and numbered 1316 in his records, and registered in the Mercantile Registry of Cantabria in volume 448 of the Archive, folio 1, sheet number 1960, Adaptation entry one.

The current By-laws, which have been adapted to the current Spanish Companies Act, were approved by the shareholders at the General Shareholders' Meeting held on 30 March 2012 and filed with the Office of the Mercantile Registry on 27 August 2012. However, Article 5 of such By-laws, which relates to the current authorised share capital, was last amended by the share increase carried on 30 January 2014.

As at the date of this Information Memorandum, the Guarantor has a total share capital which is fully issued and paid up of €5,780,533,573.50 divided into 11,561,067,147 shares with a nominal value of €0.50. All shares are of the same class and issue with the same rights attached.

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

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

The Guarantor is domiciled in Spain and has the legal form of a limited liability company (*Sociedad Anónima*) and its activities are subject to special Spanish legislation governing credit institutions in general and the supervision, control and regulation of the Bank of Spain in particular.

The Guarantor was incorporated in Spain and has its registered office at Paseo de Pereda, numbers 9 to 12, Santander. The headquarters of the Guarantor 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 Guarantor is +34 91 259 6520.

On 17 December 2012, the Guarantor announced that it had resolved to approve the plan for the merger by absorption of Banesto and Banif as part of the restructuring of the Spanish financial sector. This transaction is part of a commercial integration which brought Banesto and Banif under the Santander brand.

After the end of the reporting period, at their respective board of directors meetings held on 9 January 2013, the directors of the Guarantor and Banesto approved the common draft terms of the merger by absorption of Banesto into the Guarantor with the dissolution without liquidation of the former and the transfer en bloc of all its assets and liabilities to the Guarantor, which acquired, by universal succession, the rights and obligations of the absorbed entity. As a result of the merger, the shareholders of Banesto, other than those forming part of the Group, received in exchange shares of the Guarantor.

The ratio at which shares of Banesto were exchanged for shares of the Guarantor, which was determined by the fair value of their assets and liabilities, was 0.633 shares of the Guarantor, of €0.5 par value each, for each share of Banesto, of €0.79 par value each, without provision for any additional cash payment.

1 January 2013 was established as the date from which the transactions of Banesto would be considered to have been performed for accounting purposes for the account of the Guarantor.

After the end of reporting period, the directors of Banif, at its board of directors meeting held on 28 January 2013, and the directors of Banco Santander, S.A., at its board of directors meeting held on that same day, approved the common drafts terms of the merger by absorption of Banif into Banco Santander, S.A. with the dissolution without liquidation of the former and the transfer en bloc of all its assets and liabilities to Banco Santander, S.A., which acquired, by universal succession, the rights and obligations of the absorbed entity.

The proposed plan of merger was approved by the shareholders of Banesto at the ordinary and extraordinary general meeting held on 21 March 2013 and by the shareholders of Banco Santander, S.A. at the ordinary general meeting held on 22 March 2013.

On the 3 May 2013, the public deed formalising the merger by absorption of Banesto by Santander was registered with the Commercial Registry of Cantabria and, consequently, Banesto has been dissolved. On 7 May 2013, the public deed formalizing the merger by absorption of Banif, Unipersonal by Santander was registered with the Commercial Registry of Cantabria and, consequently, Banif, Unipersonal has been dissolved.

Business model

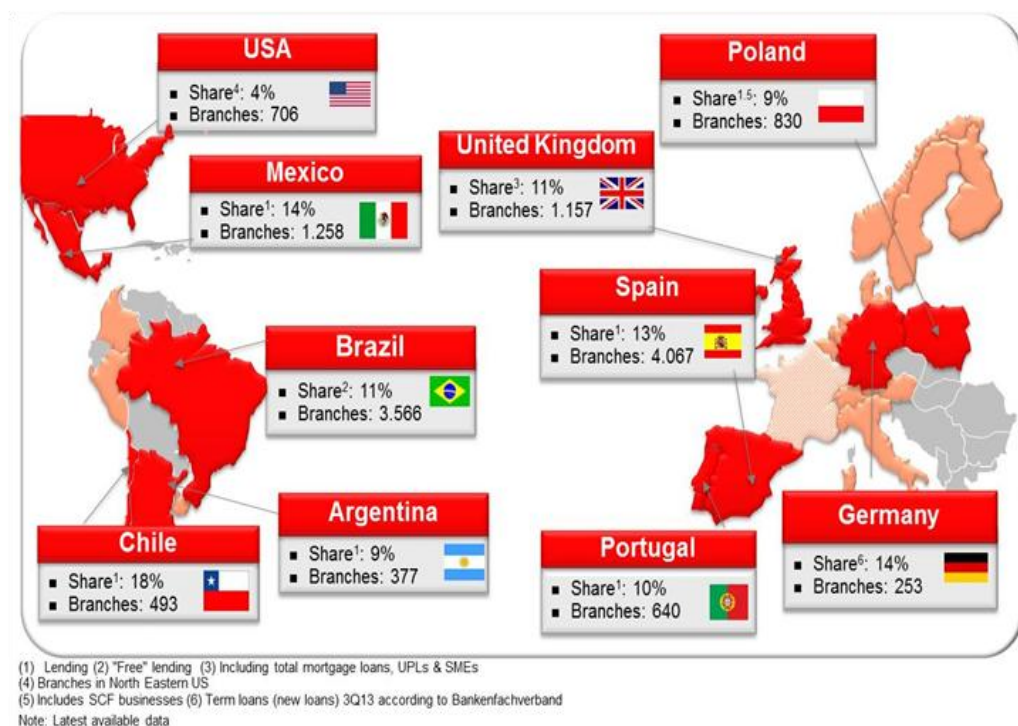
The fundamental premises for the Group business model are:

- The focus on customers and on the commercial business. The Group commercial model seeks to satisfy the needs of people with different levels of income, businesses of any size and private and public corporations. The branch network is the main channel for creating and maintaining long-term relations of confidence with customers. Nevertheless, in recent years the Group has been developing multi-channel banking as a strategic pillar for enhancing customer relations. In addition to telephone and online banking, over the past two years new applications have been launched for iPad, iPhone and other mobile devices (for example in Mexico, Supermóvil, and in Spain customer service via Twitter and chat).

The Group continues innovating and developing new financial products and services to provide customers with added value and meet their specific needs in the different markets (for example, Conta Light in Brazil, 1|2|3 current account in the UK, the contactless card in Spain, among others). Customer satisfaction is a strategic business variable that contributes to

sustainable growth, and service quality is therefore a corporate value. In this respect the commercial banking division was set up with the objective of improving capabilities and harnessing opportunities for the growth in all countries. It promotes the exchange of experiences and gathers best commercial and business practices in order for them to be disseminated, shared and adopted by other countries or areas.

- Geographical diversification gives the Group an appropriate balance between developed and emerging markets. The Group focuses its operations in ten main markets: Spain, the United Kingdom, Brazil, the United States, Mexico, Germany, Poland, Portugal, Chile and Argentina.



- The Group has a model of subsidiaries that are autonomous in terms of capital and liquidity, which brings benefits when it comes to funding and limits the risk of contagion. This model generates incentives for local management while limiting the possibility of contagion among Group units in times of crisis, thereby reducing systemic risk.
- The Group has a medium-low risk profile and the commercial banking business accounts for over 80% of the risks.
- Discipline in risks, liquidity and capital. The strengthening of these three variables is a priority of the Group's management. During the crisis the Group has made a big write-down effort, which will enable it to harness the opportunities of the current climate from a sound position.
- It has improved its liquidity ratios, achieving a net loan-to-deposit ratio of 109% as at the year ended December 31 2013. This means that most of its lending is funded by customer deposits, while it maintains ample access to wholesale funding, and has available a wide range of instruments and markets for obtaining liquidity.
- As for capital, the Guarantor's solvency levels are constantly improving and were up for the seventh year running in 2013. The Basel II core capital ratio was 11.71% at the end of

December 2013. The Group has passed four stress tests with very satisfactory results, and is one of the banks with the greatest profit- and capital-generating ability in adverse scenarios.

- Ongoing efforts to improve operating and commercial efficiency. The Guarantor focuses its efforts on improving processes, the business support areas and direct customer service. The recurring growth of income, the cost control culture and the high productivity of the branches gave the Group an efficiency ratio of under 50% at 2013 year end.
- The Santander brand is the sixth most valuable global financial brand according to the Brand Finance league table for 2013. The corporate slogan: "Santander a bank for your ideas" has been designed to place the customers at the centre of the Guarantor's strategy. In this respect, the objective of Santander Brand Experience is to develop an own brand experience that enables customers to perceive in each and every one of their interactions with the Bank the value that the Group provides them with to materialise their ideas.
- The 183,000 professionals who make up the Santander team worldwide are an important element of the business model. The strategic elements of the people model at the Group are talent, knowledge, culture and innovation.
- The Group does business sustainably, preserving the environment, giving support to the community in the countries where it operates and investing in higher education. An example of this is the prize of "*global sustainable bank of the year*" that Banco Santander received in June 2013 in the eighth year of the prestigious Sustainable Finance Awards run by the Financial Times and the International Finance Corporation.

The Group's business is exposed to the same risks as those faced by other financial institutions; risks that could have a material adverse impact if they occur.

The Group's geographical diversification means that it is sensitive to the economic conditions in continental Europe, the United Kingdom, the United States, Brazil and other Latin American countries.

The Group's ordinary business is also subject to other factors, such as strong competition, market volatility, the cyclical nature of some businesses, market, liquidity and operational risk, losses due to litigation and regulatory proceedings and others, which may negatively affect the Group's earnings, its rating and/or funding costs, including risks not identified or envisaged in the Group's policies, procedures and risk management methods.

The Guarantor's senior management considers that within the intrinsic risks of the banking business, in recent years the focus has been on those related to the macroeconomic environment, regulatory change and reputational and conduct risk.

Review of the year ended 31 December 2013

Throughout the year ended 31 December 2013, despite the challenging environment in several of the markets where it operates, the Group has shown that its business model is strong in all phases of the cycle, and it continues to generate high recurring earnings.

The key successes of the Group in 2013 were:

- Strong earnings. In recent years, despite challenging market conditions, the Group has demonstrated its ability to generate high earnings, based on geographical diversification and

management approaches adapted to each market. This has enabled it to obtain profits throughout the years of the economic crisis.

- The Group obtained attributable profit of €4,370 million in the year ended 2013, which was 90.5% more than in the year ended 2012, primarily because of the reduced need for write-downs.
- This growth was achieved with an improvement in the basic trends throughout the year, which was reflected in greater stability of commercial income, with net interest income and fees and commissions that increased in the fourth quarter of 2013, and a decrease in provisions and the cost of lending quarter by quarter throughout 2013.
- The strengthening of the balance sheet continued due to the high level of income. After the sizeable write-downs booked in the year ended 2012 (€18,806 million), the Group allocated €11,073 million to specific credit loss provisions in 2013, enabling it to face a new scenario of greater economic growth from a strong position and with a healthy balance sheet.
- This provisioning effort has been combined with a strategy of reducing property exposure in Spain. The real estate operations discontinued in Spain business reduced the balance sheet by €1,496 million (12%) as at 31 December 2013. As a result, the decrease since December 2008 amounted to €30,000 million (-73%).
- The Group has more than doubled the coverage of its lending portfolio during the crisis.
- Noteworthy is the sale to Apollo Global Management of a stake in the Altamira platform, which handles loan recoveries for Banco Santander in Spain and manages and markets real estate assets related to this activity, in order to continue reducing the property exposure of the balance sheet efficiently. Following this transaction, the real estate assets and credit portfolio will remain on Banco Santander's balance sheet, while the assets will be managed from the platform controlled by the purchaser, Apollo.
- Sound funding structure and improved liquidity ratios. The Group achieved an improved liquidity position due to the capacity of the Guarantor's extensive branch network to raise funds in the retail market, its broad and diversified access to the wholesale markets through its model of subsidiaries, and the current situation of less need for funding in some markets due to the process of deleveraging that is under way in them. This deleveraging process in mature markets is reflected in the reduction of the balance sheet credit risk as at 31 December 2013.

Some of the ratios that reflect the improvement in the liquidity position are:

- At Group level, the loan-to-deposit ratio as at 31 December 2013 was 109% (compared with 113% as at 31 December 2012 and 150% as at 31 December 2008), the structural liquidity surplus topped €150,000 million and the liquidity reserve stood at €200,000 million.
- The liquidity management by subsidiaries enabled the Group to continue to apply a conservative strategy in the year, which took the form of launching medium- and long-term issues amounting to €22,540 million and securitisations amounting to €6,273 million.
- High Group solvency, illustrated by the fact that the core capital again improved in 2013 for the seventh consecutive year. With this increase the core capital ratio according to the BIS II international standard ended 2013 at 11.71% compared with 10.33% in 2012.
- Shareholder pay out. Santander provided shareholders with a total pay-out of €0.60 per share under its Santander Dividendo Elección scrip dividend scheme in the four quarterly payments

(including the implementation of the scheme that as at the date hereof, is take place in April/May 2014), signifying a return of 10% in the year (pay-out / average market price). This scheme offers shareholders the option of choosing whether to receive the dividend in cash or in shares. The average degree of acceptance of the option of receiving the dividend in shares in the payments made in 2013 was 87%.

- In addition, with the aim of maximising improvements to the Group in the current climate, a series of initiatives began during 2013, including most notably:
 - Adaption to the competitive environment in Spain. The integration of Banesto and Banif in Banco Santander, which is progressing ahead of schedule, thereby bringing forward the cost synergies. The objective is to gain market share in Spain by offering a wider range of products and better service quality.
 - The integration of Kredyt Bank in Poland is making very satisfactory progress with the rebranding of the branch offices and the technology integration complete as at the date hereof.
 - In the United States, where the installed capacity is being increased and steps are being taken to improve the commercial capabilities, the Santander brand has been adopted and the rebranding of branch offices has been completed.
 - In the consumer finance business, the Group and El Corte Inglés have reached a strategic agreement for Santander Consumer to acquire a 51% stake in Financiera El Corte Inglés. As at the date hereof, this agreement is expected to be entered into in the first quarter of 2014.
 - The Group has signed an agreement with subsidiaries of Warburg Pincus and General Atlantic to promote the global development of the Santander Asset Management unit. As a result, Warburg Pincus and General Atlantic have a joint 50% stake in the holding company that integrates the Santander Asset Management management companies. The other 50% is held by the Group.
 - Sale of a stake in Altamira (as outlined below).

As a result of these initiatives, the Group ended 2013 well placed to continue to grow and develop the business in the future.

Earnings

The earnings as at the year ended 31 December 2013 performance as compared with at 31 December 2012 is shown below.

Condensed consolidated statements of income

	2013	2012
	<i>(Millions of euros)</i>	
Interest and similar income.....	51,447	58,791
Interest expense and similar charges.....	(25,512)	(28,868)
Net Interest income	25,935	29,923
Income from equity instruments.....	378	423
Share of results of entities accounted for using the equity method	500	427
Fee and commission income.....	12,473	12,732
Fee and commission expense	(2,712)	(2,471)
Gains/(losses) on financial assets & liabilities, net	3,234	3,329
Exchange differences (net)	160	(189)
Other operating income	5,903	6,693
Other operating expenses	(6,194)	(6,583)

	2013	2012
	<i>(Millions of euros)</i>	
Gross Income	39,677	44,284
Administrative expenses	(17,451)	(17,801)
Staff costs	(10,069)	(10,306)
Other general administrative expenses	(7,382)	(7,495)
Depreciation & amortisation charge	(2,392)	(2,183)
Provisions (net)	(2,182)	(1,478)
Impairment losses on financial assets, net	(11,227)	(18,880)
Profit from Operations	6,425	3,942
Impairment losses on non-financial assets (net)	(503)	(508)
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	2,152	906
Negative difference on business combinations	–	–
Gains/(losses) on disposal of non-current assets held for sale not classified as discontinued operations	(422)	(757)
Profit before tax	7,652	3,583
Income tax	(2,113)	(590)
Profit for the year from continuing operations	5,539	2,993
Profit/(loss) from discontinued operations, net	(15)	70
Consolidated Profit for the year	5,524	3,063
Profit attributable to the parent	4,370	2,295
Profit attributable to non-controlling interests	1,154	768

In the statement presented above, the capital gains and write-downs that are considered non-recurring are included in each of the income statement line items where they were recognised due to their nature.

To facilitate understanding of the changes between the two years, following is an income statement (condensed income statement) that presents these non-recurring capital gains and write-downs for the net amount on a separate line just before the profit attributable to the Group. It also presents certain margins other than those presented in the statement above, such as the net operating income.

Condensed income statement

	2013	2012
	<i>(Millions of euros)</i>	
Net Interest income	25,935	29,923
Net fees and commissions	9,761	10,259
Gains (losses) on financial assets & liabilities	3,469	2,698
Other income	587	525
Gross income	39,753	43,406
Operating expenses	(19,843)	(19,983)
General administrative expenses	(17,452)	(17,801)
Staff costs	(10,069)	(10,307)
Other general administrative expenses	(7,382)	(7,494)
Depreciation and amortisation charge	(2,392)	(2,182)
Net operating income	19,909	23,422
Credit loss provisions	(10,863)	(12,640)
Impairment losses on other assets	(524)	(853)
Other income and provisions	(1,261)	(1,449)
Ordinary profit before tax	7,262	8,481
Income Tax	(1,853)	(2,314)
Ordinary profit from continuing operations	5,409	6,167
Profit/(loss) from discontinued operations, net	(15)	70
Ordinary consolidated profit for the year	5,393	6,236
Profit attributable to minority interests	1,023	895
Ordinary profit attributable to the Group	4,370	5,341
Extraordinary capital gains and write-downs, net	–	(3,047)
Profit attributable to the Group	4,370	2,295

The Group obtained attributable profit of €4,370 million as at the year ended 31 December 2013, 90.5% more than as at 31 December 2012.

There are a number of factors that have an impact on the year-on-year comparison:

- The climate of macroeconomic slowdown and record low interest rates after appreciable decreases in some countries in which the Group was operating. This is combined with the strategy followed by the Group of giving preference to capital and liquidity, with the consequent impact of them on earnings, mainly in the form of financial cost.
- In 2012 substantial additional write-downs were booked for property risk in Spain, which had a significant impact on the year's financial statements.
- A net negative effect on attributable profit of €368 million (a decrease of 16 percentage points) due to the change in the scope of consolidation because of the difference between:
- a positive effect due to the inclusion of Kredyt Bank S.A.
- a negative effect due to the removal of the Colombia subsidiary in the second quarter of 2012, the smaller contribution of earnings from entities accounted for using the equity method (due to the reinsurance of the individual life risk portfolio of the Santander insurance companies in Spain and Portugal), the increase in non-controlling interests at the subsidiaries in Mexico and Poland, and the lower earnings obtained at the Insurance unit due to the implementation of the operation with Aegon.
- The impact of the exchange rates of the various currencies against the euro was 6 negative percentage points for the Group as a whole in the comparison of income and costs year on year. By country, the main negative impacts were in Brazil (-12 percentage points), the United Kingdom and Chile (-5 percentage points each), and the United States (-3 percentage points).

Exchange rates: Parity 1 euro = currency

	Average exchange rate (income statement)	
	2013	2012
US dollar	1.3275	1.2842
Pound sterling	0.8490	0.8106
Brazilian real	2.8518	2.5012
Mexican peso	16.9315	16.8940
Chilean peso	656.5237	624.4675
Argentine peso	7.2195	5.8295
Polish zloty	4.1963	4.1820

Breakdown of the main lines of the income statement

The gross income amounted to €39,753 million as at the year ended 31 December 2013, a decrease of 8.4% from 31 December 2012 (-2.2% disregarding the effects of the changes in exchange rates).

This fall was located in the net interest income of €25,935 million as at the year ended 31 December 2013 (down by 13.3% from 31 December 2012) and was due almost entirely to four effects: the depreciation of some currencies; the impact of the cost associated with the policy of strengthening liquidity that the Group has been implementing since mid-2012; the decrease in volumes associated with the deleveraging of some geographical areas; and lower spreads due to lower interest rates and the shift in the mix towards products with less risk. These impacts are not offset by the reduction in the cost of liabilities, which is still not reflected in its entirety.

The table below shows the average balance sheet balances for each year, obtained as the average of the months in the period, which does not differ significantly from obtaining the average of the daily balances. The distinction between domestic and international is based on the domicile of the customer.

Average balance sheet – assets and interest income

	2013			2012		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
<i>(in millions of euros, except percentages)</i>						
Assets						
Cash and balances with central banks						
Domestic	6,590	54	0.82%	21,172	1	0.44%
International	77,467	2,647	3.42%	75,572	2,602	3.44%
	84,057	2,701	3.21%	96,744	2,693	2.78%
Loans and advances to credit institutions						
Domestic	28,206	152	0.54%	25,257	136	0.54%
International	56,983	614	1.08%	45,600	898	1.97%
	85,189	766	0.90%	70,857	1,034	1.46%
Loans & advances to other debtors						
Domestic	178,227	5,755	3.23%	198,643	7,332	3.69%
International	519,037	34,450	6.64%	550,730	38,795	7.04%
	697,264	40,205	5.77%	749,373	46,127	6.16%
Debt securities						
Domestic	55,497	2,113	3.81%	52,382	1,946	3.72%
International	94,144	4,322	4.59%	96,910	5,147	5.31%
	149,641	6,435	4.30%	149,292	7,093	4.75%
Income from hedging transactions						
Domestic		85			211	
International		125			472	
		210			683	
Other interest-earning assets						
Domestic	60,673	677	1.12%	75,008	803	1.07%
International	41,333	453	1.10%	47,902	357	0.75%
	102,006	1,130	1.11%	122,910	1,160	0.94%
Total interest-earning assets						
Domestic	329,193	8,836	2.68%	372,462	10,520	2.82%
International	788,964	42,611	5.40%	816,714	48,271	5.91%
	1,118,157	51,447	4.60%	1,189,176	58,791	4.94%
Investments in Group Companies						
Domestic	1,223	-	0.00%	1,147	-	0.00%
International	3,632	-	0.00%	3,459	-	0.00%
	4,855	-	0.00%	4,606	-	0.00%
Total earning assets						
Domestic	330,416	8,836	2.67%	373,609	10,520	2.82%
International	792,596	42,611	5.38%	820,173	48,271	5.89%
	1,123,012	51,447	4.58%	1,193,782	58,791	4.92%
Other assets	91,187			92,815		
Assets from discontinued operations..	-			-		
Average total assets	1,214,199	51,447		1,286,597	58,791	

The average balance of earning assets as at the year ended 31 December 2013 was €1,123,000 million, which was 6% less than as at year ended 31 December 2012.

This decrease occurred mainly in the domestic component, despite its lower relative weight. Within this, the biggest drops were in loans and advances to customers, as a result of the deleveraging process, and cash and due from central banks.

The balances of the international component were also down due to the impact of exchange rates.

The average return on total assets fell by 34 basis points to 4.58%, in line with the performance of loans and receivables (down by 39 basis points to 5.77%).

Average balance sheet – liabilities and interest expense

	2013			2012		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
<i>(in millions of euros, except percentages)</i>						
Liabilities & Shareholders' Equity						
Deposits from credit institutions						
Domestic	21,654	335	1.55%	55,339	761	1.38%
International	107,956	1,635	1.51%	99,347	1,720	1.73%
	129,610	1,970	1.52%	154,686	2,481	1.60%
Customer deposits						
Domestic	173,833	3,053	1.76%	153,399	2,850	1.86%
International	458,506	11,752	2.56%	482,952	13,554	2.81%
	632,339	14,805	2.34%	636,351	16,404	2.58%
Marketable debt securities						
Domestic	83,445	2,993	3.59%	95,054	3,175	3.34%
International	105,509	3,886	3.68%	109,647	4,102	3.74%
	188,954	6,879	3.64%	204,701	7,277	3.55%
Subordinated liabilities						
Domestic	8,547	496	5.80%	10,409	637	6.12%
International	8,098	764	9.43%	10,830	1,013	9.35%
	16,645	1,260	7.57%	21,239	1,650	7.77%
Other interest-bearing liabilities						
Domestic	75,386	962	1.28%	91,492	1,113	1.22%
International	57,778	1,064	1.84%	63,062	684	1.08%
	133,164	2,026	1.52%	154,554	1,797	1.16%
Expenses from hedging transactions						
Domestic		-1,138			803	
International		-290			357	
		-1,428			-740	
Total Interest-bearing facilities						
Domestic	362,865	6,701	1.85%	405,693	7,561	1.86%
International	737,847	18,811	2.55%	765,838	21,307	2.78%
	1,100,712	25,512	2.32%	1,171,531	28,868	2.46%
Other liabilities	31,830			33,954		
Non-controlling interests	10,066			8,424		
Shareholders' equity	71,591			72,688		
Liabilities from discontinued operations	-			-		
Total average liabilities and shareholders' equity	1,214,199	25,512		1,286,597	28,868	

The average balance of interest-bearing liabilities as at 31 December 2013 was €1,101,000 million, which was 6% less than as at 31 December 2012, with a 14 basis points improvement in their average cost, taking it to 2.32%. This improvement was primarily in the cost of customer deposits, which fell 24 basis points.

The main reason for the drop in balances, as in the case of assets, was the domestic component, as a result of the decreases in transactions with credit institutions (because of the repayment of the LTRO funds obtained from the ECB at the end of 2011), marketable securities and other interest-bearing liabilities, since, in contrast, domestic customer deposits increased by 13%.

Balances were also down in the international component, affected by interest rates in the same way as assets were.

The changes in income and expense shown in the table below are calculated and attributed mainly to:

- The change in volume, which is obtained by applying the previous period's interest rate to the difference between the average balances of the present and previous periods.
- The change in interest rate, which is obtained by applying to the average balance for the previous year the difference between the rates of the present and previous periods.

	2013/2012		
	Increase (decrease) due to changes in		
	Volume	Rate	Net variation
Interest Income	<i>(in millions of euros)</i>		
Cash and balances with central banks			
Domestic	(87)	50	(37)
International	65	(20)	45
	(22)	30	8
Loans and advances to credit institutions			
Domestic	16	0	16
International	188	(472)	(284)
	204	(472)	(268)
Loans & advances to other debtors			
Domestic	(711)	(866)	(1,577)
International	(2,168)	(2,177)	(4,345)
	(2,879)	(3,043)	(5,922)
Debt securities			
Domestic	118	49	167
International	(144)	(681)	(825)
	(26)	(632)	(658)
Other interest-earning assets			
Domestic	(159)	33	(126)
International	(54)	150	96
	(213)	183	(30)
Total interest-earning assets excl hedging transactions			
Domestic	(823)	(734)	(1,557)
International	(2,113)	(3,200)	(5,313)
	(2,936)	(3,934)	(6,870)
Income from hedging transactions			
Domestic	(127)	0	(127)
International	(347)	0	(347)
	(474)	0	(474)
Total interest-earning assets			
Domestic	(950)	(734)	(1,684)
International	(2,460)	(3,200)	(5,660)
	(3,410)	(3,934)	(7,344)

In the year ended 31 December 2013, interest income fell by €7,344 million, impacted similarly by the variations in volumes (down by €3,410 million compared to 31 December 2012) and interest rates (down by €3,934 million compared to 31 December 2012), both due to the international segment that was partially affected by exchange rates. In both cases this corresponded to the variation in the loans and advances to customers component.

2013/2012			
Increase (decrease) due to changes in			
	Volume	Rate	Net variation
<i>(in millions of euros)</i>			
Interest Expense			
Deposits from credit institutions			
Domestic	(511)	85	(426)
International	141	(226)	(85)
	(370)	(141)	(511)
Customer deposits			
Domestic	365	(162)	203
International	(564)	(1,138)	(1,802)
	(299)	(1,300)	(1,599)
Marketable debt securities			
Domestic	(406)	224	(182)
International	(153)	(63)	(216)
	(559)	161	(398)
Subordinated liabilities			
Domestic	(109)	(32)	(141)
International	(258)	9	(249)
	(367)	(23)	(390)
Other interest-bearing liabilities			
Domestic	(204)	54	(150)
International	(62)	442	380
	(266)	496	230
Total interest-bearing liabilities excl. hedging transactions			
Domestic	(865)	169	(696)
International	(996)	(976)	(1,972)
	(1,861)	(807)	(2,668)
Expenses from hedging transactions			
Domestic	(164)	0	(164)
International	(524)	0	(524)
	(688)	0	(688)
Total interest-bearing liabilities			
Domestic	(1,029)	169	(860)
International	(1,520)	(976)	(2,496)
	(2,549)	(807)	(3,356)

Interest expense was down by €3,356 million as at the year ended 31 December 2013 as a result of the decrease in both the volumes managed and, to a lesser extent, the average cost of the liabilities. The latter was due almost entirely to the lower interest rates associated with customer deposits.

Continuing with the performance of earnings, fees and commissions amounted to €9,761 million as at the year ended 31 December 2013, a decrease of 4.9% from 31 December 2012. Disregarding the effects of changes in exchange rates there was a slight increase of 0.8% compared to 31 December 2012. Broken down, the best performance was that of fees and commissions from advisory services and the direction of operations (up by 15.3% compared to 31 December 2012), cards (up by 12.7% compared to 31 December 2012), pension funds (up by 6.6% compared to 31 December 2012) and insurance (up by 4.7% compared to 31 December 2012).

Gains on financial assets and liabilities were up by 28.6% as at the year ended 31 December 2013 compared to 31 December 2012, due to GBM Europe and active management of balance sheet interest rate risk.

The share of results of entities accounted for using the equity method, where the contributions to the Group of Santander Consumer USA and the results of corporate transactions in the insurance business in Europe and Latin America are booked, rose by 17.1% as at the year ended 31 December 2013 compared to 31 December 2012.

Other operating income and expenses, which includes the contribution to the deposit guarantee funds, was negative by €291 million, which was 10.3% less than at 31 December 2012.

Operating costs were down by 0.7% as at the year ended 31 December 2013 (up by 4.9% excluding the effects of changes in exchange rates compared with 31 December 2012) with varying performance by unit. In Europe, the costs of both the big commercial units and in the United Kingdom either continued to fall or rose below the rate of inflation. Latin America was up as a result of the commercial network expansion and upgrade and the review of pay agreements in an environment of higher inflation. In the United States, the year-on-year comparison reflects the investments in technology and commercial structure, as well as costs associated with the change in brand.

All in all, efficiency for the year increased by 3.9 percentage points to 49.9%, and the net operating income (pre-provision profit) obtained was €19,909 million as at the year ended 31 December 2013.

Credit loss provisions stood at €10,863 million as at the year ended 31 December 2013, which was 14.1% less than at 31 December 2012 (-7.8% excluding the exchange rate impact). By unit, provisions were down in Brazil, the United Kingdom, Portugal, Santander Consumer Finance, the United States and, to a lesser extent, Spain. In contrast, they were up in the other Latin American countries, particularly Mexico, with a big impact from the one-off charge booked for housing developers.

Impairment losses on other assets and other income were negative by an amount of €1,785 million at 31 December 2013, compared with the negative figure of €2,302 million as at 31 December 2012.

Accordingly, the profit before tax was €7,262 million as at the year ended 31 December 2013. After taking into account taxes, discontinued operations and the increase in non-controlling interests, the ordinary attributable profit amounted to €4,370 million. This profit does not include the impact of the capital gains obtained in the year of €939 million net of taxes arising from the Spain and Santander Asset Management insurance transactions, since charges for an equivalent amount were booked for restructuring costs, goodwill and other write-downs.

However, as at the year ended 31 December 2012 the difference between capital gains (€1,064 million) and property write-downs (€4,111 million) was negative by €3,047 million. After this, the attributable profit was up by 90.5%.

At the year ended 31 December 2013, the attributable profit as a percentage of average equity ("**RoE**") was 5.42%, the attributable profit/average equity excluding goodwill ("**ROTE**") was 7.73% and the consolidated profit/average risk-weighted assets ("**RoRWA**") was 1.01%, which were all an improvement on the figures for the year ended 31 December 2012, of 251, 345 and 45 basis points, respectively.

Balance sheet

On the Group balance sheet at 31 December 2013, the funds managed totalled €1,240,806 million. Of this amount, €1,115,637 million (90%) related to on-balance-sheet assets and the remainder to investment funds, pension funds and assets under management.

The performance of balances in comparison with December 2012 was significantly impacted by the changes in exchange rates as a result of the depreciation of the main currencies in which the Group operates.

Sterling and the Polish zloty fell by 2%, the dollar by 4%, the Mexican peso by 5%, the Chilean peso by 13%, the Brazilian real by 17% and the Argentine peso by 28%. Overall, this led to a negative impact of 4 percentage points on the year-on-year variations in lending to customers and customer funds.

Exchange rates: Parity 1 euro=currency	Final exchange rate (balance sheet)	
	31.12.13	31.12.12
US dollar	1.3791	1.3194
Pounds sterling.....	0.8337	0.8161
Brazilian real	3.2576	2.7036
Mexican peso	18.0731	17.1845
Chilean peso	724.5791	631.7287
Argentine peso	8.9900	6.4865
Polish zloty.....	4.1543	4.0740

There was a positive effect from the change in the scope of consolidation of less than one percentage point due to the merger in the early days of 2013 of Bank Zachodni WBK S.A. and Kredyt Bank S.A. in Poland.

The Group's gross lending to customers amounted to €693,759 million at 31 December 2013, down 7% year on year due to the performance of exchange rates. Disregarding their impact and excluding reverse repos, the balances were down by 2% compared to at the year ended 31 December 2012.

Loans and advances to customers	31.12.13	31.12.12
	millions of euros	millions of euros
Loans to the Spanish public sector	13,374	16,884
Loans to other residents.....	160,478	183,130
Commercial credit.....	7,301	8,699
Secured loans	96,420	103,890
Other loans	56,757	70,540
Loans to the non-resident sector	519,907	544,520
Secured loans	320,608	339,519
Other loans	199,300	205,000
Loans and advances to customers (gross)	693,759	744,534
Credit loss allowance.....	24,904	25,422
Loans and advances to customers (net)	668,856	719,112
Memorandum items: Doubtful assets	40,320	35,301
Public sector	99	121
Other resident sectors	21,763	16,025
Non-residents	18,458	19,156
Loans to the Spanish public sector	13,374	16,884
Loans to other residents.....	160,478	183,130
Commercial credit.....	7,301	8,699
Secured loans	96,420	103,890

Loans maturing in over 1 year at 31 December 2013

	Domestic		International		TOTAL	
	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total
Fixed rate	21,904	16%	145,514	39%	167,419	33%
Floating rate	111,286	84%	225,301	61%	336,587	67%
TOTAL	133,190	100%	225,301	100%	504,005	100%

At the year ended 31 December 2013, of the total lending to customers maturing in over 1 year, 67% was linked to floating rates and the remaining 33% was linked to fixed interest rates. The geographical breakdown of these loans revealed that:

- In Spain, 84% of the loans were floating rate and 16% were fixed rate.
- 61% of loans granted outside Spain were floating rate and 39% were fixed rate.

The breakdown by geographical region of gross lending to customers was as follows.

In Continental Europe, the low demand for credit as a result of the economic situation of some countries affected the performance of balances in Spain and Portugal (-8% and -5%, respectively). The aggregate balance of loans at Santander Consumer Finance remained practically stable (-1%), whereas Poland was up by 73% in local currency (+1% excluding the effect of the integration of Kredyt Bank S.A.). Lastly, the net loans included under the discontinued real estate operations in Spain business unit were down by 21% as a result of continuing to apply the policy of reducing this type of risk. All of the variations are excluding reverse repos.

In the United Kingdom the balance of lending to customers fell by 4% in sterling year on year. In contrast, Latin America overall was up by 9% year on year in constant currency, with advances in all of the countries except for Puerto Rico, which was down by 8%: Brazil (+7%), Mexico (+12%), Chile (+11%), Argentina (+35%), Uruguay (+24%) and Peru (+29%).

Lastly, the United States was down 5% in dollars.

As a result, as at year ended 31 December 2013 Continental Europe accounted for 40% of the Group's net lending to customers (Spain: 24%). The United Kingdom accounted for 35%, Latin America for 20% (10% Brazil) and the United States accounted for the remaining 6%.

As for the liability side of the balance sheet, the total customer funds under management at 31 December 2013 amounted to €924,621 million, a decrease of 5% from 31 December 2012. As in the case of lending, this performance was affected by exchange rates. Disregarding their impact the decrease was less than 1%.

Condensed balance sheet	As at 31 December 2013	As at 31 December 2012
	millions of euros	millions of euros
<i>Assets</i>		
<i>Cash and balances with central banks</i>	77,103	118,488
<i>Financial assets held for trading</i>	115,287	177,917
<i>Debt instruments</i>	40,841	43,101
<i>Loans and advances to customers</i>	5,079	9,162
<i>Equity instruments</i>	4,967	5,492

<i>Trading derivatives</i>	58,899	110,319
<i>Loans and advances to credit institutions</i>	5,503	9,843
<i>Other financial assets at fair value</i>	31,381	28,356
<i>Loans and advances to customers</i>	13,196	13,936
<i>Other (loans and advances to credit institutions, debt instruments and other equity instruments)</i>	18,185	14,420
<i>Available for sale financial assets</i>	83,799	92,267
<i>Debt instruments</i>	79,844	87,724
<i>Equity instruments</i>	3,955	4,542
<i>Loans and receivables</i>	714,484	756,858
<i>Loans and advances to credit institutions</i>	56,017	53,785
<i>Loans and advances to customers</i>	650,581	696,013
<i>Debt instruments</i>	7,886	7,059
<i>Investments</i>	5,536	4,453
<i>Tangible and intangible assets</i>	16,613	17,296
<i>Goodwill</i>	23,281	24,626
<i>Other assets</i>	48,151	49,338
Total assets	1,115,637	1,269,598
<i>Liabilities and equity</i>		
<i>Financial liabilities held for trading</i>	94,672	143,241
<i>Customer deposits</i>	8,500	8,897
<i>Marketable debt securities</i>	1	1
<i>Trading derivatives</i>	58,887	109,743
<i>Other</i>	27,285	24,600
<i>Other financial liabilities at fair value</i>	42,311	45,418
<i>Customer deposits</i>	26,484	28,638
<i>Marketable debt securities</i>	4,086	4,904
<i>Deposits from central banks and credit institutions</i>	11,741	11,876
<i>Financial liabilities at amortised cost</i>	863,115	959,321
<i>Deposits from central banks and credit institutions</i>	86,323	131,670
<i>Customer deposits</i>	572,853	589,104
<i>Marketable debt securities</i>	171,390	201,064
<i>Subordinated liabilities</i>	16,139	18,238
<i>Other financial liabilities</i>	16,410	19,245
<i>Liabilities under insurance contracts</i>	1,430	1,425
<i>Provisions</i>	14,474	16,148
<i>Other liabilities</i>	19,735	22,771
Total liabilities	1,035,736	1,188,324
<i>Shareholders' equity</i>	84,740	81,333
<i>Share capital</i>	5,667	5,161
<i>Reserves</i>	75,109	74,528
<i>Profit attributable to the Group</i>	4,370	2,295
<i>Less: Dividends & remuneration</i>	(406)	(650)
<i>Valuation adjustments</i>	(14,152)	(9,474)
<i>Non-controlling interests</i>	9,313	9,415
Total equity	79,900	81,275
Total liabilities and equity	1,115,637	1,269,598

	As at 31 December 2013	As at 31 December 2012
	millions of euros	millions of euros
Resident public sector	7,745	8,487
Other resident sectors	161,649	157,011
Demand deposits	74,969	71,526
Time deposits	80,146	75,414
Other deposits	6,535	10,071
Non-resident sector	438,442	461,141
Demand deposits	245,582	228,698
Time deposits	146,433	179,503
Other deposits	46,427	52,940
Customer deposits	607,836	626,639
Marketable debt securities *	175,477	205,969
Subordinated liabilities	16,139	18,238
On-balance sheet customer funds	799,452	850,846
Investment funds	93,304	89,176

Pension funds	10,879	10,076
Assets under management	20,987	18,889
Other customer funds under management	125,169	118,141
Customer funds under management**	924,621	968,987

*includes retail commercial paper in Spain (millions of euros): 3,553 in December 2013 and 11,536 in December 2012

**Includes investment and pension funds marketed

Within the customer funds, deposits (including retail commercial paper in Spain and financial bills in Brazil, and excluding repos), investment funds and pension funds rose 2% as at the year ended 31 December 2013 compared to 31 December 2012, disregarding the effect of exchange rate variations. Broken down, deposits remained stable year on year, whereas investment funds and pension funds increased by 14% and 8%, respectively comparing the same periods.

In Continental Europe performance at the main units was as follows (comparing figures as at the year ended 31 December 2012 with those at 31 December 2012):

- Spain was up by 1% year on year, with a big impact from the decrease in costly institutional balances. Disregarding this, retail balances increased by 10,000 million, including a 29% rise in investment funds that consolidated the Group's lead in these funds. This strong expansion was due to the strategy of reducing expensive deposits and increasing the marketing of investment funds, and was favourably impacted by the performance of stock markets in the year. Lastly, pension funds rose by 8%.
- In Portugal customer deposits excluding repos were down by 4% due to the greater focus placed on their cost, and this is reflected in the fall in time deposits. Investment funds fell 32%, whereas pension funds rose 8%. The overall result was a decrease of 5%.
- Deposits in Poland increased by 69% in local currency, assisted by the entry of Kredyt Bank S.A. With no changes in the scope of consolidation they rose by 1% as a result of the active management of funds which translated into a reduction of costly deposits at Kredyt Bank S.A. and an increase in investment funds (+12%).
- Lastly, Santander Consumer Finance was down by 3% due to Germany, which accounted for 89% of the area's deposits, as a result of the policy of reducing higher-cost balances. Italy and the Nordic countries recorded strong growth, albeit on very modest figures.
- In the United Kingdom customer deposits excluding repos (in pounds sterling) were down by 3% due to the strategy of replacing more costly and volatile deposits with others with greater potential for customer loyalty. Accordingly, demand and savings deposits grew by 5% year on year due to the increase in demand accounts as a result of the marketing of products in the 1|2|3 range, which partially compensated for the reduction in time deposits. Investment funds fell by 29%.

As was the case with lending, all of the Latin American countries, with the exception of Puerto Rico, increased their deposits and investment funds in constant currency, with an aggregate increase of 12% (excluding repos and including financial bills in Brazil). Broken down: Brazil was up 15%; Mexico, 4%; Chile, 7%; Argentina, 30%; Uruguay, 17%; and Peru, 15%.

Lastly, customer deposits in the United States followed a trend of improved mix and cost similar to that of other units. Specifically, demand deposits rose by 9%, although this increase was absorbed by the decrease in time deposits, with the result that total deposits excluding repos were down by 3% year on year.

By major segments, Continental Europe accounted for 38% of customer funds under management (Spain: 27%), the United Kingdom for 31%, Latin America for 27% (Brazil: 14%) and United States the remaining 4%.

As a result of this performance of loans, deposits and retail commercial paper, the net loan-to-deposit ratio was 109% as at 31 December 2013 (113% at 31 December 2012).

The high level of deposit attraction recorded over the past two years, combined with the deleveraging process in some countries, has considerably reduced the requirement for wholesale funds obtained through issues. In any event, the Group considers it to be of strategic value to maintain a selective policy of issuance on the international bond markets, and endeavours to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and the receptivity of each market.

In 2013 €22,540 million were raised on the market through medium- and long-term issues. Of this amount, €18,003 million were senior debt, €3,513 million were covered mortgage bonds, and €1,024 million were subordinated debt.

As regards securitisation activities, in 2013 the Group's subsidiaries placed several securitisations on the market for a total amount of €6,273 million, mainly at Santander UK and through the Santander Consumer Finance units.

In turn, in the Group as a whole there were medium- and long-term debt maturities in 2013 that amounted to €37,318 million and were broken down as follows: senior debt amounting to €26,121 million; covered bonds amounting to €10,997 million and subordinated debt amounting to €199 million.

Regarding other balance sheet items, goodwill totalled €23,281 million as at the year ended 31 December 2013, which was €1,344 million less than at 31 December 2012 as a result of the variations in interest rates, particularly those of sterling and the Brazilian real. In contrast, the inclusion of Kredyt Bank S.A. brought an increase in goodwill.

In late 2011 and early 2012 the European Central Bank held two 3-year auctions with the aim of injecting liquidity into the market. The Group took part in both auctions and followed the practice of depositing most of the funds raised with the ECB itself, as is reflected in the variation in the balances with central banks. In 2013 practically all of the amounts acquired in these auctions were repaid; with Portugal holding the only remaining material amount. This strategy led to a decrease of approximately €40,000 million under the central banks line item on both sides of the balance sheet.

The financial assets available for sale totalled €83,799 million, which was €8,468 million (9%) less than at the end of 2012, due to the decrease in government bond positions, particularly in Spain, the United Kingdom, Brazil and the United States.

	As at 31 December 2013	As at 31 December 2012
	<i>Millions of euros</i>	<i>Millions of euros</i>
Debt instruments	79,844	87,724
Equity instruments	3,955	4,542
Total	83,799	92,267

Business Areas

CONTINENTAL EUROPE

Continental Europe includes all the commercial banking, global wholesale banking and asset management and insurance business activities carried on in this geographical area, as well as the real estate operations discontinued in Spain business unit.

Strategy

The main actions in the year focused on taking forward the integrations of the commercial networks in Spain and the banks in Poland. In addition, in a still weak environment with low interest rates, for the last three years the general strategic lines have remained the same: to protect the spreads of both loans and deposits, reduce the cost of funds, control costs and actively manage risks.

Business activities and earnings

As at the year ended 31 December 2013, the lending to customers of this area fell by 4% compared to 31 December 2012 as a result of the deleveraging of the property sector and the low demand for credit at the units in Spain and Portugal. The aggregate amount of customer deposits (excluding repos and including retail commercial paper), investment funds and pension funds rose by 2% compared to 31 December 2012.

The profit attributable to the Group as at 31 December 2013 was €1,127 million, which was 17.4% less than at 31 December 2012 profit before the property write-downs that were booked in that year.

Total income was down by 2.9% year on year as a result of the fall in the net interest income (-8.3%) which continued to reflect the weakness of the region's economies, the low interest rates, the still high average cost of liabilities and the repricing of mortgages. Conversely, the gains on financial assets and liabilities (wholesale businesses) made a bigger contribution.

There was a 1.8% rise in operating costs, basically as a result of the change in the scope of consolidation in Poland, since on a like-for-like basis their performance was flat (-0.8%) with costs at all units either decreasing or stable.

The ordinary credit loss provisions were 12.2% lower than those booked in 2012.

- **Spain**

The units in Spain did business in 2013 in a complicated environment, although there were signs of improvement in the second half of the year when GDP ended eight quarters of falls (+0.1% in the third quarter and +0.3% in the fourth quarter). There was a marked improvement in financial conditions with a sharp decrease in the sovereign debt risk premium; and the banking system gained in soundness with stronger solvency and liquidity ratios.

Nevertheless, the banking system continued to be affected by the process of business and household deleveraging, by interest rates at all-time lows (with the European Central Bank ("ECB") main reference rate at 0.5%), and a non-performing ratio that was still rising.

Strategy

In this environment, the Group is completing the merger of its two major commercial networks (Banco Santander and Banesto) and its specialised private banking unit (Banif), with the ultimate objective of increasing profitability and efficiency.

The integration process is proceeding on schedule, and even ahead of the initial estimates in some areas. After completing the legal integration in the first half of 2013, July saw the start of the process of branch concentration and optimisation, together with that of workforce optimisation, which is being implemented earlier than scheduled in order to obtain the cost synergies sooner.

Business activities and earnings

The total funds managed (customer deposits, retail commercial paper, investment funds and pension funds) amounted to €224,253 million at 31 December 2013, which was 3% less year on year (+1% excluding repos). This decrease was the result of the strategy of not renewing expensive institutional balances, which conceals the growth of retail funds overall.

Lending reflected the process of deleveraging in the market, with a year-on-year decrease of 8% (excluding the impact of reverse repos), which included the impact of the repayment in the last quarter of the approximately €4,000 million of the supplier payment fund.

This performance of deposits and loans led to an improvement in the liquidity position (net loan-to-deposit ratio, including retail commercial paper of 87% in December 2013, compared with 90% in December 2012). As a result of this comfortable position, the focus was placed in the last three quarters on reducing the cost of funds, and this is reflected in the sharp drop in the cost of new time deposits which is gradually being passed on to the cost of the stock of customer deposits.

The non-performing loans ratio stood at 7.49%, an increase of 365 basis points in the year, largely affected by the impact of the reclassification carried out in June and by the effect that the deleveraging process is having on the denominator. The coverage ratio as at the year ended 31 December 2013 was 44%.

The profit obtained in 2013 was €478 million, which was 44.6% less year on year.

The earnings for the year were impacted by the high level of credit loss provisions in this phase of the cycle, which stood at €2,411 million, a similar amount to the previous year.

As regards income, the fall for the year overall reflects the decrease in volumes, the repricing of mortgages and a decrease in the cost of new deposits which has not yet been passed on to all of the stock. The trend, however, is one of improvement, with the fourth quarter net interest income up by 3.2% on the third quarter.

Operating costs were down by 1.4% year on year. The drop was much bigger in the last quarter when costs were 4.7% lower than in the third quarter, reflecting the first savings obtained from the integration and the efficiency plans designed.

• Portugal

The year showed some economic recovery, although at moderate rates. After the highest quarterly growth in the second quarter of 2013 (+1.1%), GDP grew 0.2% in the third quarter, based on the

recovery of domestic demand, particularly private consumption and investment, confirming a sustainable trend of gradual emergence out of the recession.

Strategy

In this economic and financial situation, the strategy at Santander Totta remained closely focused on increasing customer loyalty and customer transactions, and protecting spreads of both loans and deposits. At the same time, the management of non-performing loans continued to be a strategic priority, focusing particularly on preventative action.

Business activities and earnings

Deposits as at 31 December 2013 amounted to €24,191 million, an increase of 1% year on year (-4% excluding repos). Lending continued its downward trend, falling 1% in the quarter, which took the year-on-year decrease to 5%.

As at 31 December 2013 Santander Totta had obtained attributable profit of €114 million, compared with €122 million as at 31 December 2012. This performance reflects the impact of the economic situation on income, which the improvement in both operating costs and provisions did not manage to offset.

The total income was €916 million as at 31 December 2013, which was 11.6% less than as at 31 December 2012, partly affected by the capital gain obtained in 2012 on the repurchase of securities, which took the gains on financial assets and liabilities to €109 million, compared with €51 million in 2013.

Operating costs continued to perform well with the ongoing application of the policy of optimising the commercial network to suit the new business environment, resulting in a decrease of 2.2%, with favourable variations in personnel expenses (-2.4%), general expenses (-1.2%) and amortisation and depreciation (-2.9%). This performance of income and costs led to an efficiency ratio of 54.1%.

The credit loss provisions stood at €192 million, which was 51.0% less than in 2012, because of the lower need for write-downs in recent quarters (reduction of the cost of lending during the year), combined with the sizeable provisions booked in 2012).

- **Poland (changes in local currency)**

The rate of GDP growth slowed considerably at the beginning of 2013 to 0.5% year on year in the first quarter, and then rose again in the following quarters, reaching 1.9% year on year in the third quarter. It is expected to reach 2% in the fourth quarter of 2013.

Strategy

The integration of Bank Zachodni WBK S.A. and Kredyt Bank S.A. is one of the main management focuses. It is progressing slightly ahead of schedule with very effective management of costs due to the efficiency measures and the implementation of the integration plan. All of the branches now have the BZ WBK brand and IT systems, and the productivity of the former Kredyt Bank S.A. branches is continuing its upward trend.

Business activities and earnings

At 31 December 2013, Poland had €16,214 million in net loans, €18,503 million in customer deposits and a sound funding structure, as illustrated by the net loan-to-deposit ratio of 88%.

After the incorporation of Kredyt Bank S.A., loans were up 73% year on year and deposits were up 69%. Disregarding the impact of the change in the scope of consolidation, loans and deposits increased by 1%, the latter due to the reduction in costly balances. Investment funds were up by 12%.

The comparison of 2013 with 2012 is not uniform due to the scope of consolidation impact as a result of the integration of Kredyt Bank S.A. The attributable profit was €334 million, up by 1.7% year on year.

In a comparison on a like-for-like basis, using local criteria and taking the proforma of the two banks, the profit rose by 3.9% due to flat income and a 5.7% reduction in costs.

- **Santander Consumer Finance**

The Santander Consumer Finance ("SCF") units in continental Europe conducted business in 2013 in an economically weak environment.

Despite the slight recovery of recent quarters, the consumer finance business was hindered throughout the year by negative year-on-year rates of private spending (ranging from -1.2% in the first quarter to -0.4% in the third). The falls were much bigger in the European peripheral countries.

Strategy

SCF's sound performance is based on a business model that adapts well to this environment and enables it to gain profitable market share. It is founded on a high level of geographical diversification with critical mass in key markets and products, efficiency that is above that of its competitors and a risk control and recoveries system that is common to all the units.

In 2013 the main focuses of management were the management of costs, the development of a locally independent funding model, and the promotion of new lending and cross-selling tailored to the situation in each market (periphery, northern and central Europe), supported by brand agreements and penetration in used cars.

Business activities and earnings

Gross lending remained at around €58,500 million as at 31 December 2013, slightly below the figure at 31 December 2012 (-1%). There was growth at the units in central and northern Europe, particularly the Nordic countries, and falls in the peripheral countries due to the deleveraging of their economies.

New lending ended 2013 with a slight increase on the previous year (+1% year on year), at €21,950 million. By product, noteworthy was the increase in durable goods (+6%), used vehicles (+4%) and new vehicles (+2%) in contrast with the fall in vehicle registrations in the footprint (-4%).

On the liability side, SCF maintained a high volume of customer deposits (€30,878 million as at 31 December 2013), which sets it apart from its competitors and gives it great funding stability.

The attributable profit as at 31 December 2013 was €794 million (up by 9.6% year on year) with improvement at practically all of the units.

By unit, there was a notable year-on-year increase in the attributable profit of the Nordic countries at rates of over 20% in local currency, underpinned by the growth in business volume and income. There was also double-digit growth of profit in Germany (due to improved fees and commissions and lower credit loss provisions) and growth, albeit lower, in Spain as well (due to lower write-downs). A strong contribution from Poland on a like-for-like basis, and a weaker one from Italy and Portugal, in line with their economic situations.

Lastly, the United Kingdom unit (included for accounting purposes in Santander UK) performed strongly once again and obtained attributable profit of €101 million as at 31 December 2013. Including this result, the total attributable profit of SCF would be €895 million.

- **Real estate operations discontinued in Spain**

In addition to the above business units, there is a separate unit covering discontinued real estate operations in Spain, which includes the loans of customers whose main activity is property development that have a specialised management model, the investments related to the property sector (Metrovacesa, S.A. and SAREB) and the foreclosed assets.

The Group's strategy in recent years has been directed at reducing these assets, which at 31 December 2013 totalled €10,781 million net and were down by €1,496 million (12%) year on year. The breakdown of their performance is as follows:

- The net loans totalled €5,735 million, a drop of €1,563 million (21%) year on year. Their total credit coverage, including the outstanding balance, was 49%.
- The net foreclosed assets ended 2013 at €3,600 million, after decreasing €76 million (2%) in twelve months. These assets have a coverage allowance of €4,390 million, equivalent to 55% of the gross assets.
- Lastly, the value of the investments in Metrovacesa, S.A. and SAREB was €1,446 million.

As for earnings, the unit posted a loss of €635 million, compared with a loss of €659 million in 2012, disregarding the property write-downs in 2012. If they are included, the loss in 2012 was €4,769 million.

- **United Kingdom (changes in local currency)**

The latest performance indicators point to greater economic growth in 2013. After growing 0.1% in 2012, GDP rose by 0.4%, 0.7% and 0.8% in the first, second and third quarter, respectively.

Strategy

The strategy at Santander UK plc ("**Santander UK**") is centred on three priorities: increasing customer loyalty and satisfaction to build a bank that is more based on customer relations; being the bank of choice for businesses, and maintaining balance sheet profitability and strength.

Business activities and earnings

Santander UK focuses its business on the United Kingdom, where 83% of the loans consist of high quality residential mortgages with no exposure to self-certified or subprime mortgages and where buy-to-let loans account for approximately 1% of the loans. As at 31 December 2013, the net loan-to-deposit ratio was 123%, a drop of five percentage points as at 31 December 2012, due to the fact that the decrease in loans was higher than the decrease in customer deposits.

Under local criteria, loans totalled £187,100 million at 31 December 2013, which was 4% less than at 31 December 2012 due to the 5% fall in mortgages (mostly interest-only loans). This decrease was partially offset by the increase in loans to businesses (up 13% year on year).

At £146,400 million, commercial deposits were down 1% due to the ongoing strategy of reducing more costly and volatile deposits (mainly maturities of more costly eSaver products) and replacing them with others with greater potential for customer loyalty.

As at 31 December 2013 the profit from continuing operations was £984 million, an increase of 26.7% from 31 December 2012. The attributable profit after discontinued operations (the card business sold in the second quarter of 2013) was €976 million (up by 16.4%).

This growth was founded largely on the net interest income, which was up by 8.3% year on year after rising in each quarter, thanks to the spread on the stock of mortgages and the maturity of costly deposits in the second half of the year. This meant that the total commercial income was higher than the year before and absorbed the lower fees and commissions, mainly due to the decrease in Global banking & Markets business.

Costs increased 1.5% in 2013, below inflation and income, in addition to absorbing the investments made in retail banking and businesses. These investment programmes continue to support the transformation of the business at the same time as they establish the basis for improved efficiency, which at 31 December 2013 was 53.4% (1.4 percentage points up on 31 December 2012).

The credit loss provisions were 24.6% lower than in 2012 due to the improved balance sheet quality throughout the range of products. The non-performing loans ratio stood at 1.98% as at 31 December 2013 down from 2.05% at the year ended 31 December 2012.

- **Latin America (changes in constant currency)**

The Group is the leading international franchise in the region. It has 5,904 points of customer service (including traditional branch offices and banking service points) and a base of 46.9 million customers.

Strategy

The strategy in 2013 was focused on the expansion and consolidation of the business of the commercial franchise in the region. The specialised offering of products and services is being strengthened in line with customer requirements, which will enable the Guarantor to boost the long-term growth of the business; all while maintaining constant vigilance of risk quality.

Business activities and earnings

Lending (excluding reverse repos) was up by 9% on December 2012. Deposits (excluding repos) were up by 8% year on year (including financial bills in Brazil).

The profit attributable to the Group in 2013 was €3,257 million, down by 16.3% year on year. Excluding the effect of the changes in the scope of consolidation (Colombia sale, increased non-controlling interests in Mexico and corporate transaction in the insurance business) the fall was 10.9%.

Income stood at €21,083 million, which was 2.0% less than in 2012.

Costs were up 5.9% year on year due to the investment in networks and commercial projects (some of them traditional, others targeting priority customer segments), inflationary pressures on pay agreements and hired services, and greater technology amortisations.

Credit loss provisions were down by 1.4% as a result of the 8.9% decrease in Brazil which reduced its provisions in the last three months after the change in trend at the beginning of 2013. This made up for the increases in Mexico and Chile.

The non-performing loans ratio improved in 2013, ending the year at 5.03%, which was 39 b.p. less than at the end of 2012, assisted by the favourable impact of Brazil. The coverage ratio was 85%.

- **Brazil (changes in local currency)**

Banco Santander (Brasil) S.A. is the country's third biggest private bank by assets, and the leading foreign bank. Present in the country's main regions, it has a network of 3,566 branches and banking service points.

Brazil was the world's seventh biggest power in 2012 (ranked by nominal GDP) according to FMI estimates, after recording estimated growth in 2013 of 2.3%.

Strategy

The Guarantor's strategy is based on these fundamental premises: increased customer satisfaction, greater efficiency, emphasis of the business on greater diversification of income with stringent risk management at all stages of the cycle, and capital discipline.

Business activities and earnings

Lending to customers was up by 7% year on year, supported mainly by mortgages, where the market is still in its early stages, and the large companies segment. The total customer funds attracted were up by 15% year on year, with good performance from demand and savings deposits (+22%) and investment funds (+32%).

As at 31 December 2013, Santander Brasil obtained attributable profit of €1,577 million, a decrease of 17.8% year on year in local currency.

As at 31 December 2013 income amounted to €13,565 million, which was 6.4% less than at 31 December 2012, mainly due to the fall in the net interest income as a result of the change in the portfolio mix and the compression of credit spreads, particularly the shift towards products with lower spreads and also lower cost of credit.

Costs were 3.9% higher than in 2012, well below inflation, while absorbing both the greater depreciation and amortisation charges due to the investments made and the implementation of the collective pay agreement. Disregarding depreciation and amortisation, expenses rose by 2.6%, reflecting the effort being made in recent months in cost control.

Provisions performed well in the year, falling quarter by quarter, leading to an overall decrease of 8.9%.

This was a result of the big improvement in the non-performing loans ratio from 6.86% at 31 December 2012 to 5.64% at 31 December 2013.

- **Mexico (all changes in local currency)**

Santander is the country's fourth biggest financial group by business volume. At 31 December 2013 it had 1,258 branch offices.

The estimated economic growth in Mexico for the year was 1.2%, which was lower than initially forecast. One of the contributing factors was the sharp contraction of the construction industry, together with lower external demand in the first half.

Against this background, the Bank of Mexico lowered the reference interest rate in the second half of the year to 3.50%.

Strategy

In this environment, Santander Mexico continued establishing its franchise in 2013 by focusing primarily on customer relations and increasing service quality. Strategy concentrated on consolidating the development of commercial banking, particularly in the high income, SME and business segments, and through the plans designed to increase the transactional loyalty of customers, multi-channel banking and the development of bespoke value offerings.

Business activities and earnings

As at 31 December 2013, compared to 31 December 2012, lending rose by 12%. Deposits excluding repos rose by 4%, since the fall in time deposits was offset by a 21% increase in demand deposits.

The attributable profit of €713 million was 29.2% less than at 31 December 2012. Before non-controlling interests the decrease was 12.2%.

The gross operating income rose by 8.3% year on year, with good performance of the net interest income (up by 5.9%) and fees and commissions (up by 8.1%).

Costs were up by 9.9% year on year as a reflection of the new commercial ventures and the greater installed capacity.

There was a 72.2% increase in credit loss provisions, mainly as a result of the charge made for housing developers under IFRS rules (under local criteria it was made against equity); and the increased volumes of credit. Another contributing factor was the release of provisions booked in the first quarter of 2012.

The non-performing loans ratio was 3.66% and the coverage ratio was 97%, reflecting the good quality of the portfolio.

- **Chile (all changes in local currency)**

Santander is Chile's leading bank in terms of assets and customers, with a marked retail focus (private individuals and SMEs). The Guarantor has a distribution network of 493 branch offices.

The rate of expansion of economic activity was 4.0%-4.5% as a result of the slowdown in consumption, the growth rate of which, nevertheless, was still positive, supported by a tight labour market (unemployment below 6% and an increase in real wages), and moderation of investment.

Strategy

As at the date hereof, the Group is maintaining its strategy to protect long-term profitability in a climate of smaller margins and greater delinquency. To do this the strategic plan designed seeks to consolidate the franchise by means of four pillars: improving the quality of customer service, focus on commercial banking, proactive management of risks and ongoing review of processes to increase operating efficiency. The new customer relationship management and the "Santander Select" model of customer service both form part of this strategy.

Business activities and earnings

Lending increased 11% and deposits increased 8% year on year, with demand deposits up by 10% as a result of the greater focus placed on them and the bigger increase in the number of customers.

The attributable profit was down by 6.6% year on year at €435 million.

As at 31 December 2013 the gross operating income was 3.0% higher than at 31 December 2012 due to the increase in the net interest income and the higher ROE.

Costs rose 5.5%, although the year-on-year growth rate slowed with the completion of a number of projects being implemented in recent years, such as the conversion of branch offices to the new Select model and the technology investments to strengthen the Guarantor's transactional capabilities.

Credit loss provisions were 9.5% higher and benefited from the sustained improvement in the private individuals portfolio, which was partially offset by some isolated positions of businesses. The risk premium remained stable, with a non-performing loans ratio of 5.91% and a coverage ratio of 51%.

- **Other countries (changes in local currency)**

In Argentina, Santander Río is the country's leading private bank by asset volume, customer funds and earnings. In 2013 it obtained attributable profit of €333 million, an increase of 26.3% in local currency. Lending was up 35% year on year, with noteworthy growth in both SMEs and businesses. There was a 30% increase in deposits, with growth in both demand deposits (+24%) and time deposits (+42%).

In Uruguay, the Group kept its position of leadership. The attributable profit was €53 million as at 31 December 2013, which was an increase of 18.8% on 31 December 2012. There was growth in both loans (+24%) and deposits (+17%), heavily supported by retail banking.

Santander Puerto Rico has 115 branch offices. The attributable profit increased 40.7% to €77 million, mainly as a result of the strategy of cutting the cost of liabilities, the good performance of the credit loss provisions and cost control. As for business activity, loans were down 8% and deposits remained flat year on year.

In Peru the attributable profit was up year on year by 28.1% in local currency, as a result of the good performance of the net interest income, which increased by 46.7%. There was a 29% increase in lending year on year, while deposits rose by 15%.

- **United States (changes in local currency)**

Business was done in a setting of moderate growth in which the monetary authorities kept interest rates very low and implemented other unconventional stimulus measures such as quantitative easing. The market is already anticipating the effects of a future rise in interest rates and the progressive withdrawal of the stimulus measures.

Strategy

The scope of consolidation of Santander US is that of SHUSA, a bank holding company with two distinct lines of business: the commercial banking activity that it carries on through its subsidiary Santander Bank, and the consumer finance business that it carries on through its stake in SCUSA. On 17 October 2013, Sovereign Bank N.A. changed its name to Santander Bank N.A., thereby completing the process of changing the brand.

With 706 branch offices, Santander Guarantor's business model focuses on retail customers and businesses. The Guarantor operates in the north east of the United States.

SCUSA, based in Dallas, specialises in the consumer finance business, mainly cars. The shareholding is carried by the equity method.

Business activities and earnings

On the asset side, lending was down 5% year on year, mainly due to the strategy of originating to sell in the mortgage business. On the liability side, customer deposits were down 3% due to the strategy of reducing funding costs, leading to an increase in demand deposits (+9%) and a decrease in time deposits (-36%).

Santander US obtained attributable profit of \$961 million, which was 7.1% less than in 2012. Santander Bank booked €548 million of this total, which was 8.5% less than in 2012 due to the fall in income (as a result of lower business volumes and the sale of part of the investment portfolio) and the rise in costs as a result of the change in brand and compliance expenses.

SCUSA's contribution was 5.2% lower than in 2012 at \$413 million. Although SCUSA maintained a strong trend of growth in volumes (loans up by 35%) and net interest income (up by 27%), partly as a result of the agreement with Chrysler, this growth was not yet reflected in the profit because of the requirement for greater provisions due to the increase in production in recent quarters.

- **Corporate Activities**

In 2013 this area posted a loss of €1,887 million compared with a loss of €2,125 million in 2012, before the booking of capital gains. Taking capital gains into account, the loss was €1,142 million.

In the year-on-year comparison, income remained flat, with a more negative net interest income, which was offset by the higher gains from the management of structural balance sheet risks (gains on financial assets and liabilities: €1,184 million in 2013 and 716 million in 2012).

Costs increased mainly as a result of the base effect due to the adjustment made in the fourth quarter of 2012.

Total write-downs and other income were lower than in 2012, when there were charges for goodwill in Italy, the property fund and the expenses for the integration of SEB in Germany.

- **Breakdown by business (changes in constant currency)**

The secondary or business segment reporting distinguishes between commercial banking, global wholesale banking, asset management and insurance, and the discontinued operations unit in Spain, the sum of which is equal to that of the four geographical areas composing the primary segment reporting.

The commercial banking area accounted for 85% of the income and 74% of the attributable profit obtained by the Group's operating areas in 2013.

Under business activities, lending was down 1% (excluding the exchange rate effect), with mixed performance depending on the markets, since the mature markets fell by 5%, whereas the emerging markets recorded growth of 14%, partly due to the scope of consolidation effect in Poland. Deposits excluding repos grew by 2%.

Attributable profit of €5,077 million was obtained in 2013, which was 13.8% less than in 2012 (down by 8.9% in constant euros). Broken down, income fell by 9.2% (down by 3.1% in constant euros) as a result of the climate of low growth, low interest rates, the Group's strategy of prioritising balance sheet liquidity and strength over the past two years, and the shift in mix towards products with less risk.

Operating costs were down by 1.6% (up by 4.4% in constant euros) and the total provisions and write-downs were lower than those booked in 2012.

Global wholesale banking, a segment managed by Santander Global banking & Markets (SGB&M), generated 13% of income and 22% of the attributable profit of the Santander Group operating areas in 2013.

The attributable profit in 2013 was €1,503 million, down by 21.4% from 2012. This fall was due to the higher credit loss provisions, mainly in Spain and Mexico, since income remained almost flat and costs fell 1.6%.

The asset management and insurance area accounted for 9% of the total income of the operating areas in 2013.

The area obtained attributable profit of €313 million in 2013. This was 22.3% lower than in 2012 and accounted for 4% of the profit of the Group's operating areas.

Excluding the corporate insurance transactions booked in the second half of 2012 (reinsurance of the life risk portfolio in Spain and Portugal) and the first half of 2013 (strategic Bank assurance alliance - life and general - in Spain), the fall in the area's attributable profit would be reduced to 7.1% in constant euros.

Significant events after the reporting period

Between 1 January 2014 and the date of preparation of this Information Memorandum there were the following significant events:

- On 3 January 2014, the Group announced that it had sold to Altamira Asset Management Holdings, S.L., an investee of Apollo European Principal Finance Fund II, an entity affiliated to Apollo Global Management, LLC (Apollo), 85% of the share capital of Altamira Asset Management, S.L., the Group company that manages debt recovery services before the initiation of court action in Spain and the sale or lease of foreclosed property assets relating to this business, for €664 million.
- At its meeting of 13 January 2014, the Guarantor's executive committee resolved to apply the Santander Dividendo Elección scrip dividend scheme on the dates on which the third interim dividend is traditionally paid, whereby the shareholders were offered the option of receiving an amount equivalent to said dividend, the gross amount of which was €0.152 per share, in shares or cash.
- In January 2014 the public offering of shares of Santander Consumer USA Holdings Inc. (SCUSA) was completed and the company was admitted to trading on the New York Stock Exchange. The placement represented 21.6% of SCUSA's share capital, of which 4% related to the holding sold by the Group. Following this sale, the Group holds 60.7% of the share capital of SCUSA. Both Sponsor Auto Finance Holdings Series LP (Sponsor Holdings) -an investee of funds controlled by Warburg Pincus LLC, Kohlberg Kravis Roberts & Co. L.P. and Centerbridge Partners L.P.- and DDFS LLC (DDFS) - a company controlled by Thomas G. Dundon, the Chief Executive Officer of SCUSA- also reduced their holdings.

Since the ownership interests of the former shareholders were reduced to below certain percentages, it is expected that the shareholder agreement will be terminated, pursuant to the terms and conditions established in said agreement. This termination will include, inter alia, the cancellation of the contingent payment to be made by SCUSA on the basis of its results in 2014 and 2015. It will also entail the termination of the agreements whereby, inter alia, Sponsor Holdings and DDFS LLC were granted representation on the board of directors of SCUSA and a voting system was established whereby the strategic, financial and operating decisions, and other significant decisions associated with the ordinary management of SCUSA, were subject to joint approval by the Group and the aforementioned shareholders and, therefore, SCUSA will cease to be controlled jointly by all the above and will begin to be controlled by the Group on the basis of the percentage held in its share capital.

Significant new products and/or activities

Santander continues to innovate and develop new products and financial services that create value for its customers and respond to the specific needs and circumstances of different countries. Of note in 2013 were:

- The launch of Santander Trade, a unique portal in the financial system that helps companies win international business by bringing opportunities closer to the business community.

- The launch in the US, coinciding with the rebranding, of the Extra20 checking account, which credits customers with \$20 every month if they have \$1,500 of income domiciled in their account and have two or more direct debits via Santander's online bank.
- The success of the 1|2|3 range of products in the UK, which won 1.1 million new customers in 2013 to reach a total of 2.4 million people closely linked to the Guarantor. The 1|2|3 current account reimburses in cash part of household bills and rewards larger balances with higher interest rates. Similar products were launched in Spain and Poland.

Marketing of products and services

Policies

At Grupo Santander management of the reputational risk that could arise from an inadequate sale of products or from an incorrect provision of services by the Group is conducted in accordance with the corporate policies of marketing of products and services.

These corporate policies aim to set a single corporate framework for all countries, businesses and institutions: (i) strengthening organizational structures; (ii) ensuring that the decision-making committees oversee not only the approval of products or services, but also the monitoring of them during their whole life and (iii) setting the guidelines for defining uniform criteria and procedures for the whole Group for the marketing of products and services, covering all phases (admission, pre-sale, sale and post-sale).

The developments and specific adjustment of these policies to the local reality and to local regulatory requirements is carried out through local internal rules in the Group's various units, following authorization by the corporate area of compliance and reputational risk.

Governance and organization

The corporate and local marketing committees, the global consultative committee, the corporate committee of monitoring and the corporate and local offices comprise the organizational structure of the risk that could arise from an inadequate marketing of products and services.

The corporate committee of marketing (CCM) is the maximum decision-making body for approving products and services and is chaired by the Group's secretary general.

It is made up of representatives of the divisions of risks, financial management, technology and operations, the general secretariat, general audit and control, internal auditing, retail banking, global wholesale banking, private banking, asset management and insurance.

The CCM attaches particular importance to adjusting products and services to the framework where they are going to be marketed, paying special attention to ensuring that:

- Each product or service is sold by suitable staff.
- Customers are provided with the necessary and adequate information.
- The product or service is adjusted to the customer's risk profile.
- Each product of service is assigned to the right market, not only for legal or tax reasons, but also to meet the market's financial culture.

- The products and services fulfil the requirements of the corporate marketing policies and, in general, the applicable internal and external rules.

At the local level, local marketing committees (LCM) are established, which channel toward the CCM proposals to approve new products - after a favourable opinion has been issued as initially they do not have powers delegated in them – and approve products that are not new and their marketing campaigns.

The marketing committees, in the respective approval processes, take a risk-focused stance from the double perspective of bank/client.

The global consultative committee (GCC) is the advisory body of the corporate marketing committee and consists of representatives of the areas that provide a view of regulatory and market risk. The GCC, which meets around every three months, can recommend a review of products that are affected by changes in markets, deterioration of solvency (country, sectors or companies) or by changes in the Group's view of the markets in the medium- and long term.

The corporate monitoring committee (CMC) is the Group's decision-making body for the monitoring of products and services. It is chaired by the secretary general and has representatives from internal auditing, legal advice, compliance, customer attention and the business areas affected (permanent representation of the retail network). It meets every week to raise and resolve specific issues related to the marketing of products and services at the local level as well as by the Group's units abroad.

The corporate office of reputational risk management (CORRM) provides the governance bodies with the information needed for: (i) adequate analysis of risk in approvals, from the standpoint of the Guarantor and the impact on the client; and (ii) monitoring of products throughout their life cycle.

At the local level there are reputational risk management offices, which are responsible for promoting the risk culture and ensuring that approval and monitoring of products is developed in their respective local sphere in line with the corporate guidelines.

Main actions

The CCM met 12 times in 2013 (14 in 2012 and 19 in 2011) and analyzed 151 new products/services. The corporate office of reputational risk was presented with 54 products/services considered not new for approval and resolved 167 consultations from areas and countries. The GCC held two meetings (3 in 2012 and 3 in 2011).

Monitoring of products and services approved is done locally (local committee of monitoring of products or equivalent local body, such as the LCM). The conclusions are set out in reports every four months for the CORRM, which prepares integrated reports on all the Group's monitorings for the CMC.

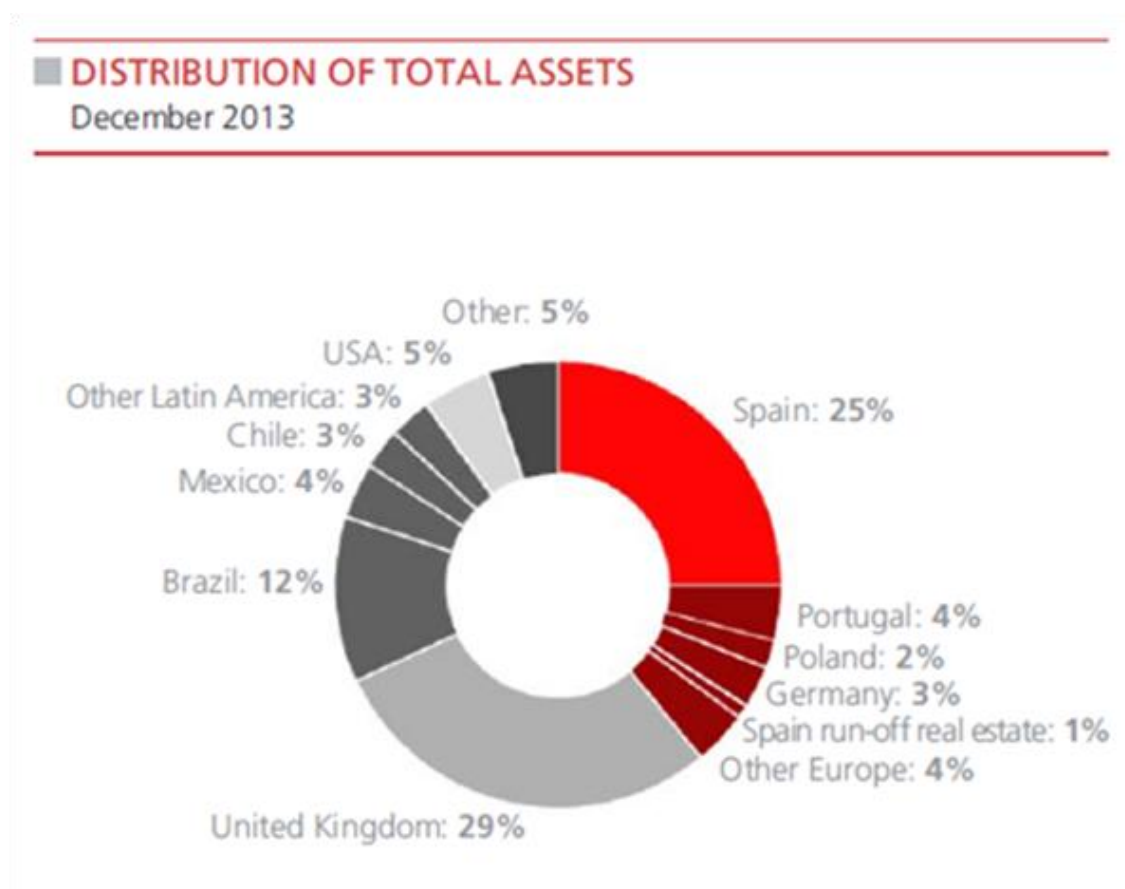
The CMC held 41 meetings in 2013 (44 in 2012 and 42 in 2011) at which incidents were resolved and information analyzed on the monitoring of products and services, at both the local level as well as the Group's units abroad.

Principal Markets: brief description of the principal markets in which the Guarantor competes

Grupo Santander's geographic diversification is balanced between mature and emerging markets, which contributed 47% and 53% of profit, respectively, in 2013.

The Guarantor focuses on 10 core markets: Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has significant market shares in Uruguay and Puerto Rico, consumer finance businesses in other European countries and a presence in China through wholesale banking and consumer finance.

The global business areas develop products that are distributed in the Group's retail networks and provide services to clients globally.



Organisational Structure

Banco Santander, S.A. is the parent company of the Group which was comprised at 31 December 2013 of 712 companies that consolidate by the global integration method. In addition, there are 191 companies that are accounted for by the equity method.

Trend Information

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

regulatory changes will take place in the future that the Guarantor expects will increase the overall level of regulation in the markets.

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

- a continued downturn in the Spanish and the United Kingdom real estate markets, and a corresponding increase in mortgage defaults, which could impact its nonperforming loans and decrease consumer confidence and disposable income;
- uncertainties relating to economic growth expectations and interest rates cycles, especially in the United States, Spain, the United Kingdom, other European countries, Brazil and other Latin American countries, and the impact they may have over the yield curve and exchange rates;
- the continued effect of the global economic slowdown on Europe and the U.S. and fluctuations in local interest and exchange rates;
- continued changes in the macroeconomic environment, such as sustained unemployment above historical levels, could further deteriorate the quality of its customers' credit;
- increases in its cost of funding, as a result of the fragility of the Spanish, Portuguese, Irish and Greek economies, further downgrades in its credit rating or otherwise, could adversely affect its net interest margin as a consequence of timing differences in the repricing of its assets and liabilities;
- the effects of withdrawal of significant monetary and fiscal stimulus programs and uncertainty over government responses to growing public deficits;
- continued instability and volatility in the financial markets;
- a drop in the value of the euro relative to the US dollar, the sterling pound or Latin American currencies;
- inflationary pressures, particularly in Latin America, because of the effect they may have in relation to increases of interest rates and decreases of growth;
- increased consolidation of the global financial services sector, which could further reduce its spreads;
- although it is foreseeable that entry barriers to domestic markets in Europe will eventually be lowered, its possible plans of expansion into other markets could be affected by regulatory requirements of the national authorities of these countries;
- acquisitions or restructurings of businesses that do not perform in accordance with the Guarantor's expectations or that subject it to previously unknown risks;
- increased regulation, government intervention and new laws prompted by the financial crisis which could change its industry and require the Guarantor to modify its businesses or operations; and
- the risk of further reductions in liquidity and increases of credit spreads as a consequence of the crisis in the financial markets, which could affect not only the Guarantor's cost of funding but also the value of its proprietary portfolios and its assets under management.

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 Guarantor is presently made up of 16 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.

	Executive committee	Risk committee	Audit and compliance committee	Appointment and remuneration committee	International committee	Technology, productivity and quality committee	Executive	External	Date of first appointment
<i>Board of directors</i>									
Chairman Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	C				C	C			04.07.1960
Chief Executive Officer Mr. Javier Marín Romano									29.04.2013
First Deputy Chairman Mr. Fernando de Asúa Álvarez		V		C				I	17.04.1999
Second Deputy Chairman Mr. Matías Rodríguez Inciarte		C							07.10.1988
Third Deputy Chairman Mr. Guillermo de la Dehesa Romero			C					I	24.06.2002
<i>Members</i>									
Ms. Sheila C. Bair								I	27.01.2014
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea									04.02.1989
Mr. Javier Botín-Sanz de Sautuola y O'Shea ⁽¹⁾								P	25.07.2004
Mr. Vittorio Corbo Lioi								E	22.07.2011
Mr. Rodrigo Echenique Gordillo								I	07.10.1988
Ms. Esther Giménez-Salinas i Colomer								I	30.03.2012
Mr. Ángel Jado Becerro de Bengoa								I	11.06.2010
Mr. Abel Matutes Juan								I	24.06.2002
Mr. Juan Rodríguez Inciarte									28.01.2007
Ms. Isabel Tocino Biscarolasaga								I	26.03.2007
Mr. Juan Miguel Villar Mir								I	07.05.2013
<i>General Secretary and of the Board</i>									
Mr. Ignacio Benjumea Cabeza de Vaca ⁽²⁾									

C: Chairman V: Vice Chairman P: Proprietary I: Independent E: External, neither proprietary nor independent

(1) D. Javier Botín-Sanz de Sautuola y O'Shea is a external proprietary director representing in the board of directors the capital stock corresponding to the Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L. Latimer Inversiones, S.L., Nueva Azil, S.L., Apecaño, S.L., Bright Sky 2012, S.L., Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms. Marta Botín-Sanz de Sautuola Ríos and his own.

(2) Not director.

Principal Activities Outside the Guarantor

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

Directors	Company Name	Functions
Mr. Emilio Botín Sanz de Sautuola y García de los Ríos	Santander Investment, S.A.	Chairman*
	Universia Holding, S.L.	Chairman*
Mr. Fernando de Asúa Álvarez Mr. Matías Rodríguez Inciarte	Portal Universia, S.A.	Chairman*
	Técnicas Reunidas, S.A.	Vice Chairman*
	UCI, S.A.	Chairman*
Mr. Guillermo de la Dehesa Romero	Financiera Ponferrada, S.A., SICAV	Director
	Operador del Mercado Ibérico de Energía Polo Español, S.A.	Director
	Sanitas, Sociedad Anónima de Seguros	Director
	Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros	Chairman*
	Aviva Grupo Corporativo, S.L.	Chairman*
	Campofrío Food Group, S.A.	Director*
	Amadeus IT Holding, S.A.	Vice Chairman*
	Grupo Empresarial San José, S.A.	Director*
Mr. José Javier Marín Romano	Santander Investment, S.A.	Vice Chairman*
	Allfunds Bank, S.A.	Director*
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Santander UK plc	Chief Executive Officer
	Ingeniería de Software Bancario, S.L.	Chairwoman*
	SAM Investment Holdings Limited	Director
Mr. Javier Botín-Sanz de Sautuola y O'Shea	International Advisory Board of New York Stock Exchange	Member
	The Coca-Cola Company	Director*
	JB Capital Markets, S.V., S.A.	Chairman and Chief Executive Officer
	Mr. Vittorio Corbo Lioi	Director*
Mr. Vittorio Corbo Lioi	Banco Santander Chile, S.A. - Chile	Director*
	Empresa Nacional de Electricidad, S.A. - Chile	Director*
	Grupo Financiero Santander-Mexico	Director*
	Compañía de Seguros Sura-Chile, S.A.	Chairman*

Directors	Company Name	Functions
Mr. Rodrigo Echenique Gordillo	Banco Santander (Mexico), S.A.	Director*
	CCU, S.A.	Director*
	Santander Private Real Estate Advisory, S.A.	Chairman*
	Allfunds Bank, S.A	Chairman*
	Santander Investment, S.A.	Director*
	Banco Santander International	Director*
	Universia Holding, S.L.	Director*
	Vocento, S.A.	Director*
	NH Hoteles, S.A.	Chairman*
Ms. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	Director*
Mr. Abel Matutes Juan	Fiesta Hotels Group & Resorts, S.L.	Chairman
	FST Hotels, S.L.	Chairman
	FCC Construcción, S.A.	Director*
Mr. Juan Rodríguez Inciarte	Balearia Eurolíneas Marítimas, S.A.	Director
	Santander UK PLC	Vice Chairman*
	Santander Consumer Finance, S.A.	Director*
	SAM Investment Holding Limited	Director
	Vista Capital de Expansión, S.A., SGEGR	Director*
	ENCE Energía y Celulosa, S.A.	Director*
Ms. Isabel Tocino Biscarolasaga	Grupo OHL	Chairman
Mr. Juan Miguel Villar Mir		

* Non-executive

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

During the 2013 financial year, directors abstained from participating in and voting on matters discussed at meetings of the board of directors and its sub-committees on the following occasions:

- Without the participation of the director and following a report from the appointments & remuneration committee, the board authorized the purchase, under market conditions, of shares representing up to 0.25% of the Guarantor's capital by Espacio Activos Financieros, S.L.U., a company controlled indirectly by Mr. Juan Miguel Villar Mir.
- Additionally, directors abstained from participating in and voting on 103 instances, 29 of such occasions referred to proposals to appoint or re-elect directors. 26 occasions involved the approval of conditions relating to remuneration and other terms of the contracts of Directors, including the authorisation of the financing policy for executive directors. 18 cases were related to the suitability evaluation which the Guarantor, as a credit institution, has to carry out on the members of its board of directors and other key executives, according to Royal Decree 1245/1995 (in the wording given by Royal Decree 256/2013). On 18 occasions, such abstentions occurred when debating proposals for financing or guaranteeing companies related to different directors. On five occasions, abstentions occurred with respect to the annual verification which under article 6.3 of the Rules & Regulations of the Board, was carried out by the appointments & remuneration committee at its meeting on 13th February 2013. Two cases were related to the proposed appointment of two independent directors to hold office in the Banco Santander Foundation and one entailed the appointment of a family member of an executive director to serve on the board of a subsidiary of the Group. Another such occasion involved the approval of a contribution to a foundation chaired by a director, and a further 3 cases involved the placing on record of appreciation for the work carried out by a director.

- Finally, Lord Burns abstained from participating in the resolutions adopted by the board relating to his resignation as a director with effect from 31 December 2013 and his appointment as a member of the international advisory board from 1 January 2014.

Banco Santander, S.A. complies with the Spanish corporate governance regime. The Guarantor has included in its annual corporate governance report, which can be found on the website of the Comisión Nacional del Mercado de Valores (www.CNMV.es), a detailed explanation of its compliance with the various recommendations on corporate governance.

Major Shareholders

At 31 December 2013, 1.666% of the Guarantor's share capital was held by members of the board of directors.

The Guarantor is not aware of any person which exerts or may exert control over the Guarantor within the terms of Article 4 of Ley 24/1988, de 28 de julio, del Mercado de Valores (Law 24/1988 of 28 July of the Securities Market).

The Guarantor 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 Guarantor.

Guarantor's financial statement

The Guarantor prepares audited consolidated and non-consolidated annual financial statements.

The consolidated and non-consolidated annual financial statements of the Guarantor for the 2013, 2012 and 2011 financial years were audited by the external audit firm Deloitte, S.L. There are no reservations or qualifications of the auditors in relation to the consolidated and non-consolidated annual financial statements of the Guarantor for the 2013, 2012 and 2011 financial years.

As at the date of this Information Memorandum, the Guarantor has a total share capital which is fully-issued and paid up of €5,780,533,573.50, divided into 11,561,067,147 shares with a nominal value of €0.50. All shares are of the same class and issue with the same rights attached.

LEGAL PROCEEDINGS

(i) Tax related proceedings

As of the date of this Information Memorandum, 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 per cent. to 15 per cent. stipulated by Interim Measure 413/2008, ratified by Law 11,727/2008. A provision has been recognised for the amount of the estimated loss.
- Legal actions filed by certain Group companies in Brazil claiming their right to pay the Brazilian social contribution tax on net income at a rate of 8 per cent. and 10 per cent. from 1994 to 1998. Provisions were not recognised in connection with the amount considered to be a contingent liability.
- Legal actions filed by Banco Santander Brasil, S.A. (currently Banco Santander (Brasil), S.A.) and other Group entities claiming their right to pay the Brazilian programa de integração social ("PIS") and contribuição para financiamento da Seguridade Social ("COFINS") social contributions only on the income from the provision of services. In the case of Banco Santander Brasil, 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 Brasil, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. 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, exempting the entities availing themselves of the law from paying late-payment interest and resulting in the legal actions brought being withdrawn. 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 (Brasil), S.A. and those of Banco ABN AMRO Real, S.A. relating to the periods prior to September 2006, for which the estimated loss was provided for, are still pending.
- 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 (Imposto de Renda de Pessoa Juridica ("IRPJ") and Contribuição Social Sobre o Lucro Líquido ("CSLL")) on the ground that the relevant requirements under the applicable legislation were not met. Provisions were not recognised in connection with the amount considered to be a contingent liability.
- Banco Santander (Brasil), S.A. and other Group companies in Brazil are involved in several administrative and legal proceedings against various municipalities that demand payment of the service tax on certain items of income from transactions not classified as provisions of services. Provisions were not recognised in connection with the amount considered to be a contingent liability.

- In addition, Banco Santander (Brasil), S.A. and other Group companies in Brazil are involved in several 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. Provisions were not recognised in connection with the amount considered to be a contingent liability.
- In December 2008 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil), S.A. in relation to income tax (IRPJ and CSLL) for 2002 to 2004. The tax authorities took the view that Banco Santander (Brasil), S.A. did not meet the necessary legal requirements to be able to deduct the amortization of the goodwill arising on the acquisition of Banco do Estado de São Paulo S.A. ("**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 ("**CARF**"), which on 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities have appealed against this decision at a higher administrative level. In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Banco Santander (Brasil), S.A. filed an appeal against these procedures at CARF, which was partially dismissed on 8 October 2013. This decision will be appealed at the higher instance of CARF (Tax Appeal High Chamber). In December 2013 the Brazilian tax authorities issued an infringement notice relating to 2008, the last year for amortization of the goodwill. This infringement notice will be appealed by Banco Santander (Brasil), S.A. Based on the advice of its external legal counsel and in view of the first decision by CARF, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defense arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, provisions were not recognised in connection with these proceedings because this matter should not affect the consolidated financial statements.
- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliários Ltda. ("**DTVM**") 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. Both 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 Higher Chamber of CARF, and the appeal relating to Banco Santander Brasil, S.A. is pending a decision. With respect to DTVM, on 24 August 2012, it was notified of a decision overturning the previous favorable judgment and lodged an appeal at the Higher Chamber of CARF on 29 August 2012. In the opinion of its legal advisors, the Group considers that the tax treatment applied in these transactions was correct. Provisions were not recognised in the consolidated financial statements in relation to this litigation as it was considered a contingent liability.
- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros, S.A., as the successor by merger to ABN AMRO Brazil Dois Participações, S.A., in relation to income tax (IRPJ and CSL) 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. 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 has been recognised in connection with this proceeding as it is considered to be a contingent liability.

- Also, in December 2010, the Brazilian tax authorities issued infringement notices against Banco Santander (Brasil), S.A. in connection with income tax (IRPJ and CSLL), questioning the tax treatment applied to the economic compensation received under the contractual guarantees provided by the sellers of the former Banco Meridional. The bank filed an appeal for reconsideration against this infringement notice. On 23 November 2011, CARF unanimously decided to render null and void an infringement notice relating to 2002 with regard to the same matter. In February 2012 this decision was declared final in respect of 2002. The proceedings relating to the 2003 to 2006 fiscal years are still in progress. No provision has been recognised in connection with this proceeding as it is 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 Sterrebeeck B.V., an entity that is not a resident of Brazil, 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. recognised gain 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 exchange. The Group lodged an appeal against the infringement notice at the Federal Tax Office and considers, based on the advice of its external legal counsel, that the stance taken by the Brazilian tax authorities is not correct, that there are sound defense arguments to appeal against the infringement notice and that, therefore, the risk of loss is remote. Consequently, the Group has not recognised any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.
- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit in connection with taxes paid outside the United States in fiscal years 2003 to 2005 in relation to financing transactions carried out with an international bank. Santander Holdings USA Inc. considers that, in accordance with applicable tax legislation, it is entitled to claim these foreign tax credits taken with respect to the transactions and deduct the related issuance and financing costs. In addition, if the outcome of this legal action is 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. In 2013 the U.S. courts found against two taxpayers in cases with a similar structure. In the case of Santander Holdings USA, Inc. the proceeding was scheduled for 7 October 2013, although it was adjourned indefinitely when the judge found in favor of Santander Holdings USA Inc. with respect to one of the main grounds of the case. Santander Holdings USA Inc. expected the judge to rule in the coming months on whether his previous decision will result in the proceedings being stayed or whether other matters need to be analyzed before a final decision may be handed down. If the decision is favorable to Santander Holdings USA Inc., the U.S. government has stated its intention to appeal. The estimated loss relating to this proceeding has been provided for.

As of the date of approval of the Information Memorandum, the Bank and the other Group companies were subject to claims and, therefore, are party to certain other less significant tax-related proceedings incidental to the normal course of their business.

(ii) **Non tax related proceedings**

As of the date of this Information Memorandum, the main non-tax-related proceedings concerning the Group were as follows:

- **Customer remediation:** claims associated with the sale by Santander UK of certain financial products (principally payment protection insurance or PPI) to its customers.

Payment protection insurance is a UK insurance product offering payment protection on unsecured personal loans (and credit cards). The product was sold by all UK banks. The mis-selling issues are predominantly related to business written before 2009. The nature and profitability of the product has changed materially since 2008.

On 1 July 2008, the UK Financial Ombudsman Service ("**FOS**") referred concerns regarding the handling of PPI complaints to the UK Financial Services Authority ("**FSA**"). On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling as an issue of wider implication. The FSA published its policy statement on 10 August 2010 (the "**FSA Policy Statement**"), setting out the evidence and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

On 8 October 2010, the British Bankers' Association ("**BBA**"), the principal trade association for the UK banking and financial services sector, filed on behalf of certain financial institutions (which did not include Santander UK plc) an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008. The judicial review was heard in the courts in January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the proceeding brought by the BBA.

Santander UK did not participate in the legal action undertaken by other UK banks and had been consistently making provisions and settling claims with regards to PPI complaints liabilities.

A detailed review of the provision was performed by Santander UK in the first half of 2011 which was necessary in light of the new situation, including the High Court judgment of April 2011, the BBA's subsequent decision not to appeal and the consequent increase in actual claims levels. As a result, the provision has been revised.

In this context, in 2011 the Group recognised a provision, with a net effect on results of €620 million (GBP 538 million), which was calculated on the basis of the estimate of the number of claims that would be received, of the number of claims that would be upheld and of the estimated average amount of compensation in each case.

Following the payments made until 31 December 2013, the remaining provision recognised in relation to PPI sales totaled GBP 165 million.

The following table shows information on the total claims received up to 31 December 2013 and the resolution thereof:

	2013	2012	2011
	<i>(number of claims, in thousands)</i>		
Claims outstanding at the beginning of the period.....	31	1	—
Claims received	363	437	111
Claims rejected as being invalid ⁽¹⁾	(298)	(258)	(90)
Resolved claims ⁽²⁾	(82)	(149)	(20)
Claims outstanding at the end of the period	14	31	1

⁽¹⁾ Includes rejected claims relating to customers that had never purchased payment protection insurance from Santander UK.

⁽²⁾ Customers are entitled to appeal to the Financial Ombudsman Service (FOS) if their claims are rejected. The FOS may uphold or reject an appeal and if an appeal is upheld, Santander UK is required to compensate the customer. The table shows the result of appeals relating to paid or rejected claims.

The amount settled in relation to paid claims in 2013 totaled GBP 217 million.

The main cause of the increase in claims in 2011 was the media coverage of this issue following the dismissal by the High Court of the appeal for judicial review filed by the British Bankers' Association and the launch of campaigns by claim management companies in relation to these products.

There was also an increase in claims in 2012 due to greater media coverage of the issue, a rise in the activity of claims management companies and the proactive policy followed by Santander UK, which contacted over 300,000 customers directly.

Lastly, the number of claims received fell by 17 per cent. in 2013 compared to 2012 and the associated costs also fell significantly, particularly in the last quarter of 2013.

The provision recognised at the end of 2013 represents the best estimate by Group management, taking into account the opinion of its advisers and of the costs to be incurred in relation to any compensation that may result from the redress measures associated with the sales of payment protection insurance ("PPI") in the UK. The provision was calculated on the basis of the following key assumptions resulting from judgments made by management:

- Volume of claims- estimated number of claims;
- Percentage of claims lost-estimated percentage of claims that are or will be in the customers' favor; and
- Average cost-estimated payment to be made to customers, including compensation for direct loss plus interest.

These assumptions were based on the following information:

- A complete analysis of the causes of the claim, the probability of success, as well as the possibility that this probability could change in the future;
- Activity recorded with respect to the number of claims received;

- Level of compensation paid to customers, together with a projection of the probability that this level could change in the future;
- Impact on the level of claims in the event of proactive initiatives carried out by the Group through direct contact with customers; and
- Impact of the media coverage.

These assumptions are reviewed, updated and validated on a regular basis using the latest available information, such as, the number of claims received, the percentage of claims lost, the potential impact of any change in that percentage, etc. and any new evaluation of the estimated population.

Group management reviews the provision required at each relevant date, taking into account the latest available information on the aforementioned assumptions as well as past experience.

The most relevant factor for calculating the balance of the provision is the number of claims received as well as the expected level of future claims. The percentage of claims lost is calculated on the basis of the analysis of the sale process. The average cost of compensation is calculated in a reasonable manner as the Group manages a high volume of claims and the related population is homogenous.

- Proceeding under Civil Procedure Law filed by Galesa de Promociones, S.A. against the Bank at Elche Court of First Instance no. 5, Alicante (case no. 1946/2008). The claim sought damages amounting to €51 million as a result of a judgment handed down by the Supreme Court on 24 November 2004 setting aside a summary mortgage proceeding filed by the Bank against the plaintiff company.

On 2 March 2010, the court of first instance handed down a decision partly upholding both the claim filed against the Bank and the counterclaim. On 11 November 2010, the Alicante Provincial Appellate Court handed down a decision upholding the appeal filed by the Bank and dismissing the appeal brought by Galesa de Promociones, S.A., as a result of which and by way of offsetting the indemnity obligations payable by each party, the Bank became a creditor of Galesa in the amount €0.4 million.

Galesa de Promociones, S.A. filed a cassation appeal against the above decision at the Supreme Court. The appeal was dismissed in a Supreme Court judgment dated 17 July 2013, against which the appellant filed a motion for annulment, which was rejected. The Bank has not recognised a provision in this connection.

- After the Madrid Provincial Appellate Court had rendered null and void the award handed down in the previous arbitration proceeding, on 8 September 2011, Banco Santander, S.A. filed a new request for arbitration with the Spanish Arbitration Court against Delforca 2008, Sociedad de Valores, S.A. (formerly Gaesco Bolsa Sociedad de Valores, S.A.), claiming €66 million that the latter owes it as a result of the declaration on 4 January 2008 of the early termination by the Bank of all the financial transactions agreed upon between the parties.

On 3 August 2012, Delforca 2008, S.A. was declared to be in a position of voluntary insolvency by Barcelona Commercial Court no. 10, which had agreed as part of the

insolvency proceeding to stay the arbitration proceeding and the effects of the arbitration agreement entered into by Banco Santander, S.A. and Delforca 2008, S.A. The Bank filed an appeal against this decision, which was dismissed and it then proceeded to prepare a challenge with a view to filing a future appeal. The Arbitration Court, in compliance with the decision of the Commercial Court, agreed on 20 January 2013 to stay the arbitration proceedings at the stage reached at that date until a decision could be reached in this respect in the insolvency proceeding.

In addition, as part of the insolvency proceeding of Delforca 2008, S.A., Banco Santander, S.A. notified its claim against the insolvent party with a view to having the claim recognised as a contingent ordinary claim without specified amount. However, the insolvency manager opted to exclude Banco Santander, S.A.'s claim from the provisional list of creditors and, accordingly, Banco Santander, S.A. filed an ancillary claim on which a decision has not yet been handed down. In this ancillary claim (still in progress), Delforca 2008, S.A. and the insolvency manager are seeking to obtain a decision from the Court on the merits of the dispute between Banco Santander, S.A. and Delforca 2008, S.A. and, accordingly, Banco Santander, S.A. has appealed against the interlocutory order that admitted for consideration the evidence proposed by them. The appeal was not given leave to proceed and Banco Santander has prepared the corresponding protest.

As part of the same insolvency proceeding, Delforca 2008, S.A. has filed another ancillary claim requesting the termination of the arbitration agreement included in the framework financial transactions agreement entered into by that party and Banco Santander, S.A. in 1998, as well as the termination of the obligation that allegedly binds the insolvent party to the High Council of Chambers of Commerce (Spanish Arbitration Court). Banco Santander, S.A. filed its reply to the complaint on 21 June 2013, although it has repeatedly questioned the court's objective jurisdiction to hear the complaint, as has the High Council of Chambers of Commerce, Industry and Shipping. The Commercial Court dismissed the motions for declinatory exception filed by Banco Santander and also dismissed the motion for declinatory exception filed by the High Council. These decisions have been appealed.

On 30 December 2013, Banco Santander filed a complaint requesting the termination of the insolvency proceeding of Delforca 2008, S.A. due to supervening disappearance of the alleged insolvency of the company. Only one creditor has filed allegations in Court in connection with the said complaint and has supported it. Delforca 2008, S.A. has answered to the claim requesting its dismissal. Banco Santander, S.A. has not yet been notified of any allegations filed by the receivers within this ancillary proceeding

In addition, in April 2009 Mobilaria Monesa, S.A. (parent of Delforca 2008, S.A.) filed a claim against Banco Santander, S.A. at Santander Court of First Instance no. 5, claiming damages which it says it incurred as a result of the (in its opinion) unwarranted claim filed by the Bank against its subsidiary, reproducing the same objections as Delforca 2008, S.A. This proceeding has currently been stayed on preliminary civil ruling grounds, against which Mobilaria Monesa, S.A. filed an

appeal which was dismissed by the Cantabria Provincial Appellate Court in a judgment dated 16 January 2014.

Lastly, on 11 April 2012, Banco Santander, S.A. was notified of the claim filed by Delforca 2008, S.A., heard by Madrid Court of First Instance no. 21, in which it sought indemnification for the damage and losses it alleges it incurred due to the (in its opinion) unwarranted claim by the Bank. Delforca 2008, S.A. made the request in a counterclaim filed in the arbitration proceeding that concluded with the annulled award, putting the figure at up to €218 million, although in its present claim it invokes Article 219.3 of the Civil Procedure Law in order to leave for a subsequent proceeding the amount to be settled (as the case may be) by the Bank. The aforementioned Court has dismissed the motion for declinatory exception proposed by Banco Santander, S.A. as the matter has been referred for arbitration. This decision is pending appeal. The Group considers that the risk of loss arising as a result of these matters is remote and, accordingly, it has not recognised any provisions in connection with these proceedings.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) on behalf of its members, requesting the payment of a half-yearly bonus initially envisaged in the entity's Bylaws in the event that the entity obtained a profit and that the distribution of this profit were approved by the board of directors. The bonus was not paid in 1994 and 1995 since the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the board of directors, and the relevant clause was eliminated in 2001. The Regional Employment Court ordered the bank to pay this half-yearly bonus in September 2005 and the bank filed an appeal against the decision at the High Employment Court ("TST") and, subsequently, at the Federal Supreme Court ("STF"). The TST confirmed the judgment against the bank, whereas the STF rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the STF in plenary session.
- "**Planos economicos**": Like the rest of the banking system, Santander Brazil has been the subject of claims from customers, mostly depositors, and of class actions brought for a common reason, arising from a series of legislative changes relating to the calculation of inflation ("**planos economicos**"). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice ("STJ") set the limitation period for these class actions at five years, as claimed by the banks, rather than twenty years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the STJ and the Supreme Federal Court ("STF") with which the matter is expected to be definitively settled. In August 2010, 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 in this connection were stayed until this court issues a final decision on the matter. In spite of the fact STF started the judgement on November 2013, a formal ruling was not handed until

the moment and there is not a prediction about when a formal ruling will be handed down by either the STJ or the STF.

- Proceeding under Civil Procedure Law (case no. 1043/2009) conducted at Madrid Court of First Instance no. 26, following a claim brought by Banco Occidental de Descuento, Banco Universal, C.A. against the Bank for USD 150 million in principal plus USD 4.7 million in interest, upon alleged termination of an escrow contract.

The court upheld the claim but did not make a specific pronouncement on costs. A judgment handed down by the Madrid Provincial Appellate Court on 9 October 2012 upheld the appeal lodged by the Bank and dismissed the appeal lodged by Banco Occidental de Descuento, Banco Universal, C.A., dismissing the claim. The dismissal of the claim was confirmed in an ancillary order to the judgment dated 28 December 2012. An appeal was filed at the Supreme Court by Banco Occidental de Descuento against the Madrid Provincial Appellate Court decision. The Bank has challenged the appeal. The Bank has not recognised any provisions in this connection.

- On 26 January 2011, notice was served on the Bank of an ancillary insolvency claim to annul acts detrimental to the assets available to creditors as part of the voluntary insolvency proceedings of Mediterráneo Hispa Group, S.A. at Murcia Commercial Court no. 2. The aim of the principal action is to request annulment of the application of the proceeds obtained by the company undergoing insolvency from an asset sale and purchase transaction involving €32 million in principal and €2.7 million in interest. On 24 November 2011, the hearing was held with the examination of the proposed evidence. Upon completion of the hearing, it was resolved to conduct a final taking of evidence. In a judgment dated 13 November 2013, the Court dismissed the complaint in full. The judgment has been appealed by the complainants.
- The bankruptcy of various Lehman Group companies was made public on 15 September 2008. Various customers of Santander Group were affected by this situation since they had invested in securities issued by Lehman or in other products which had such assets as their underlying.

As of the date of this Information Memorandum, certain claims had been filed in relation to this matter. The Bank's directors and its legal advisers consider that the various Lehman products were sold in accordance with the applicable legal regulations in force at the time of each sale or subscription and that the fact that the Group acted as intermediary would not give rise to any liability for it in relation to the insolvency of Lehman. Accordingly, the risk of loss is considered to be remote and, as a result, the Group has not recognised any provisions in this connection.

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

As of the date of this Information Memorandum, certain claims had been filed 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. Therefore, except for a specific case in which the decisions handed down partially upheld the claim based on the particular circumstances of that case (which has been appealed against by the Bank), the risk of loss is considered to be remote. Accordingly, the Group has not recognised any provisions in this connection.

- At the end of the first quarter of 2013, news stories were published stating that the public sector was debating the validity of the interest rate swaps arranged between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

The swaps under debate included swaps arranged by Banco Santander Totta with the public companies Metropolitano de Lisboa, E.P.E. ("**MdL**"), Metro de Porto, S.A. ("**MdP**"), Sociedade de Transportes Colectivos do Porto, S.A. ("**STCP**") and Companhia Carris de Ferro de Lisboa, S.A. ("**Carris**"). These swaps were arranged prior to 2008, i.e. before the start of the financial crisis, and had been executed without incident.

In view of this situation Banco Santander Totta 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 that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013.

Consequently, Banco Santander Totta extended each of the claims to include the unpaid amounts.

On 29 November 2013, the companies presented their defences in which they claimed, namely, that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid.

On 14 February 2014, Banco Santander Totta presented its replies and defences to counterclaims, restating its case and denying the companies' arguments, as set out in their 29 November defences.

On 4 April 2014, the companies submitted their replies to the defences to counterclaims. These proceedings are still in progress.

The Bank and its legal advisers consider that the Bank acted at all times in accordance with applicable legislation and under the terms of the swaps, and take the view that the UK courts will confirm the full validity and effectiveness of the swaps. As a result, the Bank has not recognised any provisions in connection with this matter.

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 large or 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 2013, 2012 and 2011, 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.

The total amount of payments made by the Group arising from litigation in 2013, 2012 and 2011 is not material with respect to the consolidated financial statements for those years.

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 early stages of discovery, the Group cannot state with confidence what the eventual outcome of any of these pending matters will be, what the timing of the ultimate resolution of such matters will be or what the eventual loss, fines or penalties related to each such pending matter may be. Consequently, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Group; and the outcome of a particular matter may be material to the Group's operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of the Group's income for that period.

Other Litigation

In addition to the matters described above, the Guarantor and its subsidiaries are from time to time subject to certain claims and parties to certain legal proceedings incidental to the normal course of the Group's business, including in connection with the Group's 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 early stages of discovery, the Guarantor cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. The Guarantor believes that it has made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believes that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on the Group's business, financial condition, or results of operations. However, 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 Guarantor; as a result, the outcome of a particular matter may be material to the Guarantor's operating results for a particular period, depending upon, amongst other factors, the size of the loss or liability imposed and the level of the Guarantor's income for that period.

As of the date of this Information Memorandum, the Group has recorded provisions that it believes that reasonably cover any contingencies that might arise from these tax-related and non-tax-related proceedings.

CERTAIN INFORMATION IN RESPECT OF THE NOTES

Key Information

The persons involved in the Programme and the capacities in which they act are specified at the end of this Information Memorandum.

The net proceeds of the issue of each issue of Notes will be deposited on a permanent basis with the Guarantor by the Issuer and will be used for the general funding purposes of the Group.

Information Concerning the Securities to be admitted to Trading

Total amount of Notes Admitted to Trading

The aggregate amount of each issue of Notes on the date of issue of such Notes will be set out in the applicable Final Terms.

The maximum aggregate principal amount of Notes which may be outstanding and guaranteed at any one time is €15,000,000,000 (or its equivalent in other currencies). Such amount may be increased from time to time in accordance with the Dealer Agreement.

Type and Class of Notes

Notes will be issued in tranches. Global Notes shall be issued (and interests therein exchanged for Definitive Notes, if applicable) in the following minimum denominations (or integral multiples thereof):

- (a) for U.S.\$ Notes, U.S.\$500,000;
- (b) for euro Notes, €500,000;
- (c) for Sterling Notes, £100,000;
- (d) for Yen Notes, Yen 100,000,000;
- (e) for Swiss franc Notes, SFr 500,000;
- (f) for Australian dollar Notes, A\$1,000,000;
- (g) for Canadian dollar Notes, C\$500,000; or
- (h) for New Zealand dollar Notes, NZ\$1,000,000,

or such other conventionally accepted denominations in those currencies (including, in addition to those listed above, Danish kroner, Swedish kroner and Norwegian kroner) as may be agreed between the Issuer and the relevant Dealer from time to time, subject in each case to compliance with all applicable legal and regulatory requirements.

The international security identification number of each issue of Notes will be specified in the relevant Final Terms.

Legislation under which the Notes, the Deed of Covenant and the Deed of Guarantee have been created

The status of the Notes and the status of the Deed of Guarantee, the capacity of the Issuer and the Guarantor and the relevant corporate resolutions shall be governed by Spanish law. Any non-contractual obligations arising out of or in connection with the Notes, the Terms and Conditions of the Notes and all related contractual documentation will be governed by, and construed in accordance with, English law.

Form of the Notes

The Notes will be in bearer form. Each issue of Notes will initially be represented by a Global Note and, in the case of a Global Note which is not intended to be issued in new global note ("NGN") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Notes with a depositary or common depositary for Euroclear and/or Clearstream, Luxembourg and/or Euroclear France and/or any other relevant clearing system. Each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Global Note may, if so specified in the relevant Final Terms, be exchangeable for Notes in definitive bearer form in the limited circumstances specified in the relevant Global Note.

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

Currency of the Notes

Notes may be issued in Australian Dollars, Canadian Dollars, Euro, Japanese Yen, New Zealand Dollars, Sterling, Swiss Francs and United States Dollars and such other currencies as may be agreed between the Issuer and the relevant Dealer(s) from time to time and subject to the necessary regulatory requirements having been satisfied.

Status of the Notes

The payment obligations of the Issuer pursuant to the Notes constitute and at all times shall constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and upon the insolvency of the Issuer (and unless they qualify as subordinated debts under article 92 of the Insolvency Law (as defined below) or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), rank *pari passu* and rateably without any preference among themselves and the payment obligations of the Issuer under the Notes rank at least *pari passu* with all other unsecured and unsubordinated indebtedness, present and future of the Issuer.

*In the event of insolvency (concurso) of the Issuer, under Law 22/2003 (Ley Concursal) dated 9 July 2003 (the "**Insolvency Law**"), claims relating to the Notes (unless they qualify as subordinated credits under the limited events regulated by Article 92 of the Insolvency Law) will be ordinary credits*

(créditos ordinarios) as defined in the Insolvency Law. The claims that qualify as subordinated credits under the limited events regulated by Article 92 of the Insolvency Law include, but are not limited to, any accrued and unpaid interests due in respect of any Notes at the commencement of an insolvency proceeding (concurso) of the Issuer (including, for Notes sold at a discount, the amortisation of the original issue discount from (and including) the date of issue to (but excluding) the date upon which the insolvency proceeding (concurso) of the Issuer commenced). Ordinary credits rank below credits against the insolvency state (créditos contra la masa) and credits with a privilege (créditos privilegiados). Ordinary credits rank above subordinated credits and the rights of shareholders. Under Spanish law, accrual of interests shall be suspended from the date of any declaration of insolvency (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security).

Status of the Deed of Guarantee

The Guarantor has by way of a deed of guarantee dated 25 April 2014 (the "**Deed of Guarantee**") unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer on an unsubordinated basis. The obligations of the Guarantor in respect of the guarantee of the Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and upon the insolvency of the Guarantor (and unless they qualify as subordinated debts under article 92 of the Insolvency Law or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), rank *pari passu* and rateably without any preference among such obligations of the Guarantor in respect of the Notes of the same issue and at least *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect are contained in the Deed of Guarantee.

Rights attaching to the Notes

Each issue of Notes will be the subject of Final Terms which, for the purposes of that issue only, supplements the terms and conditions set out in the relevant Global Note or, as the case may be, definitive Notes and must be read in conjunction with the relevant Notes. See "*Forms of Notes*" and "*Form of Final Terms*".

Maturity of the Notes

The Maturity Date applicable to each issue of Notes will be specified in the relevant Final Terms. The Maturity Date of an issue of Notes may not be less than one day nor more than 364 days, subject to applicable legal and regulatory requirements.

Optional Redemption for Tax Reasons

The Issuer may redeem Notes (in whole but not in part) if it has or will become obliged to pay additional amounts pursuant to the terms and conditions of the Notes as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) which change or amendment becomes effective on or after the issue date of the relevant Notes and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Prescription

Claims for payment of principal and interest in respect of the Notes shall become prescribed and void unless made, in the case of principal, within ten years after the Maturity Date (or, as the case may be, the Relevant Date) or, in the case of interest, five years after the relevant Interest Payment Date in each case as specified in the relevant Final Terms.

Yield Basis

Notes may be issued on the basis that they will be interest bearing or they may be issued at a discount (in which case they will not bear interest). The yield basis in respect of Notes bearing interest at a fixed rate will be set out in the relevant Final Terms.

Authorisations and approvals

The establishment of the Programme and the issuance of Notes pursuant thereto was authorised by resolutions of the sole shareholder of the Issuer passed on 21 January 2008 and of the Board of Directors of the Issuer passed on 21 January 2008, and the giving of the guarantee of the Notes was authorised by a resolution of the Executive Committee of the Guarantor passed on 21 January 2008 (as amended by the resolution of the Executive Committee of the Guarantor passed on 26 May 2008). The update of the Programme and the issuance of Notes pursuant thereto was authorised by resolutions of the sole shareholder and of the Board of Directors of the Issuer passed on 31 March 2014, and the giving of the guarantee of the Notes was authorised by a resolution of the Executive Committee of the Guarantor passed on 31 March 2014.

Each of the Issuer and the Guarantor has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the giving of the guarantee relating to them.

Admission to Trading and Dealing Arrangements

Application has been made to the Irish Stock Exchange for Notes issued under the Programme during the period of twelve months after the date of this Information Memorandum to be admitted to the Official List and to trading on the regulated market of the Irish Stock Exchange. Notes may be listed, traded and/or quoted on any other listing authority, stock exchange and/or quotations system, as may be agreed between the Issuer and the relevant Dealer. No Notes may be issued on an unlisted basis.

Citibank, N.A. at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, is the Issuing and Paying Agent in respect of the Notes.

Expense of the Admission to Trading

An estimate of the expenses in relation to the admission to trading of each issue of Notes will be specified in the relevant Final Terms.

Additional Information

The legal advisers and capacity in which they act are specified at the end of this Information Memorandum.

As at the date of this Information Memorandum, the Programme's short-term public credit rating is as follows:

Standard & Poor's Credit Market Services Europe Limited Sucursal en España: A-2

Fitch Ratings España SAU: F2

Moody's Investors Service España, S.A.: P-2

The credit ratings assigned to the Notes to be issued under the Programme will be set out in the relevant Final Terms.

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

FORMS OF NOTES

Part A – Form of Multicurrency Global Note

THE SECURITIES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT.

SANTANDER COMMERCIAL PAPER, S.A. UNIPERSONAL

(Incorporated with limited liability in the Kingdom of Spain)

€15,000,000,000

EURO-COMMERCIAL PAPER PROGRAMME

guaranteed by

BANCO SANTANDER, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

1. For value received, Santander Commercial Paper, S.A. Unipersonal (the "**Issuer**") promises to pay to the bearer of this Global Note on the Maturity Date set out in the Final Terms or on such earlier date as the same may become payable in accordance with paragraph 4 below (the "**Relevant Date**"), the aggregate Nominal Amount or, as the case may be, the Redemption Amount set out in the Final Terms, together with interest thereon, if this is an interest bearing Global Note, at the rate and at the times (if any) specified herein and in the Final Terms. Terms defined in the Final Terms attached hereto but not otherwise defined in this Global Note shall have the same meaning in this Global Note.

All such payments shall be made in accordance with an issuing and paying agency agreement (the "**Agency Agreement**") dated 25 April 2014 (as amended and restated or supplemented from time to time) between the Issuer, Banco Santander, S.A. (the "**Guarantor**") and Citibank, N.A. as issue agent and as principal paying agent (the "**Issuing and Paying Agent**"), a copy of which is available for inspection at the offices of the Issuing and Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England, and subject to and in accordance with the terms and conditions set forth below. All such payments shall be made upon presentation and surrender of this Global Note at the office of the Issuing and Paying Agent referred to above by transfer to an account denominated in the Specified Currency set out in the Final Terms maintained by the bearer in the principal financial centre in the country of that currency or, in the case of a Global Note denominated in Euro, by Euro cheque drawn on, or by transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any member state of the European Union. The Issuer undertakes that, so long as the Notes are listed, traded and/or quoted on any listing authority, stock exchange and/or quotation system, there will at all times be a paying agent with a specified office in such place as may be required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system. The Issuer further undertakes that it will ensure that it maintains a paying agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to

European Council Directive 2003/48/EC, as amended or any law implementing or complying with, or introduced in order to conform to, this Directive.

Notwithstanding the foregoing, presentation and surrender of this Global Note shall be made outside the United States and no amount shall be paid by transfer to an account in the United States, or mailed to an address in the United States. In the case of a Global Note denominated in U.S. dollars, payments shall be made by transfer to an account denominated in U.S. Dollars in the principal financial centre of any country outside of the United States that the Issuer or Issuing and Paying Agent so chooses.

2. If the Final Terms specify that the New Global Note form is applicable, this Global Note shall be a "**New Global Note**" or "**NGN**" and the aggregate Nominal Amount of Notes represented by this Global Note shall be the aggregate amount from time to time entered in the records of both ICSDs (as defined below). The records of the ICSDs (which expression in this Global Note means the records that each ICSD holds for its customers which reflect the amount of such customers' interests in the Notes (but excluding any interest in any Notes of one ICSD shown in the records of another ICSD)) shall be conclusive evidence of the aggregate Nominal Amount of Notes represented by this Global Note and, for these purposes, a statement issued by an ICSD (which statement shall be made available to the bearer upon request) stating the aggregate Nominal Amount of Notes represented by this Global Note at any time shall be conclusive evidence of the records of the ICSD at that time.

If the Final Terms specify that the New Global Note form is not applicable, this Global Note shall be a "**Classic Global Note**" or "**CGN**" and the aggregate Nominal Amount of Notes represented by this Global Note shall be the aggregate Nominal Amount stated in the Final Terms or, if lower, the aggregate Nominal Amount most recently entered by or on behalf of the Issuer in the relevant column in the Schedule hereto.

3. All payments in respect of this Global Note by or on behalf of the Issuer shall be made without set-off, counterclaim, fees, liabilities or similar deductions and free and clear of, and without deduction or withholding for or on account of, taxes, levies, duties, assessments or charges of any nature now or hereafter imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision thereof or any taxing authority or agency thereof or therein ("**Taxes**"). If the Issuer or any agent thereof is required by law or regulation to make any deduction or withholding for or on account of Taxes, the Issuer shall, to the extent permitted by applicable law or regulation, pay such additional amounts as shall be necessary in order that the net amounts received by the bearer of this Global Note or the holder or beneficial owner of any interest herein or rights in respect hereof (each, a "**Beneficial Owner**") after such deduction or withholding shall equal the amount which would have been receivable hereunder in the absence of such deduction or withholding, except that the Issuer shall not be required to pay any additional amounts in relation to any payment:
 - (i) to, or to a third party on behalf of, a Beneficial Owner of a Note who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Spain other than the mere holding of such Note;
or

- (ii) to, or to a third party on behalf of, a holder in respect of whose Notes the Issuer or the Guarantor does not receive such information as may be required in order to comply with the applicable Spanish tax reporting obligations; or
 - (iii) in respect of any Note presented for payment more than fifteen days after the Maturity Date (or, as the case may be, the Relevant Date) or, if applicable, the relevant Interest Payment Date or (in either case) the date on which the payment hereof is duly provided for, whichever occurs later, 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 fifteen days; or
 - (iv) where the withholding or deduction referred to in this paragraph 3 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC, as amended or any law implementing or complying with, or introduced in order to conform to, this Directive; or
 - (v) in respect of any Note presented for payment by or on behalf of a holder of a Note who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or
 - (vi) to, or to a third party on behalf of, individuals resident for tax purposes in The Kingdom of Spain; or
 - (vii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to the Spanish Corporate Income Tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.
4. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 14 days notice to the holders (which notice shall be irrevocable), at the Redemption Amount specified in the Final Terms, together with (if this Note is an interest bearing Note) interest accrued to the date fixed for redemption, if:
- (a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in paragraph 3 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision thereof or any authority or agency thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date specified in the Final Terms; and
 - (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;
- provided, however, that* no such notice of redemption shall be given earlier than 14 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Issuing and Paying Agent:

- (a) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this paragraph, the Issuer shall be bound to redeem the Notes in accordance with this paragraph.

- 5. The Issuer, the Guarantor or any subsidiary of the Guarantor may at any time purchase Notes in the open market or otherwise and at any price provided that all unmatured interest coupons (if this Global Note is an interest bearing Global Note) are purchased therewith.
- 6. All Notes so purchased by the Issuer or the Guarantor otherwise than in the ordinary course of business of dealings in securities or as a nominee shall be cancelled and shall not be reissued or resold. All Notes so purchased by any subsidiary of the Guarantor may be cancelled, held by such subsidiary or resold.
- 7. On each occasion on which:
 - (i) *Definitive Notes:* Notes in definitive form are delivered; or
 - (ii) *Cancellation:* Notes represented by this Global Note are to be cancelled in accordance with paragraph 6,

the Issuer shall procure that:

- (a) if the Final Terms specify that the New Global Note form is not applicable, (i) the aggregate principal amount of such Notes; and (ii) the remaining aggregate Nominal Amount of Notes represented by this Global Note (which shall be the previous aggregate Nominal Amount hereof less the aggregate of the amount referred to in (i) above) are entered in the Schedule hereto, whereupon the aggregate Nominal Amount of Notes represented by this Global Note shall for all purposes be as most recently so entered; and
 - (b) if the Final Terms specify that the New Global Note form is applicable, details of the exchange or cancellation shall be entered pro rata in the records of the ICSDs and the aggregate Nominal Amount of the Notes entered in the records of the ICSDs and represented by this Global Note shall be reduced by the principal amount so exchanged or cancelled.
- 8. The payment obligations of the Issuer represented by this Global Note constitute and at all times shall constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and upon insolvency of the Issuer (and unless they qualify by law as subordinated debts under article 92 of the Law 22/2003 (*Ley Concursal*) dated 9 July 2003 or equivalent legal

provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), rank *pari passu* and rateably without any preference among themselves and the payment obligations of the Issuer under the Notes rank at least *pari passu* with all other unsecured and unsubordinated indebtedness, present and future of the Issuer.

9. If the Maturity Date (or, as the case may be, the Relevant Date) or, if applicable, the relevant Interest Payment Date, is not a Payment Business Day (as defined herein) payment in respect hereof will not be made and credit or transfer instructions shall not be given until the next following Payment Business Day unless that date falls more than 364 days after the Issue Date, in which case payment shall be made on the immediately preceding Payment Business Day, and the bearer of this Global Note shall not be entitled to any interest or other sums in respect of such postponed payment.

As used in this Global Note:

"Payment Business Day" means any day other than a Saturday or Sunday which is either (i) if the Specified Currency set out in the Final Terms is any currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the Specified Currency set out in the Final Terms (which, if the Specified Currency is Australian dollars, shall be Sydney) or (ii) if the Specified Currency set out in the Final Terms is Euro, a day which is a TARGET Business Day; and

"TARGET2" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; and

"TARGET Business Day" means any day on which TARGET2 is open for the settlement of payments in Euro.

10. This Global Note is negotiable and, accordingly, title hereto shall pass by delivery and the bearer shall be treated as being absolutely entitled to receive payment upon due presentation hereof (notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof).
11. This Global Note is issued in respect of an issue of Notes of the Issuer and is exchangeable in whole (but not in part only) for duly executed and authenticated bearer Notes in definitive form (whether before, on or, subject as provided below, after the Maturity Date):
 - (a) if Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**", together with Euroclear, the international central securities depositories or "**ICSDs**") or (if applicable and if the relevant Final Terms specify that the New Global Note form is not applicable) Euroclear France S.A. ("**Euroclear France**") or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease to do business or does so in fact; or
 - (b) if default is made in the payment of any amount payable in respect of this Global Note; or

- (c) the Notes are required to be removed from Euroclear, Clearstream, Luxembourg, Euroclear France or any other clearing system and no suitable (in the determination of the Issuer or the Guarantor) alternative clearing system is available.

Upon presentation and surrender of this Global Note during normal business hours to the Issuer at the offices of the Issuing and Paying Agent (or to any other person or at any other office outside the United States as may be designated in writing by the Issuer to the bearer), the Issuing and Paying Agent shall authenticate and deliver, in exchange for this Global Note, bearer definitive notes denominated in the Specified Currency set out in the Final Terms in an aggregate nominal amount equal to the aggregate Nominal Amount of this Global Note.

- 12. If, upon any such default and following such surrender, definitive Notes are not issued in full exchange for this Global Note before 5.00 p.m. (London time) on the thirtieth day after surrender, this Global Note (including the obligation hereunder to issue definitive notes) will become void and the bearer will have no further rights under this Global Note (but without prejudice to the rights which the bearer or any other person may have under a Deed of Covenant dated 25 April 2014, entered into by the Issuer).
- 13. This Global Note has the benefit of a deed of guarantee issued by the Guarantor on 25 April 2014, copies of which are available for inspection during normal business hours at the office of the Issuing and Paying Agent referred to above.
- 14. If this is an interest bearing Global Note, then:
 - (a) notwithstanding the provisions of paragraph 1 above, if any payment of interest in respect of this Global Note falling due for payment prior to the Maturity Date remains unpaid on the fifteenth day after falling so due, the amount referred to in paragraph 1 shall be payable on such fifteenth day;
 - (b) upon each payment of interest (if any) prior to the Maturity Date in respect of this Global Note, the Issuer shall procure that:
 - (i) if the Final Terms specify that the New Global Note form is not applicable, the Schedule hereto shall be duly completed by the Issuing and Paying Agent to reflect such payment; and
 - (ii) if the Final Terms specify that the New Global Note form is applicable, details of such payment shall be entered pro rata in the records of the ICSDs.
- 15. If this is a fixed rate interest bearing Global Note, interest shall be calculated on the aggregate Nominal Amount as follows:
 - (a) interest shall be payable on the aggregate Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the Day Count Convention specified in the Final Terms or, if none is specified, on the basis of the actual number of days in such Interest Period and a year of 360 days or, if this Global Note is denominated in Sterling, Australian Dollars or Canadian Dollars, 365 days at

the Rate of Interest specified in the Final Terms with the resulting figure being rounded to the nearest amount of the Specified Currency which is available as legal tender in the country or countries (in the case of the Euro) of the Specified Currency (with halves being rounded upwards); and

- (b) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is an "Interest Period" for the purposes of this paragraph.

16. If this is a floating rate interest bearing Global Note, interest shall be calculated on the aggregate Nominal Amount as follows:

- (a) in the case of a Global Note which specifies LIBOR as the Reference Rate in the Final Terms, the Rate of Interest will be the aggregate of LIBOR and the Margin specified in the Final Terms (if any) above or below LIBOR. Interest shall be payable on the aggregate Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the Day Count Convention specified in the Final Terms or, if none is specified, on the basis of the actual number of days in such Interest Period and a year of 360 days or, if this Global Note is denominated in Sterling, 365 days.

As used in this Global Note (and unless otherwise specified in the Final Terms):

"LIBOR" shall be equal to the rate defined as "LIBOR-BBA" in respect of the above-mentioned Specified Currency (as defined in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced as at the date of this Global Note, (the **"ISDA Definitions"**)) as at 11.00 a.m. (London time) or as near thereto as practicable on the second London Banking Day before the first day of the relevant Interest Period or, if this Global Note is denominated in Sterling, on the first day thereof (a **"LIBOR Interest Determination Date"**), as if the Reset Date (as defined in the ISDA Definitions) were the first day of such Interest Period and the Designated Maturity (as defined in the ISDA Definitions) were the number of months specified in the Final Terms in relation to the Reference Rate; and

"London Banking Day" shall mean a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

- (b) in the case of a Global Note which specifies EURIBOR as the Reference Rate in the Final Terms, the Rate of Interest will be the aggregate of EURIBOR and the Margin specified in the Final Terms (if any) above or below EURIBOR. Interest shall be payable on the aggregate Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the Day Count Convention specified in the

Final Terms or, if none is specified, on the basis of the actual number of days in such Interest Period and a year of 360 days.

As used in this Global Note (and unless otherwise specified in the Final Terms), "**EURIBOR**" shall be equal to EUR-EURIBOR-Reuters (as defined in the ISDA Definitions) as at 11.00 a.m. (Brussels time) or as near thereto as practicable on the second TARGET Business Day before the first day of the relevant Interest Period (a "**EURIBOR Interest Determination Date**"), as if the Reset Date (as defined in the ISDA Definitions) were the first day of such Interest Period and the Designated Maturity (as defined in the ISDA Definitions) were the number of months specified in the Final Terms in relation to the Reference Rate;

- (c) in the case of a Global Note which specifies ISDA Determination in the Final Terms, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - i. the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - ii. the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
 - iii. the relevant Reset Date (as defined in the ISDA Definitions) is as specified in the relevant Final Terms.
- (d) the Calculation Agent specified in the Final Terms will, as soon as practicable after 11.00 a.m. (London time) on each LIBOR Interest Determination Date; 11.00 a.m. (Brussels time) on each EURIBOR Interest Determination Date; or, in the case of ISDA Determination, at the time and on the Reset Date specified in the relevant Final Terms, determine the Rate of Interest and calculate the amount of interest payable (the "**Amount of Interest**") for the relevant Interest Period. "**Rate of Interest**" means (A) if the Reference Rate is LIBOR, the rate which is determined in accordance with the provisions of paragraph 16(a); (B) if the Reference Rate is EURIBOR, the rate which is determined in accordance with the provisions of paragraph 16(b); and (C) in the case of a Global Note which specifies ISDA Determination in the Final Terms, the rate which is determined in accordance with the provisions of paragraph 16(c). The Amount of Interest shall be calculated by applying the Rate of Interest to the Nominal Amount of one Note of each Denomination, multiplying such product by the Day Count Convention specified in the Final Terms or, if none is specified, by the actual number of days in the Interest Period concerned divided by 360 or, if this Global Note is denominated in Sterling, by 365 and rounding the resulting figure to the nearest amount of the above-mentioned Specified Currency which is available as legal tender in the country or countries (in the case of the Euro) of the Specified Currency (with

halves being rounded upwards). The determination of the Rate of Interest and the Amount of Interest by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties;

- (e) a certificate of the Calculation Agent as to the Rate of Interest payable hereon for any Interest Period shall be conclusive and binding as between the Issuer and the bearer hereof;
- (f) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**" for the purposes of this paragraph; and
- (g) the Issuer will procure that a notice specifying the Rate of Interest payable in respect of each Interest Period be published as soon as practicable after the determination of the Rate of Interest. Such notice will be delivered to the clearing system(s) and/or depositaries in which this Global Note is held at the relevant time or, if this Global Note has been exchanged for bearer definitive Notes pursuant to paragraph 11, will be published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*).

17. Instructions by the Issuer expressing its intention to pay the relevant interest amounts, less any necessary withholding must be received at the office of the Issuing and Paying Agent referred to above together with this Global Note as follows:

- (a) if this Global Note is denominated in Australian dollars, New Zealand dollars, Hong Kong dollars or Japanese Yen, at least two Business Days prior to the relevant payment date;
- (b) if this Global Note is denominated in United States dollars, Canadian dollars, Sterling or Euro on or prior to the relevant payment date; and
- (c) in all other cases, at least one Business Day prior to the relevant payment date.

As used in this paragraph, "**Business Day**" means:

- (i) a day other than a Saturday or Sunday on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;
- (ii) in the case of payments in Euro, a TARGET Business Day; and
- (iii) in all other cases, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre in the country of the Specified Currency set out in the Final Terms.

18. Upon any payment being made in respect of the Notes represented by this Global Note, the Issuer shall procure that:
- (a) *CGN*: if the Final Terms specify that the New Global Note form is not applicable, details of such payment shall be entered in the Schedule hereto and, in the case of any payment of principal, the aggregate Nominal Amount of the Notes represented by this Global Note shall be reduced by the principal amount so paid; and
 - (b) *NGN*: if the Final Terms specify that the New Global Note form is applicable, details of such payment shall be entered pro rata in the records of the ICSDs and, in the case of any payment of principal, the aggregate Nominal Amount of the Notes entered in the records of the ICSDs and represented by this Global Note shall be reduced by the principal amount so paid.
19. This Global Note shall not be validly issued unless manually authenticated by Citibank, N.A. as Issuing and Paying Agent.
20. If the Final Terms specify that the New Global Note form is applicable, this Global Note shall not be valid for any purpose until it has been effectuated for and on behalf of the entity appointed as common safekeeper by the ICSDs.
21. The status of this Global Note, the capacity of the Issuer and the relevant corporate resolutions shall be governed by Spanish law. This Global Note and any non-contractual obligations arising out of or connected with it are governed by, and construed in accordance with, English law.
- (a) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with this Global Note (including a dispute relating to any non-contractual obligations arising out of or in connection with this Global Note or a dispute regarding the existence, validity or termination of this Global Note or the consequences of its nullity).
 - (b) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
 - (c) *Rights of the bearer to take proceedings outside England*: Paragraph 21(a) (*English courts*) is for the benefit of the bearer only. As a result, nothing in this paragraph 21 prevents the bearer from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the bearer may take concurrent Proceedings in any number of jurisdictions.
 - (d) *Service of process*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Banco Santander, S.A., London Branch at 2 Triton Square, Regent's Place, London NW1 3AN or at any address of the Issuer in Great Britain at which service of process may be served on it. Nothing in this sub-paragraph shall affect the right of the bearer to serve process in any other manner permitted by law.

22. The Notes represented by this Global Note have been admitted to listing on the official list of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") and to trading on the regulated market of the Irish Stock Exchange (and/or have been admitted to listing, trading and/or quotation on any other listing authority, stock exchange and/or quotation system), all notices required to be published concerning this Global Note shall be published in accordance with the requirements of the Irish Stock Exchange (and/or of the relevant listing authority, stock exchange and/or quotation system). So long as the Notes are represented by this Global Note, and this Global Note has been deposited with a depositary or common depositary for the ICSDs, Euroclear France or any other relevant clearing system or a Common Safekeeper (which expression has the meaning given in the Agency Agreement), the Issuer may, in lieu of such publication and if so permitted by the rules of the Irish Stock Exchange (and/or of the relevant listing authority, stock exchange and/or quotation system), deliver the relevant notice to the clearing system(s) in which this Global Note is held but only upon a receipt of an undertaking by such intermediaries to ensure the timely delivery of such notifications to such Beneficial Owners.
23. Claims for payment of principal and interest in respect of this Global Note shall become prescribed and void unless made, in the case of principal, within ten years after the Maturity Date (or, as the case may be, the Relevant Date) or, in the case of interest, five years after the relevant Interest Payment Date.
24. No person shall have any right to enforce any provision of this Global Note under the Contracts (Rights of Third Parties) Act 1999.

AUTHENTICATED by

CITIBANK, N.A.

without recourse, warranty or liability and for authentication purposes only

By:
(*Authorised Signatory*)

Signed on behalf of:

**SANTANDER COMMERCIAL PAPER, S.A.
UNIPERSONAL**

By:
(*Authorised Signatory*)

By:
(*Authorised Signatory*)

EFFECTUATED for and on behalf of

.....
as common safekeeper without
recourse, warranty or liability

By:
[*manual signature*]
(*duly authorised*)

SCHEDULE¹

[illegible]

¹ This Schedule should only be completed where the Final Terms specify that the New Global Note form is not applicable.

FINAL TERMS

[Completed Final Terms to be attached]

Part B – Form of Multicurrency Definitive Note

THE SECURITIES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT.

SANTANDER COMMERCIAL PAPER, S.A. UNIPERSONAL

(Incorporated with limited liability in the Kingdom of Spain)

€15,000,000,000

EURO-COMMERCIAL PAPER PROGRAMME

guaranteed by

BANCO SANTANDER, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

Nominal Amount of this Note:

1. For value received, Santander Commercial Paper, S.A. Unipersonal (the "**Issuer**") promises to pay to the bearer of this Note on the Maturity Date set out in the Final Terms, or on such earlier date as the same may become payable in accordance with paragraph 3 below (the "**Relevant Date**"), the above-mentioned Nominal Amount or, as the case may be, the Redemption Amount set out in the Final Terms, at the rate and at the times (if any) specified herein and in the Final Terms. Terms defined in the Final Terms attached hereto but not otherwise defined in this Note shall have the same meaning in this Note.

All such payments shall be made in accordance with an issuing and paying agency agreement (the "**Agency Agreement**") dated 25 April 2014 (as amended and restated or supplemented from time to time) between the Issuer, Banco Santander, S.A. (the "**Guarantor**") and Citibank, N.A. as issue agent and as principal paying agent (the "**Issuing and Paying Agent**"), a copy of which is available for inspection at the offices of the Issuing and Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England, and subject to and in accordance with the terms and conditions set forth below. All such payments shall be made upon presentation and surrender of this Note at the office of the Issuing and Paying Agent referred to above by transfer to an account denominated in the Specified Currency set out in the Final Terms maintained by the bearer in the principal financial centre in the country of that currency or, if this Note is denominated in Euro, by Euro cheque drawn on, or by transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any member state of the European Union. The Issuer undertakes that, so long as the Notes are listed, traded and/or quoted on any listing authority, stock exchange and/or quotation system, there will at all times be a paying agent with a specified office in such place as may be required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system. The Issuer further undertakes that it will ensure that it maintains a paying agent in a member state of the European

Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC, as amended or any law implementing or complying with, or introduced in order to conform to, this Directive.

2. All payments in respect of this Note by or on behalf of the Issuer shall be made without set-off, counterclaim, fees, liabilities or similar deductions, and free and clear of, and without deduction or withholding for or on account of, taxes, levies, duties, assessments or charges of any nature now or hereafter imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision thereof or any taxing authority or agency thereof or therein ("**Taxes**"). If the Issuer or any agent thereof is required by law or regulation to make any deduction or withholding for or on account of Taxes, the Issuer shall, to the extent permitted by applicable law or regulation, pay such additional amounts as shall be necessary in order that the net amounts received by the bearer of this Note (the "**holder**") after such deduction or withholding shall equal the amount which would have been receivable hereunder in the absence of such deduction or withholding, except that the Issuer shall not be required to pay any additional amounts in relation to any payment:
- (i) to, or to a third party on behalf of, a holder of a Note who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Spain other than the mere holding of such Note; or
 - (ii) to, or to a third party on behalf of, a holder in respect of whose Notes the Issuer or the Guarantor does not receive such information as may be required in order to comply with the applicable Spanish tax reporting obligations; or
 - (iii) in respect of any Note presented for payment more than fifteen days after the Maturity Date (or, as the case may be, the Relevant Date) or, if applicable, the relevant Interest Payment Date or (in either case) the date on which the payment hereof is duly provided for, whichever occurs later, 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 fifteen days; or
 - (iv) where the withholding or deduction referred to in this paragraph 2 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC, as amended or any law implementing or complying with, or introduced in order to conform to, this Directive; or
 - (v) in respect of any Note presented for payment by or on behalf of a holder of a Note who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or
 - (vi) to, or to a third party on behalf of, individuals resident for tax purposes in The Kingdom of Spain; or
 - (vii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to the Spanish Corporate Income Tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

3. This Note may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 14 days' notice to the holders (which notice shall be irrevocable), at the Redemption Amount specified in the Final Terms, together with (if this Note is an interest bearing Note) interest accrued to the date fixed for redemption, if:
- (a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in paragraph 2 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision thereof or any authority or agency thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date specified in the Final Terms; and
 - (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 14 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Issuing and Paying Agent:

- (a) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this paragraph, the Issuer shall be bound to redeem the Notes in accordance with this paragraph.

4. The Issuer, the Guarantor or any subsidiary of the Guarantor may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured interest coupons (if this Note is an interest bearing Note) are purchased therewith.
5. All Notes so purchased by the Issuer or the Guarantor otherwise than in the ordinary course of business of dealings in securities or as a nominee shall be cancelled and shall not be reissued or resold. All Notes so purchased by any subsidiary of the Guarantor may be cancelled, held by such subsidiary or resold.
6. The payment obligations of the Issuer represented by this Note constitute and at all times shall constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and upon insolvency of the Issuer (and unless they qualify by law as subordinated debts under article 92 of the Law 22/2003 (*Ley Concursal*) dated 9 July 2003 or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), rank *pari passu* and rateably without any preference among other Notes of the same Series (as

specified in the Final Terms) and the payment obligations of the Issuer under the Notes rank at least *pari passu* with all other unsecured and unsubordinated indebtedness, present and future of the Issuer.

7. If the Maturity Date (or, as the case may be, the Relevant Date) or, if applicable, the relevant Interest Payment Date, is not a Payment Business Day (as defined herein) payment in respect hereof will not be made and credit or transfer instructions shall not be given until the next following Payment Business Day unless that date falls more than 364 days after the Issue Date, in which case payment shall be made on the immediately preceding Payment Business Day, and the bearer of this Note shall not be entitled to any interest or other sums in respect of such postponed payment.

As used herein, "**Payment Business Day**", shall mean any day, other than a Saturday or a Sunday, which is either (i) if the Specified Currency set out in the Final Terms is any currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the Specified Currency set out in the Final Terms (which, if the Specified Currency is Australian dollars, shall be Sydney) or (ii) if the Specified Currency set out in the Final Terms is Euro, a day which is a TARGET Business Day; and

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; and

"**TARGET Business Day**" means any day on which TARGET2 is open for the settlement of payments in Euro.

8. This Note is negotiable and, accordingly, title hereto shall pass by delivery and the bearer shall be treated as being absolutely entitled to receive payment upon due presentation hereof (notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof).
9. This Note has the benefit of a guarantee issued by the Guarantor on 25 April 2014, copies of which are available for inspection during normal business hours at the office of the Issuing and Paying Agent referred to above.
10. ²[If this is an interest bearing Note, then:
 - (a) notwithstanding the provisions of paragraph 1 above, if any payment of interest in respect of this Note falling due for payment prior to the Maturity Date remains unpaid on the fifteenth day after falling so due, the amount referred to in paragraph 1 shall be payable on such fifteenth day; and

² If this Note is denominated in Sterling, delete paragraphs 10 through 13 inclusive and replace with interest provisions to be included on the reverse of the Note as indicated below.

- (b) upon each payment of interest (if any) prior to the Maturity Date in respect of this Note, the Schedule hereto shall be duly completed by the Issuing and Paying Agent to reflect such payment.
11. If this is a fixed rate interest bearing Note, interest shall be calculated on the above-mentioned Nominal Amount as follows:
- (a) interest shall be payable on the above-mentioned Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the Day Count Convention specified in the Final Terms or, if none is specified, on the basis of the actual number of days in such Interest Period and a year of 360 days or, if this Note is denominated in Australian Dollars or Canadian Dollars, 365 days at the Rate of Interest specified in the Final Terms with the resulting figure being rounded to the nearest amount of the Specified Currency which is available as legal tender in the country or countries (in the case of the Euro) of the Specified Currency (with halves being rounded upwards); and
 - (b) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is an "**Interest Period**" for the purposes of this paragraph.
12. If this is a floating rate interest bearing Note, interest shall be calculated on the above-mentioned Nominal Amount as follows:
- (a) in the case of a Note which specifies LIBOR as the Reference Rate in the Final Terms, the Rate of Interest will be the aggregate of LIBOR and the Margin specified in the Final Terms (if any) above or below LIBOR. Interest shall be payable on the above-mentioned Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the Day Count Convention specified in the Final Terms or, if none is specified, on the basis of the actual number of days in such Interest Period and a year of 360 days.
As used in this Note (and unless otherwise specified in the Final Terms):

"LIBOR" shall be equal to the rate defined as "LIBOR-BBA" in respect of the above-mentioned Specified Currency (as defined in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced as at the date of this Note, (the "**ISDA Definitions**")) as at 11.00 a.m. (London time) or as near thereto as practicable on the second London Banking Day before the first day of the relevant Interest Period (a "**LIBOR Interest Determination Date**"), as if the Reset Date (as defined in the ISDA Definitions) were the first day of such Interest Period and the Designated Maturity (as defined in the ISDA Definitions)

were the number of months specified in the Final Terms in relation to the Reference Rate; and

"London Banking Day" shall mean a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

- (b) in the case of a Note which specifies EURIBOR as the Reference Rate in the Final Terms, the Rate of Interest will be the aggregate of EURIBOR and the Margin specified in the Final Terms (if any) above or below EURIBOR. Interest shall be payable on the above-mentioned Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the Day Count Convention specified in the Final Terms or, if none is specified, on the basis of the actual number of days in such Interest Period and a year of 360 days.

As used in this Note (and unless otherwise specified in the Final Terms), **"EURIBOR"** shall be equal to EUR-EURIBOR-Reuters (as defined in the ISDA Definitions) as at 11.00 a.m. (Brussels time) or as near thereto as practicable on the second TARGET Business Day before the first day of the relevant Interest Period (a **"EURIBOR Interest Determination Date"**), as if the Reset Date (as defined in the ISDA Definitions) were the first day of such Interest Period and the Designated Maturity (as defined in the ISDA Definitions) were the number of months specified in the Final Terms in relation to the Reference Rate;

- (c) in the case of a Global Note which specifies ISDA Determination in the Final Terms, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - i. the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - ii. the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
 - iii. the relevant Reset Date (as defined in the ISDA Definitions) is as specified in the relevant Final Terms.
- (d) the Calculation Agent specified in the Final Terms will, as soon as practicable after 11.00 a.m. (London time) on each LIBOR Interest Determination Date; 11.00 a.m. (Brussels time) on each EURIBOR Interest Determination Date; or, in the case of ISDA Determination, at the time and on the Reset Date specified in the relevant Final Terms, determine the Rate of Interest and calculate the amount of interest payable (the

"**Amount of Interest**") for the relevant Interest Period. "**Rate of Interest**" means (A) if the Reference Rate is LIBOR, the rate which is determined in accordance with the provisions of paragraph 12(a); (B) if the Reference Rate is EURIBOR, the rate which is determined in accordance with the provisions of paragraph 12(b); and (C) in the case of a Global Note which specifies ISDA Determination in the Final Terms, the rate which is determined in accordance with the provisions of paragraph 12(c). The Amount of Interest shall be calculated by applying the Rate of Interest to the above mentioned Nominal Amount, multiplying such product by the Day Count Convention specified in the Final Terms or, if none is specified, by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure to the nearest amount of the above-mentioned Specified Currency which is available as legal tender in the country or countries (in the case of the Euro) of the Specified Currency (with halves being rounded upwards). The determination of the Rate of Interest and the Amount of Interest by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties;

- (e) a certificate of the Calculation Agent as to the Rate of Interest payable hereon for any Interest Period shall be conclusive and binding as between the Issuer and the bearer hereof;
- (f) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**" for the purposes of this paragraph; and
- (g) the Issuer will procure that a notice specifying the Rate of Interest payable in respect of each Interest Period be published as soon as practicable after the determination of the Rate of Interest. Such notice will be delivered to the bearer of this Note or, if that is not practicable, will be published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*).

13. Instructions for payment must be received at the office of the Issuing and Paying Agent referred to above together with this Note as follows:

- (a) if this Note is denominated in Australian dollars, New Zealand dollars, Hong Kong dollars or Japanese Yen, at least two Business Days prior to the relevant payment date;
- (b) if this Note is denominated in United States dollars, Canadian dollars or Euro, on or prior to the relevant payment date; and
- (c) in all other cases, at least one Business Day prior to the relevant payment date.

As used in this paragraph, "**Business Day**" means:

- (i) a day other than a Saturday or Sunday on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

- (ii) in the case of payments in Euro, a TARGET Business Day; and
 - (iii) in all other cases, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre in the country of the Specified Currency set out in the Final Terms.
- 14. This Note shall not be validly issued unless manually authenticated by Citibank, N.A. as Issuing and Paying Agent.
- 15. The status of this Definitive Note, the capacity of the Issuer and the relevant corporate resolutions shall be governed by Spanish law. This Definitive Note and any non-contractual obligations arising out of or connected with it are governed by, and construed in accordance with, English law.
 - (a) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with this Definitive Note (including a dispute relating to any non-contractual obligations arising out of or in connection with this Definitive Note or a dispute regarding the existence, validity or termination of this Definitive Note or the consequences of its nullity).
 - (b) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
 - (c) *Rights of the bearer to take proceedings outside England:* Paragraph 15(a) (*English courts*) is for the benefit of the bearer only. As a result, nothing in this paragraph 15 prevents the bearer from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the bearer may take concurrent Proceedings in any number of jurisdictions.
 - (d) *Service of process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Banco Santander, S.A., London Branch at 2 Triton Square, Regent's Place, London NW1 3AN or at any address of the Issuer in Great Britain at which service of process may be served on it. Nothing in this sub paragraph shall affect the right of the bearer to serve process in any other manner permitted by law.
- 16. If this Note has been admitted to listing on the official list of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") and to trading on the regulated market of the Irish Stock Exchange (and/or has been admitted to listing, trading and/or quotation on any other listing authority, stock exchange and/or quotation system), all notices required to be published concerning this Note shall be published in accordance with the requirements of the Irish Stock Exchange (and/or of the relevant listing authority, stock exchange and/or quotation system).
- 17. Claims for payment of principal and interest in respect of this Note shall become prescribed and void unless made, in the case of principal, within ten years after the Maturity Date (or, as the case may be, the Relevant Date) or, in the case of interest, five years after the relevant Interest Payment Date.

18. No person shall have any right to enforce any provision of this Note under the Contracts (Rights of Third Parties) Act 1999.

AUTHENTICATED by

CITIBANK, N.A.

without recourse, warranty or liability and for authentication purposes only

By:

(Authorised Signatory)

[By:

*(Authorised Signatory)]*³

Signed on behalf of:

**SANTANDER COMMERCIAL PAPER, S.A.
UNIPERSONAL**

By:

(Authorised Signatory)

By:

(Authorised Signatory)

³ Include second authentication block if the currency of this Note is Sterling.

[On the Reverse]

[(A) If this is an interest bearing Note, then:

- (a) notwithstanding the provisions of paragraph 1 above, if any payment of interest in respect of this Note falling due for payment prior to the Maturity Date remains unpaid on the fifteenth day after falling so due, the amount referred to in paragraph 1 shall be payable on such fifteenth day; and
- (b) upon each payment of interest (if any) prior to the Maturity Date in respect of this Note, the Schedule hereto shall be duly completed by the Issuing and Paying Agent to reflect such payment.

(B) If this is a fixed rate interest bearing Note, interest shall be calculated on the above-mentioned Nominal Amount as follows:

- (a) interest shall be payable on the above-mentioned Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the actual number of days in such Interest Period and a year of 365 days at the Rate of Interest specified in the Final Terms with the resulting figure being rounded to the nearest penny (with halves being rounded upwards); and
- (b) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is an "**Interest Period**" for the purposes of this paragraph (B).

(C) If this is a floating rate interest bearing Note, interest shall be calculated on the above-mentioned Nominal Amount as follows:

- (a) the Rate of Interest will be the aggregate of LIBOR and the Margin specified in the Final Terms (if any) above or below LIBOR. Interest shall be payable on the above-mentioned Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, to the Relevant Date), in arrears on the relevant Interest Payment Date, on the basis of the actual number of days in such Interest Period and a year of 365 days.

As used in this Note (and unless otherwise specified in the Final Terms), "**LIBOR**" shall be equal to the rate defined as "**LIBOR-BBA**" in respect of Sterling (as defined in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced as at the date of this Note (the "**ISDA Definitions**")) as at 11.00 a.m. (London time) or as near thereto as practicable on the first day of the relevant Interest Period (the "**LIBOR Interest Determination Date**"), as if the Reset Date (as defined in the ISDA Definitions) were the first day of such Interest Period and the Designated Maturity (as defined in the ISDA Definitions)

were the number of months specified in the Final Terms in relation to the Reference Rate;

- (b) the Calculation Agent specified in the Final Terms will, as soon as practicable after 11.00 a.m. (London time) on the LIBOR Interest Determination Date, determine the Rate of Interest and calculate the amount of interest payable (the "**Amount of Interest**") for the relevant Interest Period. "**Rate of Interest**" means the rate which is determined in accordance with the provisions of sub-paragraph (a) above. The Amount of Interest shall be calculated by applying the Rate of Interest to the above-mentioned Nominal Amount, multiplying such product by the Day Count Fraction specified in the Final Terms or, if none is specified, the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure to the nearest penny. The determination of the Rate of Interest and the Amount of Interest by the Calculation Agent named above shall (in the absence of manifest error) be final and binding upon all parties;
- (c) a certificate of the Calculation Agent as to the Rate of Interest payable hereon for any Interest Period shall be conclusive and binding as between the Issuer and the bearer hereof;
- (d) the period beginning on (and including) the above-mentioned Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**" for the purposes of this paragraph (C);
- (e) the Issuer will procure that a notice specifying the Rate of Interest payable in respect of each Interest Period be published as soon as practicable after the determination of the Rate of Interest. Such notice will be delivered to the bearer of this Note or, if that is not practicable, will be published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*).]

SCHEDULE
PAYMENTS OF INTEREST

The following payments of interest in respect of this Note have been made:

Date Made	Payment From	Payment To	Gross Amount Payable	Withholding at 21%	Net Amount Paid	Notation on behalf of Issuing and Paying Agent
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

FINAL TERMS

[Completed Final Terms to be attached]

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed in respect of each issue of Notes issued under the Programme and will be attached to the relevant Global or Definitive Notes on issue.

Santander Commercial Paper, S.A. Unipersonal

€15,000,000,000 Euro-Commercial Paper Programme (the "Programme")

guaranteed by

Banco Santander, S.A.

Issue of [Aggregate nominal amount of Notes] [Title of Notes]

PART A – CONTRACTUAL TERMS

This document constitutes the Final Terms (as referred to in the Information Memorandum dated 25 April 2014 (as amended, updated or supplemented from time to time, the "**Information Memorandum**") in relation to the Programme) in relation to the issue of Notes referred to above (the "**Notes**"). Terms defined in the Information Memorandum, unless indicated to the contrary, have the same meanings where used in these Final Terms. Reference is made to the Information Memorandum for a description of the Issuer, the Guarantor, the Programme and certain other matters. These Final Terms are supplemented to and must be read in conjunction with the full terms and conditions of the Notes. These Final Terms are also a summary of the terms and conditions of the Notes for the purpose of listing.

Full information on the Issuer, the Guarantor and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Information Memorandum [as so supplemented]. The Information Memorandum [and the supplemental Information Memorandum] [is][are] available for viewing during normal business hours at the registered office of the Issuer at Ciudad Grupo Santander, Avenida Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain, at the head office of the Guarantor at Ciudad Grupo Santander, Avenida Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain, at the offices of the Issuing and Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

The particulars to be specified in relation to the issue of the Notes are as follows:

[Include whichever of the following apply or specify as "Not applicable" (N/A). Note that the numbering should remain as set out below, even if "Not applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

- | | | |
|----|-----------------|--|
| 1. | (i) Issuer: | Santander Commercial Paper, S.A. Unipersonal |
| | (ii) Guarantor: | Banco Santander, S.A. |
| 2. | Type of Note: | Euro commercial paper |
| 3. | Series No: | [] |
| 4. | Dealer(s) | [] |

5. Specified Currency: []
6. Aggregate Nominal Amount: []
7. Issue Date: []
8. Maturity Date: [] [May not be less than 1 day nor more than 364 days]
9. Issue Price (for interest bearing Notes) or discount rate (for discount Notes): []
10. Denomination: []
11. Redemption Amount: [Redemption at par][] per Note of [] Denomination][*other*]
12. Delivery: [Free of/against] payment

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. **Fixed Rate Note Provisions** [Applicable/Not applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Rate[(s)] of Interest: [] [per cent. per annum]
 - (ii) Interest Payment Date(s): []
 - (iii) Day Count Convention (if different from that specified in the terms and conditions of the Notes): [Not applicable/*other*]
[The above-mentioned Day Count Convention shall have the meaning given to it in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced at the Issue Date.]⁴
 - (iv) Other terms relating to the method of calculating interest for Fixed Rate Notes (if different from those specified in the terms and conditions of the Notes): [Not applicable/*give details*]

⁴ Delete text in square brackets unless a Day Count Convention which is different from that specified in the terms and conditions of the Notes is used.

14. **Floating Rate Note Provisions** [Applicable/Not applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Payment Dates: []
- (ii) Calculation Agent (party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s): [[the Issuing and Paying Agent]/[Name] shall be the Calculation Agent]
- (iii) Reference Rate: [] months [LIBOR/EURIBOR] [Not applicable]
- (iv) ISDA Determination: [Not applicable]
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date and time: [] [Not applicable] *[in the case of self-compounding overnight interest rate commercial paper, the Reset Date will be the date prior to each Interest Payment Date]*^o
- (v) Margin(s): [+/-] [] per cent. per annum
- (vi) Day Count Convention if different from that specified in the terms and conditions of the Notes: [Not applicable/other]
[The above-mentioned Day Count Convention shall have the meaning given to it in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced at the Issue Date.]⁵
- (vii) Any other terms relating to the method of calculating interest on floating rate Notes, if different from those set out in the terms and conditions of the Notes: []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

15. Listing and admission to trading: [Dublin (the Irish Stock Exchange Limited). Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the Irish Stock Exchange Limited with effect from [].][other]

⁵ Delete text in square brackets unless a Day Count Convention which is different from that specified in the terms and conditions of the Notes is used.

16. Ratings: The Notes to be issued under the Programme have been rated:
- [Standard & Poor's: []]
- [Fitch Ratings: []]
- [Moody's Investors Service España, S.A.: []]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*
17. Clearing System(s): Euroclear[,/and] Clearstream, Luxembourg [and Euroclear France]
18. Issuing and Paying Agent: Citibank, N.A.
19. Listing Agent: [[BNP Paribas Securities Services, Luxembourg Branch]/[Not applicable]/[Give name]]
20. ISIN: []
21. Common code: []
22. Any clearing system(s) other than or in addition to Euroclear Bank, S.A./N.V., Clearstream Banking, société anonyme [and, if applicable, Euroclear France, S.A.] and the relevant identification number(s): [Not applicable/give name(s) and number(s)]
23. New Global Note: [Yes][No]
24. Intended to be held in a manner which would allow Eurosystem eligibility: [Yes.][No.][Not applicable.]
- [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][include this text if "yes" selected in which case the Notes must be issued in NGN form]*

[Whilst the designation is specified as "No" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.].] *[Include this text if "No" selected in which case the Notes must be issued in CGN form]]*

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €15,000,000,000 Euro-Commercial Paper Programme of Santander Commercial Paper, S.A. Unipersonal guaranteed by Banco Santander, S.A.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms.

Signed on behalf of **SANTANDER COMMERCIAL PAPER, S.A. UNIPERSONAL**

By:
(duly authorised)

By:
(duly authorised)

Dated:

Signed on behalf of **BANCO SANTANDER, S.A.**

By:
(duly authorised)

By:
(duly authorised)

Dated:

PART B – OTHER INFORMATION

1. INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

["Save as discussed in paragraph 1 of "Subscription and Sale", so far as the Issuer and the Guarantor are aware, no person involved in the offer of the Notes has an interest material to the offer."]

2. ESTIMATED TOTAL EXPENSES RELATED TO THE ADMISSION TO TRADING

Estimated total expenses: []

3. [Fixed Rate Notes only - YIELD

Indication of yield: []]

4. [Floating Rate Notes only – HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters]]

TAXATION

The following is a general description of certain tax considerations. The information provided below does not purport to be a complete summary of tax law and practice currently applicable and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom (such as dealers in securities) may be subject to special rules. Prospective investors who are in any doubt as to their position should consult with their own professional advisers.

EU Savings Tax Directive

Under EU Council Directive 2003/48/EC, as amended on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The EC Council Directive 2003/48/EC has been amended by the EC Council Directive 2014/48/EU which was published on 15 April 2014 (the "Amending Directive"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax ("FTT")

The European Commission has published a 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").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under current proposals 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 Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

Taxation in Spain

Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Information Memorandum:

- (a) of general application, Additional Provision Two of Law 13/1985, of 25 May on investment ratios, own funds and information obligations of financial intermediaries, as amended by Law 19/2003, of 4 July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, Law 23/2005, of 18 November on certain tax measures to promote productivity, and Law 4/2008, of 23 December, that abolishes the Net Wealth Tax, generalises the VAT monthly refund system and introduces other tax measures, as well as 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, as amended by Royal Decree 1145/2011, of 29 July and Royal Decree-Law 13/2011, of 16 September, on the temporary reinstatement of wealth tax;
- (b) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax ("**IIT**"), Law 35/2006 of 28 November, on the IIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, and Royal Decree 439/2007 of 30 March promulgating the IIT Regulations, along with Law 29/1987, of 18 December on the Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax ("**CIT**"), Royal Legislative Decree 4/2004, of 5 March, promulgating the Consolidated Text of the CIT Law, and Royal Decree 1777/2004, of 30 July, promulgating the CIT Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax ("**NRIT**"), Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the NRIT Law, and Royal Decree 1776/2004, of 30

July, promulgating the NRIT Regulations, along with Law 29/1987, of 18 December, on the Inheritance and Gift Tax.

Whatever the nature and residence of the Beneficial Owner (as defined in the Notes), the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, for example, exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December, regulating such tax.

1. Individuals with Tax Residency in Spain

(a) Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25 of the PIT Law, and therefore must be included in the investor's PIT savings taxable base pursuant to the provisions of the aforementioned law, and taxed according to the then-applicable rate. The savings taxable base of tax year 2014 will be taxed at the rate of 21 per cent. up to €6,000, 25 per cent. for taxable income between €6,001 and €24,000, and 27 per cent. for taxable income exceeding €24,000.

According to Section 44.5 of Royal Decree 1065/2007, of 27 July as amended by Royal Decree 1145/2011, of 29 July, and in the opinion of the Issuer and the Guarantor, the Issuer will pay interest without withholding to individual Holders who are resident for tax purposes in Spain provided that the information about the Notes required by Exhibit I is submitted, notwithstanding the information obligations of each Issuer under general provisions of Spanish tax legislation, by virtue of which identification of Spanish investors may be provided to the Spanish tax authorities. In addition, income obtained upon transfer, redemption or exchange of the Notes may also be paid without withholding.

However, in the case of Notes held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes may be subject to withholding tax at the current rate of 21% which will be made by the depositary or custodian.

(b) Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals with tax residency in Spain are subject to Wealth Tax on the 2014 tax year to the extent that their net worth exceeds a certain limit. This limit has been set at €700,000 for 2014. Therefore, they should take into account the value of the Notes which they hold as at 31 December 2014, the applicable rates ranging between 0.2% and 2.5%. The autonomous communities may have different provisions on this respect.

(c) Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Inheritance and Gift

Tax in accordance with the applicable Spanish regional or State rules. The applicable tax rates currently range between 7.65% and 34%. Relevant factors applied (such as previous net wealth or family relationship among transferor and transferee) do determine the final effective tax rate that currently range between 0% and 81.6%.

2. **Legal Entities with Tax Residence in Spain**

(a) **Corporate Income Tax (*Impuesto sobre Sociedades*)**

Both interest received periodically and income derived from the transfer, redemption or repayment of the Notes are subject to CIT (at the current general tax rate of 30 per cent.) in accordance with the rules for this tax.

In accordance with Section 44.5 of Royal Decree 1065/2007, of 27 July as amended by Royal Decree 1145/2011, of 29 July, and in the opinion of the Issuer and the Guarantor, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold tax on interest payments to Spanish CIT taxpayers provided that the information about the Notes required by Exhibit I is submitted, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation, by virtue of which identification of Spanish investors may be provided to the Spanish tax authorities.

However, in the case of Notes held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes may be subject to withholding tax at the current rate of 21%, withholding that will be made by the depositary or custodian, if the Notes 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 require a withholding to be made.

(b) **Wealth Tax (*Impuesto sobre el Patrimonio*)**

Legal entities resident in Spain for tax purposes are not subject to Wealth Tax.

(c) **Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax but must include the market value of the Notes in their taxable income for Spanish CIT purposes.

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 resident investors acting through a permanent establishment in Spain*

Ownership of the Notes 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 Notes 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 Notes are the same as those previously set out for Spanish CIT taxpayers.

See "Taxation in Spain—Legal Entities with Tax Residency in Spain—Corporate Income Tax (*Impuesto sobre Sociedades*)".

(ii) *With no permanent establishment in Spain*

Both interest payments received periodically and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT.

In order for the exemption to apply, it is necessary to comply with certain information obligations relating to the Notes, in the manner detailed under "—Information about the Notes in Connection with Payments" as laid down in section 44 of Royal Decree 1065/2007. If these information obligations are not complied with in the manner indicated, the Issuer will withhold 21% and the Issuer will not pay additional amounts.

Holders not resident in Spain for tax purposes and entitled to exemption from NRIT but where the Issuer does not receive the information about the Notes in a timely fashion in accordance with the procedure described in detail as set forth in Exhibit I hereto would have to apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish Non Resident Income Tax Law.

(b) **Net Wealth Tax (*Impuesto sobre el Patrimonio*)**

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax, the applicable rates ranging between 0.2% and 2.5%.

Non-Spanish resident legal entities are not subject to Wealth Tax.

(c) **Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Notes by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered

into a double tax treaty in relation to Inheritance and Gift Tax. In such case, the provisions of the relevant double tax treaty will apply.

Non-Spanish resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), except as provided in any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of tax residence of the Holder.

4. Tax Rules for Notes not Listed on an Organised Market in an OECD Country

4.1 Withholding on Account of IIT, CIT and NRIT

If the Notes are not listed on an organised market in an OECD country on any Payment Date, payments to Holders in respect of the Notes will be subject to withholding tax at the current rate of 21%, except in the case of Holders which are: (a) resident in a Member State of the European Union other than Spain and obtain the interest income either directly or through a permanent establishment located in another Member State of the European Union, provided that such Holders (i) do not obtain the interest income on the Notes through a permanent establishment in Spain and (ii) are not resident of, or are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991, of 5 July, as amended) or (b) resident for tax purposes of a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to interest payable to any Holder.

4.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

See "Taxation in Spain-Individuals with Tax Residency in Spain — Net Wealth Tax (*Impuesto sobre el Patrimonio*)" and "Taxation in Spain – Individuals and legal entities with no tax residency in Spain – Net Wealth Tax (*Impuesto sobre el Patrimonio*)".

5. Tax Rules for Payments Made by the Guarantor

Payments which may be made by the Guarantor to holders, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by the Issuer.

6. Information about the Notes in Connection with Payments

As described above, interest and other income paid with respect to the Notes will not be subject to Spanish withholding tax unless the procedures for delivering to the Issuer and/or the Guarantor the information described in Exhibit I of this Information Memorandum are not complied with.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007 ("**Section 44**"), as amended by Royal decree 1145/2011 of 29 July.

In accordance with Section 44 paragraph 5, before the close of business on the Business Day (as defined in the Notes) immediately preceding the date on which any payment of interest,

principal or of any amounts in respect of the early redemption of the Notes (each, a "**Payment Date**") is due, the Issuer must receive from the Issue and Paying Agent the following information about the Notes:

- (a) the identification of the Notes with respect to which the relevant payment is made;
- (b) the date on which the relevant payment is made;
- (c) the total amount of the relevant payment;
- (d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain.

In particular, the Issue and Paying Agent must certify the information above about the Notes by means of a certificate, the form of which is attached as Exhibit I of this Information Memorandum.

In light of the above, the Issuer, the Guarantor and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Notes by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer on each Payment Date, the Issuer will withhold tax at the then-applicable rate (currently 21%) from any payment in respect of the relevant Notes. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

If, before the tenth day of the month following the month in which interest is paid, the Issue and Paying Agent provides such information, the Issuer or, as the case may be, the Guarantor, will reimburse the amounts withheld.

Prospective Holders of Notes should note that none of the Issuer, the Guarantor or the Dealers accepts any responsibility relating to the procedures established for the collection of information concerning the Notes. Accordingly, none the Issuer, the Guarantor or the Dealers will be liable for any damage or loss suffered by any Holder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding. See "Risk Factors - Risks in relation to the Notes - Taxation".

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.

Any foreign language text included in this Information Memorandum is for convenience purposes only and does not form part of this Information Memorandum.

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 ena dede

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.

SUBSCRIPTION AND SALE

1. **General**

Each Dealer has represented, warranted and agreed that it will observe all applicable laws and regulations in any jurisdiction in which it may offer, sell, or deliver Notes and it will not directly or indirectly offer, sell, resell, re-offer or deliver Notes or distribute the Information Memorandum, circular, advertisement or other offering material in any country or jurisdiction except under circumstances that will result, to the best of its knowledge and belief, in compliance with all applicable laws and regulations.

2. **United States of America**

The Notes and the Deed of Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has represented and agreed that it has offered and sold, and will offer and sell, Notes and the Deed of Guarantee only outside the United States to non-U.S. persons in accordance with Rule 903 of Regulation S. Accordingly, each Dealer has represented and agreed that neither it, nor its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes and the Deed of Guarantee, and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has also agreed that, at or prior to confirmation of sale of Notes and the Deed of Guarantee, it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Notes from it a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in this paragraph have the meanings given to them by Regulation S.

3. **Selling Restrictions addressing additional United Kingdom Securities Laws**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
- (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or, in the case of the Guarantor, would not apply to the Guarantor if it was not an authorised person; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

4. **Japan**

Each Dealer has acknowledged that the Notes 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, accordingly, each Dealer has undertaken that it will not offer or sell any Notes, 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 of Japan.

5. **Kingdom of Spain**

Each Dealer has represented and agreed that the Notes may not be offered, sold or distributed, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law (*Ley 24/1988, de 28 de julio del Mercado de Valores*), as amended and restated, or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Notes.

Neither the Notes nor the Information Memorandum have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore the Information Memorandum is not intended for any public offer of the Notes in Spain.

6. **Republic of France**

Each Dealer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in the Republic of France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France this Information Memorandum or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to providers of investment services relating to portfolio management for the account of third parties and/or to qualified investors other than individuals (*investisseurs qualifiés*) as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Code *monétaire et financier*.

GENERAL INFORMATION.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and may from time to time be made eligible via other clearing systems, including Euroclear France. The appropriate common code (if held at Euroclear and Clearstream, Luxembourg) and International Securities Identification Number in relation to each issue of Notes and any other clearing system as shall have accepted the relevant Notes for clearance will be specified in the Final Terms relating thereto.

Admission to Listing and Trading

It is expected that Notes issued under the Programme may be admitted to listing on the Official List and to trading on the regulated market of the Irish Stock Exchange after 25 April 2014. The admission of the Notes to trading on the regulated market of the Irish Stock Exchange will be expressed as a percentage of their principal amount. Any Notes intended to be admitted to listing on the Official List and admitted to trading on the regulated market of the Irish Stock Exchange will be so admitted to listing and trading upon submission to the Irish Stock Exchange of the relevant Final Terms and any other information required by the Irish Stock Exchange, subject in each case to the issue of the relevant Notes.

However, Notes may be issued pursuant to the Programme which will be admitted to listing, trading and or quotation by such other listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree. No Notes may be issued pursuant to the Programme on an unlisted basis.

Significant Change

There has been no significant change in the financial or trading position of the Guarantor or the Group since 31 December 2013.

Material Contracts

During the two years prior to the date of this Information Memorandum, neither the Issuer nor the Guarantor has been a party to any contracts that were not entered into in the ordinary course of business of the Issuer and the Guarantor and which was material to the Group as a whole.

Documents on Display

Electronic or physical copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the office of the Issuing and Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, at the registered office of the Issuer and the head office of the Guarantor (being Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain) for the life of this Information Memorandum:

1. the *estatutos* (constitutive documents) of each of the Issuer and of the Guarantor;
2. the audited and unaudited financial statements incorporated by reference herein;
3. this Information Memorandum, together with any supplements thereto;

4. the Agency Agreement;
5. the Deed of Covenant;
6. the Deed of Guarantee; and
7. the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Notes in New Global Note form).

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